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Article in *Journal of Applied Psychology* · May 2010

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Store Manager Performance and Satisfaction: Effects on Store Employee Performance and Satisfaction, Store Customer Satisfaction, and Store Customer Spending Growth

Richard G. Netemeyer and James G. Maxham III
University of Virginia

Donald R. Lichtenstein
University of Colorado at Boulder

Based on emotional contagion theory and the value–profit chain literatures, the present study posits a number of hypotheses that show how managers in the small store, small number of employees retail context may affect store employees, customers, and potentially store performance. With data from 306 store managers, 1,615 store customer-contact employees, and 57,656 customers of a single retail chain, the authors examined relationships among store manager job satisfaction and job performance, store customer-contact employee job satisfaction and job performance, customer satisfaction with the retailer, and a customer-spending-based store performance metric (customer spending growth over a 2-year period). Via path analysis, several hypothesized direct and interaction relations among these constructs are supported. The results suggest implications for academic researchers and retail managers.

Keywords: manager performance, manager satisfaction, customer satisfaction, store performance

In response to an ever-increasing competitive environment and lackluster sales growth over the past few years, retailers face increasing pressure from stakeholders to show improved performance across customer and store financial metrics (Tackett, 2006). Recent evidence in academic research (Liao & Chuang, 2004; Salvaggio et al., 2007; Schneider, Ehrhart, Mayer, Saltz, & Niles-Jolly, 2005) and the practitioner press (Heskett, Sasser, & Schlesinger, 2003; Schneider & White, 2004) suggests that managerial attitudes and practices at the store level can create a “climate for customer service” that is likely to positively affect such metrics. In fact, there is a growing body of literature that shows that managerial variables, particularly in small store settings such as examined in this study, may set the tone for customer satisfaction and financial performance (Liao & Chuang, 2004; Schneider et al., 2005). As such, examining store manager attitudes and behaviors remains an important topic of study for retail scholars and retail store managers (Berry, Wall, & Carbone, 2006).

In examining store manager effects, prior research has typically examined a mediated chain that begins with store managers and ends with store financial performance, that is, a store manager → store service employee → customer → store financial performance model. This chain has been largely adopted from Heskett et al.’s (1994) *service–profit chain*, and has more recently been called the

value–profit chain (Heskett et al., 2003)—the term we adopt for the present study. Scholars have also begun to study theoretical mechanisms explaining the potential flow of influence in this value–profit chain, with many suggesting an emotional contagion effect from store managers to store service employees and from store service employees to customers (Hennig-Thurau, Groth, Paul, & Gremler, 2006; Homburg & Stock, 2004; Pugh, 2001). These two lines of research, the value–profit chain and emotional contagion theory, represent viable conceptual frameworks to address how managers may affect the important retail outcomes of customer satisfaction and store performance.

Still, despite the implications for retail store managers and retail scholars, there has been a noted lack of studies focusing on how store managers, through their behaviors, actions, and practices, influence customer satisfaction and store financial metrics (Salvaggio et al., 2007). Thus, in this article we seek to expand upon the work of retail and organizational scholars by looking at store manager job performance and job satisfaction as being directly related to customer satisfaction and potentially store financial performance. In an attempt to advance knowledge in this area, our study has three objectives.

First, most studies have examined only certain links in the value–profit chain; some have investigated the employee satisfaction–customer satisfaction link (Hennig-Thurau et al., 2006; Pugh, 2001); others have looked at the customer satisfaction–store financial performance link (E. W. Anderson & Fornell, 2000; E. W. Anderson, Fornell, & Mazvancheryl, 2004; Gruca & Rego, 2005; Rucci, Kirn, & Quinn, 1998). Given that managers in small store retail contexts “set the tone” for the store, our study adds manager influence as a critical antecedent of all three downstream levels (employees, customers, and store financial performance). Hence, we investigated an expanded store manager → store service employee → customer → store financial performance chain of effects (Harter, Schmidt, & Hayes, 2002; Schneider et al., 2005).

Richard G. Netemeyer and James G. Maxham III, McIntire School of Commerce, University of Virginia; Donald R. Lichtenstein, Leeds School of Business, University of Colorado at Boulder.

The research presented in the article was supported by the Bernie Morin and MacGill Research Funds in the McIntire School of Commerce at the University of Virginia.

Correspondence concerning this article should be addressed to Richard G. Netemeyer, McIntire School of Commerce, University of Virginia, Rouss and Robertson Halls, PO Box 400173, Charlottesville, VA 22904-4173. E-mail: rgn3p@virginia.edu

Second, most research has tested a fully mediated chain of effects. That is, manager influences on customers are fully mediated by employee job attitudes and behaviors, and manager influence on store performance is fully mediated by employee and customer attitudes and behaviors. We posit that managers have influence on customers (and potentially store performance) that is only partially mediated by employees and customers, respectively. Indeed, researchers have called for studies to look at potential direct relationships from manager attitudes and behaviors to customer satisfaction and firm performance (Schneider et al., 2005; Schneider & White, 2004). Such a direct manager–customer satisfaction link seems tenable given the small store, small number of employees retail context of our study, in which the potential for frequent manager–customer interaction is high (Koene, Vogelaar, & Soeters, 2002; Salvaggio et al., 2007).

Finally, we seek to extend emotional contagion theory in the retail and services context by examining managerial variables that may interact with one another to affect both employees and customers. To our knowledge, retail and services research has examined the main effects of manager affect on employees but not the potential interaction of manager job satisfaction–job performance on employees or customers. Such theoretically driven interactions have implications for advancing emotional contagion theory. As noted by Lynch (1999), a theory and its external validity are advanced by incorporating interactions among focal variables, given a study’s context. When such interactions are supported, a better understanding or an “enriched theory” emerges. In our case, the focal constructs are manager job satisfaction and job performance, and the study context is the small retail store setting. We also note that scholars suggest that examining such interactions has practical implications for research in small group settings (Bartel & Saavedra, 2000; Kelly & Barsade, 2001).

With data from 306 store managers, 1,615 customer-contact employees, and 57,656 customers of a single retail chain, our study

examined relationships among manager job satisfaction and job performance, customer-contact employee job satisfaction and job performance, customer satisfaction, and a customer-spending-based store performance metric (customer spending growth over a 2-year period). Via a path model, we investigated several direct and interaction relations among these constructs that address our study objectives.

Overview of Model, Theoretical Background, and Hypotheses

Overview of Model

Figure 1 displays the model we test. Though all paths shown are estimated simultaneously, two sets of paths are depicted. Paths depicted by dashed lines are consistent with current thinking and research pertaining to the emotional contagion and value–profit chain theories (Heskett et al., 2003; Pugh, 2001; Sy, Côté, & Saavedra, 2005). These paths specify direct main effects of manager job performance and manager satisfaction on employee job performance and satisfaction, direct main effects of employee job performance and satisfaction on customer satisfaction, and a direct main effect of customer satisfaction on store performance (customer spending growth operationalized as the increase in average customer transaction value [ACTV] from 2004 to 2005, or ACTV04–05). Thus, these paths suggest that any effect of managers on customer satisfaction is fully mediated by the employee–customer satisfaction link, and any effect of managers on customer spending growth is fully mediated by the customer satisfaction–customer spending growth link and/or the employee–customer satisfaction link. Given that support for these direct main effects have been shown in prior studies, their effects are estimated primarily as control variable paths in the present study.

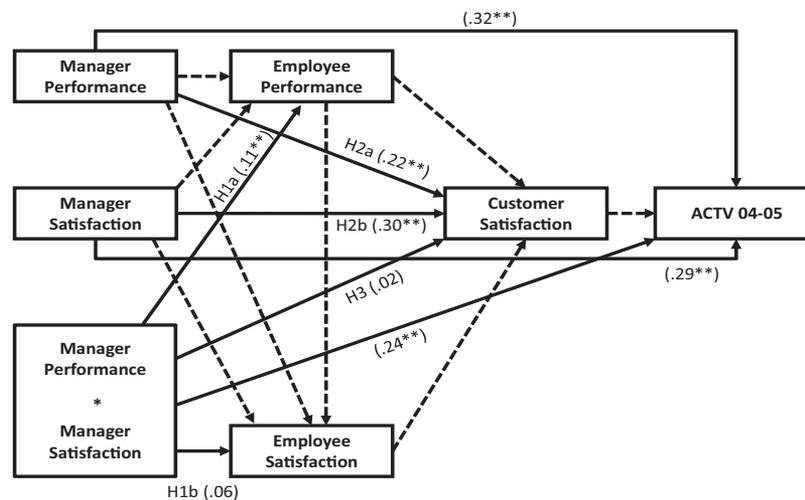


Figure 1. Estimated model. Dashed line paths represent control paths of effects supported in previous studies. Solid line paths, with standardized path coefficients, represent hypothesized paths (Hypothesis [H] 1a, H1b, H2a, H2b, and H3) or paths not formally hypothesized but examined in this study (manager performance → ACTV04–05, manager satisfaction → ACTV04–05, and manager performance–manager satisfaction → ACTV04–05). For clarity, some control variables and their paths are not displayed. ACTV04–05 = average customer transaction value from 2004 to 2005. ** $p < .05$ or better.

