

HRD Climate & Customer Satisfaction in Indian Private Banks

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The present study examines the relationship between HRD climate and customer satisfaction. The HRD climate is conceptualized as comprising three components: general climate, OCTAPAC and HRD mechanisms. A survey based study was conducted in the Indian private banks and collected dyad level data. The data was collected from the employees and customers who were served directly by the bank employees. Data analysis was performed using a SEM technique, which showed that all the three components of HRD climate have a positive impact on customer satisfaction. Implications for research and practice are discussed.

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Introduction

In today's complex business environment, there is continuous and intimate exchange of not only information but also intense emotions between employees and customers (Kellogg & Chase, 1995; Parasuraman, 1985). Employees are the face of organizations, and the quality of their interactions with customers determines customer satisfaction, which, in turn, affects repeat purchase and, thus, ultimately determines companies' profitability (Brown & Lam, 2008). A customer's experience of services is dependent on his/her interaction with employees (Chase, 1977). Schmit and Allscheid (1995) suggested that it is impossible for the organization to achieve customer satisfaction without satisfied and loyal employees. Several empirical studies have found a positive relationship between employee satisfaction and customer satisfaction (Bernhardt et al., 2000; Harter et al., 2002; Koys, 2003; Wangenheim & Bayón, 2007).

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Given this positive relationship, it is important to examine the factors that may affect employee satisfaction. An important determinant of employee-related outcomes is organizational climate. Previous studies have suggested that organizational climate is related to an organization's profitability, productivity, customer loyalty and employee retention (Pattanayak, 1998). Organizational climate can propel employee performance (Carlopio & Gardner, 1995; Davis, 1984; Fried & Slowik, 2001; Parish et al., 2008; Steele, 1986; Sundstrom & Altman, 1989) and their interactions with the customers (Bitner, 1992).

There is considerable debate in literature on whether organizational climate should be conceptualized as a broad, generalized construct or there is a need for a specific construct (Schneider, 2000). A more focused sub-set of broad organizational climate is Human Resource Development (HRD) climate. HRD climate implies the perception that employees have about the policies, procedures, practices and conditions that exist in the working environment (Chaudhary, 2012). The difference between HRD climate and organizational climate is that the former is more development-oriented (Mishra & Bhardwaj, 2002). The climate in which employees work is, to some extent, affected by the HRD practices of the organization thus, introducing the 'HRD climate'.

Previous studies show that there is a link between organizational climate and performance (Burke & Litwin, 1992; Denison, 1990; Kangis et al., 2000; West

& Smith, 1998). Solkhe and Chaudhary (2011) found that if an organization scores high on various elements of HRD climate, then it definitely positively impacts job satisfaction of employees. Employees who are well motivated, well trained and highly competent are more likely to perform their jobs better and satisfy both internal and external customers.

To our knowledge, there is no empirical study that has investigated the HRD climate-customer satisfaction link. The present study provides useful insights into this and makes contributions to theory and practice. The study empirically tests the relation between HRD climate and customer satisfaction. Based on the data collected from employees working in the Indian banking industry and their respective customers, the study found evidence of a strong positive relationship between employee perceptions of HRD climate and customer satisfaction.

Organizational Climate & HRD Climate

Organizational climate can be defined as a manifestation of the values, feelings, attitudes, interactions and group norms of the members (Brown & Harvey, 2006). It is reflected in an organization's internal communication, organizational structure, professional development and regard for personal concerns. Schneider (2000) argued that organizational climate ought to be studied with situational referents as 'climates for something' or 'strategic climates' because these climates served as referents

for specific behaviors (Schneider & Bowen, 1992). In today's competitive landscape, the scope of human resource management functions has shifted from routine HR activities towards more strategic roles (Budhwar, 2000). HRD practices and policies not only determine the strategic direction of firms but also play an important role in determining employee perception about organizational climate (Kopeland et al., 1990). Hence, it is essential to understand organizational climate from the perspective of HRD.

