

## CONCEPTUAL REVIEW ON ACHIEVING CUSTOMER SATISFACTION THROUGH EMPLOYEES BASED ON SOCIAL EXCHANGE THEORY IN SERVICE INDUSTRY

PRABJOT KAUR<sup>1</sup> & DEVOSHRI MUKHERJEE<sup>2</sup>

<sup>1</sup>Academic Associate (OB & HR), IIM Kashipur

Research Scholar (Management), Uttarakhand Technical University, Dehradun, India

<sup>2</sup>Academic Associate (Marketing), IIM Kashipur, Uttarkhand, India

### ABSTRACT

In today's competitive business arena, it becomes very arduous for an organization to strike a balance between the satisfaction level of its internal and external customers at the same point of time. It is often seen that in employee-customer relationship, an unbalanced situation occurs when the employee's work satisfaction is low and the **customer's satisfaction** from the organization is high. Now such types of situation comes into the picture when the focus is given only to service quality achieving satisfaction of customers by the organization avoiding the **organizational practices** making employees satisfied who deliver quality services actually. Deep concern must be focused on satisfying employees by the organizations. After all it is the human resource that satisfies the customer with the **service delivery** in service organisations. Therefore taking into account the same concern, the study has made an attempt suggesting **employee satisfaction** as a modest tool for attracting, satisfying and retaining customers and thus enhancing organizational performance. This paper contributes with the literature review on the subject showing relationship between organizational practices, employee satisfaction, and customer satisfaction justified on the basis of **Social Exchange Theory**.

**KEYWORDS:** Customer Satisfaction, Employee Satisfaction, Service Delivery, Organizational Practices, Social Exchange Theory

### INTRODUCTION

Today, in the competitive business world, the biggest challenge faced by the organizations is to manage the balance between the expectations of the customers and employees. Due to this rift among the expectations of the employees and customers, a lacuna exists which leads to dissatisfaction. Poor staff performance often results in gaps between customer expectations and the brand promise. Therefore it is very essential to understand the relationship between employee satisfaction and customer satisfaction. Several studies suggest that there is a positive relationship between employee satisfaction and customer satisfaction. Because of this assumed positive relationship, employee satisfaction has received significant attention from researchers and became a critical issue within the last two decades. There is no doubt that employee satisfaction is critical in the service industry because of the nature of the industry. Since any service company's intangible assets reside in employees' know-how and skills, and the company's future depends heavily on employees and the perceived quality of interactions between customers and employees. Employees who are happy and satisfied with their work environment are more likely to provide better services, which is likely to result in a satisfactory service experience for the customers. This satisfactory service experience, in return, is likely to have significant impact on repeat business and customer retention. Studies also suggest that customer retention is likely to increase a company's profitability because retaining an existing customer costs a lot less than attracting a new one. For decades companies have been investing in marketing efforts and creation of strong brands in order to attain and retain customers. In this complex

business scenario, organizations have also realized the importance of using these marketing efforts in personnel management, too. Just as strong consumer brands impacts the growth to the company similarly a strong employer brand has an influence on organizational performance satisfying employees and thus enhancing service quality achieving customer satisfaction.

### **Literature Related Review**

In an organization, employees play a pivotal role as they are the face of the organization, presenting services to the customers. It is the onus of the organization to take care of its employees so that they can feel the worth of association. In service sector, frontline staff is very crucial as they are in direct encounter with the external customers. Accepting the relevance of employees in service based organisations Massad, Heckman, and Crowston (2004) also recognizes that the service provided by the employees plays a dominant role in developing the good public relations with customers which in some cases increases their loyalty towards organisation and they transform from a customer into loyal customer avoiding 'n' number of the substitutes in the market. Burke, Graham, and Smith (2005) in their study brought up the findings stating that when individuals purchase a particular service, the employee directly influences the customer's perception of the quality of the transaction. Moreover, depending upon the experience gained personally non satisfied customer would buy the services elsewhere, and thereby share the negative experience with others. In contrast, a satisfied customer may result in a positive word of mouth recommendation and loyalty (Torres & Kline, 2006). On the other hand; some investigations have also provided explicit measures of this vary relationship. For example, a study at Sears Roebuck & Company showed that a five-point improvement in employee attitudes led to a 1.3 rise in customer satisfaction which, in turn, generated a 0.5 increase in revenues. Brooks (2000) in his study reviewed the relationship between financial success and customer and employee variables (e.g., customer satisfaction, employee satisfaction, etc.) and found that, depending on market segment and industry, between 40 and 80 percent of customer satisfaction and customer loyalty was accounted for by the relationship between employee attitudes and customer-related variables.

