Employee Satisfaction - Customer Satisfaction Link: A Literature Review of Theoretical Explanations

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Abstract
The aim of this paper is to provide a literature review of all theories supporting employee satisfaction-customer satisfaction link undertaken in the research in the field of behaviour, psychology, neurology, and service management. The purpose especially is to provide comprehensive theoretical underpinnings of the employee satisfaction-customer satisfaction linkage as being relevant to the service industry. This paper concludes with recommendations for the future research to strengthen the theories through empirical research in the said area. This paper contributes with the literature review for theories, a discussion on each theory, and future research questions/directions for achieving a more profound understanding of the nature of employee satisfaction-customer satisfaction linkage.

Keywords: Employee satisfaction; Customer satisfaction; Linkage; Theory; Service industry

1. Introduction
Over the last decade, service management literature has acknowledged the impact of employee satisfaction and customer satisfaction on critical business outcomes. Employee satisfaction-customer satisfaction link has been widely studied and the results of numerous past empirical researches on relationship between the two have been positive (e.g. Yoo and Park, 2007; Hurley and Estelami, 2007; Payne and Webber 2006; Xu Yingzi, 2005; Homburg and Stock, 2004; Hennig-Thurau, 2004; Kamakura et al. 2002; Johnson, 1996; Schmitt & Allscheid, 1995). Most of the meta-analytical investigations conducted have also shown positive relationship between the two variables (Gerpott et al. 2011; Brown and Lam, 2008; Harter et al. 2002). Most of the studies conducted in the area are cross-sectional with a few longitudinal studies (Keiningham et al, 2006; Bernhardt et al., 2000) 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. Many researchers reviewed the relationship between financial success and either of customer and employee variables (Bernhardt et al. 2000; Heskett et al. 1999; Hallowell 1996) and found a positive relationship.

A robust literature has developed regarding interactions between employees (specifically frontline sales personnel and service personnel) and customers and as suggested by this wealth of findings, positive changes in employee attitudes lead to positive changes in customer satisfaction. In particular there are studies that have used data from customers only (Hennig-Thurau, 2004; Kamakura et al 2002; Vilares and Coelho, 2003) or employees only (Hurley and Estelami 2007) and some studies are based on a dyadic data set (Johnson 1996; Brown and Mitchell, 1993; Brown and Wynne, 2004; Homburg and Stock 2005; Jeon and Choi 2012) that is, involving judgments by employees and their corresponding customers, an approach that rules out the risk of a common method bias. Furthermore, recursive effects of customer satisfaction and loyalty, as well as business performance, on
employee satisfaction and loyalty is assumed (Heskett et al. 1994) and empirically demonstrated (Ryan et al. 1996) yet debatable (Jeon and Choi 2012). In consequence, the aim of this study is to examine the theories explaining employee satisfaction-customer satisfaction link and posing future research questions for achieving a more profound understanding of the linkage.

2. Theoretical explanation of employee satisfaction-customer satisfaction link

The view that employee satisfaction positively affects customer satisfaction has been grounded primarily on the following conceptual model/theory: Balance Theory (Heider, 1958), Social exchange theory (Blau, 1964), Service Climate Framework (Schneider 1990), Theory of self-regulation (Bagozzi, 1992), Emotional Contagion (Hatfield et al. 1993), Service-Profit Chain (Heskett et al. 1994), and Mirror Neurons (Rizzolatti and Sinigaglia, 2008).

2.1 Balance Theory: According to balance theory, a system of triadic relationships between two persons (employee and customer) and an object (organization) can be either balanced or unbalanced. A relationship system is balanced if two people have the same attitude toward the object. A relationship system is unbalanced if two people involved in a relationship with each other differ in their attitudes toward the object. This results in cognitive tension that ultimately leads to activities to balance the system. For example, one person can change his or her attitude toward the object to be consistent with another’s attitude, thus rebalancing the system.