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According to Swanson (1995) "HRD is a process for developing and unleashing human expertise through organization development and personnel training and development for the purpose of improving performance". HRD climate is defined as the perceptions that employees have about the policies, procedures, practices, and conditions which exist in the working environment (Chaudhary, 2012). HRD systems and practices play a significant role in initiating, facilitating and promoting HRD climate (Athreya, 1988). Mufeed and Gurkoo (2006) argued that in order to gain from HRD practices, it is important that these practices are adopted as a company-wide philosophy in an integrated manner indicating a need for proper HRD climate. HRD climate is essential to sustain HRD efforts by focusing on the creation of organizational culture congenial for development.

Pareek (1988) suggested that HRD climate facilitates sustains and helps in the successful implementation of HRD practices and efforts. Thus, both HRD practices and HRD climate are complementary and interdependent (Agarwala, 2002).

Rao and Abraham (1986) listed the important characteristics of developmental climate. These include: (1) a tendency at all levels starting from top management to the lowest level to treat the people as the most important resource; (2) a perception that developing the competencies in the employees is the job of every manager/supervisor; (3) faith in the capability of employees to change and acquire new competencies at any stage of life; (4) a tendency to be open in communications and discussions rather than being secretive (fairly free expression of feelings); (5) encouraging risk taking and experimentation, making efforts to help employees recognize their strengths and weaknesses through feedback; (6) a general climate of trust; (7) a tendency on the part of employees to be generally helpful to each other and collaborate with each other; (8) team spirit; (9) tendency to discourage stereotypes and favoritism; (10) supportive personnel policies; and (11) supportive HRD practices including performance appraisal, training, reward management, potential development, job-rotation and career planning. Organizations differ in the extent of having these tendencies. In the present-day competitive environment, where the initial stress is to harness the potential of employees, making them innovative, creative and proactive is necessary for the

overall growth of the organization. This can only be achieved if employees have an enabling culture in their organizations.

HRD Climate & Customer Satisfaction

One of the most important typologies of HRD climate was developed by Rao and Abraham (1986). They conceptualized HRD climate as comprising three sub-constructs: General Climate, OCTAPAC Culture and HRD Mechanism. General Climate refers to the importance given to human resource development in general by the top management and line managers as well as concerns favorable personnel policies and positive attitudes towards development. OCTAPAC Culture depicts the degree of openness, confrontation, trust, autonomy, pro-action, authenticity and collaboration, and the extent to which these values are promoted in the organization. HRD Mechanism takes into account the existence of HRD practices like performance appraisal, potential appraisal, career planning, performance rewards, feedback and counseling, training, employee welfare, quality of work life, job rotation, self-renewal and institution building, personal growth laboratories and worker education programs, quality circles, task forces, assignment groups, managerial learning network and organizational development (Solke & Chaudhary, 2011).

HRD climate stresses that employees are the most important asset of an organization, and that subordinates' skills are strengthened by their superiors who have belief in their subordinates, main-

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tain open communication, encourage risk taking and experimentation, put effort and help employees' realize their strengths, provide a climate of trust, collaboration and autonomy, supportive personnel policies and HRD practices (Rao & Abraham, 1986). These values must flow from the top management. When an organization adopts and internalizes them, it can be said to have a positive HRD climate. This positive HRD climate makes the internal system strong, effective, efficient and open for the new vistas (Athreya, 1988). Srimannarayana (2009) concluded that a favorable HRD climate improves the overall internal environment of the organization. HRD climate considers the managers' personal value system which, in turn, affects their reactions to different situations and their approach towards solving the contextual problems. Their decisions are majorly influenced by their belief in their value system. This also affects their interpersonal relations with others including colleagues and customers, and the relational boundaries they maintain with them. Consequently, the components of HRD climate can change customer experience and customer satisfaction (Sharma & Purang, 2000).

