



KEY FINDINGS

Linking Employee Satisfaction with Productivity, Performance, and Customer Satisfaction

Numerous studies support the idea that there exists a link between employee satisfaction and customer satisfaction, productivity, and financial results.

"It's common sense. When people feel great about the place where they work...they provide better customer service."

-Dick Clark, Group Leader of Financial Services at Monsanto

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

ESTABLISHING THE LINK: SEMINAL RESEARCH AND OTHER STUDIES

- Research aimed at quantifying the links between employee satisfaction and customer satisfaction, productivity, and financial 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 financial 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 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 business 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 financial results, which in turn affect company-wide financial metrics.
 - However, the model also holds that the company-wide financial metrics may also affect company-wide employee satisfaction results, allowing the model to demonstrate correlation, but not causation between the different areas considered.

ESTABLISHING THE LINK: RECENT STUDIES

- *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)
- 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}

ESTABLISHING THE LINK: RECENT STUDIES (CONTINUED)

- 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' financial performance for the following year.
 - 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 financial 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

“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.”

-Richard Federico, Vice President and National Work-Life Practice Leader at The Segal Company in “Survey Links Work-Life Programs to Employee Performance”

CRITICISM OF MODELS LINKING EMPLOYEE SATISFACTION TO PERFORMANCE

- While companies with the strongest financial performances often had employee populations reporting high levels of employee satisfaction, companies with poor financial 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 financial 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—a factor which is not included in the available models.²³

“Any company trying to compete . . . must figure out a way to engage the mind of nearly every employee.”

—Jack Welch,
former CEO General Electric
“The Gallup Path To Business
Performance,”
The Gallup Organization

Companies measure links between employee satisfaction and customer satisfaction and productivity by conducting employee surveys.

SHIFT TOWARD LINKING EMPLOYEE COMMITMENT/ENGAGEMENT TO PERFORMANCE

- 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. The following research illustrates this point.^{24,25}
 - According to 2003 Institute for Employment Studies research, employee commitment had a higher correlation to customer satisfaction than employee satisfaction.
 - Of note is that employee commitment had twice the impact of employee satisfaction on customers' future spending intentions: a one-point increase in employee commitment led to a monthly increase of \$200,000 in sales per store and reduced absenteeism.
- 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.²⁶

COMPANIES' PRACTICES IN MEASURING THE LINKS

- Sears used an “employee-customer-profit chain” to analyze aggregated data from 800 stores, finding 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 increase in customer satisfaction, which results in 0.5 percent increase in revenue growth.^{27,28,29,30}
- 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.³¹
- PNC Bank Corporation found an 84 percent correlation between branches and their levels of customer satisfaction and employee satisfaction.^{32,33}
- 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.³⁴
- 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:³⁵
 - 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.

COMPANIES' PRACTICES IN MEASURING THE LINKS (CONTINUED)

- 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.³⁶
- 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.³⁷
- 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.³⁸
- 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.³⁹

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