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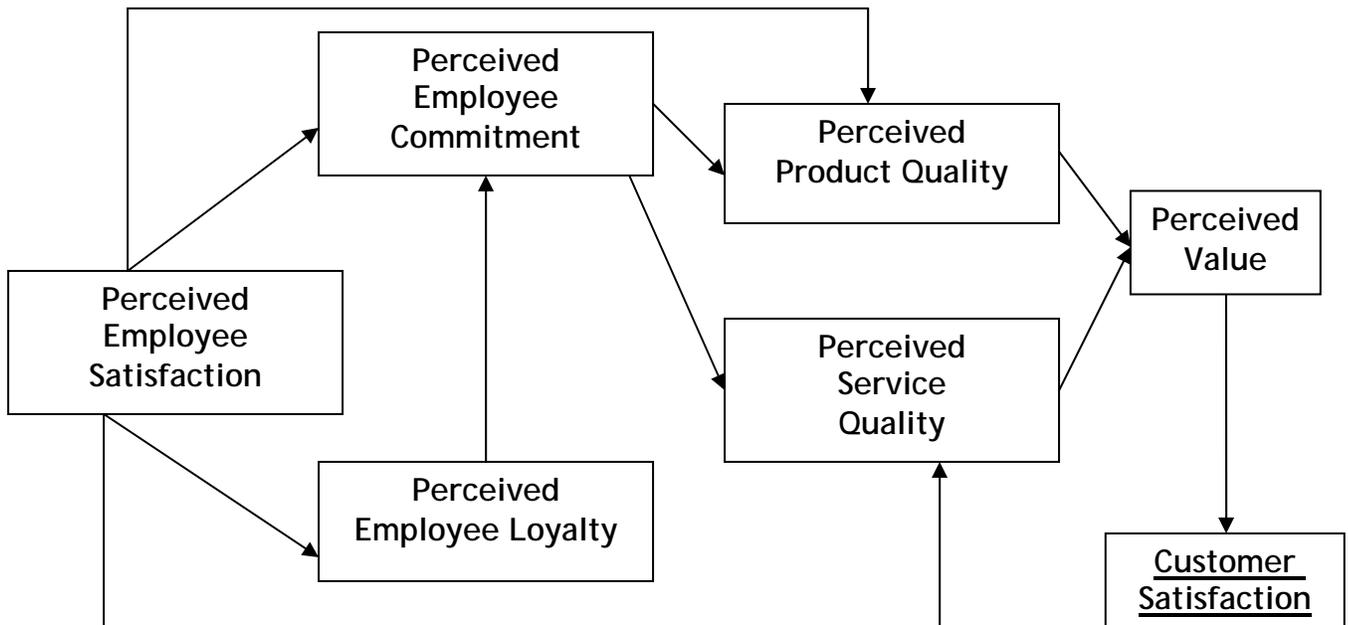
Employee Satisfaction & Customer Satisfaction: Is There a Relationship?

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Employee Satisfaction & Customer Satisfaction: Is There a Relationship?

Numerous empirical studies show a strong positive relationship between employee satisfaction and customer satisfaction (e.g., Band, 1988; George, 1990; Reynierse & Harker, 1992; Schmitt & Allscheid, 1995; Schneider & Bowen, 1985; Schneider, White, & Paul, 1998; Schneider, Ashworth, Higgs, & Carr, 1996; Johnson, 1996; Ulrich, Halbrook, Meder, Stuchlik, & Thorpe, 1991; Wiley, 1991). As suggested by this wealth of findings, positive changes in employee attitudes lead to positive changes in customer satisfaction.

Some investigations have provided explicit measures of this relationship. For example, a study at Sears Roebuck & Co. showed that a five-point improvement in employee attitudes led to a 1.3 rise in customer satisfaction which, in turn, generated a 0.5 increase in revenues. Brooks (2000) reviewed the relationship between financial success and customer and employee variables (e.g., customer satisfaction, employee satisfaction, etc.) and found that, depending on market segment and industry, between 40 and 80 percent of customer satisfaction and customer loyalty was accounted for by the relationship between employee attitudes and customer-related variables. Similarly, Vilares and Cohelo (2000) found that perceived employee satisfaction, perceived employee loyalty, and perceived employee commitment had a sizable impact on perceived product quality and on perceived service quality (see model below).



According to their model, employee satisfaction not only affects employee commitment and employee loyalty, but it also has a twofold impact (i.e., direct and indirect) on critical customer satisfaction-related variables.