HRD mechanisms measure the extent to which HRD mechanisms like performance appraisal, potential appraisal, career planning, performance rewards, feedback and counseling, training, em-

ployee welfare and job rotation are implemented in an organization (Rao & Abraham, 1986). Schneider and Bowen (1985) found a significant relationship between HR practices and quality of service reported by customers. Previous studies suggest that managerial practices can play a significant role in improving and innovating the level of customer satisfaction (Zhang et al., 2003). It can be inferred that HR practices help in developing an efficient and effective human capital with knowledge, skills and abilities. This is primarily achieved by training & development, by acquiring new knowledge or by refining the existing knowledge. The performance appraisal and related rewards and disincentives convey the expectations of an organization and align employees well with the organization's goals. Based on the above arguments, we hypothesize:

H1: HRD Mechanism is positively related to customer satisfaction.

OCTAPAC sub-dimension of HRD climate measures the extent to which openness, confrontation, trust, autonomy, pro-activity, authenticity and collaboration are valued and promoted in the organization (Rao & Abraham, 1986). Schmit and Allscheid (1995) found that employees' climate perceptions of management, supervisor, monetary, and service support were related to employee affect. Affect is related to service intentions, which, in turn, is related to customer service. Trust among organization members is a determinant of firm performance (Mishra & Mishra, 1994). Berry and Parasuraman (1991) stated that buyer-

supplier collaboration requires trust to maintain a long and sustainable relationship. Once there is trust, the partner values the relationship (Brown et al., 1996), wants to be identified with the collaboration (Brown et al., 1996; Meyer et al., 2002; Porter, 1996) and is constrained to leave (Gilliland & Bello, 2002). Collaboration and trust are reciprocal processes; they depend upon and foster each other (Mattessich & Monsey, 1992).

Kuvaas and Dysvik (2010) suggest that employee evaluation and management's commitment to employee development by helping them acquire new skills and competencies are related positively to desirable work place, attitudes and performance. Reichheld (2001) noted that people contribute to firms in terms of efficiency, customer selection, customer retention, customer referral, and employee referral.

Guzzo and Noonan (1994) have found that HR practices are the communications that assist in creating psychological contracts. If the psychological contract is honored, employees will believe in and trust the organization and further do what is in the best interest of the organization, because it has delivered its aforementioned promises (Robinson, 1996). This, in turn, will benefit the organization by achieving higher levels of employee satisfaction and performance, service quality, and customer retention and satisfaction. Based on the above arguments, we hypothesize:

H2: OCTAPAC Culture is positively related to customer satisfaction.

General climate measures top management's support, concern and development of human resource (Rao & Abraham, 1986). HRD climate is the reflection of the top management's commitment to achieve the desired organizational goals. Their belief in the system is projected through their demeanor, appearance, and manner of interacting with their subordinates and with their customers. Employees must be able to effectively internalize the organizational values and norms before they can communicate it to others (Joseph, 1996). Consistency plays a vital role in this internalization process. When the messages received from all the sources are consistent and credible, employees subscribe to internalization process and are likely to deliver the explicit and implicit promises inherent in the organization. According to Bach (2009), it creates a chain effect. If a prospective or existing employee subscribes to an organization's internal communication, organizational structure, professional development and regard for personal concerns, that employee is likely to internalize the organizational values and then becomes motivated to project it to customers and other stakeholders. Masterson (2001) research on social exchange in organizations suggests that, in the case of service employees, the positive behavior received by the supervisor will have an impact on their management of customers (Shanock &

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Eisenberger, 2006). The perceived supervisor support would produce a desire to help the supervisor to meet the goals (Stinglhamber & Vandenberghe, 2003). These efforts will improve the performance of standard activities (Becker & Kernan, 2003). Thus, we hypothesize:

H3: General Climate is positively related to customer satisfaction.