In an employee–customer relationship, an unbalanced situation occurs when the employee’s work satisfaction is low and the customer’s satisfaction with the company is high. Piercy Nigel F. (1995) has termed this situation as internal euphoria where people involved in a relationship with each other differ in their attitudes toward the object. This results in cognitive tension that ultimately leads to activities to balance the system. For example, one person can change his or her attitude toward the object to be consistent with another’s attitude, thus rebalancing the system.

According to balance theory, activities are likely to occur to lead the system to a balanced state. This means that one of the two actors (i.e., the employee or the customer) will change his or her level of satisfaction.

Although in principle, balance theory might be used to justify both types of effects (i.e., change of customer satisfaction and change of employee work satisfaction), Homburg and Stock, 2005 argue that a change in customer satisfaction is more likely than a change in employee work satisfaction as an employee will take active role in influencing a customers’ attitude than vice versa. According to Heider (1958) key mechanism leading to attitude balance is that one person (a) actively influences the other person (b) in order to change his or her attitude. Another dimension here is added by Piercy Nigel F (1995) where he argues that how management evaluates and responds to customer satisfaction results affects employee work satisfaction.

Few studies that have analyzed the direction of the employee satisfaction–customer satisfaction link relationship (e.g., Hartline & Ferrell, 1996; Herrington & Lomax, 1999; Jeon and Choi, 2012) uniformly suggest that work satisfaction affects customer satisfaction rather than the reverse effect. Piercy Nigel F (1995) study suggests a reverse relationship through management’s evaluation and response to external customer satisfaction measurement.

2.2 Social exchange theory: Social exchange theory states that social exchange stimulates feelings of personal obligation and gratitude (Blau, 1964). Social exchange theory can be applied to account for the relationships between employer practices, employee satisfaction, and customer satisfaction. In the context of social exchange theory, the employer is devoted to building a relationship of long-term employment with his employees by fulfilling their needs through offering them favourable working conditions, growth opportunities, organizational support etc. In return, employees will be committed to their employer. Such a willingness to build a long term relationship between the employer and employees is one of the key characteristics of a social exchange theory. The willingness of the employer is demonstrated by the employer’s effort to satisfy the needs of his employees by providing them with a good working environment and better management practices. These satisfied employees envision a long tenure of employment, are willing to make discretionary effort to contribute, and are eager to take extra care of their customers for their employing organisation in other words these satisfied employees are more service oriented and
tend to be committed to making an extra effort to offer services of a high level of quality to their customers. This, in turn, enhances customer perception of service quality and satisfaction.

On the basis of the social exchange theory, it can be argued that employees who perceive that working conditions are better will feel more satisfied with their job and so be more loyal to their employing organisation. Furthermore, if employees are more loyal to their organisation, they are more service oriented and are prone to delivering services of a higher level of quality that would be well received by customers.

Social exchange theory also lends support to the prediction of the existence of relationships between perceived service quality, customer satisfaction and loyalty, sales profitability, as well as employee satisfaction. In a relationship of social exchange, the customer would be more loyal to the service organization when the latter is committed to developing a long-term relationship with the former by offering services of a high level of quality to fulfill the customer’s needs. The willingness of the service organization to develop such a long-term relationship with the customer is demonstrated by the management’s efforts to provide high-quality services to the customer and keep the employees happy and satisfied. Loyalty is generated in the customer, which encourages him to form the intention to make a repeated purchase. This intention is manifested in actual making of repeated purchases. This, in turn, increases the firm’s profits from sales.

On the basis of social exchange theory, it is likely that customers who perceive a higher level of quality in the services they received are likely to feel more satisfied with the services. If customers like the performance of the employee and express gratitude or satisfaction, in turn, it is also expected to lead to a higher level of employee satisfaction (Dolen et al., 2002). Also customers who perceive employees satisfaction are likely to feel more satisfied. Moreover, satisfied customers tend to be loyal to the service provider. Further, if customers are loyal to the service provider, their loyalty will be demonstrated in such ways as the making of repeated purchases from the service provider in greater volumes and of a wider variety of products, as well as by recommending the service provider to other customers. These actions would ultimately boost profitability from sales.

