

## **How does service climate affect employee performance?**

### **Is internal service quality the missing link?**

#### **INTRODUCTION**

Prior research lacks a consensus about how service climate and internal service quality interact with each other or affect employee performance and most studies in this area use monocultural business-to-consumers (B2C) settings. We address these gaps by hypothesizing internal service quality as a mediator between service climate and employee performance and two personal cultural orientations (independence and interdependence) as contrasting moderators of this mediating relationship. We found support for all our hypotheses using a study with 353 employees from 18 branch offices (in 14 countries) of a multinational business-to-business (B2B) civil engineering firm. Besides clarifying the conceptual linkages among service climate, internal service quality and employee performance, we also underscore the important role of cultural factors in building a service climate for the managers in multinational service firms.

#### **THEORETICAL BACKGROUND AND HYPOTHESES**

##### **Service Climate**

Schneider et al. (1998; p. 151) describe service climate as the “employee perceptions of the practices, procedures, and behaviors that get rewarded, supported, and expected with regard to customer service and customer service quality”. More recently, Schneider et al. (2006) define it as simply “the degree to which management emphasizes service quality in all of its activities”. Ehrhart et al. (2011) show that service climate at ‘branch-level’ has a direct impact on external service quality but the quality of service received

from 'corporate' functions strengthens the motivational impact of service climate on the delivery of a 'good' (or bad) external service quality. In other words, service climate and internal service quality jointly affect external service quality but more empirical work may be needed to validate these findings (Ehrhart et al. 2011).

### **Internal Service Quality (ISQ)**

Heskett et al. (1994; p.174) describe internal service quality as the "quality of work life itself", "a visible expression of an organization's culture, one influenced in important ways by leadership" and the trigger for a series of actions (service-profit chain) that result in profitability for a service firm. Early research used the popular SERVQUAL model to measure ISQ (e.g., Edvardsson et al. 1997; Frost and Kumar 2000; Kang et al. 2002; Young and Varble 1997) and replicated its original five dimensions (reliability, assurance, tangibles, empathy, responsiveness) but others found new dimensions, such as flexibility, confidentiality, professionalism and preparedness (Reynoso and Moores 1995) or credibility, competence, courtesy, understanding and access (Brooks et al. 1999; Lings and Brooks 1998). Recent efforts have led to more complex scales such as the internal service barometer (ISB) with twelve dimensions (Bruhn 2003) or an eighteen dimensions scale based on Chinese subcultures (Jeng and Kuo 2012).

### **Service Climate and Internal Service Quality**

From the definition of service climate, it is not clear if internal service quality may lead to the development of service climate or vice versa (Schneider et al. 1998; p.151). Some studies show that internal service helps build service climate over time (Schneider et al.

1998) but others argue that internal service quality moderates the effect of service climate on external service quality (Ehrhart et al. 2011). We use a cross-sectional view to posit that, good service climate would encourage employees to provide good quality of service to each other that would lead to a higher level of overall internal service quality (Mokhtaran et al. 2015). Hence,

**H1:** Service climate has a positive effect on internal service quality.

### **Employee Performance (EP)**

Past research on service-profit chain framework shows a positive effect of internal service quality on employee satisfaction and satisfied employees perform better in their jobs and provide a superior quality of service (Chiang and Wu 2014; Nazeer et al. 2014). We argue that internal service quality would also have a significant direct effect on employee performance because a higher level of internal service quality would make their jobs easier and allow them to deliver a higher quality of service. Therefore,

**H2:** Internal service quality has a positive effect on employee performance.

### **Mediating Role of Internal Service Quality**

Ehrhart et al. (2011) shows that internal service quality moderates the effect of service climate on external service quality. We extend this line of research to argue that all organizations have an existing service climate (good or bad, weak or strong) that would affect the employees' attitudes and behaviors towards their internal customers as reflected by internal service quality, which in turn would affect their performance.