Our hypothesized paths, and thus the key contributions of our study, are depicted by the solid line paths. Beginning with the lower left side of Figure 1, we hypothesize that store manager job performance and job satisfaction will interact to be positively related to store employee job performance and satisfaction (Hypothesis [H] 1a and H1b). We also predict that manager job performance (H2a), job satisfaction (H2b), and their interaction (H3) are directly related to customer satisfaction beyond the effects of employee job performance and job satisfaction on customer satisfaction. That is, the manager job performance, job satisfaction, and manager job performance–manager job satisfaction interaction effects on customer satisfaction are only partially mediated by employee job performance and/or job satisfaction. Finally, though no formal hypotheses are offered, we examine whether manager job performance, job satisfaction, and their interaction are directly related to customer spending growth (ACTV04–05)—effects not fully mediated by the employee variables or customer satisfaction.

Theoretical Background

We drew primarily from emotional contagion theory for our hypotheses relating manager variables to employee variables and manager variables to customer satisfaction. Emotional contagion theory has roots in leadership and social learning theories and suggests that the mood and affect of an individual or group can be transmitted to other individuals or groups via social interaction (Barsade, 2002; Kelly & Barsade, 2001). This transmission can be at subconscious and/or conscious levels.

The subconscious level is sometimes referred to as *primitive emotional contagion* (Hatfield, Cacioppo, & Rapson, 1994). Here the transfer of emotions is driven by a two-step mimicry process: (a) the receiver spontaneously imitates the sender's facial expressions and nonverbal physical cues, and (b) this, in turn, leads the receiver to experience the corresponding emotions and behaviors of the sender. Although the receiver feels the emotions from mimicry, the processes that lead to the emotions are often subconscious and automatic (Barsade, 2002). Emotional contagion theorists suggest that primitive emotional contagion is based on the frequency of an emotional display—the more frequent the emotional display by the sender, the greater the emotional contagion in the receiver (Hennig-Thurau et al., 2006).

Emotional contagion can also occur at a conscious or social comparison level, in which a receiver actually searches for emotions and affect as a form of social information. Specifically, a receiver compares his or her affect to that of the sender and then adopts the affect of the sender as a cue for an appropriate behavior in a given context. In contrast to primitive (subconscious) emotional contagion in which the frequency of the emotion affects the receiver, with conscious emotional contagion it is the authenticity and genuineness of the emotion or behavior being expressed by the sender that has the greatest effect on the receiver (Barsade, 2002). When the sender is perceived as genuine or engaging in “deep acting,” a positive contagion effect is enhanced; when the sender is perceived as disingenuous or just “going through the motions,” contagion is unlikely (Barsade, 2002).

Emotional contagion theory seems especially attractive for our study, as it provides a theoretical basis for the manager → employee, employee → customer, and manager → effects depicted in

our model. In fact, in service and retail settings, scholars suggest that managers may “infect” others with their affect and behavior to influence desired work group outcomes and organizational objectives (Bartel & Saavedra, 2000; Sutton, 1991). Given the small store, small work group setting of the present study, positive contagion effects of manager satisfaction and performance on employee satisfaction and performance (desired work group outcomes), and positive contagion effects of manager satisfaction and performance on customer satisfaction and potentially store financial performance (organizational objectives), emotional contagion theory seems particularly relevant. There is also empirical evidence supporting emotional contagion links in the organizational and customer services literatures.

For example, for the manager–employee link, evidence suggests that contagion flows from leaders to subordinates, that is, subordinates mimic the affect of their leaders (Barsade & Gibson, 2007; Hatfield et al., 1994; Lewis, 2000). Here the emotional contagion can be at both subconscious and conscious levels. This is primarily due to leaders being in the position to better express and transmit their affect to their employees because of leader visibility and because leaders influence and control subordinates' time, resources, and personal interactions (Hatfield et al., 1994; Lewis, 2000). Importantly, contagion effects are considered even more likely in small group settings (such as ours), in which manager visibility to employees is high and in which managers must closely interact with their small number of employees (Bartel & Saavedra, 2000; Kelly & Barsade, 2001; Sy et al., 2005). For example, C. D. Anderson, Keltner, and John (2003) showed that lower status individuals in small groups (employees) often catch the affective tones of higher status individuals (managers), and Sy et al. (2005) showed that a leader transmitting a positive mood led to subordinate group members showing a more positive affective tone. Finally, pertinent to the context of our study, Lam and Schaubroeck (2000) showed that training opinion leaders (i.e., supervisors) in small branch banks to be service oriented enhanced customer satisfaction, suggesting that managers may set a tone for service that filters down to employees as they interact with customers.

In the customer service context, contagion flows from customer-contact employees to customers. In this context, we suggest that conscious contagion theory seems most relevant, as customers know, expect, and look for cues of positive emotional labor or authenticity from customer-service employees with whom they interact (Hennig-Thurau et al., 2006). For example, Homburg and Stock (2004) showed that a salesperson's level of overt job satisfaction is directly related to the satisfaction of the customers that the salesperson serves. They suggested that service employees with a high level of job satisfaction will display a positive emotional tone and contentment with their environment, leading to greater customer satisfaction. Pugh (2001) showed that the positive emotions and affect displayed by bank service employees were related to positive levels of customer affect and higher ratings of bank service quality from customers. Further, Tsai and Huang (2002) found that employees showing socially desirable emotions during service transactions positively affected customer mood, intent, and time spent in a store.

Related research in customer behavior also demonstrates a conscious contagion effect. The experimental work of Tanner, Ferraro, Chartrand, Bettman, and Van Baaren (2008) showed that consumer choice is influenced by consumers mimicking the emo-

tions of a persuader even when the consumer is aware (conscious of) that the persuader will benefit from the consumer engaging in behaviors in which the persuader wants the consumer to engage. Extending this into a retail format, Tanner et al. (2008) suggested that via emotional contagion, positive outcomes (customer satisfaction and firm performance) might accrue when a customer catches or mimics the affect and behavior of the store personnel with whom the customer interacts or picks up on performance cues related to store environment. We suggest that such an effect may occur when the store manager satisfaction and performance interaction effect is extended not only to employees but to customers and potentially to store performance as well.

Hypotheses

Consistent with emotional contagion, there is quite a bit of research in the sales and services domain suggesting that the satisfaction and performance of sales and services supervisors positively affect the satisfaction and performance of their subordinates (Hampton, Dubinsky, & Skinner, 1986; Jaworski & Kohli, 1991). As shown by the dashed lines of Figure 1, the main effects of store manager job performance and job satisfaction on store employee performance and satisfaction are evident. As such, we estimate these effects only as control paths for our study. What is not evident, though, is the potential interaction effects of store manager performance and satisfaction on store employee performance and satisfaction. We hypothesize that the store manager job performance–job satisfaction interaction will be positively related to store employee job performance and satisfaction. Before offering a rationale for these effects, we first briefly review the manager job performance–job satisfaction relation.

Performance–satisfaction and manager-related effects. The job performance–job satisfaction link has been widely studied in organization behavior, industrial psychology, and sales and services. In fact, several meta-analytic reviews of the topic have been undertaken (Brown & Peterson, 1993; Iaffaldano & Muchinsky, 1985; Judge, Thoresen, Bono, & Patton, 2001; Petty, McGee, & Cavender, 1984). A general finding is that the performance–satisfaction correlation across job types is positive and low to modest. Numerous questions still remain, though, about the performance–satisfaction link. For example, Judge et al. (2001) raised several issues involving directionality (e.g., Does performance cause satisfaction? Does satisfaction cause performance? Is the relationship reciprocal?), and others raised issues suggesting that the relationship may be moderated or mediated by other variables (Schleicher, Watt, & Greguras, 2004).

It is not our intent to resolve these issues but to add another possibility regarding the manager job performance–manager job satisfaction relationship that may affect employee, customer, and financial outcomes for a firm. As evidenced by meta-analyses, it is entirely possible for managers (a) to be satisfied with their jobs but not perform them well, and vice versa; (b) to show low levels on both satisfaction and performance; or (c) to show high levels on both satisfaction and performance. In fact, Table 1 of the Iaffaldano and Muchinsky (1985, pp. 256–261) meta-analysis showed performance–satisfaction correlations for manager and supervisor

jobs ranging from low negative (e.g., $-.04$, $-.19$, $-.21$) to high positive (e.g., $.46$, $.58$, $.69$), suggesting the high–high, low–low, low–high, and high–low combinations of manager performance and satisfaction. We are concerned with potential outcomes relevant to an interaction effect of this high–high possibility. That is, we suggest that the positive effects of managers transmitting satisfaction and performance to their subordinates found in the contagion literature will be magnified when manager job performance and satisfaction are jointly at high levels—an interaction effect. We offer the following rationale.

