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## The impact of quality practices on customer satisfaction and business results: product versus service organizations

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### Abstract

Research on the differences in customer satisfaction between product and service organizations has focused on an output perspective, or how customers evaluate performance. This study takes this research inside organizations to analyze and investigate how key internal quality practices of product versus service organizations (employee management, process orientation, and customer orientation) influence customer satisfaction and business results. Using a national quality survey from 482 companies in Sweden, our analysis shows that for product organizations, internal quality practices influence customer satisfaction and business results primarily through an organization's customer orientation. For service organizations, both customer and process orientation impact customers directly, and employee management has a direct impact on business results. The research also supports the claim that organizations with a quality foundation are in a better position to adopt a customer orientation. © 2001 Elsevier Science Inc. All rights reserved.

*Keywords:* Quality practices; Customer orientation; Customer satisfaction

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## **1. Introduction**

A growing number of organizations use quality management as a strategic foundation for generating a competitive advantage (Reed, Lemak, & Mero, 2000) and improving firm performance (Hendricks & Singhal, 1997; Lemak & Reed, 1997; Samson & Terziovski, 1999). Firms that have won quality awards generally outperform other firms with respect to both income measures (Hendricks & Singhal, 1997) and stock market value (Lemak & Reed, 1997). It is no surprise that the links among market orientation, quality practices, and performance have attracted the attention of marketing and operations management researchers alike (Ettlie & Johnson, 1994; Flynn, Schroeder, & Sakakibara, 1994; Kohli & Jaworski, 1990; Narver & Slater, 1990; Samson & Terziovski, 1999).

Quality practices have been shown to enhance organizational performance for both product and service organizations (Powell, 1995). However, there is relatively little research on how product versus service companies differ with respect to the impact of quality practices on performance. We know little about how these two different types of organizations view what they do, how well they do it, and its consequences. Rather, the growing body of research on products versus services has focused on external customer perceptions of quality and satisfaction rather than organizational knowledge of quality practices (Anderson, Fornell, & Rust, 1997; Edvardsson, Johnson, Gustafsson, & Strandvik, 2000; Fornell & Johnson, 1993; Fornell, Johnson, Anderson, Cha, & Bryant, 1996; Huff, Fornell, & Anderson, 1996).

The goal of this research is to examine three key internal quality practices — employee management, process orientation, and customer orientation — and their role in creating customer satisfaction and business results. We examine the similarity and differences in the effects of these practices across a large sample of product and service organizations. One of the important questions raised in our study is: Does an organization's process orientation directly impact customer satisfaction? For service firms, we expect this to be the case. But for product firms, we expect one's process orientation to support a customer orientation or focus, which in turn impacts customer satisfaction. Another important question addressed here is: Given the critical importance of employee management in service firms, does employee management have a greater impact on performance for these firms? The answers to these and related questions are critically important for quality managers and executives who allocate resources across quality practices in their organizations.

We first examine the differences between products and services and present our framework for linking quality practices to performance. We then provide theoretical arguments and evidence as to how these links differ. We use a broad-based survey of 482 Swedish companies (product and service firms) to investigate the effects of the quality practices. While our results show that product and service firms are similar in how quality practices support each other, they also support systematic and predictable differences in the effects of these quality practices on customer satisfaction and business performance. The paper ends with a discussion of the implications of our results for quality management research and practice.

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