

A Review of Customer Satisfaction, Employee Satisfaction and their impact on Firm Performance

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ABSTRACT: *This review paper attempts to find out relationship between customer satisfaction Employee Satisfaction and performance of firm, and concluded that there is really a direct relationship among these variables because CS depends upon ES, as satisfied employees can satisfy customers and ultimately it will positively impact on firm's profitability or outcomes. Study includes the review of 8 papers from which 2 were selected as bench mark; the pattern of the study was comparison and analysis of research articles on the basis of methodology and results.*

Keywords: Employee Satisfaction, Customer Satisfaction and Financial Performance.

From so many times, satisfaction of customer has become most important factor for firm's financial success. Because this is the era of globalization and increasing number of free trade continuously change the environment of business as well as give competitive edge. In the age of globalization the need is to deliver high quality products to their customers to satisfy them or to make them loyal with the organization. Customer retention increases the profitability of firm because retention is less costly than attracting new ones. A survey result of 700 top executives indicated that for 64% organizations CS is their number one priority, for this their focusing area is service quality.

Many firms are using different measures in developing; monitoring and evaluating product & services, as well as they motivate and compensate their employees because there is a strong relationship between quality, expectations, CS, ES, market share and profitability of firm. An increase in CS also increase the loyalty for current customers, reduce price elasticity, lower the cost of attracting new ones and enhance reputation/profitability.

“Satisfied employees can create loyal customers because they have direct interaction with them and future of company heavily depend on them, and perceived qualities of interactions between customers and employees, ES and retention has become one of the most serious issue in service industry” (Matzler and Renzl, 2007).

So we can say that retention of clients and employees are closely correlated. As if staff members are satisfied, happy with their work they will remain with the company for long time and always think for betterment of organization and provide better services to their customers which results high profitability.

As suggested by Heskett et al. (1994), “the service-profit chain establishes relationship between profitability, customer loyalty and satisfaction, and employee satisfaction, loyalty and production”.

Like CS, ES also has received considerable attention from researchers, according to different studies ES play a significant role in achievement of firms goal because if company take good care of employees like providing handsome pay, better environment and job security, to protect the interest of customers or to gain high profitability.

Kenneth L. Bernhardt et al. (2000) Different methodologies and positive or negative views are shared by many researchers to find out the relationship between these variables. An empirical study shows three major relationships between:

- 1) CS and profits
- 2) ES and profits
- 3) CS and ES

Ton Van Der Wiele et al. (2002) As CS is core principal of this study but failure of CS might be due to difficulty in measuring the relation between CS and profits or lack of understanding of customer's perception or mind. In service organizations, CS is the blend of functional or traditional quality aspects (Gronroos, 1984). Technical quality aspect corresponds to traditional quality control relate to manufacturing process of a product with core benefit or transaction satisfaction like what customer gets, while Functional quality or process quality relate with delivery of services or relationship satisfaction like how customer gets interaction results, in which customer is participant and firms employee is service provider, both plays a significant role in the study.

Parasuraman et al. (1988) describe five quality dimensions which are generally applicable in service organizations:

- 1) Tangibles: which include personnel appearance, equipment and physical facilities;
- 2) Reliability: means deliver services timely and accurately;
- 3) Responsiveness: means how employees perform actively to help customers or provide quick services;
- 4) Assurance: employee's ability to convey trust & confidence;
- 5) Empathy: employees attention and care for each customer individually;

Customer Satisfaction and Profits Relationship

Afshan Naseem et al. (2011) describes that financial performance is a dependent variable which depends on customer satisfaction, and there is direct r/s between CS and FP. Christina G. Chi et al. (2009) suggested that there should be positive relationship between both of them. There are different views regarding this statement as (Bernhardt et al, (2000); Nelson et al.(1992), Rust, Rose) found positive relationship, it means higher the CS higher the profitability.

However, some has drawn opposite conclusions that customer quality and perceptions are not always reflected in profits (Schneider, 1991). Tornow and Wiley (1991) found that there is negative relationship between CS and gross profits. For example, a business has plan and decide to increase customer satisfaction and spend a large amount of money on its performance. This could result negative or loss as they have spent more money which increase CS while lower the profits of firm.