Hence, we posit a mediating role of internal service quality as follows:

**H3:** Internal service quality mediates the positive effect of service climate on employee performance.

### **Moderating Role of Personal Cultural Orientations**

Prior research on service climate generally ignores the role of national or individual cultural factors (Schneider et al. 2013). We argue that employees with higher levels of independence are more likely to be self-driven and less likely to rely on support from their organizations in terms of policies, practices or leadership; hence the presence or absence of a good service climate would make no significant effect on their perceived internal service quality. Therefore,

**H4:** The positive effects of a) service climate on internal service quality and b) internal service quality on employee performance, would be stronger (weaker) for employees with lower (higher) levels of independence.

We also argue that employees with high interdependence are more likely to depend upon their organization and colleagues for support and guidance in order to perform their duties, hence service climate may have a stronger impact on internal service quality for such employees. Moreover, in a high service climate, employees with high interdependence may be more eager to help each other and thus provide a higher level of internal service quality due to their collectivistic tendency of giving priority to the goals of the in-group rather than their own individual goals. Therefore,

**H5:** The positive effects of a) service climate on internal service quality and b) internal service quality on employee performance, would be stronger (weaker) for employees with higher (lower) levels of interdependence.

## METHODOLOGY

We used a survey of employees in a multinational civil engineering firm to test our hypotheses. We avoided common method bias by collecting data on service climate and internal service quality from the employees and their performance evaluation from their supervisors. Our final sample has 353 employees representing 19 nationalities working in 18 branch offices in 14 countries. We adapt well-established scales, including six-item global (GSC) and composite (CSC) service climate scales (Schneider et al. 1998), 12-item internal service quality (ISQ) scale (Bruhn 2003), five-item independence (IND) and interdependence (INT) scales (Sharma 2010), four-item in-role (IRB) and extra-role behaviors (ERB) scales and a single-item scale for overall employee performance (OEP), all adapted from Werner (1994). We also included demographic variables (gender, education, tenure, job role, experience, job role, operating unit and nationality of respondents) and four more control variables (country of birth, years outside country of birth, total years of working experience and overseas experience).

## DATA ANALYSIS AND RESULTS

We used confirmatory factor analysis to ensure that all our scales show high reliability and validity (convergent and discriminant). Next, we tested our structural model using the recommended approach (Iacobucci et al. 2007; p.153). The model shows a good fit ( $\chi^2 = 334.09$ ,  $df = 186$ ,  $\chi^2/df = 1.79$ , CFI = .98; NFI = .96, RMSEA = .037, SRMR = .048) with significant path coefficients from service climate to internal service quality (H1:  $\beta = .68$ ,  $p < .001$ ) and internal service quality to employee service performance (H2:  $\beta = .22$ ,  $p < .01$ ), supporting H1 and H2. The non-significant direct path from service climate to

employee performance ( $\beta = .08$ ,  $p > .31$ ) and significant z-statistic ( $z = 2.65$ ,  $p < .01$ ) show a complete mediation (Iacobucci et al. 2007). Thus, H3 is also supported. We also found support for H4 and H5 using the moderated mediation analysis (Preacher et al. 2007) with significant effects of the interaction terms, SC \* IND (H4a:  $\beta = -.16$ ,  $p < .01$ ) and SC \* INT (H4b:  $\beta = .15$ ,  $p < .01$ ) on internal service quality, and IND \* ISQ (H5a:  $\beta = -.21$ ,  $p < .01$ ) and INT \* ISQ (H5b:  $\beta = .17$ ,  $p < .01$ ) on employee service performance.

### **DISCUSSION AND CONTRIBUTION**

In this paper we combine two research streams - service climate (Ehrhart et al. 2011; Schneider et al. 1998; 2009) and internal service quality (Bruhn 2003; Johnston 2008; Kang et al. 2002; Nazeer et al. 2014), to demonstrate that service climate has a direct impact on internal service quality from a cross-sectional perspective. We also extend the service profit chain model by adding service climate as an antecedent of internal service quality, an idea that is hinted by not explicitly stated by Heskett et al. (1994). We also show that internal service quality partially mediates the impact of service climate on employee performance to highlight its important role in realizing the benefit of service climate in large service organizations. Finally, we provide possibly the first evidence about the impact of cultural differences on internal service encounters.

**Note:** References available upon request.