CHAPTER II

REVIEW OF LITERATURE ON ORGANIZATIONAL CLIMATE

2.1 INTRODUCTION

An extensive review of literature on the subject has revealed that there are three different approaches to the study of organizational climate. One approach assumes organizational climate to be an attribute of the organization and independent of any individuals who might provide data about it. According to this approach “Organizational climate is a set of characteristics that describe an organization and that (a) distinguish the organization from other organizations (b) are relatively enduring overtime and (c) influence the behavior of people in the organization”. (Forehand and Gilmer. (1964)¹.

Climate under this approach is a product of organizational characteristic such as size, structure, system and complexity, leadership style, physical environment and goals. It is assumed that the interaction of these factors produces climate.

Another approach to the study of organizational climate focuses on four major characteristics of the organizational situation.

a) Structural properties

b) Environmental characteristics

c) Role Characteristics and

d) Climate

In this approach the climate is not assumed to be a product of other organizational attributes, but an independent attribute by itself. According to this approach climate is “a set of attributes specific to a particular organization that may be induced from the way the organization deals with its members and its environment. For the individual member within an organization, climate takes the form of a set of attitude and expectancies, which describe the organization in terms of both static characteristics such as degree of autonomy and behaviour – outcome –outcome contingencies”\(^2\).

In this approach climate is still an organizational attribute but it is independent of the perception of the members.

The third approach assumes organizational climate to be grounded in the perceptions of the individuals. Psychological climate is differentiated from, and a precursor to organizational climate. This approach is based on several studies that demonstrated that climate perceptions vary on the basis of individual and job differences as much as organizational differences. (Campbell and Beaty, 1971)³, Guion 1973⁴, House and Rizzo 1972⁵, James and Hornick 1973⁶, James and Jones 1974⁷). It was found that different climates could exist within the same group or organization; therefore organizational attributes per se are not sufficient to account for climate

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⁴ R.M. Guion, (1973), “A Note on Organizational Climate”, Organizational Behaviors and Human Performance, 9, pp.120-125.


(Jayce and Slocum, 1984). In this approach, the climate is a psychological product of the interpretive and filtering process that one individual uses to make sense of the environment. The concept of climate in the present research can be described as personalistic.

Climate is an individual perception. There was no attempt to restrict the climate definition to perceptions shared by members of a work group or organization. What is important to the individual is how he perceives his work environment and not how others might choose to describe it (Schneider, 1973). Instruments developed in this third tradition have produced dimensions such as managerial supportiveness, managerial structure, concern for new employees, conflict independent and general satisfaction (Schneider, and Bartlett, 1968, 1970) as well as

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disengagement, spirit, hindrance, intimacy, aloofness, thrust, production, emphasis and consideration by leaders (Halpin, 1966\textsuperscript{12}, Halpin and Croft, 1963\textsuperscript{13}). The basic criticisms of this approach have been that these psychological perceptions are merely attitudes so that climate adds nothing to the attitude literature (i.e. climate is merely an attitude), and that since climate is a psychological variable, it cannot be applied to organizations. On the other hand, this third approach has proven to be the most fruitful in research and it is the one that has now gained the most legitimacy (Glick, 1985\textsuperscript{14}, Schneider and Reichers, 1983\textsuperscript{15}). It also has been the approach that has best addressed past challenges to the relevance of the climate construct and added value to research on organizational and individual behaviour. The remainder of this section discusses the contributions of the climate construct per se as well as specific findings from empirical research.

\textsuperscript{12} A.W.Halpin, (1966), Theory and Research in Administration, New York: Macmillan.

\textsuperscript{13} A.W. Halpin and P. Croft, (1963), The Organizational Climate of Schools, Chicago: University of Chicago Press.


Schneider (1975)\textsuperscript{16} is of the view that the concept of organizational climate rests on certain assumptions which are associated with the Gestalt School of psychology and the School of Functionalism. These assumptions may be stated as follows:

a) Humans’ attempt to apprehend order in their environment and to create order throughout, and

b) Humans’ apprehend and/or attempt to create order in their environment, so that they can effectively adapt their behaviour to the work environment.

Thus, climate perceptions represent meaningful apprehension of ‘order’ in the perceiver’s world, based on direct cues as well as inferences regarding the presence of psychologically equivalent cues.

The apprehension of order then has direct implications for behaviour. As suggested by Heider, (1958)\textsuperscript{17} people do have ‘theories’ about the way the world is ordered and they use these theories as a framework for their behaviour. Thus it can be concluded that people: a) apprehend order in their world of work based on perceived and interred cues, and b) behave in ways that fit the order they apprehend.

Litwin and Stringer, (1968)\textsuperscript{18} through their experimental studies, found that a given leadership style produced a characteristic climate which, in turn, aroused a particular motive as measured by the TAT. This shows how we can create and alter climate in a group, and how climate can then arouse a motive appropriate for its demands. Changing the overall climate of an organization is the primary objective of many programmers of organizational change. In general, such efforts are by those who call themselves Organizational Development (OD) specialists and consultants.


\textsuperscript{18} G.Litwin and R.Stringer, (1968) Motivation and Organizational Climate, Boston: Harvard University Press.
In an article on strategic planning for work climate modification, Ginsberg, (1978)\textsuperscript{19} has outlined how changes in climate can be planned in a systematic manner. The approach is based on an objective method for assessing and evaluating performance in the area of human resource management. The strategy consists of clearly defined objectives, identification of programmes to meet them and the specific action plans for the various steps, cost impact, and control of these programmes. The climate should then be surveyed on a regular basis in order to monitor progress against the plan and to assess the effectiveness of the chosen alternative.

Backer, (1975)\textsuperscript{20} suggested climate survey resulted due to the need for a systematic method of collecting information on human motivation, as this was essential for effective management.


Woodman and King, (1978)\textsuperscript{21} are of the view that phenomenological organizational climate is external to the individual, yet cognitively it is internal to the extent that it is affected by individual perception. Being reality-based, organizational climate is capable of being shared in the sense that observers or participants may agree in their perceptions of organizational climate, although this consensus may be constrained by individual difference in perceptions. To the extent that respondents agree in their perceptions, the climate construct is considered different from job satisfaction. Long ago, Tagiuri, (1968)\textsuperscript{22} highlighted the need to resolve the following problems in the area of climate research:

a) Need to distinguish between the objective and subjective environment;

b) Need to distinguish between the person and the situation;

c) Need to determine as to which aspects of the environment should be specified, and

d) Need to identify the structures and dynamics of the environment.


Johannesson, (1971)\textsuperscript{23} equated perceived organizational climate with job satisfaction. He maintained that researchers using the perceptual measures of organizational climate seemed to replicate the satisfaction literature and that such measure were likely to produce little more than an alternate form of measurement of job satisfaction.

Some studies have examined the relationship between organizational climate and performance. For example, Cawsey, (1973)\textsuperscript{24} found that individuals within an ‘achievement’ climate rated themselves as higher performers than those working in less motivating climates. According to Cawsay, this relationship holds for salesmen, whereas clerks were rated as higher in performance within ‘lower’ climate. Kaezka and Kirk, (1968)\textsuperscript{25} too found that performance was affected by organizational climate. In their study ‘employee-centered’ climate was associated with higher performance


in terms of lower unit cost, higher profits, etc. Frederickson, (1966)\textsuperscript{26} found that ‘innovative’ climates yielded greater productivity and predictable task performance.