Sample & Data Collection

Dyad-level data were collected from 203 private bank employees regarding their perception of HRD climate. Then, we randomly selected customers who were served directly by the employees and collected data about their satisfaction with the bank. Of the 203 participants, 84.72% were males and 15.27% were females. The mean age was 32.6 years. The educational levels of the participants were varied: 182 undergraduates (89.65%), 18 postgraduates (8.86%) and 3 diploma holders (1.4%). The work experience profile of the sample was as follows: less than 5 years (19.7%), between 5 years and 10 years (59.6%) and above 10 years (20.7%). The sample was drawn through personal contacts based on convenience and readiness of the employees to respond to the questionnaire.

Measures

We measured HRD Climate using 'The HRD Climate Survey' developed by Rao and Abraham (1986). The survey comprises 38 items on a five-point Likert scale ranging from 1 = not at all true to 5 = almost always true. Sample item to

measure general climate was “The top management of this organization goes out of its way to make sure that employees enjoy their work.” Sample item to measure OCTAPAC culture was “People trust each other in this organization.” Sample item to measure HRD mechanism was “Promotion decisions are based on the suitability of the promotee rather than on favoritism.” The reliability and validity of this scale is pre-established in literature (Chaudhary, 2013). Several researchers have used the HRD climate survey to study the link between HRD climate and different individual and organizational outcomes such as job satisfaction (Ahuja, 2002; Kumar & Patnaik, 2002; Rohmetra, 1998), organizational commitment (Purang, 2008), organizational citizenship behavior, turnover intentions (Benjamin, 2012), organizational effectiveness and productivity (Jain et al., 1997).

Customer satisfaction was measured using a 5-item scale developed by Levesque and McDougall (1996). This is a widely used scale and was developed in the context of banking service. The response was measured on a 5 point Likert scale ranging from 1= very satisfied to 5=very dissatisfied.

Data Analysis & Interpretation

Coefficient alpha (α) was used to test the internal consistency among the measurement items for a given construct. In this study, coefficient alpha was 0.87 for HRD Mechanism, 0.96 for General Climate, 0.95 for OCTAPAC Culture and 0.897 for Customer Satisfaction. These

results reveal that the reliability for each construct exceeds the general recommended criteria of 0.7 (Nunnally et al., 1967) and meets the requirement of reliability. Analysis was performed through Structural Equation Modeling technique using LISREL 8.7 software. We performed the analysis in two stages. In the first stage, confirmatory factor analysis (CFA) was performed to assess the fit of the measurement model. The overall fit of the measurement model was evaluated on the basis of its reliability, convergent validity, discriminant validity and estimated level. The measurement model showed very good fit with the data ($\chi^2[913] = 1341.74, p < .01; \chi^2/df = 1.47; CFI = .94; RMSEA = .05; SRMR = .04$). As can be seen from Table 1, the composite reliability (CR) was in the range of .89–.97, average variance extracted (AVE) was in the range of .42–.70, maximum shared variance (MSV) was in the range of .57–.62, average shared variance (ASV) was in the range of .46–.59, thereby, providing support for the reliability and convergent validity of the measures used in the study (Bagozzi & Yi, 1988). Discriminant validity is evaluated using confidence interval test to examine the degrees of correlation among the constructs (Anderson & Gerbing, 1988). The results revealed that the correlation coefficient between any two constructs plus or minus two standard errors did not include 1, thus providing support for the discriminant validity of the constructs.