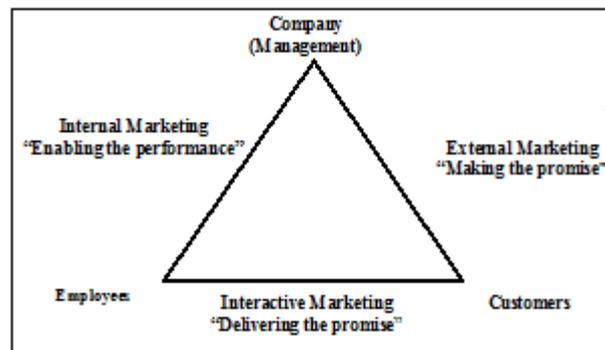
Adding to this Donthu and Kennett (2000) measured the relationship between employee satisfaction, customer satisfaction, and profit longitudinally showing that, although the effects of employee satisfaction and customer satisfaction on business profit at a given point in time might not be detectable, they become visible and prominent over time. Specifically, these researchers found a positive relationship between change in customer satisfaction and change in profit/sales, a positive relationship between change in employee satisfaction and change in business profit, and a strong relationship between employee satisfaction and customer satisfaction at any point in time. In addition, the biggest challenge for today's service relays on the excellent service quality and a high customer satisfaction (Hung, Huang & Chen, 2003). The success of an organisation is actually the result of the services delivered by the satisfied employees which is reflected in the satisfaction of the customers (Xu and Goedegeburse, 2005). Making his point very clear, he further argues that employees are the internal customers of an organisation and it is the need of an hour to satisfy them in order to achieve customer satisfaction and retention with their service delivery. Of course, organisations needs to understand that dissatisfied employee never satisfy customer with his services against the expectation of customer and organisation both, which some or the other way leads to customer dissatisfaction making an adverse effect on the name/brand of an organisation. Many studies had also focussed on the concept of service profit chain which evidences the impact of employee satisfaction onto the profitability of an organisation. In one of the study undertaken by Fisk et al. (1993) suggests that there are two vital aspects in internal marketing ;one is to give a due consideration to the workforce as internal customers and second is to how these internal customers strike a genuine profitable chord with the external customers. Customer satisfaction is influenced by the interpersonal encounters between customers and employees in a service setting

(Wansoo, 2009). Employee satisfaction is impacted by employee's perception of their jobs and the organisation for which they work (Eskildsen & Nussler, 2000). Realizing the importance of employees and their contribution towards making the organization a brand. Employers have now started focusing on the very concept of 'Internal Marketing'. This is a practice undertaken by an employer to make his employees feel like a customer and to take care of their satisfaction and retention at every stage of their career cycle having open communication and participation at all levels of the organization. To this Brunetto & Farr – Wharton (2006) in his study also admits stating that the quality of relationship constituting communication between the employee and management not only impacts the motivation level of employees but on the other side also affects the effectiveness of an organisation taking into account the significant impact on rate of productivity and turnover. The concept of "internal marketing" was first seen at Sasser and Arbeit (1976), which proposed the notion of internal marketing basing on the conception of staff as costumers, emphasizing on the strategy of "sell jobs" to the employee market in order to attract the best staff. Hsiao (1997) pointed out that internal marketing was to apply the marketing operation to staff as the internal customers to enhance overall business performance. As an application of marketing and human resource management, "internal marketing" combines theories, practices and principles for encouraging and managing staff in every level within an organization to continuously improve the service method for helping external customers and internal staff (Huang and Huang, 2012). Joseph (1996) found that internal marketing combines marketing and human resources approaches to manage and motivate all employees so as to continually improve its service to external customers. In the study (Snell, 2009) reflects the importance of organizational practicing internal marketing as this practice helps the organizations to employ wide association and execution of marketing and human resources. The nature of services brings about a close, almost intimate relationship between service providers i.e. the employees and the service recipients i.e. the customers. Service sector demands a different innovative approach all together, there has to be some uniqueness in the service provider which will act as a thrust to deliver excellence in customer's service and gain large pie of market share (Varey & Lewis, 1999).