Schlesinger and Heskett (1991) have taken another perspective in viewing the relationship between employee loyalty and customer loyalty by introducing the concept of ‘cycle of failure’ to explain how employee dissatisfaction and turnover can lead to poor organisational performance in service environments. According to the notion of ‘cycle of failure’, if an employer invests little in human resources and pays employees low wages, the rate of turnover and level of dissatisfaction among employees will increase, customer satisfaction and retention will plunge, and the organisation’s performance deteriorate.

2.3 Service Climate Framework: The service climate framework (e.g., Schneider 1990, Schneider et al. 1992, 1998) posits that employee perceptions of organizational support and facilitation of service performance fosters quality service and customer satisfaction or favourable customer reactions. Marketing theorists and advocates of internal marketing posit that internal processes must be linked for satisfying external customers by satisfying internal customers. Service climate framework view is more explicit regarding how employee perceptions of managerial policies and the organizational service climate affect the attitudes and behaviour of employees and consequently contribute to favourable customer responses by enhancing customer perceptions of quality service delivery (Yoon et al 2004; Liao and Chuang 2004; Johnson, Jeff W 1996; Brown and Mitchell 1993).

The measure of service climate like seeking and sharing information about customers’ needs and expectations, training in delivering quality service, and rewarding and recognizing excellent service are most highly related to customer satisfaction with service quality (Johnson, Jeff W 1996). Kennedy Karen N et al, 2002, in their research posit that measurement of activities and behaviour (climate) presents only an indirect picture, at best, of beliefs driving an individual’s behaviour. An organization can mandate that certain behaviours be conducted, but such edicts do not necessitate that the workers accept the belief underlying the behaviour e.g. service workers merely going through the motions of some required activity without caring or enthusiasm. Because beliefs are indicative of the extent to which employees have genuinely embraced a market orientation as an organizational culture, some studies have focused on culture rather than climate arguing employee’s beliefs give rise to the performance of customer-oriented behaviours, both prescribed and innovative, for generating customer satisfaction.

As the cultural disposition of the organization moves towards a customer orientation, performance should also increase in terms of financial results and external customer satisfaction (Kennedy Karen N et al, 2002). Research on
market driven organizations, satisfaction of service workers, and organizational culture and climate all infer that a focus on employees should increase customer satisfaction and performance.

2.4 Theory of self-regulation: Bagozzi (1992) in his theory of self-regulation (TSR) claimed that to understand intentions, motivational processes have to be included in the models of attitude-behaviour relationships and suggested that a motivational based variable such as desire be included in attitude theory as an antecedent of intentions. Leone et al. (1999) conducted a research to ascertain the predictive power of past behaviour on intention and behaviour and the research results were that past behaviour is a weaker predictor of intention in the TSR models. The TSR establishes that desire is a close cause of intentions, whereas attitudes are a distant cause whose influence is totally mediated by desire.

In the TSR Bagozzi (1992) provided some rationale for the role of desire. The researcher claimed that attitudes are usually conceived as evaluative appraisals and if evaluations are strong enough, attitudes will lead to intentions to perform or not to perform the target act. However, evaluative appraisals do not imply motivational commitment and intentions cannot arise without any motivational push (desire). Desires are based on urges, while attitudes are based on reasons and apply to a wide range of behaviours (Davis, 1984). Attitudes can stimulate desires since both are based on reasons: for instance, one can have a positive attitude toward exercising because it is healthy and this attitude can lead to a desire to exercise. Hence a moderate to high association between attitudes and desires is to be expected, since the former influences intentions through the latter.