Besides job satisfaction and performance, some other variables too have been correlated with organizational climate Costely, Downey and Blumberg, (1973)\textsuperscript{27} found that an employee's perception of organizational Climate predicted what role preference he practiced before training. Those who perceived their climate as ‘achievement’ and ‘reward’ oriented took on roles which led to achievement and rewards. Schneider, (1972)\textsuperscript{28} studied 1,215 life insurance agents and found that new agents' expectations were correlated within the climate of the life insurance agency. Davis, (1968)\textsuperscript{29} reports that organizational climate reflects a variety of executive rule-


\textsuperscript{29} J.Davis, (1968), “Rules, Hierarchy and Organizational Climate”, Personnel Administration, 31, pp.50-55.
following prosperities. Denhirst, (1971)\textsuperscript{30} studied 320 managers and non-managers from the non-profit development organizations and found that when managers placed greater value in managing, the professionals under them also placed greater value on becoming managers.

The studies reviewed so far are all from the west. In India too there has been a growing interest in studies of organizational climate. Some of the recent studies on this subject have been reviewed by Sinha (1980)\textsuperscript{31} using organizational climate as an intervening variable, Baumgartel and Jeanpierre, (1972)\textsuperscript{32} concluded that Organizational Climate is the single most important factor affecting the efforts of trained managers to apply new knowledge in the back-home organization. This is particularly so for the lower level executives who do not have status and power in their


organizations to get the new ideas through. Rao and Chattopadhyaya\(^{33}\) (1974) studied a number of workers, supervisors and managers of eight small scale industries and found no consistent differences in their perceptions of their organizations.

Roy and Raja, (1974)\(^{34}\) compared the climates of organizations in public and private sectors as seen through the eyes of the urban elite of Delhi. The public sector, as compared to the private sector was perceived to be less efficient because of nepotism, arbitrariness in union, management relations, inexperience of managers, the lack of an adequate management system, and interference by government and political forces. Sinha (1973)\(^{35}\) on the basis of his study of over 800 executives of two public and two matching private sector organizations, came to more or less the same conclusion as Ray. He found the public sector to be inferior in terms of the following dimensions of organizational climate: climate of promotion, climate of


efficiency, responsibility, social relationships, initiative and reward and working conditions. There was poor leadership, ineffectiveness in the face of external interference, diffused reinforcement pattern, etc. leading to inefficiency, lack of involvement and dissatisfaction among the executives. Nakra, (1971)\textsuperscript{36} is of the view that the public sector in India is a victim of the absence of well-defined policies and the presence of an atmosphere of suspicion, mistrust, lobbying and patronage.

A number of studies have been carried out on organizational climate in Indian schools. Sharma, (1971)\textsuperscript{37}, Rao and Metha, (1973)\textsuperscript{38} have reviewed those works. They conclude that school systems pose serious problems of measurement. Using the organizational climate scale, Bayti, (1970)\textsuperscript{39} has identified eight dimensions of climates of rural and urban schools. A study


by Goyal, (1973)\textsuperscript{40} has shown that within a school, the open system of education and more responsive and stimulating environment lead to greater creativity in students.

Organizational climate has been a popular concept in theory and research for sometime and has received a great deal of attention in the past 30 years. Guion (1973)\textsuperscript{41} has stated that “the contract implies by the term ‘organizational climate’ may be one of the most important to enter the thinking of industrial psychologists in many years”. Twelve reviews of climate literature have appeared since the mid-1960s. Though these reviews had been critical of the conceptualization and measurement of the climate contract, they have resulted in a significant understanding of the concept. In the following pages a detailed account of contributions made by various researchers and authors is presented. The review is oriented towards the objectives of the present study. Following the climate literature review the profile of the organization selected for conducting the study is presented.


Organizational Climate Literature

Organizational climate has much to offer in terms of its ability to explain the behavior of people in the workplace. Ashforth (1985 p.838) put forward the view that ‘climate has the potential to facilitate a truly integrative science of organizational behaviour’.

Schneider later discussed climate as follows: ‘The atmosphere that employees perceive is created in their organizations by practices, procedures and rewards… employees observe what happens to them (and around them) and then draw conclusions about the organizations’ priorities. They then set their own priorities accordingly’ (Schneider, 1994)\(^{42}\).

This study is guided by the definition of Moran and Volkwein, (1992)\(^{43}\) ‘Organizational climate is a relatively enduring characteristic of an organization which distinguishes it from other organization and (a) embodies members' collective perceptions about their organizations with respect to such dimensions as autonomy, trust, cohesiveness, support, recognition,


innovation, and fairness: (b) is produced by member interactions; (c) serves as a basis for interpreting the situation; (d) reflects the prevalent norms, values and attitudes of the organization's culture; and (e) acts as a source of influence for shaping behavior’.

Although this research is based on the above definition, many researchers have presented different definitions of organizational climate, and there has been some confusion as to the manner in which organizational climate is distinct from the notion of organizational culture. This chapter will, in part, provide a review of the evolution of this definition of organizational climate and provide an explanation of its relationship to the concept of organizational culture.

As this study is about service industry, it is not only important to clarify the contract of organizational climate, but it is also important to understand its usefulness for the service industries as a possible tool in seeking to improve the effectiveness and quality of their service. The importance of climate for the service industry has been highlighted by a
number of theories including, Francese (1993)\textsuperscript{44} who examined the effect of climate in service responsiveness; Meudell and Gadd (1994) who studied climate and culture in short life organizations; and Vallen (1993) who was concerned about organizational climate and service staff burnout.

Schneider, Brief and Guzze (1996) argue that ‘sustainable organizational change is most assured when both the climate – what the organization’ members experience – and the culture – what they believe the organization values – change’. Other empirical studies have claimed that climate has a considerable impact upon organizational effectiveness (Capion, Medaker and Higgs, 1993; Drexler, 1997; Franklin, 1975; Fredrickson, Janeen & Beaton, 1972; James and Jones, 1989; Likert, 1961, 1967; Furnham & Drakely, 1993; Lawler, Hall & Oldham, 1974; Kanter, 1983; Mudrak, 1989, Schneider, Brief & Guzzo, 1996; Schneider, Gunnarson & Niles Jolly, 1994, and others).

The role of climate is crucial in any organizational improvement process that requires the implementation of a major organizational change,

or innovation. Much of the following review will be definitional. This is necessary for two reasons:

1. In the context of performance and quality management, the term climate has been used loosely to the extent that the difference between the terms culture and climate has been seldom recognized; and

2. The literature on climate itself contains multiple definitions, factors, dimensions, research methods and etiologies.

The review will examine the major theories and models that have formed the basis of climate research.