This hypothesis of this study shows significant positive R/s Between CS and financial return.

Hypothesis 1. There is positive relationship between CS and financial performance.

Employee Satisfaction and Profits Relationship

ES is playing prime role in serving countries to attain financial objectives (Koys, 2003). Reason behind this is if company provide better pay, ongoing trainings and job security because satisfied employees should be more hard working and motivated and effort to increase profitability.

ES has positive impact on CS and FP. ES is basically satisfaction of job, to maintain job satisfaction is important to motivate employees. Christina G. Chi et al. (2009) Employees who willing to work as a team or are able to work higher than expectations, provide better service and create netter CS. Some studies provide positive while some shows negative relationship between CS and FP. Tornow and Wiley (1991) reported negative r/ship between both or unable to find significant relationship. Bernhardt et al. (2000) finds there is “virtually nonexistence” of relationship b/w ES and FP.

This study theorizes a significant indirect R/s Between ES and profits.

Hypothesis 2. There is no direct relationship between satisfaction of employees and financial performance. This indirect relation might be mediated by CS.

Hypothesis 3. There is significant indirect relationship between satisfaction of staff and performance of business.

Hypothesis 4. The relationship between ES and financial performances mediated by customer satisfaction.

Simply if organization take care the interest of employees, they will work honestly and satisfy the demands of customers. So satisfied customers become mouth piece for others, this will automatically increase firm's goodwill and ultimately show high returns.

Relationship between Satisfactions of Customers & Employees

The relationship between ES & CS is the only relation having no conflicting results. According to Schneider (1991) concluded that there is correlation between both of them. A strong relationship can be built if employees are satisfied in service oriented aspects.

MasoodUl Hassan et al. (2013) discuss five dimensions to measure employee satisfaction:

- 1) Employee Satisfaction with supervision,
- 2) Training & development
- 3) Salary package
- 4) Team work
- 5) Policy and support

Schneider and his colleagues (1980, 1985, and 1991) emphasize positive relationship between ES and CS. Especially when employees give priority to customers, speak positive words for company it prevail positive impact on customers.

K. L. Bernhardt et al. (2000) “Employee behavior could be forecasted by customer perceptions and customer behavior could be predicted by perception of employee. Hypothesis 5. There is positive relationship between (ES) and (CS).

Research Methodology

MasoodUl Hassan et al. (2013) collect data from customers and employees of different insurance corporations located in big cities. They distributed 300 questioners among employees and customers. The actual response rate of this research was 68% because remaining was incomplete. They used different dimensions to test their problem statement, to test employee satisfaction they used 5 dimensions i.e. - training, supervision, salary, policy & support, team work etc. Same like these 4 items were used by them to measure Financial Performance i.e. return on sale (ROS), return on investment (ROI), return on asset (ROA) etc.

Similarly for customer satisfaction they used 7 measures.

They used “five point Likert” Scale to test/ measure it where 1= strongly disagree and 5= strongly agree.

Then they apply different techniques to take results such as,

Correlation Analysis

Regression Analysis

Kenneth L. Bernhardt et al. (2000) collect data from 3 independent sources for a Fast Food Chain.

Data relating to CS taken from chain of surveys of every local restaurant “472” restaurants were inspected during March 1992 to 1993. Survey was conducted by a national marketing research firm.

Data relating to employees were also collected separately through restaurant managers with return envelope. Last bundle of data was collected by company regarding restaurant performance. Examined factors

were sales, customer counts and profitability. Different numeric scales and numerous satisfaction measures were used to test this.

Different techniques were used by them to find out results.

Cross Sectional Analysis

Time Series Analysis

Christina G. Chi et al. (2009) conducted the same research on a restaurant and collect data on above mentioned three variables CS, ES & FP through conducting surveys and used same techniques to test and analyze them.

Roger Hallowell (1996) conducts a research on retail banking customers at 59 divisions; data was collected by 73 % of all households served by banks. Data was cumulative at division level that includes independent pricing, policies and procedures which become a tool of customer satisfaction.