In the second stage, the structural model was analyzed. Fig. 1 provides the results of path analysis performed. The structural model showed good fit with the

Table 1 Descriptive Statistics

Measured constructs/items	α	CR	AVE	MSV	ASV
HRD Mechanism (13-items)	.87	.95	.59	.62	.53
General Climate (13-items)	.96	.97	.70	.57	.46
OCTAPAC culture (12-items)	.95	.91	.42	.58	.51
Customer Satisfaction (5-items)	.90	.9	.6	.62	.59

α : Cronbach’s Alpha; CR: Composite Reliability; AVE: Average Variance Extracted; MSV: Maximum Shared Variance; ASV Average Shared Variance; N = 203

data ($\chi^2[935] = 1711, p < .01; \chi^2/df = 1.83; RMR=.045; RMSEA =.06; SRMR = .04$). As can be seen from fig. 1, HRD mechanism was positively related to customer satisfaction ($\beta = .42, p < .01$), OCTAPAC culture was positively related to customer satisfaction ($\beta = .42, p < .01$), and general climate was positively related to customer satisfaction ($\beta = .34, p < .01$). Thus, hypotheses 1, 2 and 3 were supported.

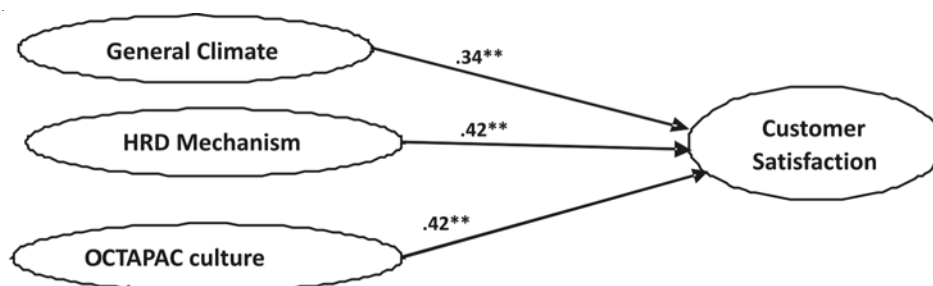
HRD mechanism was positively related to customer satisfaction, OCTAPAC culture was positively related to customer satisfaction, and general climate was positively related to customer satisfaction.

The present study analyzed the relationship between HRD climate and customer satisfaction. The findings suggest that all the sub-dimensions of HRD climate, namely, General Climate, OCTAPAC Culture and HRD Mechanism, have a positive impact on customer satisfaction. Organizations should work on improving HRD climate, because employees’ perception of HRD climate affects customer satisfaction. If an organization provides an appropriate environment where the top management lays policies that are employee centric, the HR interventions as a whole provides a growth trajectory for them, and employees are free to vent out their feelings; trust prevails and the work provides authority with responsibility.

Theoretical & Managerial Implications

In today’s competitive and fragmented market, competitive advantage which was realized through tangible,

Fig. 1 Best Fitting Structural Model



functional benefits is no longer sustainable. According to the resource based view of the organization (Barney, 1991), an organization can develop sustained competitive advantage only when it can create value in a way that is rare and difficult for competitors to imitate. Organizational employees are the resource which is very difficult to imitate due to the complex social structure and interpersonal interactions and relationships (Becker & Gerhart, 1996). Human resources, who are the competitive advantage developed by the HRD climate, can further contribute to achieve such high performance goals.

Deolalkar (2010) has suggested that HR practices such as recruitment, career development, strong staff management and matching the new responsibilities with the resources need to be changed or adjusted accordingly. The focus needs to be on the core competencies along with staff morale, organizational culture and training/retraining so that human resource is a key for productivity excellence (Bhasin & Burcher, 2006). We can conclude that an organization needs to focus on all the aspects of HRD climate in order to have satisfied customers.

Limitations & Future Research

The study has limitations that can be improved in future research. First, the sample was drawn from a small number of organizations. For a better understanding of HRD practices, a larger sample is required. Most studies of this nature involve organizations as the unit of analy-

sis. Second, this study does not take into account of how a change in HRD climate will affect customer satisfaction over time. A longitudinal study could provide an interesting research avenue for future. Finally, the data was collected just from one industry, which limits the capacity to generalize the findings to other settings. Future studies in this area should collect data from multiple industries and compare the results across industries for establishing more generalized results.

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