**Climate Constructs – a Historical Perspective**

The root of the climate function can be traced to two different school of psychology. *Gestalt and functionalism*. The gestalt school argues that the perceiver has no choice but is actually driven to find order in the world. Nature has order, and the perceiver has to find that order through the process of closure.
The closure principle suggests that "given some limited amount of information to which people ascribe order, the totality they may create represents more than the simple sum of the limited information perceived …" given a set of cues about the world with some perceived relationship, i.e. there is sufficient information for order to be perceived, a whole or total concept is formed Schneider (1975).  

The earliest reported incident of the phenomenon was detailed in the work of Lewin, Lippitt and White (1939). In their experimentally created social climates they found that the behavior of the boys in the study varied according to the social climate created by their leaders namely, authoritarian, democratic and laissez faire. 

Functionalism provides a framework in which individuals can seek order in their environment. This allows them to function adaptively; they have a fundamental need to seek information about the status of their behavior in terms of the environment within which they operate, they seek 

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information so that they can adapt to, or be in homeostatic balance, with their environment (Schneider, 1975). Theorists such as Frederickson, Jenson and Beaton (1972) Fleishman (1953), Litwin and Stringer (1968) and Argyris (1957) support this view of Functionalism.

However, the conceptualization of climate can be traced back to the work of Lewin, et.al (1939) and a work entitled ‘Patterns of aggressive behavior in experimentally created social climates’ (Denison, 1996; Schneider, 1990). Lewin’s concept of life space has been explained by Kreech and Crutchfield as:

The individual’s total conception of the worlds in which he exists… it includes his knowledge, beliefs and memories and his view of the past and future as well as of the present; and it may include domains of life reached after mortal ‘death’, heaven and hell paradise and purgatory. It is not, of course, the same as the actual physical and social environment described by the outside observer. It is what exists subjectively for the person. His life


space may correspond in some way with the actual external environment but it also deviates from them in radical degree, and varies markedly from life spaces of other people. (Krech & Crutchfield, 1961, p.210).

Lewin’s (1951) approach to climate was conceptualized by the relationship between individuals, their social environment and how that is set in a framework. Lewin expressed this in terms of a sample equation.

\[ B = f (P.E.) \]

In which B= Behaviour, E= Environment, and P – the person

It is clear from Lewin’s equation that the concept of climate takes a psychological approach, focusing upon the individual and seeking to understand the cognitive processes and behavior. Lewin’s conceptualization of the theory provides the underpinnings of many studies and approaches to comate research.

**Approaches to Climate Construct**

The seminal work of Lewin et.al (1939) provoked Schneider to remark “obtaining consensus as to the definition of climate has been difficult as the climate construct is complex and many different researchers have used
the same terminology to mean different things to the extent that providing a definitive description of climate has been likened to ‘nailing jello to the wall’ (Schneider, 1990, p.1). Others have argued that if the use of the same term to mean different things continues, climate research will ‘grind to a stop in an assemblage of walled in hermits each mumbling to himself words in a private language that only he can understand’ (Boulding, cited in Glick, 1988, p.133).

James and Jones (1974) conducted a major review of the theory and research on organizational climate and identified climate in three separate ways that were not mutually exclusive, (a) multiple measurement – organizational attribute approach, (b) perceptual measurement – organizational attribute approach, and (c) the perceptual measurement – individual attribute approach. In the multiple measurement organizational approach they cite Forehand and Gilmer (1964) as defining organizational climate as a set of characteristics that describe an organization and that (a) distinguish the organization from other organizations (b) are relatively enduring over time, and (c) influence the behavior of people in the organization. (Forehand & Gilmer, 1964, p.3621 cited in James & Jones, 1974).
The perceptual measurement – organizational attribute, approach views climate as individual perceptions of the organization that influence behavior. James and Jones (1974) reported that the Campbell, Dunnette, Lawler & Weick (1970) study which itself has synthesized Kahn, Wolfe, Quinn, Snock & Rosental (1964), Litwin & Stringer (1968) and Schneider & Balett (1965) had proposed four organizational climate dimensions:

1. Individual autonomy – based on the factors of individual responsibility, agent independence, rule orientation and opportunities for exercising individual initiative.

2. The degree of structure imposed upon the position – based on the factors of structure, managerial structure and the closeness of supervision.

3. Reward orientation – based upon the factors of reward, general satisfaction, promotional achievement orientation, and being profit minded and sales oriented.

4. Consideration, warmth and support based upon the factors of managerial support and nurturing of subordinates.
Perceptual measurement – individual attribute, was viewed as a set of perceptually based psychological attributes (rather than the conceptualized independent or structural variable). Jones and James (1979) noted that the process reflected the developments that had occurred in the conceptualization of climate and the nature of its major influences. They propose that psychological climate;

(a) Refers to the individual’s cognitively based description of the situation; (b) involves a psychological processing of specific perceptions into more abstract depictions of the psychosocially meaningful influences in the situation; (c) tends to be closely related to situational characteristics that have relatively direct and immediate ties to the individual experience, and (d) is multi-dimensional, with a central core of dimensions that apply across a variety of situations (though additional dimensions might be needed to better describe particular situations (Jones and James, 1979, p.205).

For Schneider and Hall (1972)\(^{49}\) climate is a global perception held by individuals about their own organizational environment. Schneider and Snyder (1975) further clarified the approach by defining climate as a

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\(^{49}\) Ibid., p.74.
summary perception which individuals form of (or about) an organization. For them it is a global impression of the organization. Thus the global nature of organizational climate suggests that different practices and procedures may contribute to the perceptions individuals have of their organization. Schneider’s (1975) definition of climate includes the ‘meaningful apprehensions of order for the perceiver that are based on the equivalent of psychological cues’.

The current study has conceptualized organizational climate as a construct created by the activities of organization. This definition is more relevant here as it focuses on people and their views of climate and what impact it has on the organization rather than on definitional issues.

**Comparison of Climate and Culture**

Trice and Beyer (1993) define culture in terms of what it is not. It is not climate, which is measured with researcher – based data, whereas culture is measured by intense data collection of an emic (contractive) nature. Trice and Beyer reflect the concerns of both Schneider (1990) and Glick (1988).
So many different variables have been subsumed under the climate concept by various researchers that it overlaps with most constructs in organizational behavior as well as with structure, technology, formalization and effectiveness… the appeal of the ultimate construct was that it seemed to give the researchers a way to combine a broad array of variables already studied into a single omnibus concept that would simplify the process of characterizing and comparing the psychological environments (1993, p.1920).

The definition of culture put forward by Trice and Beyer (1993) noted that it has many unique indicators like myths, symbols, notes and stories. Denison (1996) took what he considered to be a more controversial view in arguing that it is not clear that culture and climate are examining distinct organizational phenomena. However, the literature refers to culture as being deeply rooted in the structure of an organization and based upon values, beliefs and assumptions held by the members.