The relationship between employee satisfaction and customer satisfaction has received further empirical confirmation from two methodologically strong studies. Specifically, a recent meta-analytic investigation (Harter, Schmidt, & Hayes, 2002), based on 7,939 business units in 36 companies, found generalizable relationships, large enough to have substantial practical value, between unit-level employee satisfaction-engagement and business-unit outcomes such as customer satisfaction, productivity, profit, employee turnover, and accidents. Finally, Berhardt, Donthu, and Kennett (2000) measured the relationship between employee satisfaction, customer satisfaction, and profit longitudinally showing that, although the effects of employee satisfaction and customer satisfaction on business profit at a given point in time might not be detectable, they become visible and prominent over time. Specifically, these researchers found a positive relationship between change in customer satisfaction and change in profit/sales, a positive relationship between change in employee satisfaction and change in business profit, and a strong relationship between employee satisfaction and customer satisfaction at any point in time.

Understanding the Relationship Between Employee Satisfaction and Customer Satisfaction

The literature offers several explanations as to why employee satisfaction affects customer satisfaction:

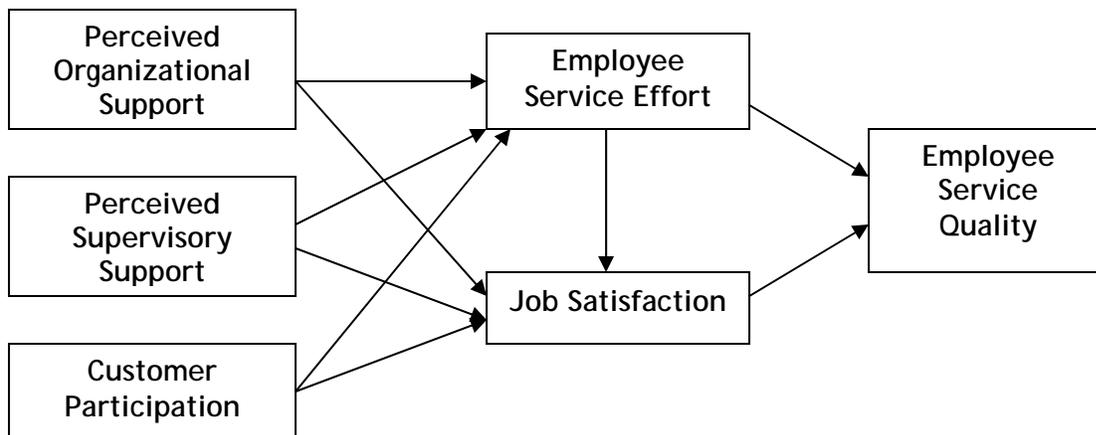
1. Employees that interact with customers are in a position to develop awareness of and respond to customer goals and needs.
2. Satisfied employees are motivated employees; that is, they have the motivational resources to deliver adequate effort and care.
3. Satisfied employees are empowered employees; in other words, they have the resources, training, and responsibilities to understand and serve customer needs and demands.
4. Satisfied employees have high energy and willingness to give good service: at a very minimum, they can deliver a more positive perception of the service/product provided.
5. Satisfied employees can provide customers with interpersonal sensibility and social account (i.e., adequate explanations for undesirable outcomes). It has been suggested that these components of interactional justice (i.e., quality of interpersonal treatment provided in a negotiation/exchange) have a significant impact on customer satisfaction. According to this view, because satisfied employees experience interactional justice, they can deliver it; that is, satisfied employees have enough emotional resources to show empathy, understanding, respect, and concern.

Organizational Antecedents of Employee Satisfaction and Employee Customer Service

Some researchers have focused on organizational antecedents of employee satisfaction and employee customer service. A model offered by Yoon, Hyun Seo, and Seog Yoon (2000) identifies three antecedents:

1. Perceived organizational support (POS), that is, the extent to which employees perceive that the organization values their contributions and cares about their well-being.
2. Perceived supervisory support (PSS), that is, the extent to which supervisors develop a climate of trust, helpfulness, and friendliness; high PSS implies that important socio-emotional resources are immediately available in the work environment.
3. Customer participation, that is, the extent to which a customer is physically, mentally, and emotionally involved in the delivery of a service/product. At this level, both the resources/information that customers bring into the transaction and the actual behaviors they engage in are important.