Manager effects on employees. First, it is important to reiterate that the setting of our study provides a context for a manager performance–manager satisfaction interaction effect (Lynch, 1999). In the small store, small work group setting of our study, managers must perform merchandising (risk management and inventory display), employee supervision (training, leading, inspiring personnel), and floor functions (serving customers and assisting employees serving customers). All these are highly visible to employees. As predicted by Kelly and Barsade (2001), the degree to which a persuasive sender of affect and behavior holds an important, visible, or central position in a group setting (i.e., the manager) should influence the degree to which subordinates experience similar levels of affect and behavior. This prediction follows from the emotional contagion perspective of a leader consciously using both affective and nonaffective influence as forms of impression management to spread desirable affect and behaviors to group members (Kelly & Barsade, 2001). Further, the degree to which subordinates perceive an interplay (interaction) between manager affect and manager behavior may also influence subordinate affect and behavior (Kelly & Barsade, 2001).

Consistent with conscious emotional contagion theory in small groups (Bartel & Saavedra, 2000; Sy et al., 2005), the extent to which a manager's performance is viewed as authentic and genuine by subordinates may vary by the level of manager satisfaction (Hennig-Thurau et al. 2006; Kelly & Barsade, 2001). Simply stated, managers with higher levels of satisfaction will be more likely to display strong performance to subordinates than those who have lower levels of satisfaction (Bartel, 2001; Gibson, 2003). That is, satisfied managers will want to display their performance but not equally across satisfaction levels—the strongest performance is displayed at the highest levels of satisfaction. This joint distribution of high manager performance and high manager satisfaction creates a manager performance–satisfaction interaction that influences employee performance and satisfaction beyond the simple additive main effects of manager performance and satisfaction.

Conversely, even in cases in which a manager's level of genuine satisfaction may not lead to increased performance, it seems reasonable to suggest that employees viewing a high-performing manager will also be more likely to infer that the manager is highly satisfied relative to a manager whose performance is less strong. Thus, employees infer high levels of manager satisfaction from performance, but differentially so when manager performance is at its highest. Again, this joint high–high level of manager performance and satisfaction—the interaction effect—is likely to have a positive contagion effect on employee performance and satisfac-

tion beyond the main additive effects of manager performance and manager satisfaction. We offer the following hypothesis:¹

Hypotheses 1: The manager job performance–job satisfaction interaction is positively related to store employee (a) job performance and (b) job satisfaction.

Manager effects on customers. Researchers are expressing interest in the degree to which manager job satisfaction and performance may directly affect customer satisfaction (Heskett et al., 2003; Schneider et al., 2005). Though store manager performance and satisfaction are necessary conditions to enhance customer satisfaction (Grönroos, 1990), the issue at hand is the extent to which this influence is fully mediated by employee performance and satisfaction. We posit that this influence is only partially mediated.

Conventional wisdom and empirical evidence from the value–profit chain suggest that frontline retail store employees have the most prominent direct influence on customer satisfaction and indirectly (via customer satisfaction) affect key retail performance measures (Heskett et al., 2003; Schneider & White, 2004). However, less is known about how manager satisfaction and performance may affect customers, and some might argue that managers are less important than frontline employees in driving customer satisfaction. Indeed, most models with customer satisfaction as an outcome suggest that the effect of managers on customer satisfaction is mediated by employee satisfaction and performance, that is, a store manager → store employee → customer satisfaction chain of effects (e.g., Schneider et al., 2005; Schneider & White, 2004).

Extending the emotional contagion effect within the value–profit chain approach, we hypothesize that retail managers play a direct role in forming customer satisfaction. Two lines of reasoning are offered for this hypothesis: One is based on emotional contagion from managers serving customers, and the other is based on creating a climate for service inherent in the value–profit chain and our retail manager’s job responsibilities. Again, the context of our study—small store and small number of employees—is noted as an important backdrop for this hypothesis.

In accordance with emotional contagion rationale, as in most small store settings, the managers of our study have frequent contact with customers and follow prescribed norms for positively influencing customers (Koene et al., 2002; Salvaggio et al., 2007). Evidence suggests that customers are quite adept at inferring, and then catching, the affect of service personnel with whom they interact even in very brief encounters (Ambady, Krabbenhoft, & Hogan, 2006). When managers serve customers well, the positive affect that they transmit to customers should have an even more pronounced effect on customer satisfaction, as the customers see that someone in a supervisory role takes the time and effort to serve them in a pleasant manner (e.g., service with a smile; Pugh, 2001). This notion is consistent with two tenets of emotional contagion theory.²

First, store managers are likely to engage in deep-acting emotional performances toward customers (Grandey, 2003). When this is the case, conscious emotional contagion theory suggests that customers may use manager performance as an information cue. That is, the emotion that the manager is transmitting to customers is viewed as authentic, reducing any ambiguity that customers might have about their service experience, thus raising their sat-

isfaction (Grandey, Fisk, Mattila, Jansen, & Sideman, 2005; Hennig-Thurau et al., 2006). Second, contagion theory also suggests that individuals with greater perceived knowledge and decision-making authority (managers) are greater transmitters of affect than those perceived in subordinate roles (employees; Lewis, 2000). In the small store setting, it is likely that many customers will receive personal service from the store manager.

In line with creating a climate for service, the small store managers of the present study have the responsibilities of designing merchandise displays, inventory management, and training, inspiring, and leading their employees (see Appendix). Via these performance duties, store managers shape the entire retail experience that may affect customer satisfaction and potentially unit sales (Heskett et al., 2003; Salvaggio et al., 2007; Schneider et al., 2005). When done well, this can lead customers to view the store more favorably, leading to greater customer satisfaction (Borucki & Burke, 1999). In fact, in keeping with conscious emotional contagion theory, Berry et al. (2006) suggested that skillful management of in-store merchandising and visual displays acts as a functional and mechanic performance clue that enhances customer emotions and, thus, customer satisfaction.

Hypothesis 2: Store manager (a) job performance and (b) job satisfaction are positively related to customer satisfaction, beyond the effects of store employee job performance and job satisfaction on customer satisfaction.

We also hypothesize that the store manager job performance–store manager job satisfaction interaction is positively related to customer satisfaction. Two points of justification are offered for this hypothesis.

First, in line with our H1 rationale, a leader (manager) may consciously use both affective (his or her satisfaction) and nonaffective influence (performance) as forms of impression management to spread desirable affect and behaviors to others, in this case customers. And the degree to which receivers perceive interplay (an interaction) between manager affect and manager behavior may further influence receiver affect and behavior (Kelly & Barsade, 2001). We suggest that manager performance and satisfaction are inferred by customers, and when customers infer a high level of one, they are likely to infer a high level of the other. Thus,

¹ Consistent with Witt, Burke, Barrick, and Mount (2002), in which they examined the interaction effect of conscientiousness and agreeableness on job performance, we examined the interaction effect of manager job performance and satisfaction on employee variables. That is, like Witt et al., we are not so much stating that manager job performance moderates the effect of manager job satisfaction (or vice versa), as we are testing the effect of these two constructs at their joint highest levels (i.e., when the joint distribution of these two constructs is at its highest level; McClelland & Judd, 1993). In fact, with two interval-scaled or quantitative variables such as our manager performance and satisfaction variables, what moderates what is empirically indistinguishable (Cohen, Cohen, West, & Aiken, 2003; McClelland & Judd, 1993). Thus, we state our hypotheses as interactions and not as moderator effects.

² It should be noted that the store managers of our retail chain are required to wear a lapel-based badge noting that they are the store managers. Thus, some evidence that customers knew when they were interacting with managers is provided.

via highly positive emotional performance cues during the manager–customer interface (i.e., deep acting and authentic; Grandey, 2003; Hennig-Thurau et al., 2006), customers may infer that the manager likes what he or she is doing (is highly satisfied).

The same rationale can be offered in the opposite direction. A customer perceiving a manager to be a high performer may differentially infer a high level of satisfaction over that which would be inferred at lower levels of performance. The net effect, though, is that customers more readily catch a positive affective tone, or a heightened contagion effect of greater customer satisfaction, when manager job performance and satisfaction are jointly at high levels. Thus, beyond the main and additive effects of manager job performance and satisfaction, their interaction should be positively related to customer satisfaction.

Second, as noted above, beyond serving customers, our study's managers perform many store functions (e.g., merchandising, inventory, and store climate functions) that signal performance clues to customers (Berry et al., 2006; Borucki & Burke, 1999; Grönroos, 1990). Customers may infer that if these managerial performance clues are high, manager satisfaction must be high as well, and vice versa (Doucet, 2004). This notion is consistent with the emotional contagion perspective in which individuals will use both affective and behavioral cues associated with a sender to reduce any ambiguity they may be experiencing in the service–retail encounter (Barsade & Gibson, 2007; Hennig-Thurau et al., 2006); when both cues are jointly high, affect contagion is enhanced. Doucet (2004) further suggested that an interaction relationship among a high level of service personnel performance and satisfaction is likely to develop, and should enhance customer satisfaction. Again, beyond the main and additive effects of manager job performance and manager satisfaction,

Hypothesis 3: The store manager job performance–job satisfaction interaction is positively related to customer satisfaction, beyond the effects of store employee job performance and job satisfaction on customer satisfaction.