Climate, however, tends to present social environments in relatively static terms measured by a broad set of dimensions and can be considered as temporary and subject to a range of controls. Table 2.1 gives an outline of
differences between the literatures using an epistemological approach, the point of view taken, methodology used, temporal orientation, level of analysis and the discipline:

**TABLE 2.1**

**CONTRASTING ORGANIZATIONAL CULTURE AND CLIMATE**

<table>
<thead>
<tr>
<th>Research Perspective</th>
<th>Cultural Literature</th>
<th>Climate Literature</th>
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<tbody>
<tr>
<td>Epistemological</td>
<td>Contextualized and Idiographic</td>
<td>Comparative and homothetic</td>
</tr>
<tr>
<td>Viewpoint</td>
<td>Emic</td>
<td>Etic (researcher’s view)</td>
</tr>
<tr>
<td>Methodological</td>
<td>Qualitative observation</td>
<td>Quantitative data</td>
</tr>
<tr>
<td>Temporal orientation</td>
<td>Historical evolution</td>
<td>A historical snap shot</td>
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<tr>
<td>Level of Analysis</td>
<td>Underlying values and Assumptions</td>
<td>Surface level manifestations</td>
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<tr>
<td>Discipline</td>
<td>Sociology</td>
<td>Psychology</td>
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Culture studies were searching for that which is unique in each setting and used qualitative methods whereas climate studies in contrast, used quantitative methods and looked for factors that were generalisable scores in different settings. The desire of the researchers to find out generalisable factors that are applicable to all environments has made climate research complex to the extent that a multiplicity of dimensions, climate instrument
and underlying theoretical assumptions have been produced by various researchers. Denison summed up this paradox thus:

Culture researchers were more concerned with the evolution of social systems over time. Whereas climate researchers were generally less concerned with evolution but more concerned with the impact that organizational systems have on groups and individuals… culture researchers argued for the importance of deep underlying assumptions… Climate researchers in contrast, typically placed greater emphasis on organizational members' perceptions of observable practices and procedures that are closer to the surface of organizational life… and categorization of these practices and perceptions into analytic dimensions defined by the researches' (Denison, 199650).

**Dimensions of Organizational Climate**

The definitions and theoretical positions on climate have varied considerably between the individual theorists. This has also been the case for the dimensions of climate and its measurements. Denison (1996) argues that developing a universal set of dimensions was often the central issue of the

50 Denison, Culture and Climate Research, 1996, pp.621-622.
climate researchers so that comparative studies could be made possible in
different organizational settings. He compared this approach to that of the
culture research that used a post-mortem perspective which examined the
qualitative aspects of individual social contexts where each culture that was
examined was seen as unique and was not expected to have generalisable
qualities.

It is possible that the dependence on the use of climate surveys as the
research method of choice led those working in the climate area to seek
generalisable qualities across settings. Jones and James (1979) argued that
one of the assumptions of the climate literature is that a relatively limited
number of dimensions could characterize a wide cross-section of social
settings.

Jones and James (1979)\textsuperscript{51} initially administered their 145 item
instrument to a large sample of 4315 US Navy personnel. An exploratory
Principal Components Analysis (PCA) produced a six factor (eigenvalues
greater than unity) solution. Jones and James labeled their factors as follows:

\textsuperscript{51} Jones and James, Conflict and ambiguity, Job Challenges, 1979, pp.23.
• Conflict and ambiguity: Aimed at ascertaining perceptions about conflict in organizational structure, roles, interdepartmental relations and communication. Also included were poor items on planning, inefficient job design, a lack of awareness of employee needs and problems, and lack of fairness and objectivity in the reward process.

• Job Challenge, importance and variety: This reflected a job perceived as challenging, important to the Navy, which involved a variety of duties, including dealing with other people. The job was seen as providing autonomy and feedback, and demanding high standards of quality and performance.

• Leader Facilitation and support: This reflected perceived leader behaviors such the extent to which the leader was seen as helping to accomplish work goals by means of scheduling activities, planning etc., as well as the extent to which he was perceived as facilitating interpersonal relationships and providing personal support.

• Workgroup cooperation, friendliness, and warmth: which generally described relationships among group members and their pride in the workgroup.
• Professional and Organizational esprit: which reflected perceived external image and desirable growth potential offered by the job and by the Navy. Also included were perceptions of an open atmosphere to express one’s feelings and thoughts, confidence in the leader, and consistently applied organizational policies, combined with non-conflicting roles, expectations and reduced job pressure.

• Job standards: which reflected the degree to which the job was seen as having rigid standards of quality and accuracy, combined with inadequate time, manpower, training, and resources to complete the task.

The same instrument was used by Jones and James in a climate study of health managers and firemen. Here again six factors were extracted through PCA. However only 5 factors were found to be common across three samples. (Conflict and ambiguity, Job challenge, importance and variety, Leader facilitation and support, Workgroup cooperation, friendliness, and warmth and professional and organizational).

Jones and James reviewed the comparability of the results found in their US Navy samples and the findings of other similar studies. A number
of the dimensions that has been used in other studies could be related to their own findings as shown in Table 2.2.

TABLE 2.2

DIMENSIONS OF ORGANIZATIONAL CLIMATE IN VARIOUS STUDIES AS COMPARED WITH JONES AND JAMES STUDIES

<table>
<thead>
<tr>
<th>JONES AND JAMES (1979)</th>
<th>WORKGROUP COOPERATION FRIENDLINESS AND WARMTH</th>
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<tbody>
<tr>
<td>Meyer (1968)</td>
<td>Team spirit</td>
</tr>
<tr>
<td>Thornion (1969)</td>
<td>Distant vs. close working relationship</td>
</tr>
<tr>
<td>Friendlander &amp; Margulis</td>
<td>Intimacy</td>
</tr>
<tr>
<td>Pritchard &amp; Karasick (1978)</td>
<td>Social relations</td>
</tr>
<tr>
<td>Lewler, Hall &amp; Oldham (1974)</td>
<td>Friendly – unfriendly</td>
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<thead>
<tr>
<th>JONES AND JAMES (1979)</th>
<th>CONFLICT AND AMBIGUITY</th>
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<tbody>
<tr>
<td>Litwin &amp; Stringer (1968)</td>
<td>Conflict</td>
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<td>Schneider &amp; Bartlett (1968)</td>
<td>Conflict</td>
</tr>
<tr>
<td>Fritchad &amp; Karasick (1973)</td>
<td>Conflict</td>
</tr>
<tr>
<td>Meyer (1968)</td>
<td>Organizational clarity</td>
</tr>
<tr>
<td>Payne, Pheysey &amp; Pugh (1971)</td>
<td>Normative control</td>
</tr>
<tr>
<td>Thornton (1969)</td>
<td>Efficiency and clarity of purpose</td>
</tr>
<tr>
<td>Campbell, Dunneite, Lawler &amp; Weick (1970)</td>
<td>Structure</td>
</tr>
<tr>
<td>Litwin &amp; Stringer (1968)</td>
<td>Structure</td>
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<tr>
<td>Pritchard &amp; Karaick (1973)</td>
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<td>Schneider &amp; Bartlett (1968)</td>
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<tr>
<th>JONES AND JAMES (1979)</th>
<th>LEADERSHIP, FACILITATION AND SUPPORT</th>
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<tbody>
<tr>
<td>Schneider and Bartlett (1968)</td>
<td>Managerial support</td>
</tr>
<tr>
<td>Campbell et.al (1970)</td>
<td>Consideration, warmth and support</td>
</tr>
<tr>
<td>Waers, Roach &amp; Batlie (1974)</td>
<td>Close, impersonal supervisions, and employee centered orientation</td>
</tr>
<tr>
<td>Friedlander &amp; Margulis (1969)</td>
<td>Aloofness, production emphasis, trust and consideration (4 separate factors)</td>
</tr>
</tbody>
</table>
Campbell, et.al,\textsuperscript{52} in their attempt to identifying the dimensions of organizational climate, reviewed the works of Litwin and Stringer (1966), Schneider and Bartlett (1968), Taguiri (1966) and Khan, Wolfe, Quinn, Snoek, and Rosenthal (1964). They found four factors common to each of these studies: (a) individual autonomy, (b) degree of structure imposed on the position, c) review orientation, d) consideration, warmth and support. Whilst there is not definitive agreement on climate dimensions there does appear to be some commonality of organizational dimensions that can be measured by a number of theorists and the debate continues over the narrowness of range used to describe different work environments (Fritchard and Karaick, 1973; James and James, 1989; James, James and Ashe, 1990; Schneider, 1975).

