



Employee satisfaction, customer satisfaction, and financial performance: An empirical examination

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ABSTRACT

The purpose of this study is to examine the relationship between employee satisfaction and customer satisfaction, and to examine the impact of both on a hospitality company's financial performance utilizing service-profit-chain framework as the theoretical base. Specifically, this study explores four major relationships: (1) the direct relationship between customer satisfaction and financial performance; (2) the direct relationship between employee satisfaction and financial performance; (3) the direct relationship between customer satisfaction and employee satisfaction; and (4) the indirect relationship between employee satisfaction and financial performance. Furthermore, this study examines the mediating role of customer satisfaction on the indirect relationship between employee satisfaction and financial performance. Data for this study was collected from employees, customers and managers of three- and four-star hotels. Structural equation modeling (SEM) with a two-step approach was utilized to empirically test the proposed hypotheses and the relationships between the constructs. Findings suggest that while customer satisfaction has positive significant impact on financial performance, employee satisfaction has no direct significant impact on financial performance. Instead, there is an indirect relationship between employee satisfaction and financial performance, which is mediated by customer satisfaction.

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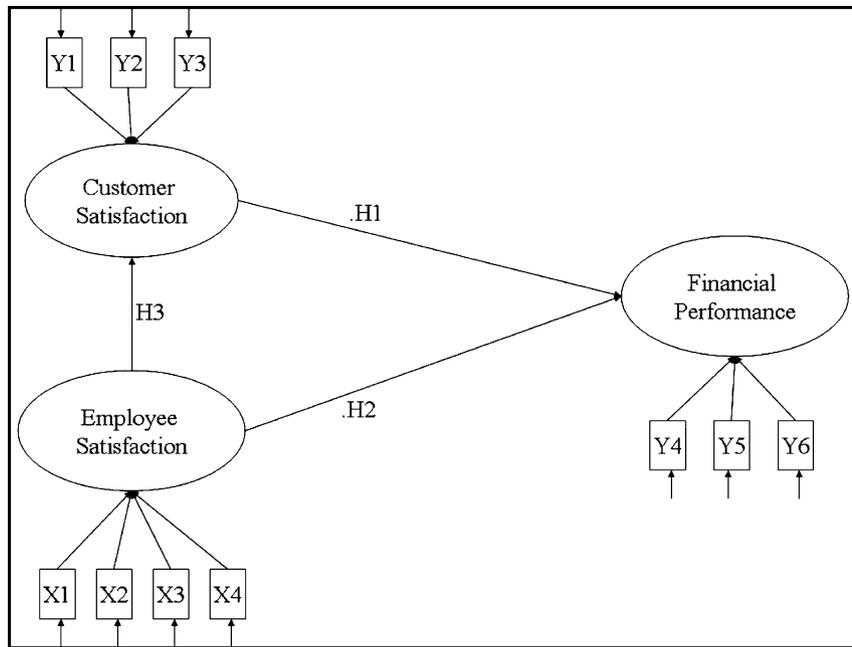
1. Introduction

Several studies suggest that there is a positive relationship between employee satisfaction and customer satisfaction (Bernhardt et al., 2000; Harter et al., 2002; Koy, 2003; Tornow and Wiley, 1991; Wangenheim et al., 2007). Because of this assumed positive relationship, employee satisfaction has received significant attention from researchers and became a critical issue within the last two decades (Matzler and Renzl, 2007). There is no doubt that employee satisfaction is critical in the service industry because of the nature of the industry (Lam et al., 2001). As suggested by "the service-profit chain" providing employees with a superior internal working environment is likely to lead to satisfied employees who are both loyal to the organization and able to provide the customer with an excellent service experience. Customers will recognize and value the outstanding service offered to them. Over time, they will exhibit loyalty behaviors, such as continued purchasing and increased referrals. These loyalty behaviors will generate both market share and profitability increases for the service firm (Heskett et al., 1994, 1997).

