

# The Social Context and Performance: An Examination of Causal Priority

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Abstract:

The relationship between organizations' social context and customer satisfaction was investigated longitudinally over a six-year period. Results provide the strongest evidence to date that social context causes customer satisfaction, although — not surprisingly — evidence of reciprocal causality also exists.

# SOCIAL CONTEXT

- ***Definition***

- The foundational values, beliefs, and principles of an organization's management system and practices that influence incumbents' perceptions of the behaviors that get rewarded, supported, and expected in a setting (Denison, 1990; Schein, 1992; Schneider, 1990).

- ***Social Context and Organizational Performance***

- Social context has long been regarded as critical to organizational effectiveness (James & Jones, 1976, Kopelman et al., 1990, Peters & Waterman, 1982; Schein, 1992; Wilkins & Ouchi, 1983).
  - Social context shapes the attitudes and behaviors of employees, and collective attitudes and behaviors have implications for organizational effectiveness.
  - Empirical research has repeatedly shown a *relationship* between social context and organizational performance (*Huselid, Jackson, & Schuler, 1997; Schneider & Bowen, 1985; Schmit & Allscheid, 1995; Wright, Gardner, Moynihan, & Allen, 2005*).
  - Prior research has largely failed to adequately test or establish *causal* links.

# THE CURRENT STUDY

- Hypothesis 1: Department-level perceptions of social context will predict customer satisfaction over time more strongly than vice-versa.
  - Theory stemming from work on both culture and climate posits social context as a cause of organizational effectiveness (Denison, 1990; James & Jones, 1976; Schein, 1992; Ostroff & Bowen, 2000)
- Hypothesis 2: Employees' social context perceptions and customer satisfaction with service will be reciprocally related over time.
  - The relationship between employees and customers in service organizations are referred to as "mirrors" implying that what happens for both has reciprocal influences (Heskett, Sasser, & Schlesinger, 1997).

# THE CURRENT STUDY

## *Key Design Features*

- This study used two major methodological improvements over existing research on casual priority at the organizational-level. Data were collected:
  - From multiple organizations (i.e., dealerships) that carry the same products and a have common performance indicators, but nevertheless are owned and operated independently of one another and
  - On four occasions over a period of almost six years.

# METHOD

- **Sample**
  - 94 car dealership service departments
  - 3,000 service department employees within the dealerships
  - Four data collection periods - 2000, 2001, 2002 and 2004
- **Survey of Social Context**
  - Denison Organizational Culture Survey (e.g., Denison, 1990; Denison & Mishra, 1995)
    - **Involvement:** "Most employees are highly involved in their work."
    - **Consistency:** "There is a clear and consistent set of values that governs the way we do business."
    - **Adaptability:** "The way things are done is very flexible and easy to change."
    - **Mission:** "There is a clear mission that gives meaning and direction to our work."
  - Response rate was approximately 80%
  - Confirmatory factor analysis using all of the available data, across all time periods, from the current study demonstrated that a single higher-order factor fit the data
  - Survey feedback and action planning sessions were held with the management of each dealership by consulting firm representatives.
- **Customer Satisfaction**
  - Customer were asked "Based on this service visit overall, how satisfied are you with XYZ Dealership?"
    - Response rate was approximately 35%