Ryder and Southey (1990)\(^{53}\) noted that the major dimensions of psychological climate are stable and would provide a framework for future research. In their study they modified the Jones and James (1979)\(^{54}\) questionnaire and reported improved measures of reliabilities. This procedure resulted in a 10-factor solution (using the criterion of the corresponding eigen value being greater than unity). The authors report that of those 10 factors, only 6 were interpretable. The dimensions they so identified were; ‘leader facilitation and support, leader’s support and facilitation in the accomplishment of work goals, his role in facilitating interpersonal relationships, being aware of employee needs and providing job feedback. It also encompasses openness of expression and allows for upward interaction.

‘Job variety, challenge and espirt’, deals with not only job variety, challenge and autonomy but professional, work group and organizational


espirt de corps. It also encompasses opportunities for growth and advancement, role ambiguity and efficiency of job design.

‘Conflict and pressure’, deals with conflict in a role and between organizational goals and objectives, job pressure, planning and coordination, and opportunities to deal with there. ‘Organizational planning openness’, describes planning and effectiveness, and ambiguity of organizational structure. It also deals with job standards and importance, the consistent application of organizational policies, and confidence and trust.

‘Workgroup Reputation, Co-operation, Friendliness and Warmth’, encompasses precisely the concepts named in its title.

‘Perceived Equity’ looks at interdepartmental co-operation, organizational communication and the fairness and objectivity of the reward process.
In a recent study conducted by Davidson M.C.G. (2000) in Australian hotel industry using the modified version of James and Jones (1979) instrument the researcher has identified seven factors with six of them being those identified by Jones and James (1979). The dimensions identified by him are: (1) Leader facilitation and support; (2) Professional and Organizational esprit; (3) Conflict and ambiguity; (4) regulations, organization and pressure; (5) job variety, challenge and autonomy; (6) Work group co-operation, friendliness and warmth; (7) job standards.

ORGANIZATIONAL CLIMATE AND MODELS OF ORGANIZATIONAL FUNCTIONING

Although the debate over what organizational climate does and does not describe has been ongoing from the time Lewin, Lippitt and White (1939) first utilized the constructs, an adequate and comprehensive theory of climate has been elusive.

Organizational climate has been conceptualized by James and Jones (1976) in an integrated model to depict the role of organizational climate in

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relation to the resultant job behaviors and ultimately the end result criteria. Organizational climate is portrayed as a situational variable along with more objective factors such as organizational structure, systems and norms and processes. These are further broken down into a number of sub-systems. It is these situational variables that are responsible for the perceived psychological climate and the physical environment. Though there are a number of other causal influences, the prime relationship of the perceived climate and the physical environment is with a range of individual characteristics such as attitudes, motivation, job satisfaction, expectancy instrumentality and reward reference. Other individual characteristics become a moderating variable but the relationship with job behavior and performance and end result for the organization is clearly shown.

Coleman, Brief, and Guzzo (1990) also provide a linear model of organizational functioning that depicts the roles of the culture and climate as they are ultimately linked to organizational productivity. According to
Kopelman et.al’s\textsuperscript{57} model, societal and organizational culture set the parameter of the human resource practices. It is the HRM practices that in turn engender the organizational climate, which produce the cognitive and effective states of individuals (work motivation and job satisfaction). The aggregation of individual perceptions determines the salient features of organizational behavior and in sum make up the organizational productivity. Although the dependent factor here being productivity, the model has utility for explanatory purposes with climate being depicted as an intervening variable. This model uses the role of HRM practices of the organization as a situational variable that will ultimately affect the productivity of the organization. Kopelman et.al’s (1990) description of organizational climate reflects both individual and organizational characteristics. Individual characteristics such as attachment, performance and citizenship are seen as intervening between the climate of the organization and the ultimate outcome. Attachment will affect such factors as absenteeism and turnover leading to a favorable change in training separation and replacement cost.

\textsuperscript{57} Kopelman, R.E. Brief, A.P. & Guzzo R.A. (1990), The Rate of Climate and Culture in Productivity, In Schneider B. Organizational Climate and Culture, San Francisco: Josey Bass.
And of course, in a service industry the quality of the service provision is also likely be affected.

Schneider, Gunnarson and Nilee Jolly (1994)\textsuperscript{58} claim that organizational citizenship behavior is essential in creating a climate that allows for organizational success. ‘Organizational citizenship behavior’ refers to ‘Constructive or co-operative gestures that are not mandatory’ without which attachment, performance and ultimately productivity will slowly deteriorate (Brief and Motowidle, cited in Kopelman et.al., 1990, p.301). Perceptions of fairness and trust, norms of helpfulness and co-operation and fair reward systems based on a broad range of contributions are seen as essential in creating a good climate.

The models that propose that climate affects the outcomes of the organization through the behavior of the employees have their origins in the work of Likert. Likert (1961)\textsuperscript{59} discussed climate in terms of an intervening variable. The role of climate in the provisions of high quality service draws on the models provided by Likert (1961), James and Jones (1976),


Kopelman et.al., (1990) and other Likert’s model used causal variable which included only those that were under direct management control that is intervening variables that reflected the organizational climate such as performance goals, loyalties, attitudes, perceptions and motivation, and end result variables that include productivity measures, costs, service and quality.

CLIMATE, SERVICE QUALITY AND ORGANIZATIONAL PERFORMANCE

From the earliest studies the climate of an organization has been shown to exert a powerful influence upon the attitudes and behavior of the people in the organization. Many aspects and factors have been shown to have a relationship with organizational climate such as, work methods (Fraderikaan, 1968, cited in James and Jones, 1974); satisfaction (Pritchard and Karasick, 1973); alienation (Witt, 1993); trust (Strutton, Toma and

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Palton, 1993), productivity (Fraderikaan, 1968, cited James and Jones, (1994); turnover intentions (Parkingorn and Schneider, 1979); agency success (Schneider cited in Parkingron and Karasick, 1973); organization income (Scheflen cited in Prithcard and Karasick, 1973); (Scheflen and Browen, 1994) and many other factors. It is therefore reasonable to conclude that organizational climate is of major importance in the understanding of how organizations work and the success they achieve.