Manager effects on store performance. To what degree can retail store managers directly influence store financial performance? As with customer satisfaction, prevailing models would suggest that the effects of manager job satisfaction and performance on store financial performance are indirect (Loveman, 1998; Schneider et al., 2005). That is, their effects are fully mediated by customer satisfaction and/or employee satisfaction and performance via a store manager → store employees → store customers → store performance chain of effects. Here we offer no formal hypotheses for direct (not fully mediated) manager → store performance effects, as in our view no strong theoretical rationale exists for them. Still, given their potential managerial and practical relevance, we test for such effects based on the following reasoning.

First, our store performance variable is a customer spending growth measure over a 2-year period (ACTV04–05). Anecdotal evidence from the practitioner literature suggests that highly satisfied store managers are associated with greater customer spending, potentially beyond the effects of customer satisfaction (Grönroos, 1990; Heskett et al., 2003).

Second, though customer satisfaction is a direct predictor of ACTV04–05, it is well accepted that customer satisfaction is not

the only predictor. In retailing contexts, customers are not obliged to give their business to any one firm irrespective of their satisfaction levels, and for various reasons customers may choose to patronize a retailer in which satisfaction is not the sole driver (Lemon, White, & Winer, 2002; Rust, Lemon, & Zeithaml, 2004). For example, studies show that other retail environment cues and clues such as store merchandising displays, store design, and customer perception of service impact customer spending growth beyond customer satisfaction (Baker, Parasuraman, Grewal, & Voss, 2002; Berry et al., 2006; Seiders, Voss, Grewal, & Godfrey, 2005). Given that store design, serving customers, and managing employees in such a way that they serve customers well are integral components of a store manager's job performance, high manager job performance may be directly related to ACTV04–05, beyond the effect of customer satisfaction on ACTV04–05.

Method

Overview

Our data came from 306 retail store managers, 1,615 retail store floor employees, and 57,656 customers from 306 stores of a 610-store multichannel (i.e., online, catalog, and storefront) firm that sells women's clothing and accessories. All data collection was supervised by company management, and thus anonymity and confidentiality of responses from managers, employees, and customers was not assured. We chose this setting because store managers have significant freedom in conducting day-to-day store operations and manage store employees who are in frequent contact with customers, and because the store managers themselves also frequently interact with (serve) customers.

Data collection first began by using stratified random sampling based on geographic region to select a sample of 306 stores. At the beginning of January 2004, these stores' managers, employees, and customers participating in the store's loyalty card program completed surveys regarding satisfaction and performance during 2003. From each store's database a measure of store performance was gathered—ACTV per store visit during 2003–2004 (ACTV04). At the beginning of January 2005, the store's database again provided ACTV during 2004–2005 (ACTV05). We used the percentage change in ACTV—subtracting ACTV04 from ACTV05 and then dividing by ACTV05—as our final model variable, shown on the far right side of Figure 1 (ACTV04–05). Thus, our store performance measure was collected longitudinally over a 1-year period after the collection of the manager, employee, and customer measures now described.

Measures

Focal measures pertaining to managers. Online surveys were sent to the 306 lead managers (one per store) of the stores in our study. After 1 week, a reminder was e-mailed to the managers who emphasized the importance of their responses. All 306 surveys were returned, yielding a 100% store manager response rate. All managers were full-time with an average tenure of 57 months ($SD = 29$) in their current position and an average income of \$49,092 ($SD = \$7,157$); 73% were female, and 58% held college degrees.

Each store manager supervised an average of 5.7 employees (range: 2–8) and rated each employee on the retailer's formal 5-item measure of job performance that assessed the tasks specified in the employee's formal job description ($\alpha = .93$). Managers self-rated their level of job satisfaction on a 3-item scale, but manager job performance (that as specified in their formal job description) was rated by each store manager's district manager via the retailer's formal 7-item scale ($\alpha = .93$). (The Appendix shows these measures.) Thus, the measures connecting the manager, employee, customer, and store performance variables are free of one type of same-source, common-methods bias (i.e., same rater bias) that could otherwise influence parameter estimates among these constructs (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003).

Focal measures pertaining to employees. Online surveys were sent to the 1,956 employees of the 306 stores in our sample, with a cover letter expressing the value of their responses. After 1 week, the employees were e-mailed a reminder asking them to complete the survey. Of these employees, 1,615 submitted surveys, yielding an 83% response rate. An average of five employees per store participated in the study, and we matched the employee responses to the manager and store database using the store number as a linking variable.

Employees rated themselves on the same 3-item measure of job satisfaction on which managers rated themselves ($\alpha = .92$; see Appendix). (As previously mentioned, employee performance was rated by their respective managers.) Employees had been with the firm an average of 20 months ($SD = 10$) and had an average income of \$18,718 ($SD = \$5,303$); 56% were full-time, 99% were female, and 38% held 2- or 4-year college degrees.

Focal measures rated by customers. Our retail partner programmed its customer tracking system at the 306 stores to print a brief statement on randomly chosen customer receipts that invited customers to visit a website and complete a survey in exchange for a 20% discount on their next purchase. (The purchases pertaining to the 20% discount were not included in the ACTV04 or ACTV05 variables.) Our sample design entailed stores with more store traffic being sent proportionally more invitations than stores with less traffic. Initially, 61,200 customer invitations were sent (an average of 200 per store), but then sequentially additional invitations were sent each week depending on response rates in an attempt to yield a proportional sample.

Overall, 186,744 survey invitations were sent, and 57,656 completed responses were received, yielding an average of 188 completed customer responses per store (sample sizes per store ranged from 88 to 231). The response rate across the 306 stores ranged from 21% to 63%, resulting in a 31% overall customer response rate. Customers responded to a 2-item measure of satisfaction with the retailer ($r = .98$ between items, $\alpha = .98$; see Appendix), and we matched customer surveys to the employee, manager, and store database using the store number as a linking variable. That is, 57,656 customer surveys were matched to the exact store where they made their purchases and received the survey invitation. The customers were on average 48 years old ($SD = 15.66$); 78% were female, and 69% held college degrees.

Focal measure of store performance. As noted above, from each of the 306 participating stores we accessed the percentage change in average transaction value of customers per visit from 2004 to 2005 (ACTV04–05). This measure represents how much customer spending increased (decreased) on a transaction level

basis in 2004–2005 compared with 2003–2004 and is a common financial metric used by retail establishments (Reichheld, 1996; Tackett, 2006). Further note that this measure controls for any influence that would be common to both financial measurement occasions, lowering concerns of endogeneity in our models (Seiders et al., 2005).³

Control variable measures. Though the focus of our study is on the hypothesized relations shown in Figure 1, there are other variables and paths that could impact the estimates of the hypothesized relations. First, given that their effects have been shown, we allowed manager job performance and job satisfaction to be predictors of employee job satisfaction and employee performance (Hampton et al., 1986; Jaworski & Kohli, 1991). We also allowed employee job performance to be a predictor of employee job satisfaction. Second, we modeled employee job performance and satisfaction as predictors of customer satisfaction (and ACTV04–05), as these linkages have been documented or estimated in previous research (Homburg & Stock, 2004; Loveman, 1998; Pugh, 2001). We allowed customer satisfaction to be a predictor of ACTV04–05, as this relationship, or ones similar to it, has been demonstrated before (Harter et al., 2002; Reichheld, 1996; Rucci et al., 1998).

Finally, two other control variables were incorporated into the model estimated: average day traffic and the ratio of store manager to number of store employees. Average day traffic (i.e., average number of people going into each store per day from 2003 to 2005) was modeled as a predictor of customer satisfaction and ACTV04–05. Given that several of our hypotheses pertain to a direct manager \rightarrow customer link, it seems likely that the more customers entered the store, the greater likelihood that at least some of them interacted with the store managers. We also used the ratio of manager to number of employees per store as a rough proxy for the degree to which managers may have personally interacted with customers. As this ratio becomes larger (fewer employees per manager), one might expect that the level of manager–customer interaction would rise as well. This ratio was used as a control variable for the prediction of customer satisfaction and ACTV04–05. Table 1 shows summary statistics and correlations for all our study constructs in which items for multi-item measures were summed and then averaged.

Data Analyses Overview

We chose path analysis to estimate our models for several reasons. First, as is apparent from the preceding description, we have some data that are nested at different levels—employee,

³ We chose to use the ACTV04–05 as the end variable in our model because it effectively relates manager job performance and satisfaction and customer satisfaction to store performance in a longitudinal fashion that controls for the effects of ACTV04 on ACTV05 (Harter et al., 2002). Still, we did estimate models with either ACTV04 or ACTV05 as our store financial metric, as well as a model with ACTV04 and ACTV05 as end variables in the same model. The results of these models are similar to those of the model that we estimated with ACTV04–05 in terms of path significance and strength. We also estimated a model with ACTV04 as a predictor of the employee variables, customer satisfaction, and ACTV05. Even in this model, the effects of our manager variables on customer satisfaction and ACTV05 remained significant.