OLS regression was used for examination of hypothesized relationships. Here CS was measured in two ways: in first way the single question response was checked on CS questionnaire. For this 1-7 Likert scales were labeled, e.g. very satisfied, very dissatisfied, at each extreme. If the problem arises due to single response, variables were made alleviate by simple and valid questions. Here customer loyalty measures were also selected to check the strong bank & customer relationship. Length of relationship is estimated by customer retention at division level and tenure of customer reported relationship.

The profitability measures were determined on the basis of customer satisfaction and loyalty relationship. Both used ROA and NIE/ Rev (non-interest expense as a percentage of total revenue) that reflect individual division. ROA include both interest sensitive and non interest sensitive profitability components. While NIE/ Rev specify only non interest sensitive costs.

Result of Studies

According to Harter the strong effect were found between Employee turnover and customer satisfaction, loyalty and safety. Correlation were found positive in relation to productivity and profitability but were of lower extent because the outcome were influenced by other variables and indirectly by attitude of employees. In this study both hypothesis were supported. As employee engagement and attitude is related to business outcomes.

C.G. Chi et al, determined two validity measures, discriminant and convergent. Discriminant validity

means pragmatic indicators that measures a construct must not be related to construct others in measurement model, if this model has discriminant validity. In order to ensure validity try to make sets of two, as ES construct tested against CS then ES were tested with Financial Performance of organization and at last CS were tested with financial performance. As a result of different hypothesis CS and EP shows positive outcomes, another hypo indicates that there is no direct relation between ES & FP and according to another hypo indirect relation exists between ES and firms performance.

Convergent validity examines alternative measures that are proposed to determine the same construct but have different sources of undesired variations (Judd et al., 1990). "In order to evaluate convergent validity for structural equation modeling studies, examine the standardized confirmatory factor analysis (CFA) parameters (Marsh and Grayson, 1995)".

Conclusion and Findings

In service industry customer satisfaction become the primary parameter for business success and profitability. All referenced studies point toward that customer satisfaction plays a dominant role in business success, as higher level of CS is the step for higher Financial Performance. To avail all these results there is necessary to satisfy your employees as employees are assets of organization because they have direct interaction with customers and they represent their organization to them. So try to satisfy your employees, it will increase the outcomes of firm. Findings of different studies show that relation between ES and FP can be mediated by CS. Findings of research suggested that impact of this study is undeniable while measuring Employee satisfaction and success of organization. While relationship building and retention is a continuous process whose basics are linked with satisfied employees. Satisfy Customers become loyal and attract others, and this loyalty should be reflected in FP of company and positively in company's profit but this relationship can only remain through examination of longitudinal data. If the relation examined for only one time period "t" it might conclude erroneously about client satisfaction but the true relationship between CS and sales come into view when changes in both are examined over a period of time. There are also some limitations in research as data regarding CS and ES is not properly available to hypothesize the real situation. And the hypo was examined in only one specific industry in a review paper that limiting the generalizability. As no proper information was available about the strategies used by different industries to satisfy needs of customers.

Implication/ Suggestions

There are some managerial implications, such as:

- There is need of patience by management at the time of evaluating the impact of customer satisfaction. Even though pressure will be to acquire speedy ROI, but it is clear that to find out real effect of the study takes time.
- A huge outlay of money is required to increase customer satisfaction.
- Financial performance should be a function of some other factors like short term sales promotional, economical, and environmental factors instead of customer satisfaction function. So management needs to conduct a longer-term view for evaluating the results.
- To increase the profitability management needs to improve quality in such programs.
- Management needs to make investments for up gradation of technology, training and any other undertaking that may contribute towards customer satisfaction.
- As it is confirmed from previous findings that there should be positive relationship between CS and ES. So, management needs to make investment in education and training of employees.
- Always try to satisfy your employees, so that they will try to satisfy customers and this will create no complaint environment and also increase the probability of employee retention as well as reduction in cost connected with hiring new employees

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