When discussing the role of climate and its line to the provision of high quality service it is first necessary to understand the operational environment of the insurance industry. The provisions of high quality service has become essential to survival as public sector insurance companies are now facing competition from the private insurance companies. Higgine and Vineze (1993) argue that firms wishing to be successful in the 1990's must have a quality management programme in place and that quality has become a strategic imperative.

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Yet there is no guarantee that the introduction of quality programmes will lead to success. Harari (1993)\textsuperscript{65} points to a success rate of only 20 - 30 per cent. Similarly, Eskildon (1994)\textsuperscript{66} reported that 63 per cent of those surveyed with TQM programmes had failed to reduce internal defects by 10 per cent or more. Only one-fifth of British firms believed that their quality programmes had made a significant impact, and only one-third of US manufacturing and service firms believed their TQM efforts ad made them more competitive. According to Napier (1997)\textsuperscript{67}, most of the TQM programmes also fail to address the issues of psychological/behavioral aspects that are essential prerequisites for changes like introduction of quality initiative. He found that many North American organizations when start a formal quality initiative lose their way or give up within two years, in the process wasting a lot of time, effort and money. Napier argues that they are focused on the pure mechanics of implementation so that without the supporting behavior quality systems either get bastardized to failure (1997, 65–67).


\textsuperscript{66} Eskildon, L. (1994), Improving the odds of TQM's Success, Quality Progress, 27 (4), pp.61-63.

\textsuperscript{67} Napier I. (1997), Australian Culture and the acceptance of TQM \textit{The Quality Magazine}, June 7-15.
Eskildon (1994)\textsuperscript{68} argues that companies such as Harely – Davidson, Hewlett-Packard, Xerox and Compaq have all achieved success by managing their TQM programmes by creating clear goals, whilst many other companies which implement TQM concentrate on creating a culture without creating clear goals for improving customer, value outcomes.

Members of an organization infer the climate of an organization with the help of its goals and how it goes about its business (Schneider, Brief and Guzze, 1996)\textsuperscript{69}. Thus goals have an important function in understanding the link between the daily activities of the organization and the deeper psychological issues. It is here that climate has an important explanatory role to play. The influence of an organizations' climate on employee behaviour extends beyond the implementation of proposed change, and has been demonstrated by numerous studies on all aspects of employee behavior (Drery, 1993; Witt, 1993, Structton, Toma & Polten, 1993). An organization needs to be aware of three separate kinds of climate in order to ensure the success of service focused quality improvement efforts (1) a climate for

\textsuperscript{68} Ibid., p.64.

service, (2) a climate for innovation, and (3) a climate for human resources or employee welfare (Schneider, Gunnarson and Nilse Jolly, 1994).

The climate of the workplace is particularly relevant to all service industries where, like insurance, the vast majority of its output is characterized by intangibility, heterogeneity, simultaneous production and consumption. The management of service industries is different and according to Schneider, Gunnarson and Niles Jolly (1994, p.23). "… in the absence of direct control of the service encounter, it is the climate and culture that determines high quality service".

The Importance of Climate in the Context of Service

The commitment and self esteem of workers, the culture and climate of the organization, together with the quality of the organizational communication and leadership have a direct effect on the quality of production and services and the overall productivity of the organization they

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need to be examined and understood by managers considering a quality intervention (Silcox, Cacioppe and Soutar, 1996, p.26). 

The integral role of people in the development of a TQM plan (Price and Chen, 1993) is crucial to its implementation and success. Crom and France (1996) detail the consequences of 'a climate of fear' in relation to employee risk taking and how a variety of techniques including team work and the redesign of job processes can address their situation. Ryan (1995) discusses the need for the development of a climate for innovation in the context of a continuous improvement effort.

Tice (1993) supports this view claiming that all too often the human of behavioral side of TQM is either ignored altogether or given cursory attention (1993 p.23) Libottle discusses the difficult of 'embedding the will for continuous improvement (1995 p.48) and promotes the prescription of

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73 Ryan J. (1995), Giving People the chance to sparkle, People Management, 1 June, pp.40-42.

measurable responsibilities in place of the use of new written procedures only. Easton (1992) comments upon the continued emphasis on financial and cost factors in the decision making of American industry to the neglect of other indicators concerning individuals. Heymann (1992)\textsuperscript{75} extends the discussion of the need to establish a quality culture to include the day-to-day behaviour that is evident in the organization, and Saraph and Sebastian (1993)\textsuperscript{76} discuss the need for quality goal setting. Partlow (1993)\textsuperscript{77} gives an extensive account of the practices and procedures that are seen to be central to the quality improvement process at the Ritz-Carlton group. These processes cover climate-relation and give a clear indication of the importance of the role organizational climate plays in the quality management initiative.

\textsuperscript{75}Heyman K. (1992), Quality Management – A 10 point model, \textit{Cornell HRA Quarterly}, October, 51-0.

\textsuperscript{76}Saraph J.V. & Sebastian, R.J. (1993), Developing a quality culture, \textit{Quality Progress}, 26 (Sept.) 73-78.

Vallon (1993)\textsuperscript{78} provided clear evidence of the link between organizational climate and the burnout of service staff. The study used Likert's 'Profile of Organizational Characteristics (POC)', an 18 variable questionnaire divided into six categories, leadership, communication; interaction and influence; decision making goal setting and control. This is based upon Likert's (1961) four systems of management, ranging from system 1. (exploitative authoritative), System 2 (benevolent –authoritative), System 3 (consultative) through to system 4 (participative). Apart from the strong correlations between burnout and a poor organizational climate. Vallen also noted that the hospitality firms surveyed in terms of their climate rarely used a consultative style. His research showed that service jobs with a high degree of customer interaction have a higher level of burnout. He recommended hospitality managers seeking to reduce their staff turnover should look to their organizational climate as it undoubtedly affects the ability of a hospitality organization's output to deliver service quality. This is supported by the findings of Kordupleski, Rust and Zaherik (1993)\textsuperscript{79} who

\textsuperscript{78} Vallon, G.K. (1993), Organizational Climate and Burnout, \textit{The Cornell HRA Quarterly}, February, 54-59.

found that of the overall quality processes used in service industries were responsible for 70 per cent of the variation in an organization's output. Processes such as quality programmes can only be successful when there is genuine staff and management commitment.

The issue of management in organizational taking inadequate account of the individual behavioral perceptions and actions is a constant theme within the service quality literature. Frances (1993)\textsuperscript{80}, who focused on building a responsive service climate observes, that 'previous research has shown that both customers and managers agree that a responsive service climate is the key to service quality and customer satisfaction' (p.55). She drew on the work of Schneider and Bowen (1985) and Shoorman and Schneider (1988) to propose a model for service organizations using a support dimension, a managerial dimension and an adaptive dimension correlating to a relationship of service responsiveness and service quality. She found a clear link between teamwork, entrepreneurial management behavior and adaptive marketing policies and activities. As such, her results

\textsuperscript{80} Frances P. (1993), Breaking the rules, Delivering Responsive service, CHIRIE, \textit{Hospitality Research Journal}, 16 (2), 55-76.
reveal the link between the areas service quality and responsiveness' and organizational climate.