Bagozzi (1992) argued that intention implies desire, but that desire does not necessarily imply intention. The researcher also addressed the processes linking desires and intentions. Once a desire is present, an outcome-desire appraisal takes place based on comparisons of the desire and possible end states. Appraisals related to different end states lead to emotional reactions and coping responses as intentions. The TSR claims that desire is a necessary antecedent of intention because attitudes, subjective norms and perceived behavioural control are not able to capture broad motivational processes (desire-outcome appraisals) that lead to an intention to perform a behaviour (Bagozzi, 1992). Since Bagozzi (1992) stated that attitudes can stimulate desires and that both constructs are based on reasons, desire was a strong predictor of intention. The TSR claims that the effects of desires on intentions are due to outcome-desire appraisals that lead to emotional and motivational processes.

Services, however, are delivered through employees, who are at the frontline and form the interface between customers and firms (Sureshchandar et al., 2001). As such, employee emotional and motivational processes are critical to efficient service processes (service quality) and outcomes (customer satisfaction).

2.5 Emotional Contagion Framework: Hatfield et al (1993) proposed the emotional contagion framework. This framework explains how the emotions of two people (e.g., salesperson and customer) during a conversation are transmitted from one to the other via facial cues, and that these emotions affect the outcome of that interaction. The emotional contagion framework specifically suggests that some psychophysiological processes cause facial reactions. These facial reactions can transmit the emotions of a person to other people. Also, individual differences concerning whether someone is either sensitive to emotions from others or able to transmit his or her emotion onto others moderates the relationship (Hatfield et al 1993).

This framework which has frequently been entreated to explain communication between employee affect and customer response (e.g., Wangenheim et al 2007; Homburg and stock 2004; Pugh 2001), focuses on simple affect transfer in the context of employee–customer interactions in limited service encounters. The affect transfer happens through mimicry of emotional expression and subjective experience. It holds that affect transfer alone (i.e., exclusive of quality or value considerations) is sufficient to account for employee satisfaction–customer response relationships. Verbeke (1997) study shows that a salesperson’s ability to infect others with his or her emotions leads to better performance. In addition, being sensitive to the emotions of others also leads to better performance; at the same time emotional contagion leads to higher risk of burnout too.

It is not counterintuitive to suggest that this process takes place in both the directions i.e. from employee to customer and from customer to employee with the outcome being better performance in terms of productivity/ satisfaction/ sales/ profits or burnout of either party/both leading to dissatisfaction.
2.6 Service-profit chain: The S-PC postulates that operations contribute to the profits of a service firm via the following chain of logical deductions: (1) profit and growth are stimulated primarily by customer loyalty; (2) loyalty is a direct result of customer satisfaction; (3) customer satisfaction is largely influenced by the value of the services provided; (4) value is created by satisfied, loyal and productive employees; and (5) employee satisfaction, in turn, results primarily from high-quality support services and policies that enable employees to deliver results to customers (Heskett et al., 1999, 1994). Heskett et al. (1999) capture the relationship between employee and customer satisfaction with their analogy of the “satisfaction mirror”, which vividly conveys the notion that business success results from employee satisfaction being “reflected” in terms of customer satisfaction. The service–profit chain framework holds that satisfied employees are more productive and provide better service quality and value than less satisfied employees, leading to enhanced customer perceived service quality and customer satisfaction. Stated simply, the service profit chain asserts that satisfied and motivated employees produce satisfied customers and satisfied customers tend to purchase more, increasing the revenue and profits of the organization (Heskett et al. 1999). Hurley and Estelami (2007) have argued for employee turnover as a powerful predictor of employee sentiment and resulting customer satisfaction levels as, employee satisfaction surveys are costly and they also lack basic reliability and validity criteria needed for empirical analysis whereas employee turnover is a naturally collected managerial measure. Heskett et al. (1999), for example, define the service profit chain as “involving direct and strong relationships between profit; growth; customer loyalty; customer satisfaction; the value of goods and services delivered to customers; and employee capability, satisfaction, loyalty and productivity.” A growing stream of research suggests that employee loyalty is a prerequisite to reaping the benefits of customer loyalty and firm performance (Heskett et al., 1999; Reichheld, 2001). The accumulated representative studies provide service-profit chain framework explanation to employee–customer interaction (Hurley and Estelami, 2007; Yoo and Park, 2007; Keiningham et al., 2006; Payne and Webber, 2006; Brown and Wynee, 2004; Kamakura et al., 2002; Koys, 2001; Hartline and Ferrell, 1996). To date, however, most investigations of the service profit chain have considered only bivariate relationships between the relevant variables.