Table 1
Means, Standard Deviations, and Correlations Among Focal Constructs

Construct	1	2	3	4	5	6	7	8	9	10
1. Manager job performance	—									
2. Manager job satisfaction	.63	—								
3. Employee job performance	.46	.45	—							
4. Employee job satisfaction	.35	.32	.71	—						
5. Customer satisfaction	.58	.61	.63	.54	—					
6. ACTV04–05	.61	.67	.46	.39	.60	—				
7. ACTV04	.58	.65	.45	.36	.61	.79	—			
8. ACTV05	.59	.66	.45	.37	.60	.96	.92	—		
9. Day traffic	.41	.46	.29	.25	.39	.56	.50	.55	—	
10. Ratio of manager to number of employees	.01	.06	.02	–.06	.06	.03	.08	.06	.08	—
<i>M</i>	3.32	4.03	3.62	4.28	4.04	31.32	71.82	98.36	157.76	0.21
<i>SD</i>	1.23	1.81	1.06	1.10	0.44	31.77	16.13	47.44	23.98	0.07

Note. Correlations are based on $n = 306$ store level. All correlations above .10 in absolute value are significant at the .05 level or better. The average customer transaction value (ACTV) for 2004 and 2005 (ACTV04 and ACTV05) is the actual dollar spending level per customer visit during those years. ACTV04–05 is the percentage increase in spending from 2004–2005.

customer, and store—which may suggest using hierarchical linear modeling (HLM) to account for potential heterogeneity in the dependent variables because of differing data levels. However, a prime goal of our study is to extend manager satisfaction and performance to customer satisfaction and store-level performance at the store level. Further, to examine relations among ACTV04–05, the manager variables, and customer satisfaction, we had to aggregate all data at the store level, as the manager measures and ACTV04–05 could be gathered only at the store level. In this case, HLM holds no advantage over other correlational techniques.

Second, we calculated three coefficients commonly used for data aggregation: $r_{wg(j)}$ and two forms of intraclass correlation coefficient (ICC), ICC(1) and ICC(2). The $r_{wg(j)}$ coefficient ranges from 0 to 1, is a measure of within-group interrater reliability for each retail store, and compares the amount of variance in observed responses with that which would be obtained if responses were random (James, Demaree, & Wolf, 1984). Higher values represent stronger agreement among stores—the higher the value, the more data aggregation is justified. The values for the multi-item employee and customer measures ranged from .87 to .91—values that are typically above those reported in the literature to justify aggregation (James et al., 1984).

We also estimated a series of two-level HLM models wherever possible. HLM produces two ICCs, ICC(1) and ICC(2). ICC(1) assesses the proportion of the total variance of a measure that can be explained by group membership (Bliese, 2000). For our data, it represents the amount of variation in an outcome variable due to the store as opposed to another data level. For employee job performance, job satisfaction, and customer satisfaction, the ICC(1) values were .13, .09, and .04 ($p < .01$), respectively. These levels tend to be typical of those reported for data aggregation (Schneider, Hanges, Smith, & Salvaggio, 2003).

ICC(2) provides an estimate of the reliability of group means and indicates whether groups vary in meaningful ways on the variables of interest. The ICC(2) values for employee job performance, employee job satisfaction, and customer satisfaction were .43, .36, and .89, respectively. Clearly, these ICC(2) values for the employee measures are low. It must be noted, though, that ICC(2) is a function of average group size (Bliese, 2000; Ehrhart, Bliese,

& Thomas, 2006); as group size increases, so too will ICC(2). Given that our average number of employees per store was only 5.7, the low ICC(2) levels are not surprising and suggest that employee groups had fairly similar job satisfaction and performance scores (Ehrhart et al., 2006). Further note that the ICC(2) for customer satisfaction (with an average of 188 customers per store) was high, but its ICC(1) was the lowest (.04) of the three measures (i.e., employee job satisfaction, employee job performance, and customer satisfaction). This also suggests that aggregation is appropriate (Ehrhart et al., 2006). Finally, a primary goal of our study was to determine aggregate effects of managers on customer satisfaction and store performance (ACTV04–05), and the estimates from all HLM models paralleled those shown in Table 2 in terms of parameter significance and strength.

Third, and perhaps most convincingly, theoretical rationale suggests aggregation. Emotional contagion theory in small work groups with common organizational goals (customer satisfaction and store financial performance) suggests that the affect and behavior of a manager can be directed toward the manager's subordinates to affect such goals (Kelly & Barsade, 2001). In particular, research on the effectiveness of emotional transfer from leaders to subordinates in service workers illustrates that an individual (manager), via impression management of the individual's affect and behavior, can infect group-level emotions and behaviors that promote small group and unit-level objectives (Bartel & Saavedra, 2000). As such, the conscious and contagious influence of manager affect and behavior likely results in employees and customers who interact with that manager to develop similar affect and behavior.

Schneider et al. (2003) also presented a compelling theoretical argument for aggregating employee work perceptions and outcomes, particularly when the number of employees being managed per group is small and the business unit of analysis is the store level. Here each business unit must be organized and managed to deliver customer service at a high level of quality across employees. Schneider et al. reviewed a series of studies suggesting that employee attitudes at the individual level are only weakly associated with organizational performance variables, but at the store level aggregated attitudes (both employee and customer) are more

Table 2
Model Path Estimates

Path/effect	Estimate			<i>R</i> ²
	Standardized	Unstandardized	<i>t</i>	
Hypothesized path estimates				
H1a: Manager performance–manager satisfaction interaction → employee performance	.11	0.05	1.97*	
H1b: Manager performance–manager satisfaction interaction → employee satisfaction	.06	0.03	1.40	
H2a: Manager performance → customer satisfaction	.22	0.07	3.55**	
H2b: Manager satisfaction → customer satisfaction	.30	0.07	5.29**	
H3: Manager performance–manager satisfaction interaction → customer satisfaction	.02	0.00	0.29	
Managers and store performance effects				
Manager performance → ACTV04–05	.32	8.29	5.68**	
Manager satisfaction → ACTV04–05	.29	5.04	5.39**	
Manager performance–manager satisfaction interaction → ACTV04–05	.24	3.51	6.16**	
Employee performance				.28
Employee satisfaction				.53
Customer satisfaction				.58
ACTV04–05				.65

Note. H = hypothesis; ACTV04–05 = average customer transaction value for 2004 and 2005.

* $p < .05$. ** $p < .01$.

predictive of organizational performance. On the basis of the totality of the above preceding evidence, we averaged and aggregated all study variables at the store level ($n = 306$) and estimated a structural equations path model via LISREL (Version 8; Jöreskog & Sörbom, 1996).

Procedures

We first conducted a store-level confirmatory factor analysis for our multi-item measures. All satisfaction (manager, employee, and customer) and performance items (manager and employee) were modeled as a correlated five-factor structure. This model fit the data well, $\chi^2(160, N = 306) = 175.51, p = .19$, comparative fit index = .99, nonnormed fit index = 1.00, root-mean-square error of approximation = .01 (Hu & Bentler, 1999). Correlations among the five factors ranged from a high of .71 (employee performance–employee job satisfaction) to a low of .32 (manager job satisfaction–employee job satisfaction). Standardized item loadings to their respective factors ranged from .80 to .99 (t values ranged from 16.66 to 24.76). Average variance extracted estimates ranged from .71 to .85. None of the confidence intervals around the correlations (phi estimates) among factors contained a value of 1, supporting discriminant validity (J. C. Anderson & Gerbing, 1988). The average variance extracted estimates for any combination of two constructs were greater than the shared variance between them (phi-squared), also suggesting discriminant validity (Fornell & Larcker, 1981).

Next, for all multi-item measures, averaged single-item composites per store were created. Because LISREL has the advantage of assessing the potential biasing impact of construct measurement error on path estimates, we incorporated such error wherever applicable, that is, the multi-item measures of manager job performance, manager job satisfaction, employee job performance, employee job satisfaction, and customer satisfaction. Via the procedures developed by Jöreskog and Sörbom (1982), the measurement loading for each of these variables was set to the square root of their internal consistency estimates (coefficient α), and their

measurement error terms were set to $(1 - \alpha) \times$ (construct variance). Using the procedure advocated by Ping (1995) and validated by others (Cortina, Chen, & Dunlap, 2001), we incorporated measurement error into the manager job performance–manager job satisfaction interaction term. Then we estimated our path model. Figure 1 and Table 2 show the results for the hypothesized paths, and Table 3 shows the results for the control variable paths.