The above studies support theorists such as Schneider (1973) who explored the relationship between climate and service related issues. Initially, Schneider examined the relationship between service climate (and other more tangible factors) and customer intentions to switch their accounts to another bank. He found that switching behavior was strongly related to climate perceptions. This study revealed that the measure of the atmosphere in the bank 'warm and friendly' was most strongly correlated with switching intentions. As such this supports the underlying assumption 'that the climate bank employee create for customer is an extension of the climate bank management creates for employee' (Schneider, 1973 p.255). Customer retention has been clearly linked to the climate created for the employee of the organization.

These issues are highly relevant for service managers in their day to day operations. Parkington and Schneider (1979) argue that it is possible to get operational staff enthusiastic using the usual management tools.
Through alterations of policies, procedures and goals it may be possible for management to effect changes in the degree to which there is emphasis on an enthusiastic service orientation more similar to that of boundary personnel. This should reduce the levels of role stress and the levels of negative employee outcomes (1979, p.279).

The importance of service quality in service organization can never be over emphasized. Organizational dynamics have a direct impact on customers, as well as on employee performance and attitudes. Schneider et.al. (1980) argue that consumers are better served if the policies, practices and procedures of an organization meet the needs of employees and consequently makes them responsive about consumer needs. The creation of a climate for service is an example of organizational effectiveness of an organization being responsive to its environment, in this case its customers.

The ways in which branch employees describe some facets of the service orientation of their branch and the support received from some systems outside the branch are related to what customers say about the

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quality of the service they receive in the branch (Schneider et.al, 1980, p.262).

Correlation between customer perceptions of service quality and dimensions of service climate was proved to be significant in a study conducted by Schneider and Bowen (1985) in a banking organization. They are part of the overall climate framework and link with the climate dimensions identified by James and Jones (1979)\textsuperscript{82} and others. The service dimensions are shown in Table together with the employee perceptions of each dimension.

\textsuperscript{82} James A.P. and Jones L.R. (1979), Psychological Climate, Dimensions and Relationships of Individual and Aggregated Work Environment Perceptions, Organizational Behaviour and Human Performance, 23, 201-250.
<table>
<thead>
<tr>
<th>Service Climate Dimension</th>
<th>Employee Perceptions</th>
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<tbody>
<tr>
<td>1. Bureaucratic orientation to service</td>
<td>Following all rules, procedures and doing the job in a routine fashion.</td>
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<tr>
<td>2. Enthusiastic orientation to service</td>
<td>Keeping a sense of family designing new ways to serve the customer</td>
</tr>
<tr>
<td>3. Managerial behaviour</td>
<td>Planning and goal setting for service delivery</td>
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<tr>
<td>4. Service rewards</td>
<td>Incentive and other rewards for service excellence</td>
</tr>
<tr>
<td>5. Customer retentions</td>
<td>Active attempts to retain customers not giving special treatment to major customers</td>
</tr>
<tr>
<td>6. Personal support</td>
<td>Staffing and training permit good service</td>
</tr>
<tr>
<td>7. Operations support</td>
<td>Easy access to customer records</td>
</tr>
<tr>
<td>8. Marketing support</td>
<td>Understanding of customers care in introducing new products and service</td>
</tr>
<tr>
<td>9. Equipment, supply and support</td>
<td>Equipment is available and operating supplies available.</td>
</tr>
</tbody>
</table>

Source: Adapted from Schneider (1990).

Whilst this study was completed in the banking industry it none-the-less has application across all service organizations and is of particular relevance for the insurance industry because the nature of the service interaction in banks with its immediacy is replicated in insurance.

While examining the relationship between climate and service quality Schneider and Bowen (1985) also derived five human resources dimensions
with several items loading onto each dimensions. The five dimensions were, work facilitation (10 items), supervision (14 items) organizational career facilitation (6 items), organizational status (4 items) and new employee socialization (6 items). They found a consistent correlation between these human resource dimension and customer perceptions of employee morale, branch administration and most significantly overall quality. Their findings have the following implications.

The climate of the organization is an important factor in the creation of quality services as defined by the customer. Within the wider quality movement there is a call for the incorporation of the concept of employee satisfaction as well as the more widely used customer satisfaction into the overall focus of the business. This is because the evidence shows that without an environment which supports the employees it will be difficult to enlist the employee's support for the objectives of management (Cole, Bacayon & White, 1993)\textsuperscript{83}.

Another interesting aspect emerges when a comparison is made between dimensions of human resource climate and that of generic climate.

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<tr>
<td><strong>Work facilitation</strong> 'Condition's in my job do not permit people to reach their work goals'</td>
<td><strong>Work Facilitation</strong> supervisor helps achieves goal attainment through such activities as scheduling coordinating, planning and providing resources.</td>
<td></td>
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<tr>
<td><strong>Supervision</strong> Supervisors I work with use the rewards they have (praise, performance appraisals) to let people know when they have done a fine job</td>
<td><strong>Goal emphasis</strong> supervisor stimulate personal involvement in meeting group goals.</td>
<td></td>
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<tr>
<td><strong>Organization A career Facilitation</strong> The organization provides information and counseling about my career</td>
<td><strong>Opportunities for Growth and Advancement</strong> The degree to which an individual feels that the organization provides a vehicle for development of desired personal skills, goals and rewards.</td>
<td></td>
</tr>
<tr>
<td><strong>Organizational Status</strong> People outside (the organization) think the people who work here are high caliber people.</td>
<td><strong>Professional Esprit De Corps</strong> The degree to which an individual believes his profession has good image to outsiders and provides opportunities for growth and advancement.</td>
<td></td>
</tr>
<tr>
<td><strong>New employee socialisation</strong> People coming on the job get special training that helps them get started</td>
<td>No directly comparable measure (but job pressure mentions training see also Friedlander and Greenberg (1971))</td>
<td></td>
</tr>
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There is a significant overlap between these two sets. Table shows the degree of congruity between the human resources dimensions of
Schedular and Bowen (1985, 1993)\textsuperscript{84} and the more generic one calculated by Jones and James (1979) and James and James (1989)\textsuperscript{85}.

There is considerable evidence, as outlined above, to conclude the research on climate which Schneider and Bowen called a climate for human relations, and the generic climate dimensions of the many other theorists, including James and James, have examined are in fact the same construct but with slightly differing nom enclature. It also follows that the appropriate climate of the organization is a prerequisite in the facilitation of service quality. The measurement of climate in an organization may provide insights as to the issues that need to be addressed in order for the organization to achieve its quality service goals.

Yet again Schneider and Bowen's (1993) study confirmed their 1985 findings. The study was conducted using the same climate dimensions for human resource management.

This research points out that managers, in their pursuit of service quality, need to create two related, but different, climates, a climate for

\textsuperscript{84} Ibid.,

\textsuperscript{85} Ibid.,
service and a climate for employee well being. Our research indicates that a climate for employee well being serves as a foundation for climate for service. Employees need to feel that their own needs have been met within the organization before they can become enthusiastic about meeting the needs of customers (Schneider and Bowen, 1993, p.43).