### **The Service Triangle: The Critical Role of Service Employees**

Service marketing is about promises-promises made and promises kept to customers. A strategic framework known as the service triangle visually reinforces the importance of people in the ability of firms to keep their promises and succeed in building customer relationships. The Triangle shows the three interlinked groups that work together to develop, promote, and deliver services. These key players are labeled on the points of the triangle: the company (department or management), the customers, and the employees. Between these three points of the triangle, three types of marketing must be successfully carried out for a service to succeed: external marketing, interactive marketing, and internal marketing. On the right side of the triangle are the external marketing efforts that the firm engages in to develop its customer's expectations and make promises to customers regarding what is to be delivered. Anyone or anything that communicates to the customer before service delivery can be viewed as part of this external marketing function. On the bottom of triangle is interactive marketing. Here is where promises are kept or broken by the firm's employees, sub-contractors or agents. Those people representing the organization are critical at this juncture. If promises are not kept, customers become dissatisfied and eventually leave. The left side of the triangle suggests the critical role played by internal marketing. Management engages in these activities to help the employees deliver on the service promise: recruiting, training, motivating, rewarding, and providing equipment and technology. Unless service employees are able and willing to deliver on the promises made, the firm will not be successful. People – frontline employees and those supporting them from behind the scenes – are critical to the success of any service organisation. The importance of people in the marketing of services is captured in the people element of the service marketing mix as human actors who play a important part in

service delivery and thus influences the buyer's perception. The service employee is critical in service delivery and performance. It can be illustrated by the services marketing triangle as is shown in Figure 1.



(Albrecht, 1985)

**Figure 1: The Service Triangle**

Service Triangle, a customer-centric service quality management model proposed by Karl Albrecht, the U.S. service sector management authority (Albrecht, 1985) about the co-constitutive relationship of employees, customers and management of the company, can significantly describes that how internal marketing can have a multiple effects on given external marketing. By external marketing with customers, interactive marketing between staff and customers, and internal marketing between the organization and staff, an organization can ensure external customers' satisfaction and internal staff's loyalty toward the organization, and enhance the profit and competition of the organization. The companies understand that the brand image is not just built and maintained by the products sold and advertising: it is a function of the people who work for them. Strategies that recognize the power of employees to create the brand have been referred to as 'branded customer service'. For firms using such strategies, employees truly "are the brand" and epitomize the company image that each is attempting to create in the minds of the customers.

### **Social Exchange Theory: Organizational Practices, Employee Satisfaction & Customer Satisfaction**

Social exchange theory was introduced in 1958 by the sociologist George Homans with the publication of his work "Social Behavior as Exchange". He defined social exchange as the exchange of activity, tangible or intangible, and more or less rewarding or costly, between at least two persons. After Homans founded the theory, other theorists continued to write about it, particularly Peter M. Blau and Richard M. Emerson, who in addition to Homans are generally thought of as the major developers of the exchange perspective within sociology. Apart from economics, sociology and psychology, it holds equal importance in context to employer, employee and customer interface and help to nurture a crucial relationship between them. Every organization believes in "building up", the employer tries to establish long-term employment with his employees by fulfilling their needs through offering them favorable working conditions, growth opportunities, organizational support and in return assumes that their employees will be dedicated and profitable to them. This is one of the vital aspects of this theory which signifies the gravity of "relationship" between employer, employee and their customers. As it is correctly said that if there is no in-house unity then the growth and prosperity does not lasts for long under such circumstances, this is rightly applicable in case of service- centric organizations where the exchange is elusive and involves intense precision, conviction and vision. The following figure depicts a hypothetical model which shows the association between organizational practices, employees –



**Figure 2: A Good Rapport between Organization and Employees Results in Customer's Satisfaction in Service Marketing**

The satisfied employees envision a long term of employment, are willing to make flexible effort to contribute, and are eager to take extra care of their customers for their employing organization. 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 organization. Furthermore, if employees are more loyal to their organization, they are more service oriented and are prone to delivering services of a higher level of quality that would be well received by customers. 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 fulfil the customer's needs. A delighted and satisfied customer is like a "golden egg laying hen" for any organization, moreover in such stringent market conditions, it cannot afford to drop him as he acts as a source of "free" publicity and profit generation for the organization. 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 organization'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). 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, as well as by recommending the service provider to other customers. The counterpart is also present in the scenario which is elaborated by Schlesinger and Heskett (1991) who opines that "cycle of failure" occurs when employee dissatisfaction and turnover lead to poor organizational 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 organization's performance deteriorates. Thus to strike a balance between the trio is very necessary. As the famous adage goes that "customer is king" the organizations has to take enough precaution while dealing with them and train their employees to bridge the gap and develop resonance with them so as to

achieve benchmarks and generate profitability. Secondly an organization is a cluster of people who embody the image of the organization in front end, so their involvement counts to a great extent, if he is contented and happy he will pass on this to the customers and will enjoy his work yielding favorable results, on the other hand if he is dissatisfied or unhappy with his job, he will not do any justice with his duties and in some manner will be accountable for de – growth of the organization.

