The Relationships among Employee Satisfaction, Productivity, Performance and Customer Satisfaction

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Abstract

Today, the linkage between employee satisfaction and customer satisfaction, productivity, and performance is undeniable, based on numerous studies that support the correlation. As a result, companies have a rare opportunity to gain competitive leverage and differentiation by harnessing their greatest asset: their employees.

This paper investigates the factors and the effects of developing an attractive working climate and creating space for employees' development within the organization. The human resources management and the leadership developed by the managers are critical issues in getting the desired performances. Employees, in fact, are the most critical point of differentiation for any company in today's business environment.

Keywords: *employee satisfaction, employees' development, productivity, customer satisfaction*

JEL classification: M50, M52.

1. Literature review

Research aimed at quantifying the links between employee satisfaction and customer satisfaction, productivity, and performance began in 1980 with Benjamin Schneider's survey of satisfaction levels of bank customers and employees. [1]

Studies such as Frederick Reichheld's "The Loyalty Effect," (1996) and James Heskett, W. Early Sasser, and Leonard Schlesinger's "The Service Profit Chain" (1997) produced the first sets of hard data quantifying these links. Both studies conclude that there are direct and quantifiable links between customer service variables (such as satisfaction and loyalty), employee variables (such as satisfaction, enthusiasm, loyalty, commitment, capability, and internal service quality), and performance results. [2, 3]

In 1997, Development Dimensions International (DDI) conducted focus groups, customer interviews, literature reviews, and surveys to determine drivers of an effective service environment. DDI found evidence of a circular relationship

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between employee satisfaction and retention, and customer satisfaction and loyalty, and increases in company profitability. In addition, employee satisfaction was strongly related to employee commitment and loyalty, and both measures have proven relationships to retention and productivity. [4]

In "The Service Profit Chain" (1997), the authors proposed a model that workforce capability, satisfaction, and loyalty would lead to customers' perceptions of value. Value perception would lead to customer satisfaction and loyalty, which would lead to profits and growth. The study found that employees' perceptions of their capabilities, satisfaction, and length-of-service were correlated with customer satisfaction. [5]

Dr. Thomas Rollins of the Hay Group developed a model linking employee opinion survey results directly with performance metrics while excluding customer satisfaction measures. Main findings include the following: [6]

- This model holds that company-wide employee satisfaction results affect business unit employee satisfaction results, which affect business unit performance results, which in turn affect company-wide performance metrics.
- However, the model also holds that the company-wide performance metrics may also affect company-wide employee satisfaction results, allowing the model to demonstrate correlation, but not causation between the different areas considered.

Gallup reports that highly satisfied groups of employees often exhibit above-average levels of the following characteristics: [7]

- Customer loyalty (56 percent)
- Productivity (50 percent)
- Employee retention (50 percent)
- Safety records (50 percent)
- Profitability (33 percent)

Research suggests that employee satisfaction with the work environment correlates positively with shareholder value.

A Watson Wyatt Worldwide study found that the practice of maintaining a collegial, flexible workplace is associated with the second-largest increase in shareholder value (nine percent), suggesting that employee satisfaction is directly related to financial gain. [8, 9, 10]

Over 40 percent of the companies listed in the top 100 of Fortune magazine's "America's Best Companies to Work For" also appear on the Fortune 500. While it is possible that employees enjoy working at these organizations because they are successful, the Watson Wyatt Worldwide Human Capital Index study suggests that effective human resources practices lead to positive financial outcomes more often than positive financial outcomes lead to good practices. [11, 12, 13]

The issue of causation—did the increases in employee satisfaction cause the increase in customer satisfaction, productivity or profitability, or vice versa—is not often addressed in research. However, a 2001 study published in Personnel Psychology examined whether positive employee behaviors and attitudes influence business outcomes or if the opposite, that positive business outcomes influence employee behavior, is true. Study findings include the following: [14]

- The study broke down employee attitudes and satisfaction into five measurable employee behaviors: conscientiousness, altruism, civic virtue, sportsmanship, and courtesy. The study measured participants in the five categories, reviewed turnover rates within the participant population, and compared this data with the organizations' performance for the following year. "Employee satisfaction leads to customer satisfaction. When internal customers (employees) are happy, they treat external customers well. Customers will keep coming back for more. This grows the relationship and leads to customer loyalty."
- Findings support the idea that employee satisfaction, behavior, and turnover predict the following year's profitability, and that these aspects have an even stronger correlation with customer satisfaction.