Results

Model Fit and Hypothesized Paths

The model fit the data well, $\chi^2(4, N = 306) = 4.14, p = .39$, comparative fit index = 1.00, nonnormed fit index = 1.00, root-mean-square error of approximation = .01 (Hu & Bentler, 1999). Still, given the near saturation of structural parameters estimated in the model, we focus on hypothesized path significance and strength in judging the model's adequacy. As shown in Figure 1 and in Table 2, three of five hypothesized paths were significant ($p < .05$ or better). The manager job performance–manager job satisfaction interaction → employee job performance path (H1a) was significant, but the manager job performance–manager job satisfaction interaction → employee job satisfaction path was not. As such, the manager job performance–manager job satisfaction interaction showed the hypothesized effects above and beyond the main effects of manager job performance and the main effects of manager job satisfaction on employee performance. Manager job performance and satisfaction were related to customer satisfaction (H2a and H2b), but the manager job performance–manager job satisfaction interaction → customer satisfaction path was not significant (H3).

To further identify the form of the significant interaction, we plotted the effect of manager satisfaction on the mean of employee performance at three levels of manager performance: low (one standard below the mean), medium (the mean), and high (one standard deviation above the mean). We followed the Cohen,

Table 3
Control Variable Path Estimates

Path	Estimate		t
	Standardized	Unstandardized	
Employee performance → employee satisfaction	.71	0.74	14.94**
Manager performance → employee performance	.35	0.30	4.83**
Manager performance → employee satisfaction	.07	0.06	1.08
Manager satisfaction → employee performance	.24	0.14	3.42**
Manager satisfaction → employee satisfaction	-.04	-0.02	0.67
Employee performance → Customer satisfaction	.27	0.11	4.44**
Employee satisfaction → customer satisfaction	.17	0.06	2.93**
Ratio of manager to number of employees → customer satisfaction	.05	0.27	1.21
Ratio of manager to number of employees → customer satisfaction	-.01	-1.94	0.13
Day traffic → customer satisfaction	.02	0.00	0.92
Day traffic → ACTV04-05	.21	0.28	5.16**
Customer satisfaction → ACTV04-05	.13	9.58	2.43**
Employee performance → ACTV04-05	.01	0.06	0.03
Employee satisfaction → ACTV04-05	.04	1.24	0.81

Note. ACTV04-05 = average customer transaction value for 2004 and 2005.

** $p < .01$.

Cohen, West, and Aiken (2003, pp. 267–272) regression-based procedure for calculating the interaction and the work of Witt, Burke, Barrick, and Mount (2002, p. 168) for displaying the interaction plot. As Figure 2A shows, those managers with the highest joint levels of performance and satisfaction showed the highest mean score on employee performance (4.28), relative to the medium (3.56) and low (3.07) levels. That is, the effect of manager job satisfaction on employee job performance was more pronounced for high, as opposed to medium or low, manager performance.⁴

Managers and Store Performance Effects

Though they were not formally hypothesized, recall that we also estimated potential manager effects on our customer-spending-based store performance variable. As Table 2 shows, we found that manager job performance and job satisfaction were related to ACTV04-05. Above and beyond these main effects, a manager job performance–manager job satisfaction interaction → ACTV04-05 path was significant as well. A plot of this interaction in Figure 2B shows that when manager job performance and manager job satisfaction are jointly at their highest levels, the average percentage change in customer spending from year to year (ACTV04-05) is higher (52.66%) than at any other joint level of manager job performance and manager job satisfaction (26.14% and 15.78%).

Mediation Analyses and a Possible Alternative Flow

Mediation analyses. As is well known, different approaches for testing mediation have been advocated, and the approach used may vary whether full mediation or partial mediation is a priori hypothesized (Baron & Kenny, 1986; James, Mulaik, & Brett, 2006; Kenny, Kashy, & Bolger, 1998). Two of the more prominent approaches are the Baron and Kenny (1986) approach (later expanded upon by Kenny et al., 1998, for path models with multiple mediators) and the James et al. (2006) structural equation modeling approach.

In the Baron and Kenny (1986) approach, four conditions are examined for mediation: (a) The independent variable (IV) should be related to the dependent variable (DV) without the mediator included in the model; (b) the IV should be related to the mediator; (c) the mediator should be related to the DV, controlling for the IV; and (d) for full mediation, the effect of the IV on the DV is reduced to nonsignificance when the mediator's effect on the DV is taken into account. If the fourth condition is not met, partial mediation is concluded.

The James et al. (2006) structural equation modeling approach tests all paths among IV, mediator, and DV simultaneously. If full mediation is hypothesized, only paths from the IV to the mediator and from the mediator to the DV are tested in the model; if partial mediation is hypothesized, then a path from IV to DV is also included in the model. To support either full or partial mediation, all hypothesized relationships should be significant, and the model should exhibit adequate goodness-of-fit indices. Though there are differences between the two approaches, James et al. (2006, p. 239) acknowledged that when partial mediation is a priori hypothesized, their approach and the Baron and Kenny (1986) approach are highly similar. Thus, given that the Baron and Kenny approach has been adapted to path models with multiple mediators (Kenny et al., 1998) and that our model hypothesizes partially mediated effects, we used the adapted Baron and Kenny approach to explore mediation.

We examined the manager variables → employee variables → customer satisfaction chain. We first estimated a model with manager job satisfaction, job performance, and the manager performance–manager job satisfaction interaction as predictors of customer satisfaction. This model included the relevant control variable paths but excluded the employee job performance and

⁴ We also plotted the effect of manager satisfaction on employee performance at three levels of manager performance. As one would expect, the results were similar because of the interval (quantitative) scales of manager performance and satisfaction (Cohen et al., 2003).

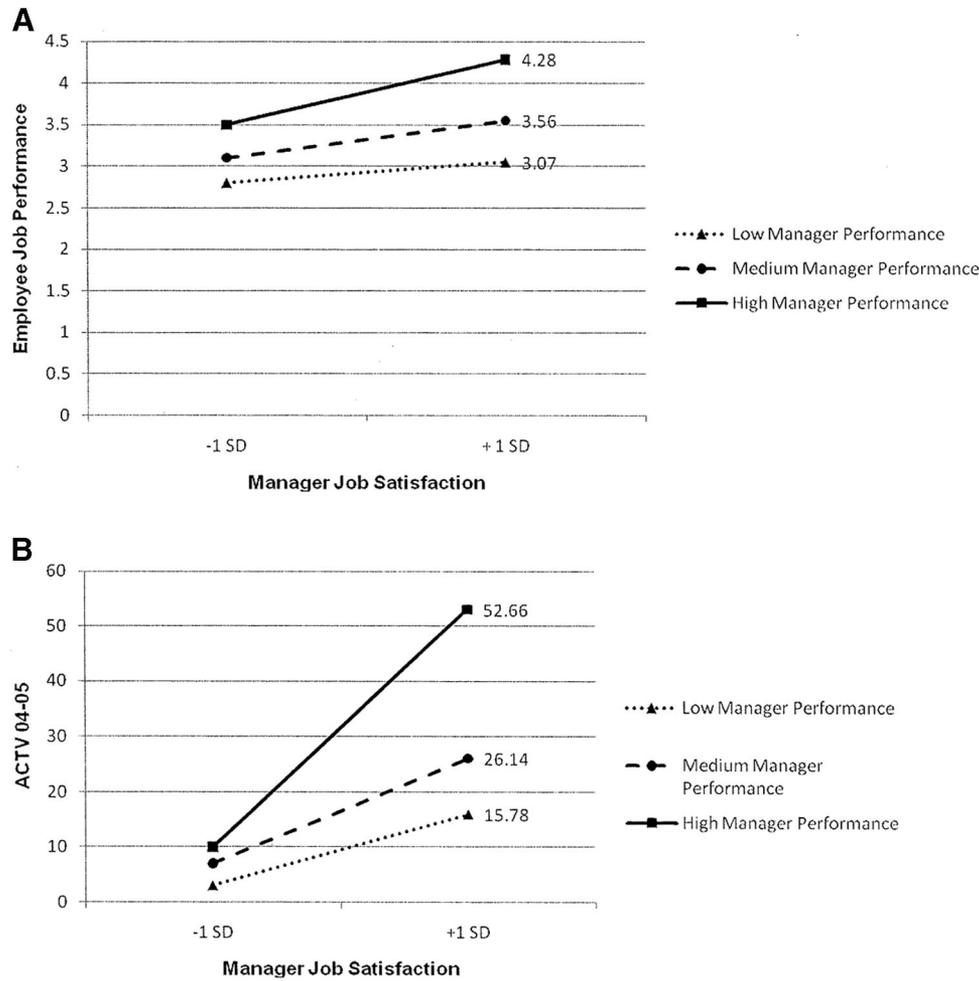


Figure 2. Interaction plots of employee job performance and average customer transaction value from 2004 to 2005 (ACTV04–05) regressed on manager job satisfaction at three levels of manager job performance. Low manager job performance is equal to one standard deviation below mean-centered manager job performance, medium manager job performance is equal to mean-centered (0) manager job performance, and high manager job performance is equal to one standard deviation above mean-centered manager job performance.

satisfaction to customer satisfaction paths and the manager job performance, satisfaction, and the manager performance–manager job satisfaction interaction paths to employee job performance and satisfaction. This model is consistent with the Baron and Kenny (1986) and Kenny et al. (1998) first condition of testing mediation, namely, that the IVs should be related to the DV without the mediators included in the model. The manager job performance ($\gamma = .12, t = 5.43, p < .01$) and satisfaction ($\gamma = .10, t = 6.33, p < .01$) paths to customer satisfaction were significant, but the manager performance–manager job satisfaction interaction path was not ($\gamma = .02, t = 1.11, p > .10$). Thus, only the hypothesized main effects of the manager job performance and satisfaction on customer satisfaction were present and could be mediated by the employee variables.