## DISCUSSIONS

The above mentioned literature has successfully underpinned the positive relationship between employee satisfaction and Customer retention. Therefore it is of great impetus for organizations to understand the fact that service employees plays a prominent role in service delivery. The paper gives impetus on the synchronization between an organization, the employees or the internal customers and the external customers in delivering of services. On one hand, in the era of stiff competition, it becomes very arduous for an organization to maintain a balance of satisfaction between its work force and productive source i.e. their customers. While on the other, the attrition rate is on hike whereby it becomes tough to meet expectations, retain employees and optimally utilize the available resources for leveraging profit horizon. Thus to retain employees and making them happy and satisfied is a big challenge which the organizations are facing. As this is not the end of the organization's woe because it further affects its growth graph as it hampers relationship with its external customer and compels to start from the scratch thus making the whole process very cumbersome. On the basis of Social Exchange theory the paper has tried to show the interlink age and relationship between organizational practices, employee satisfaction, and customer satisfaction and also had suggested that organization must focus on the practices for satisfying employees which in turn will lead to provide service quality achieving customer satisfaction and enhancing customer retention generating profitability for organizations as a whole. Satisfied employees make for satisfied customers and satisfied customers can in turn reinforce employee job satisfaction. Researchers also suggest that unless service employees are happy in their jobs, customer satisfaction will be difficult to achieve (Rosenbluth, 1991). If service employees do not feel satisfied with their company, it is impossible for them to work with enthusiasm, and they have no passion to satisfy customers. Other research suggests that employees who feels they are treated fairly by their organizations, will treat customers better, resulting in greater customer satisfaction.

## REFERENCES

1. **Burke, Graham& Smith.(2000).**Effects of reengineering on the employee satisfaction – customer satisfaction relationship. The TQM Magazine, Vol.17 No.4, pp.358-363.
2. **Brunetto, Yvonne& Farr-Wharton, Rod.(2006),**The importance of affective organizational relationships from nurses : A social capital perspective, International Journal of Human Resources Development and Management 6,2-4,232-247.
3. **Eskilden, J.K., Nussler, M.L. (2000),** “The managerial drives of employee satisfaction and loyalty”, Total Quality Management, 11(4).
4. **Fisk, R. P., Brown, S. W., and Bitner, M. J. (1993).** Tracking the Evolution of the Services Marketing Literature. Journal of Retailing, Vol. 69 No. 1, pp.61-103.
5. **H.Rosenbluth. (1991).**Tales from a nonconformist company. Harvard Business Review, pp.26-36; and L.A Schlesinger and J.L. Hackett (1991), The service-driven service company. Harvard Business Review, pp.71-81.

6. **Hung, Huang, M., & Chen, K. (2003).**Service quality evaluation by service quality performance matrix. *Total Quality Management & Business Excellence*, 14(1), pp.79.
7. **Massad, N., Heckman & K.Crowston (2004).**Customer satisfaction with electronic service encounters. *International Journal of electronic Commerce* 10(4), 73-104.
8. **Sasser and Arbeit, Sasser.W.E.& Arbeit. S. P. (1976).**Selling jobs in the services sector. *Business Horizons*, 19 (3) .61–65.
9. **Snell, L. (2009).** An Exploratory Study of the Application of Internal Marketing in Professional Service Organizations. *Services Marketing Quarterly*, Vol. 30 Issue 3, pp 195-211.
10. **Torres, E.N., & Kline, S. (2006).**From satisfaction to delight: A model for the hotel industry: *International Journal of Contemporary Hospitality Management*, 18(4), 290-301.
11. **Varey, R. J., and Lewis, B. R. (1999).** A broadened conception of internal marketing. *European Journal of Marketing*, Vol. 33 Nos 9/10, pp. 926-44.
12. **Wansoo, K. (2009).**Customer's response to customer orientation of service employees in full service restaurants: A relational benefits perspective. *Journal of Quality Assurance in Hospitality & Tourism*, 10(3), 153-174.
13. **Xu, Y.Goedegeburse, R. (2005).**Employee satisfaction and customer satisfaction: Testing the service – profit chain in a Chinese securities firm. *Innovative Marketing Journal*, 2.