Various studies testing the service-profit chain in service organizations findings indicate that employee satisfaction and customer satisfaction are positively correlated, and both of them have a positive impact on profitability (Xu and Goedegebuure, 2005; Kamakura et al. 2002; Silvestro and Cross, 2000). In contrast, consider the findings of Gelade and Young (2005).The results provide only limited support for the service profit chain theory. These authors found that customer satisfaction mediates the relationship between employee attitudes and sales performance. However, the effect size was small. Which means customer satisfaction is not the only intervening variable that could theoretically explain the shared variance between attitudes or climate and financial performance. This implies that the service profit chain is of limited practical value in explaining the association between favourable employee experiences and enhanced business unit sales. So, Kamakura et al. (2002) have suggested that explicating the various mediating mechanisms, although complicated due to the use of multi equation models, can resolve issues about causal mechanisms underlying the relationships between more distal constructs in the Service Profit Chain and Gelade and Young (2005) have argued that alternative formulations of the service profit chain model may provide more powerful explanations of the link between employee attitudes and business performance.

2.7 Mirror Neurons: Mirror neurons are a class of neurons first discovered in the monkey premotor cortex that activate both when the monkey executes an action and when it observes the same action made by another individual. These neurons enable individuals to understand actions performed by others (Fogassi and Ferrari, 2007). Mirror Neurons cause the people’s brains to mentally imitate other people action/behaviour (Lindstrom, 2008; Goolkasian, 2009).

The initial studies on mirror-neuron in monkeys have demonstrated that the mirror-neuron system played an important role in the evolutionary changes that led to the emergence of vocal communication (Fogassi and Ferrari, 2007). According to the researchers the mirror-neuron system, because of its capacity to match the seen/heard gesture or vocalization with internal motor representations, allowed the observer/listener to assign a meaning to these new vocal–gesture combinations. The mirror-neuron system is thought to underlie our ability to resonate with others and mirror-neurons provide the machinery for vicariously experiencing observed acts (Obhi, 2011; Goolkasian, 2009).

Sean McCormick, (2010) explains that many consumers purchase products because they want to mirror someone
else and also explains how consumers react to someone else's looks. Lindstrom, 2008 terms this reaction the “mirror-neuron”. Using an fMRI machine, Martin Lindstrom (2008) and many other researchers have shown that the consumer's brain does contain the mirror neuron. Neuroscientists believe “what DNA is for biology, the mirror-neuron is for psychology”. This is an emerging area of current research in neuroscience with researchers trying to better understand the full nature of the human mirror system, and how it responds in advertising contexts (Obhi, 2011), language learning context, (Fogassi and Ferrari, 2007), and purchase/behaviour context (Lindstrom, 2008).