Because of the assumption that satisfied employees will create satisfied and loyal customers, which will result in higher sales and, therefore, higher financial returns, service companies have been allocating significant resources for employee and customer satisfaction and retention. However, some researchers raise serious concerns about the heavy emphasis placed on both employee satisfaction and customer satisfaction and whether or not they relate to bottom-line performance (Bernhardt et al., 2000; Zeithaml et al., 1990). Gursoy and Swanger (2007) suggest that in hospitality and tourism industry attention to service and customer satisfaction is considered to be a "given" factor, which is an expected and a natural part of day-to-day operations. Hospitality and tourism companies cannot survive without satisfied customers; however, having satisfied customers may not guarantee the success of any hospitality and tourism business. In order to succeed, a company has to do a better job in creating satisfactory experiences for both employees and customers than its competitors. Even though both customer satisfaction and employee satisfaction and their retention have been studied extensively, impacts of employee satisfaction and customer satisfaction on financial performance measures have not received much attention.

The purpose of this study is to examine the relationship between employee satisfaction and customer satisfaction, and to examine the impact of both on hospitality company's financial

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^a Reverse coded.

Fig. 1. Proposed model: satisfaction and financial performance. *Note:* X1 = Overall, I am satisfied with my job at ____; X2 = I intend to keep working at the ____ long into the future; X3 = I often think about quitting my job (reverse coded); X4 = As soon as I can find another job I am going to leave (reverse coded); Y1 = I am very satisfied with my stay at ____; Y2 = I am delighted with the services that ____ offers; Y3 = Hotel ____ exceeded my expectations; Y4 = Profitability; Y5 = Return on investment; Y6 = Net profit.

performance measures. Specifically, this study explores three direct relationships and an indirect relationship between employee satisfaction and financial performance and the mediating role of customer satisfaction on that indirect relationship. Fig. 1 presents the three direct relationships examined in this study: (1) the relationship between customer satisfaction and financial performance; (2) the relationship between employee satisfaction and financial performance; and (3) the relationship between employee satisfaction and customer satisfaction. In the next section, the theoretical background for this study highlighting past research linking employee satisfaction to customer satisfaction and their impact on financial performance measures are presented. Once an understanding of the appropriate theoretical framework is presented, employee satisfaction, customer satisfaction and their relationships with financial performance are established, appropriate hypotheses are presented, and the methodology and findings of the study are furnished. Finally, in Section 5, the conclusions and limitations are presented along with managerial and research implications of the study finding.

2. Review of the literature

Globalization and free trade continue to change the business environment and increase global competition. In today's business environment, to stay competitive and deliver satisfactory financial returns to the owners and shareholders, managers depend heavily on how effectively they can cope with continuous and unexpected changes. The ability to respond quickly and effectively (time-based competition) and to satisfy customer needs has become a defining characteristic of competitiveness and of success for many companies (Gursoy and Swanger, 2007). Therefore, customer satisfaction has been one of the most frequently examined topics in hospitality tourism literature. Findings of previous studies suggest that employees are likely to play a significant role on customer satisfaction (Spinelli and Canavos, 2000; Wu, 2007). Since most hospitality and tourism products are heterogeneous and insepar-

able, hospitality and tourism employees tend to be more involved with hospitality service offerings. Their involvement and interaction with customers, therefore, tend to play a significant role in quality perceptions and customer satisfaction due to the fact that hospitality and tourism products are often highly complex and presents a summation of interaction, exchange and performance between employees and customers (Bitner et al., 1990).

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, employee satisfaction and retention has become one of the most critical issues facing the hospitality and tourism industry (Matzler and Renzl, 2007). In recent years, service companies have been allocating significant resources for employee retention because most hospitality professionals and research suggest that lowering employee turnover is likely to have significant impact on the bottom-line. Literature further suggests that employee retention and customer retention are closely correlated. Employees who are happy and satisfied with their work environment are more likely to stay with the company. This is likely to result in lower turnover and therefore a better financial performance due to decreasing cost of attracting and training new employees. Furthermore, studies suggest that satisfied employees are likely to provide better services, which is likely to result in a satisfactory service experience for their 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.

The service-profit chain (Heskett et al., 1997) was developed from an analysis of service organizations with the aim of linking operational resource investments to marketing, operational, and financial outcomes. The service-profit chain combines three distinct, but closely related streams of research: the cycle of employee capability, the customer quality/value equation, and the

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