Price Waterhouse Coopers reported in April of 2002 that 47 percent of surveyed executives from multinational companies cite employee satisfaction and decreased turnover as major contributors to long-term shareholder return. [15]

Other studies indicate that companies found the following from their efforts to study the links between employee satisfaction, customer satisfaction, productivity, and performance: [16, 17, 18, 19, 20]

- Unhappy employees are less productive and more likely to have higher absence rates.
- Satisfied employees are more productive, innovative, and loyal.
- Increases in job satisfaction lead to increases in employee morale, which lead to increased employee productivity.
- Employee satisfaction leads to customer retention.

Yet, while companies with the strongest financial performances often had employee populations reporting high levels of employee satisfaction, companies with poor performance also had high levels of employee satisfaction. [21]

Companies must build their own models because customer satisfaction is only one variable in understanding the relationship between employee satisfaction, customer satisfaction, and performance. Moreover, each company must determine how it defines employee satisfaction and customer satisfaction, which can even differ between departments and business units within one company. [22]

Employee attitudes cannot influence organizational effectiveness on their own, as employees must also behave appropriately.

2. **Modern approaches**

Recent research indicates that employee satisfaction does not necessarily contribute directly to productivity. Satisfaction may be viewed as a passive attribute, while more proactive measures such as motivation levels and brand engagement are viewed as more closely linked to behavioral change, performance, and, ultimately, to bottom line performance.

Employee productivity depends on the amount of time an individual is physically present at a job and also the degree to which he or she is "mentally present" or efficiently functioning while present at a job. Companies must address both of these issues in order to maintain high worker productivity, and this may occur through a variety of strategies that focus on employee satisfaction, health, and morale. [23]

Sears found that employee attitudes towards their company and their jobs lead to positive employee behaviors toward customers. Sears found that a five percent increase in employee satisfaction drives a 1.3 percent in customer satisfaction, which results in 0.5 percent increase in revenue growth. [24, 25, 26, 27]

Between 40 and 80 percent of customer satisfaction and loyalty is determined by the customer-employee relationship, depending upon the industry and market segment. At Sears, employee satisfaction accounts for 60 to 80 percent of customer satisfaction. At the Royal Bank of Canada, 40 percent of the difference in how customers view its services can be linked directly to their relationship with bank staff. [28]

PNC Bank Corporation found an 84 percent correlation between branches and their levels of customer satisfaction and employee satisfaction. [29, 30]

Nortel Networks tracked customer and employee attitudes in annual surveys. After working on some of the key issues identified as having negative effects upon employee satisfaction, customer satisfaction rates jumped higher. Nortel holds that it has conclusive evidence from such research that improving employee satisfaction will increase customer satisfaction and, in turn, improve financial results. [31]

Sun Microsystems utilizes a service-profit-chain model that reveals that the company's employee commitment, customer loyalty, and financial results are inextricably related. There exists a strong link between the likelihood that employees will recommend Sun as a place to work and the likelihood that customers will recommend it as a place to do business. Sun's employee satisfaction survey methods include the following components: [32]

- Sun polls its workers monthly via e-mail on performance inhibitors and employee satisfaction.
- The result is what Sun calls an "employee quality index," which figures into Sun's quality initiative to gauge customer loyalty.