We then further examined the model specified in Figure 1 to test the second, third, and fourth conditions of Baron and Kenny (1986) and Kenny et al. (1998). As for the second condition, that the IVs should be related to the mediators, Tables 2 and 3 show

that this condition was partially met. Table 3 shows that the effects of manager performance and manager satisfaction on employee performance were significant, but the effects of manager performance and satisfaction on employee satisfaction were not. Table 2 shows that the manager performance–satisfaction interaction effect was significant for employee performance but not for employee satisfaction.

As for the third condition for mediation, that the mediators should be related to the DV, controlling for the effects of the IVs, Table 3 shows this condition was fully met. The employee performance \rightarrow customer satisfaction and the employee satisfaction \rightarrow customer satisfaction paths were both significant. Finally, the fourth condition tests for partial mediation. As shown in Table 2 when the manager job performance and job satisfaction paths to customer satisfaction were added to the model (H2a and H2b) with employee job performance and satisfaction as predictors, both manager job performance ($\gamma = .07, t = 3.55, p < .01$) and satisfaction ($\gamma = .07, t = 5.29, p < .01$) remained related to

customer satisfaction. Thus, as hypothesized, their effects were not fully mediated, only partially mediated.

To statistically test for partial mediation, we used the Baron and Kenny (1986) and [Kenny et al. \(1998\)](#) adaptation of the Sobel (1982) test (see [Kenny et al., 1998, p. 260](#)). In essence, this test assesses whether a direct path from an IV to a DV is significantly reduced (but remains significant) when the mediators are included as having direct significant paths to the DVs and the IVs have direct significant paths to the mediators. Recall that we have two mediators, employee satisfaction and performance, but also recall that the manager performance and satisfaction paths to employee satisfaction were not significant. Thus, the Sobel partial mediation test is applicable only to two effects: (a) the manager performance to customer satisfaction effect, while controlling for employee performance, and (b) the manager satisfaction to customer satisfaction effect, while controlling for employee performance. These tests showed that partial mediation was supported for employee performance partially mediating the effect of manager performance on customer satisfaction ($z = 3.79, p < .01$) and for employee performance partially mediating the effect of manager satisfaction on customer satisfaction ($z = 2.95, p < .01$).⁵

The possibility of an alternative flow. Given our correlational design, we recognize that our data could be consistent with a flow of effects other than that depicted in Figure 1. We still believe that what Figure 1 shows is the most likely flow of effects for several reasons.

With regard to the customer satisfaction → performance link, researchers strongly believe that the flow runs from customer satisfaction to store performance ([Heskett et al., 2003](#); [Rucci et al., 1998](#)). Further, customer satisfaction was assessed at the beginning of 2004, whereas the store performance variable is a change variable from the end of 2004 to 2005. With respect to the employee–customer sequence, it is widely held that employees are a key face of the company and largely affect customer satisfaction. Many studies show that the likely flow of influence is from employees to customers ([Loveman, 1998](#); [Schneider & White, 2004](#)).

Finally, though it is possible that employee satisfaction and performance influence manager satisfaction and performance, several factors argue against this. First, managers are the supervisors, and store employees are the subordinates. It seems more common for influence to work from supervisor to subordinate than vice versa, and this premise is largely consistent with prevailing contagion theory ([Barsade, 2002](#); [Sy et al., 2005](#)). Second, the average tenure for managers was 57 months ($SD = 29$), compared with 20 months ($SD = 10$) for employees, and in 268 of the 306 stores (87.6%), managers had longer employment than their respective employees ($M_{diff} = 43.19$ months, $SD = 25.41$ months). Third, other demographics of the managers and employees suggest that managers have more informal power that would also support influence flowing from manager to employee. Managers are older ($M = 48.24$ years, $SD = 6.71$ years vs. $M = 41.05$, $SD = 10.15$; $t = 15.48, p < .01$), more educated (58% hold college degrees vs. 38% of employees; $t = 6.44, p < .01$), and higher paid than employees ($M = \$49,092.24$, $SD = \$7,156.56$ vs. $M = \$18,718.08$, $SD = \$5,303.49$; $t = 71.73, p < .01$). Thus, managers would seemingly not be as receptive to influence from employees as employees would be to influence from managers.

Discussion

Implications for Theory and Future Research

Manager effects on employees. The effects of managers on employees can be summarized as follows: The manager job performance–job satisfaction interaction is directly associated with employee job performance, beyond the significant main effects of manager job performance and satisfaction on employee performance.

This finding offers a simple, yet meaningful theoretical implication. The majority of research employing an emotional contagion perspective or the value–profit chain has looked at only main effects of managers on employees, and most of this research has focused only on the effect of manager affect. Our study suggests that these theories should be expanded to include manager performance and a potential direct store manager performance–satisfaction interaction to employee performance. As previously noted, theories are enhanced and enriched when meaningful interactions among focal variables are tested, given the background variable of study context ([Lynch, 1999](#)). Given that much of emotional contagion theory focuses on contagion in small groups, our study suggests that extending the theory to include manager affect (satisfaction), behavior (performance), and their interaction in affecting an important subordinate behavioral variable (performance) is warranted. Particularly given the small retail store, small employee group setting in which employee performance has strong implications for the organizational goal of customer satisfaction, interaction effects among focal manager variables seem warranted to advance contagion theory in small groups ([Kelly & Barsade, 2001](#)).

For future research, we clearly expect the manager–employee linkages to be moderated by different forms of emotional contagion ([Bartel & Saavedra, 2000](#)). There is every reason to expect that the degree of manager contagion to employees will be moderated by the sense of connection between the two, be it that the connection is direct, or indirect based on a shared connection with a common third entity, namely, the employer. As for a direct connection, [Reagans \(2005\)](#) noted that it is a belief among researchers that the sharing of common attributes (personality traits) among individuals produces a baseline level of interpersonal attraction, leading to the tendency for these people to communicate with one another more frequently and to have more emotionally involved interactions. This, in turn, leads to an increased probability for social influence or contagion to occur. Consequently, to the extent managers and employees have similar personality profiles, we might expect the strength of the manager–employee emotional contagion links in our model to be even more pronounced.

As for an indirect connection, there has been recent research on the topic of manager and employee identification with the work organization, that is, the degree to which managers and employees perceive overlap in their self-concept with that of the employing company ([Wieseke, Ahearn, Lam, & van Dick, 2009](#)). It seems plausible to suggest that to the extent managers and employees are highly identified (view themselves as “company people”), managers might be more inclined to provide direction to employees, and employees

⁵ As with our partial mediation tests of the manager variables to customer satisfaction, we also tested for partial mediation of the manager variables to ACTV04–05. These effects were only partially mediated by customer satisfaction and are available upon request from Richard G. Netemeyer.

might be more receptive to this influence (contagion). Thus, future research employing the emotional contagion (or value–profit chain) may want to expand the theory by examining these potential moderators of the manager–employee contagion effect.

Manager effects on customers. Our H2 findings suggest that store manager performance and satisfaction may have direct effects on customer satisfaction—effects only partially mediated by store employee performance and satisfaction. Two interesting theoretical implications are tenable. First, to our knowledge, most research applying emotional contagion or the value–profit chain has looked at and supported a fully mediated chain of effects: managers → employees → customers → store performance. Our findings suggest that these theories may be expanded to include direct (only partially mediated) manager → customer effects, especially in the small store setting. As noted by researchers in these areas, it would be of theoretical interest to include the role of manager affect and behavior in examining a more comprehensive and expanded chain of effects (Homburg & Stock, 2004; Sy et al., 2005). We feel that our study has expanded the theoretical propositions tenable in the emotional contagion and value–profit chain frameworks.

Second, as previously noted, emotional contagion theory in small work groups emphasizes the visibility of the supervisor (manager) to his or her subordinates, and in our case customers as well. The degree to which customers know that the person assisting them is the manager (e.g., name tag, the manner in which the manager carries him- or herself) may have stronger effects on customer satisfaction vis-à-vis having an employee assisting the customer. One might suspect that customers may infer that managers have more knowledge, experience, status, etc., all of which may positively affect the satisfaction and sense of importance that the customer feels from manager interaction relative to employee interaction. This point, though speculative, is consistent with the contagion theory assertion that contagion may be more likely when the sender is perceived as having greater authority and expertise (Kelly & Barsade, 2001). Future research may want to formally and experimentally test this assertion.