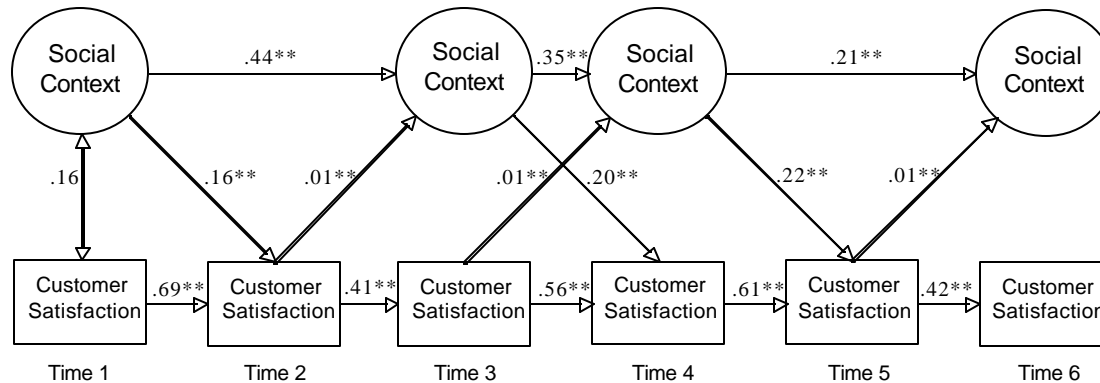
# METHOD

- ***Analytic Strategy***
- Cross-lagged panel analyses with latent variables were used to examine the two hypotheses. The various
- models provide tests of alternatives to the hypothesized relationships.
  1. A full cross-lagged model
  2. A full cross-lagged model with the cross-lags constrained to be equal
    - Test of spuriousness; if equal paths, then cannot rule out third variables explanations of observed relationships
  3. Cross-lagged paths from social context to customer satisfaction only
    - Test of reciprocal relationship
  4. Cross-lagged paths from customer satisfaction to social context only
    - Test of reverse causation
  5. A stability model containing only autoregressive paths within construct over time without cross-lagged structural paths
    - Test of null hypothesis that no causal relationships exist
- Sufficient justification for aggregation (e.g., rwg(j) and ICC(1)) and for measurement invariance over time existed.

# RESULTS

- Both Hypotheses 1 and 2 are supported:
  - Across the separate lags, social context is consistently a stronger predictor of customer satisfaction than vice-versa.
  - Customer satisfaction is also a consistently significant, albeit slight, predictor of social context over time.
    - Support for Hypothesis 2 is admittedly limited given the very small effect size

# RESULTS



NOTE: Standardized path coefficients are shown; \* $p < .05$ ; \*\*  $p < .01$ ; For clarity, within construct auto-regressive lags greater than 1 year and within time disturbance correlations across construct have been omitted from the figure.

Models	CFI	TLI	RMSEA	SRMR	df	Chi-Square	? Chi-Square	? df
1. Cross-lagged Model	0.98	0.98	0.062	0.055	203	275.59	--	--
2. Equal Cross-lagged Model	0.98	0.97	0.066	0.096	204	287.04	11.46*	1
3. Cross-lagged Social Context -> Customer Satisfaction O	0.97	0.97	0.068	0.062	204	291.40	15.81*	1
4. Cross-lagged Customer Satisfaction -> Social Context O	0.97	0.97	0.069	0.112	204	294.12	18.53*	1
5. Autoregressive Null Model (no cross-lags)	0.97	0.96	0.074	0.117	205	309.81	34.22*	2

NOTE: All subsequent models are compared to model 1; \* $p < .01$ ;  $n = 95$ .

# CONCLUSION

- Researchers and practitioners alike assume that the causal direction flows from social context to organizational performance. Unfortunately,
- prior empirical research provides only limited evidence both for and against this assumption.
  - The purpose of the current study was to contribute to the systematic evaluation of this assumption by examining causal direction in the context of a longitudinal study with a number of design features aimed at addressing some of the limitations of prior research.
  - Although no single study can definitively prove causation, or even causal priority, the results of the current study do demonstrate that in the current sample social context has causal priority over an important metric of organizational performance.

# CONCLUSION

- ***Practical Implications***

- As organizations continually face greater competition and ever-increasing expectations from Wall Street, it becomes increasingly important for all functions, including HR, to both positively impact organizational effectiveness *and* prove it.
- The results of this study can be used to demonstrate that HR's strategic role in influencing the social context of organizations can be directly linked to important indicators of organizational effectiveness.

- ***Study's Potential Limitations***

- Asymmetry in the data collection time periods made it impossible to directly compare one year lags for the same time periods. However, similarity of the pattern across all time periods suggests it is unlikely that this potential limitation substantively influenced results.
- Only a single organizational outcome was assessed; different results may be observed with different types of organization-level outcomes.
- It is also possible that the type of organizational outcome examined accounts for some of the conflicting results observed in prior studies.

- ***Next Steps***

- Obtain ROI data to determine the actual financial impact of increasing customer satisfaction through enhancing the positive features of social context.
- Extend to vehicle sales departments.
  - Examine generalizability to sales positions.

# THE DENISON MODEL