ACNielsen utilizes a similar model and states that it finds that when employee satisfaction rises, financial results soon improve. However, the company goes further to tie managers' bonuses to employee satisfaction scores within their business units. [33]

Monsanto conducted a set of baseline surveys on customer and employee satisfaction which revealed that employees' satisfaction with their work-life balance was one of two strongest predictors of customer satisfaction. The other factor was employees' general satisfaction with their jobs. [34]

CVS Corporation surveys both employees and customers to measure their satisfaction indicators on a scale of one to five as part of its service-profit model. As a result of one of its service-profit chain initiatives, the company created a scorecard outlining internal service quality goals for each department and how it is performing against the stated targets. Within twelve months of launching the program in 2000, performance has improved within these departments by approximately 30 percent. [35]

Just Born experienced a 48 percent decrease in turnover rate (from 50 to two percent) after developing an employee-focused culture that has been communicated to and embraced by employees at all levels of this Pennsylvania candy company. [36]

A performance management process that links Employee Satisfaction, Productivity, Performance, and Customer Satisfaction enables leaders, teams and employees to perform more effectively, thus improving the performance and business results of the organization as a whole.

The correlations are clear: Satisfied employees generate satisfied customers, who in turn build long-term relationships—and spend more money. With stronger leadership and a workplace that understands and values the power of employees to impact financial results, the possibilities for growth are endless.

The Service Management faculty at the Harvard Business School suggests that the strength of the relationship may be contingent upon four elements describing employee performance: capability, satisfaction, loyalty, and productivity. These four elements are thought to directly influence customer satisfaction (and ultimately loyalty) in the following manner:

- Capability: Capable employees can deliver high-value service to customers. This implies that employees have the training, tools, procedures, and rules to deliver good service.
- Satisfaction: Satisfied employees are more likely to treat customers better than are their dissatisfied counterparts.
- Loyalty: Loyal employees are more willing to suppress short-term demands for the long-term benefit of the organization. As such, they may themselves place a priority on good customer service. Loyal employees also stay with their organizations longer, reducing the cost of turnover and its negative effect on service quality.
- Productivity: Productive employees have the potential to raise the value of a firm's offerings to its customers. Greater productivity can lower costs of operations, which can mean lower prices for customers.

The combination of these four factors makes intuitive sense. In addition to the traditionally emphasized elements of employee satisfaction and loyalty, this perspective adds the dimensions of capability and productivity.

Conclusions

Organizational leaders must develop specific strategies to effectively link employee satisfaction and customer satisfaction, productivity, and performance. This may be accomplished through the use of the strategic management process.

- Develop a mission statement. The mission statement is the basis for most strategic management programs and consists of one or more sentences that articulate the organization's reason for being in existence, as well as how leaders envision the mission will be accomplished. The mission statement is typically a static document which rarely, if ever, changes. In this case, the mission statement might indicate the business' commitment to achieving high levels of productivity and performance while also maintaining both employee satisfaction and customer satisfaction levels.

- Identify objectives. An effective method for setting strategic objectives is through the use of SMART goals. SMART goals are goals that are Specific and Measurable, reasonable Attainable, Relevant to the mission and tied to a specific Timeline for completion. In this situation, goals might include setting specific desired productivity, performance levels and customer service levels.
- Perform a situation analysis that consists of a thorough examination of both the internal and external environment to identify factors that impact the organization's ability to link employee satisfaction with productivity, performance and customer satisfaction. The SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) and PEST analysis (Political, Economic, Social and Technological factors) are common methods of situation analysis. Include in the analysis an examination of financial data as well as employee satisfaction and customer satisfaction surveys.
- Formulate a strategy. Once organizational leaders have conducted the situation analysis, they can formulate specific strategies designed to close the gap between the organization's current situation and its desired situation. This might include such strategies as increasing investment in human resources to recruit and retain quality workers and develop employees who have the resources and capabilities required to be satisfied, productive workers.
- Implement the strategy with an organized set of specific policies and programs designed to achieve the desired objectives.
- Evaluate and adjust the strategy as needed.
- Repeat the process.

Employee satisfaction has a major impact on a variety of elements of a business. Workers who are satisfied with their jobs tend to be productive, high performers, while happy employees often equate to happy customers.

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