A representation of this model is shown below:



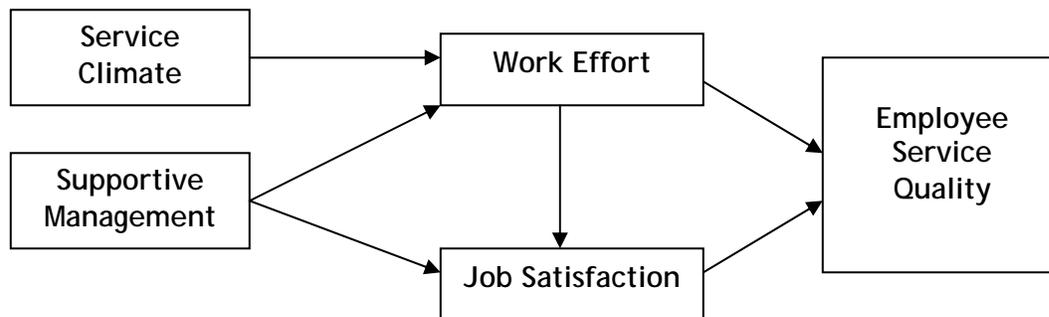
As the model indicates, all three antecedents affect employee service quality through their effect on employee service effort and perceived job satisfaction. Empirical findings suggest that:

1. Of the three antecedents, perceived supervisory support is the single most powerful predictor of job satisfaction and employee service effort.
2. Job satisfaction is a more important predictor of employee service quality than employee service effort.

A model by Hee Yoon and Beatty (2001) presents two antecedents of job satisfaction and employee service quality:

1. Supportive management, that is, the extent to which management is supportive of and shows concern for employees.
2. Service climate, that is, employees' shared perceptions of how much the organization values service.

A representation of this model is shown below:



As illustrated in the model, service climate affects work effort but not job satisfaction. However, supportive management has both an effect on work effort and perceived job satisfaction. Work effort influences employee service quality directly as well as through job satisfaction. An empirical test of the model showed that, relative to work effort, job satisfaction was a better predictor of employee service quality.

Conclusions

The empirical literature summarized in this report highlights the criticality of the relationship between employee attitudes and customer satisfaction. How employees feel about their job has an impact on their work experience, but also on tangible business outcomes such as customer satisfaction, sales, and profit. Employees can strongly contribute to an organization's success by having a customer-centric approach in their work and in their work-related interactions. However, they are more likely to do so if they are satisfied with their job. The question is then: "What should organizations do to ensure high job satisfaction among their employees?" As found in the practices of Fortune 100 companies, employee satisfaction is the result of a holistic approach that involves strategic steps such as:

1. Identify root causes of dissatisfaction among employees
2. Conduct benchmark studies of best practices in selected other companies
3. Develop employee satisfaction measurement systems that can be used corporate wide and worldwide
4. Monitor employee satisfaction on a regular basis
5. View employees as the primary source of competitive advantage
6. Show concern for total employee well-being
7. Develop meaningful employee involvement and effective communication channels
8. Introduce managerial accountability for people management

Given the impact of customer satisfaction on organizational profit, it is critical for organizations to understand what dimensions of service quality need to be monitored and used to develop accountability, customer satisfaction awareness, and customer oriented work behavior. In this regard, the literature suggests the following dimensions:

- Accessibility
- Communication
- Competence
- Courtesy
- Credibility
- Reliability
- Responsiveness
- Security
- Tangibles
- Understanding of the customer

Regardless of the levers an organization chooses to operate, a basic step to achieving customer satisfaction is to understand customer needs through research. Only when customer needs are well understood, can adequate service standards be set and the appropriate service culture developed and maintained.

Finally, careful consideration should be given to how to create a link between employee satisfaction and customer satisfaction. The models presented in this report refer to some important drivers of this relationship. Research on employee satisfaction, furthermore, points to compensation as an essential organizational determinant of job satisfaction. Because compensation is also a prominent means to generate accountability and thus influence work behavior, by using customer satisfaction (CS) based compensation organizations may achieve two key goals:

1. They may increase job satisfaction (e.g., by using CS incentives that are perceived as having a positive valence).
2. They may strengthen customer oriented work behavior (e.g., by using CS incentives that are linked to specific behaviors).

In sum, CS based compensation should focus on performance dimensions that employees can control, influence, and understand. Without such focus, not only will it be unlikely to affect work behavior, but it will be likely to generate dissatisfaction.