The human mirror-neuron system becomes active during imitation tasks (Rizzolatti&Craighero, 2004). Fogassi and Ferrari (2007) and Lindstrom, (2008) investigate how mirror-neurons and imitation relate. Language acquisition follows from imitative processes during child development (Arbib, 2005). However, whether or not learning new material in language development involves the mirror-neuron system e.g., new words, grammar) remains an open question (Fogassi and Ferrari, 2007). Another question that needs to be investigated is whether the mirror-neuron system is recruited also in picking up what we choose to imitate? As all of us have at some or the other point of time in life caught ourselves imitating other’s styles (walking, talking, hand gestures, face gestures etc.). Another important question that needs to be investigated is whether the human mirror-neuron system is recruited in imitating feelings and emotions too? According to a research by Schulte-Ruther et al., (2007) Empathy-related processing of emotional facial expressions recruited brain areas involved in mirror-neuron mechanisms. The research supports the view that mirror-neurons are not only involved in motor cognition but also in emotional interpersonal cognition. Dolen et al., 2002 suggested a concept of partner effects, according to which a person is in some way, verbally or nonverbally, is influenced by the characteristics and behaviors displayed by his or her counterpart. It is intuitive that there is a mechanism linking observed feelings, behaviour, and emotions with its reproduction and if it is so then employee satisfaction is instrumental in customer satisfaction and useful in devising service management practices. For organizations in the service industry due to the face-to-face interaction between the employee and customer the feelings and emotions of the employees with respect to their job are observed by them and there is a possibility that those feelings and emotions are mimicked/reproduced by the customers. This suggests that mirror-neuron mechanisms might effectively explain employee satisfaction-customer satisfaction dynamics.

3. Conclusion

3.1 Balance Theory: Based on balance theory we pose following research questions:

1. Do service organizations that have a balanced customer orientation and employee orientation attain stronger employee satisfaction-customer satisfaction linkage?

2. Are service employees able to better balance being pro-customer (customer orientation) and pro-company (sales/profitability orientation) if the organization has a balanced customer orientation and employee orientation?

3.2 Social Exchange Theory: Discussion on social exchange theory in services context brings us to following research questions:

1. Does gratitude in service employees significantly contribute to employee satisfaction-customer satisfaction link? The findings may have recruitment and selection implication.

2. Do feeling of gratitude in service customer strengthens the employee satisfaction-customer satisfaction link? The findings may have customer education implication.

3.3 Service Climate Theory: Service climate has various measures and we can intuitively say that different measures would hold different importance for different employees. This brings us to the following research questions:

1. Would employee’s need and expectation with respect to climate better predict the impact of service climate on employee satisfaction-customer satisfaction link?

2. Does prior work experience have an impact on employee’s climate need and expectation?

3.4 Theory of Self-regulation: According to this theory desire is a strong predictor of intention towards behaviour. Answering the following research questions can strengthen the service management literature:

1. Does desire to serve has an impact on employee satisfaction-customer satisfaction link?

2. If so, does desire to serve differs among different cultures?
3.5 Emotional Contagion: Service management literature can be strengthened by answering the following research questions:

1. Do emotions get transmitted via facial cues, or service training enables employees to hide their emotions during service delivery?
2. Whether emotion display differs in personal and professional context?
3. What is the impact of customer’s emotion on service employee’s satisfaction, performance, delivery etc.?

3.6 Service Profit Chain: S-PC is the latest and the most widely used framework to study employee customer and profitability relationship. The causal link is theoretically sound and is also well supported by empirical evidence. But as suggested by some researchers various mediating mechanism needs to be identified.

3.7 Mirror Neuron: Mirror neuron is a new stream of research and it is argued that this could prove to be path-breaking in employee satisfaction-customer satisfaction linkage exploration. It may help answer the following question:

1. Are service employees displaying happiness a differentiator for a service organization?
2. Is imitation a function of some specific emotions or individual traits? Which means is it due to some individual trait that one is prone to imitation or are there some specific emotions that get imitated the most.

Finally, we would like to float the following questions with respect to the ES-CS link which need to be addressed:

1. How can we develop a dynamic explanatory theoretical framework which explains the role of customer satisfaction and employee satisfaction linkage as fundamentally distinguishable from other activities in the sense that this linkage, too, is accountable for attaining certain core economic parameters for organisational growth?
2. Whether the ES-CS linkage can and will serve the important role of providing an alternative perspective on the organisation and its management?
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