Schneider and Bowen (1993) contend that these human resource management practices are not tailor–made to customer perceptions of service quality. These practices should be designed to suit the particular organizational setting and the consequent customer definition of service quality. It may also be noted that the measure of service quality that Schneider and Bowen (1985; 1993) used was developed for the measurement of service in banks. Whilst Schneider (1990) have developed the fact that Zeethamal, Parasuraman and Berry (1990) have developed a generic service measurement tool (Servqual), no correlation of the organizational climate and the measurement of its service quality were undertaken. However Dean (1997)\(^\text{86}\) demonstrated a methodology for

making such a comparison in a study of the applicability of the Servqual model to the health care industry.

HRD climate is defined as perceptions the employee can have on the developmental environment of an organization. This developmental climate will have the characteristics like; treating people as the most important resources; being transparent, encouraging risk taking; mutual trust and cooperation; team spirit; supportive personnel polices, etc. (Rao and Abraam, 1986)\textsuperscript{87}. Several Indian organizations were surveyed for their HRD climate. It is interesting to note that the average extent of climate prevalent in all the organization is about 54 per cent which is rather low.

\textsuperscript{87} Rao T.V. and E. Abraham, (1986), HRD Climate in Indian Organization's Rao and Pereia (ed), Recent Experience in Human Resource Development, New Delhi, Oxford and IBH.
CUSTOMER SATISFACTION – AS PERCEIVED BY EMPLOYEES

It has been reported above that a number of studies have claimed there exists a positive relationship between organizational climate and customer satisfaction. A related, but different, question is the extent to which employee perceptions of customer satisfaction and customer's own reports of satisfaction match.

This is an important issue, particularly for service industries such as the insurance industry, as customer feedback may be difficult to gather, and particularly difficult to gather in an unbiased form. Should a good correspondence exist between employee perceptions of customer satisfaction and reports of satisfaction directly provided by customers? Then in many situations employees perception of customer satisfaction may be used as a more easily measured index of feedback to management. A small number of studies have addressed these issues.

Schneider et.al, (1980)\textsuperscript{88} in a study gathering data from both customers and employees of 23 bank branches found a strong

correspondence between branch customer attitude about service quality and branch employee perceptions of the quality of the service customers received \((r = 67)\) Schneider and Bowan (1985) replicated the earlier study gathering data from 142 employees and 968 customers of 28 bank branches. This study also found a strong relationship between employee perception of customer satisfaction and that reported directly by customers \((r = 63)\).

The results of these two studies indicate that direct reports of customer satisfaction are closely mirrored by employee perceptions of customer satisfaction. Consequently, it may be expected that in many instances employee perceptions of customer satisfaction will provide management with useful feedback. This would be particularly so in service environments where production and consumption are instantaneous and direct assessment of the customer perceptions, at the tie, would negatively impact upon the product’s quality.

**Privatization and Climate**

There is no known research on the influence of privatization of an industry upon the perception of employees about their organization. There
have been a number of studies on the general reaction of the employees on
the factors likely job security, remuneration, employment etc.

Privatizations are expected to help found the public –sector deficit and
alleviate constraints on financing under which companies operate (Bishop
et.al, 1994), as well as to lead to improvements of efficiency and quality of
the other government activities, tax reduction and shrinking of the size of
government (Goodman & Loveman, 1991). Privatization would induce
productive efficiency (cost minimization) and allocative efficiency (prices
accurately reflecting costs) stemming from the introduction of competition
and breaking up of state monopolies (Bishop et.al, 1994). Productivity
improvements associated with private ownership have been reported by
other authors Parker & Hartely, (1991); Parker, (1992) who attributed them
to introduction of competition, new management or performance –related
contracts.

A decrease in the control exerted by government over day-to-day
management as well as by trade unions has been reported, with control being

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89Bishop, M. & Thompson, D. (1994), Privatization in the U.K. Internal
Organization and Product Efficiency, in M. Bishop, J. Kay & C, Mayer (Eds.)
Privatization and Economic Performance (New York, Oxford University Press), pp.352-
366.
transferred to the private sector and, particularly, to management (Bishop et al., 1994)\(^{90}\). This change has been accompanied by a decrease in employment and relative wages, with the exception of salaries of senior executives of privatized companies which, on the contrary, have experienced a sharp increase explainable by a ‘catch-up effect’ relative to those in the private sector (Haskel & Szymanski, 1994). Megginson et al., (1992), using a sample of 41 companies, from 15 countries, which experienced full or partial privatization, reported substantial increase in profitability and operational efficiency, partly owing to increase in capital expenditure, with a much more productive use of human resources. In another study Cam.Surhan (1999)\(^{91}\) reported “Employees believe that job security has been stronger in the pre-privatization period than now. But managers do not agree with this”. In the same study unionization was believed to have been negatively affected by privatization by the employees.


The above are reports on attitude of people towards privatization. In so far as climate is all about people in the organizations, these attitudes shall also influence the climate of an organization. Again, though these studies about influence of privatization on employees relate to privatization of a unit (not the industry as in the present case), it has relevance in the present case, as almost invariably all the respondents felt that this was the beginning of the privatization of their own organization. Most of the employees look to their union to thwart the efforts of privatizing the company or at least to protect them from perceived ill effects of privatization. This indicates that unions have a role in the present environment of an organization like the one being studied here.

**ORGANISATIONAL CLIMATE OF INSURANCE INDUSTRY**

Insurance in India had been the monopoly of government for nearly three decades. The necessity to approach the business or the people involved in the business purely on commercial basis was never felt. The industry being a service industry the importance of ‘service excellence’ was not given due recognition it deserved service in terms of ‘social cause’ was considered more important than the commercial success. Therefore, the need to carryout
an objective analysis of work environment, and its influence on performance was hardly felt. There is very little work on the organizational climate of public sector insurance company.

Things now however, have changed as the private sector insurers are allowed to run their business along with the public sector companies. The necessity has not therefore arisen for the public sector insurance companies to redefine their goals. There is a need to take fresh look at the quality of internal environment which conditions in turn the quality of cooperation, the development of the individual, the extent of member’s dedication or commitment to organizational purpose and the efficiency with which that purpose becomes translated into results.

A study of the organizational climate at this juncture of Indian insurance industry, whose prominent players are state owned enterprises, is very relevant. These units are at a crossroads, as they prepare themselves to face the competition from the private entrants. It should be of crucial importance to the managers of these units to know the perception of employees about the work environment. As the insurance industry grows and competition becomes stiffer, retaining best talents in the company may
become a challenge for every public sector unit. In a study of climate conducted by Muralikrishna and Subba Rao (1997) in the Bharath Heavy Electrical Limited, a public sector company, the employees felt that they had minimum opportunity for development. Thus studying the perception of employees when the company is trying to come to terms with the challenge of competition may help the management to understand the dimensions of employees’ perception. This in turn can help it to motivate the employees to be more productive. As already been discussed in chapter I, Public Sector General Insurance Companies are selected for the purpose of the study and its profile has been presented in the following pages.