Practical Implications

Manager effects on employees. Given the significant main and interaction effects of manager performance and satisfaction on employee performance, stressing the practical importance of managers influencing employees cannot be overstated. One simple reason drives this assertion: Employee performance and satisfaction are related to the important organizational outcome of customer satisfaction (see Table 3), and managers likely influence employees in their performance to enhance customer satisfaction. The strength of these manager effects is noteworthy. Though assessed only as a control path, the manager performance → employee performance path (.30, $t = 4.83$, $p < .01$) suggests that a 1-point increase in manager performance on its 5-point scale is associated with a .30 increase in employee performance on its 7-point scale, after holding the effects of all other predictors of employee performance constant. This main effect on employees was the strongest we found and suggests that when managers perform well, employees may strongly mimic this behavior. Though the effect of manager satisfaction on employee performance was less pronounced, it is still notable in two respects: (a) It is associated with a .14 increase in employee performance (holding the effects of other predictors constant), and (b) it forms

an interaction term contributing to employee performance above and beyond its simple main effect. That is, employee performance may be even stronger when manager performance and satisfaction are jointly at their highest levels.

Perhaps retail managers who are highly satisfied and perform well better communicate—through performance examples, subtle cues, or overt actions—effective in-store strategies and processes to frontline employees, creating a climate for customer service (Schneider et al., 2005). Also, frontline employees are more likely to be motivated to help high-performing managers accomplish store goals, and satisfied managers create positive work environments that reinforce the corporate strategy, invest in employees, and value employee feedback. What managers may want to do then is to overtly (in some way) show their concern for customers by performance examples with customers and store management in a manner that conveys a passion for what they are doing (Schneider & White, 2004). The more visible a leader is in such small work group contexts may have the strongest effects on subordinates, which, in turn, may enhance customer satisfaction.

Manager effects on customers. Our H2 findings collectively suggest that management executives could benefit by emphasizing the important role that store managers play in driving customer satisfaction. Calling attention to the manager–customer satisfaction link might help store managers see even greater value in their work, enhance their pride in accomplishment, and inspire them to take even stronger ownership of the customer experience. What is notable about the manager performance and satisfaction main effects on customer satisfaction is that they are comparable in strength to the employee performance and satisfaction effects on customer satisfaction (see Table 3). The simple bivariate correlations of Table 1 also reinforce this notion. The manager performance and satisfaction correlations with customer satisfaction were .58 and .61, respectively; the employee performance and satisfaction correlations with customer satisfaction were .63 and .54. Thus, though employees likely have greater face-to-face interactions with customers, their role in driving customer satisfaction is on par with the manager’s role. As such, focusing on manager performance and satisfaction may be as important to customer satisfaction as customer-contact employee performance and satisfaction, at least in the small retail store context.

What could retail executives do? Perhaps they could conduct a needs analysis to determine what the firm can do to enhance manager satisfaction and performance. Given that customer metrics may largely be shaped by factors within the store (e.g., merchandising, product selection, and service), it seems that retailers could improve by training store managers on in-store assortment, product–brand presentation, and personnel management.

Manager effects on store performance. Though they were not hypothesized, we explored the possibility of direct paths from manager performance, satisfaction, and the manager performance–satisfaction interaction to store financial performance (ACTV04–05). All these paths were significant and quite strong. As shown in Table 2, a 1-point increase in manager performance (on its 5-point scale) is associated with an 8.29% increase in customer spending growth (ACTV04–05), after holding the effects of all other predictors constant. Likewise, a 1-point increase in manager satisfaction (on its 7-point scale) is associated with a 5.04% increase in ACTV04–05 (again, holding the effects of all other predictors constant). Beyond these main effects, the manager performance–satisfaction interaction

is associated with a 3.51% increase in ACTV04–05 (again, holding the effects of all other predictors constant). Thus, top management may be able to improve store metrics by allocating more resources to effectively train managers to maximize their job satisfaction and performance (Peterson & Luthans, 2006).

Perhaps one message here is that some customer spending may result for reasons that are not beyond the influence of managers, but also may not consciously register with customers. Perhaps the image that a manager projects to customers about the quality of the merchandise or some other manager–performance factor (store design and visual displays) affects spending beyond its effect on customer satisfaction, which would also result in a direct effect being obtained. As noted by Berry et al. (2006), it may be the smaller clues related to manager performance and satisfaction that result in a large effect on customer retail choice. Our findings suggest that customer satisfaction may not tell the entire story with respect to customer spending behavior. These findings can be viewed in the context of the judgment–choice literature in which it has long been recognized that though judgments (e.g., satisfaction) are a principal antecedent of choice behavior (e.g., customer spending), the two are characterized by differing psychological processes. For example, relative to judgments, choice is more likely to be guided by justification effects (Payne, 1982). That is, customers may come up with reasons for choice behavior (i.e., justification) beyond what a satisfaction judgment would dictate. Thus, managers may be short-sighted to focus only on customer satisfaction and may want to think about those nonconscious customer processes that result in choice beyond customer satisfaction.

Limitations

The results of our study must be tempered with certain limitations. First, our results may not generalize to other retail settings. Our stores were small stores with one lead manager supervising an average of 5.7 employees per store. Though this small group setting enhances the use of emotional contagion theory, our findings may not be replicated in larger retail settings with multiple managers and a large number of subordinate employees.

Second, our manager → customer paths must be viewed with caution. Though our store managers likely had frequent contact with customers, we have no direct measure of this for the customers of our study. Recall that we used store day traffic and the ratio of manager to number of employees as very rough proxies for how much managers may have served customers. We also obtained another measure assessing the degree to which managers served customers (aggregated at the store level) from randomly selected customers during the period of our study. This measure read as follows: *Rate your satisfaction with the degree to which the store manager personally served you over the past year* (0–10 scale; $M = 5.98$, $SD = 2.82$). However, this measure too is not specific to our study's customers. In sum, we have only indirect evidence that our study managers interacted with our study customers. Thus, the direct manager satisfaction and manager performance paths must be tempered with the limitation that face-to-face manager–customer interaction was not assured.

Third, though we feel justification for aggregating all data to the store level, we were still not able to obtain ICC estimates for our manager job performance measure. Recall that manager job performance was rated by district managers, but our data supplier did not code manager performance by the rater (district manager).

Thus, we have no way of knowing how much variability (non-independence) in manager performance is due to the rater.

Fourth, there are some data collection issues that warrant mentioning. We must acknowledge that giving customers a 20% discount on their next purchase as an incentive to respond to our survey could have led to an upward bias in our customer satisfaction → ACTV04–05 link. As previously noted, though, the purchases pertaining to the 20% discount were not included in the ACTV04–05 calculation. Further, though about 60% of all customers redeemed the discount, this discount was restricted to a small number of low-ticket items. Given that we also used ACTV04 as an end variable in our model with highly similar results among all paths including the path from customer satisfaction → ACTV04 (see Footnote 3), such a bias seems likely minimal. We also must note some other store and customer characteristics. In previous versions of this article we assessed whether store size (square footage), store type (stand-alone street, mall, or strip mall), store geographic location (northern, southern, eastern, and western United States), and customer income level had any effects in our model. These variables were virtually uncorrelated with any of our focal independent or dependent variables, and they had no effects as control variables in estimating our model.

Finally, as with any correlational model, there are numerous intervening variables that could have been included that mediate the effects shown in our model. For example, manager leadership style, manager mood, and employee perceptions of organizational justice are all constructs that could have affected path estimates in our study. Future studies may want to examine these constructs as mediators of some of the relationships we tested.

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Appendix

Focal Measures

Employee performance: Rated by employee managers

1. How do you rate this employee in terms of performance in regard to knowledge of your products, company, and competitors?
2. How do you rate this employee in terms of performance in regard to store merchandising, proper product display techniques, store signage, and opening/closing procedures?
3. How do you rate this employee in terms of performance of all required tasks specified in his/her job description?
4. How do you rate this employee in terms of performance in regard to management of time and planning?
5. How do you rate this employee with regard to formal performance requirements when serving customers?

Employee manager job satisfaction: Rated by employees (manager)

1. All-in-all, I am satisfied with my present job at retailer.
2. All things considered, i.e., pay, promotion, supervisors, co-workers, benefits, I am satisfied with my present job at retailer.
3. Generally speaking, I am very satisfied with my present job.

Manager performance: Rated by district managers

1. How do you rate this manager in terms of personnel flow and hiring?
2. How do you rate this manager in terms of personnel training?
3. How do you rate this manager in terms of personnel leadership?
4. How do you rate this manager in terms of inspiring personnel?
5. How do you rate this manager in terms of store inventory management?
6. How do you rate this manager in terms of store risk management?
7. How do you rate this manager in terms of store merchandising?

Customer satisfaction: Rated by customers

1. All-in-all, I am satisfied with retailer.
2. Overall, I am satisfied with my shopping experiences at retailer.

Note. All satisfaction items were rated on 7-point scale (1 = *strongly disagree*, 7 = *strongly agree*), all employee performance items were rated on 7-point scale (1 = *poor*, 7 = *excellent*), and all manager performance items were rated on 5-point scale (1 = *below expectations*, 7 = *exceeded expectations*).