Does Employee Satisfaction Lead to Customer Satisfaction?

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For several decades now, the conventional wisdom in human resource policy has been that “happy employees are productive employees.” More recently, this hypothesis has been translated into “happy employees make customers happy” as an outgrowth of the quality movement. Both formulations support the belief that a primary human resource objective is to keep employees happy, or at least to minimize their unhappiness.

Because a number of companies we are working with have questioned this logic, we recently searched the literature to determine whether higher employee satisfaction leads to higher customer satisfaction. We found that, despite the intuitive appeal of this model and its centrality in corporate human resource strategies, there is no clear correlation between these two factors. However, a deeper analysis of the literature and interviews with leading practitioners suggest that new definitions of “employee satisfaction” and “customer satisfaction,” along with more dynamic models of the complex interaction between them, can help organizations manage performance improvements.

FINDINGS ON EMPLOYEE SATISFACTION

We started by reviewing a wide range of empirical and anecdotal studies to see what we could learn from the research on employee satisfaction. We found that:

- There is substantial evidence that extreme levels of employee dissatisfaction can be costly to an organization. The costs take the form of increased absenteeism, turnover, medical costs, and lost customers, who are turned off by poor quality products or service.
However, increasing employee satisfaction does not necessarily produce gains in productivity. The empirical research that has been done in this area is inconsistent and often contradictory. A meta-analysis of 217 research studies (Jaffaldano and Muchinsky, 1985) found that, when the results of all of the studies are combined, there is a very weak correlation between employee satisfaction and productivity overall.

The empirical research on the relationship between employee satisfaction and customer satisfaction is similarly inconsistent, with no clear pattern of results.

Employee satisfaction may in fact have no direct causal effect on performance, but may instead be a byproduct of other antecedent factors (Brown and Peterson, 1993).

Employee satisfaction is generated not only by extrinsic factors such as good pay, good working conditions, and a caring management, but also by intrinsic factors such as the need to be competent, creative, effective, and self-determining (Brown and Peterson, 1994; Johnson, 1991).

When "employee satisfaction" is defined in terms of intrinsic factors (empowerment), rather than extrinsic factors (contentment), the empirical studies demonstrate a clear positive impact on performance outcomes, including customer satisfaction (Leimbach, 1994; Heskett, et al, 1994; Fitz-enz, 1993; Johnson, 1991; Schlesinger and Heskett, 1991).

When employee satisfaction is measured in terms of behaviors, rather than attitudes, the empirical studies show a more significant impact on performance.

Intrinsic motivation (i.e., the capacity/willingness of employees to take initiative, make commitments, extend themselves, deal with complexity, and assume responsibility) is associated with a higher stage of human development (Boydell, 1990; Perry, 1970). In the early stages, individuals are influenced mainly by external events; in the later stages, individuals act independently in the world.
The progression to higher stages of development involves a process of deep personal transformation and renewal, often characterized by periods of discomfort and stress. An environment characterized by comfort, security, and contentment fosters complacency, not personal growth (Bardwick, 1991).

**Analysis**

Our findings suggest that it makes a crucial difference whether organizations define “employee satisfaction” in terms of what employees seek from a paternalistic management (contentment) or what they are motivated to accomplish on their own (empowerment). Although extreme levels of employee dissatisfaction clearly have a negative impact on organizational performance, we believe that there may be a threshold level of dissatisfaction/contentment beyond which further attempts by the organization to “make employees happy” will have a limited, perhaps even negative, impact on performance. Above this threshold level of contentment, we believe that the driver is the empowerment of employees to make performance improvements drawing on their own internal motivation and resources.

Tapping into employees’ intrinsic motivation appears to have a clear positive impact on performance. Thus, organizations have an important stake in facilitating the development of employees to higher stages of personal maturity. Paradoxically, however, the process involves higher levels of anxiety, not higher levels of contentment as the conventional wisdom would suggest.

We believe that a high level of organizational performance cannot be achieved by maximizing employee satisfaction. The complacency and sense of entitlement that result from attempts to maximize contentment act as a drag on performance improvement. However, too much stress is also counterproductive. High performance is achieved by finding the right balance between contentment and empowerment, security and stress, and extrinsic and intrinsic motivation that helps employees advance to higher stages of development and the organization advance to higher levels of performance.
Findings on Customer Satisfaction

Our research on customer satisfaction reinforces our findings on employee satisfaction. We found that:

- There is a substantial and growing body of evidence that superior quality products and services yield price premiums and increases in market share, without necessarily imposing higher direct costs (Gale, 1994). The drivers are primarily an increased focus on customer satisfaction and the reengineering of processes to drive out costs.

- Customers consider the process of service delivery to be as important as the outcome (Mohr and Bitner, 1994).

- Processes that focus on long-term “customer loyalty or retention” have a greater positive impact on financial performance than processes that focus on short-term “customer satisfaction” (Reichheld, 1993). The differences involve targeting the “right” customers — not necessarily the easiest to attract or most profitable in the short term, but those most likely to do business with the company over time — then adding new products and services that are specifically designed to meet their evolving needs — rather than continually developing new products or services to attract new customers.

- The intangible aspects of service delivery such as trust, fairness, and respect may have a greater impact on customer retention than the tangible aspects such as price, product or service quality (Franco, 1990). This is particularly true in the retail sector where the face-to-face encounter requires a certain degree of intimacy in employee-customer relationships.

- The ability of employees to deliver the intangibles is a function of their own sense of empowerment and their personal maturity. Empowered employees have the capacity to create value with customers using their own judgment and initiative, rather than just add value to customers as part of a prescribed service delivery process.
• Leadership/management practices have a major impact on employee empowerment (Leimbach, 1994; SMG, 1993; Johnson, 1991). These leadership practices include articulating a clear mission or vision, setting realistic and clear objectives, defining a clear role for each employee, giving appropriate feedback on performance, creating opportunities for personal growth and development, and removing obstacles to getting the work done.

• A “climate and culture of customer service” that pervades the organization, is reflected in its values, strategies, and systems, and gives employees a “direct line of sight” to the customer, regardless of where they sit in the organization, has a strong positive impact on employee empowerment and customer service (Schneider, Gunnarson, and Niles-Jolly, 1994).

Analysis

When we try to put all of this together, our findings suggest that it makes a crucial difference whether organizations define customer satisfaction in terms of cost reduction or value creation. Cost reduction strategies emphasize the tangible factors of customer satisfaction and a prescribed service delivery process, whereas value creation strategies emphasize the intangible factors and employee judgment and initiative in a more flexible service delivery process.

Ironically, the reengineering methods that are so effective in achieving cost reductions are counterproductive when applied to value creation. The “moments of truth” between employees and customers are not easy to directly control or regulate, nor are employees who derive satisfaction from their own sense of empowerment. Instead, our research suggests that employee empowerment, facilitative leadership, and a “climate of service” are the critical components in the value creation process. These components are mutually reinforcing.

Paradoxically, both cost reduction and value creation are necessary to improve performance, despite the apparent conflict in methods required to achieve them. We believe that organizations need to both streamline existing ways of serving customers and invent new ways of serving customers all at the same time. The challenge is to find the right balance between these two seemingly competing objectives.
Implications

In reflecting on these findings, we can see several implications for organizational attempts to manage performance improvements:

- It is important to clearly define “employee satisfaction” and “customer satisfaction.” Different definitions require different measures and lead to very different strategies for improving performance.

- The greatest potential for improving organizational performance lies in a better understanding of the interaction among employees and customers, not in attempts to independently measure their levels of satisfaction. What is most important is not how they feel as separate entities, but what they do in the spaces between them while engaged in a dynamic process of value creation.

- We need new models that can capture the complex and dynamic nature of this interaction. Most current models assume that one thing necessarily leads to the next in a linear chain of causal relationships. The results can be misleading. Our current models also assume that we need to maximize one factor to achieve optimum results. This ignores the reality that many different, sometimes even contradictory, factors need to be carefully balanced to achieve performance improvements.

- We need a more in-depth understanding of the value-creation process to identify which factors really make a difference. The research outlines three general areas to focus on: employee empowerment, facilitative leadership, and a “climate of service.” Each organization will need to map its own value chain to identify the specific critical factors in each of these areas.

- The success of customer retention strategies requires that organizations focus on more than skill or personality factors in selection and development decisions. In the long run, the factors associated with empowerment are likely to have a greater impact on performance. However, these competencies take longer to develop.
• Organizations have the capacity to grow the capacity of all employees to take initiative, make commitments, extend themselves, deal with complexity, and assume responsibility. However, this takes more than a few offsite training courses because of the deeper process of reflective learning that is required. We need to know more about how to do this effectively, and how to decide when it makes sense to buy rather than develop employees with the attributes that are needed.
References


SMG Finaland, interview with Michael Paltschik, October 10, 1994.