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Impact of Employee Motivation and Satisfaction on Customer Satisfaction and Organizational Performance: A Theoretical Framework

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Abstract:

The purpose of this research is to establish whether there exists a relationship between employees' satisfaction and customers' satisfaction and how customer satisfaction does then impact the organizational performance of Banks and other organizations. We have started with emphasis on customer satisfaction and then light has been thrown on whom the customer interacts with for its satisfaction- the employees. Problem statement describes as to why we have undertaken this study. Then extensive literature review has been carried out to ascertain what exactly has already been established and proved in this respect and to refrain from inventing the wheel again (because it has already been invented). Variables have been identified, defined and integrated with references for the purpose of hypothesis generation and model development. Our model suggests that employee motivation yields employee satisfaction and customer satisfaction, employee satisfaction also results in customer satisfaction and then customer satisfaction causes organizational performance to increase. The model and hypothetical framework have been proved from the results of previous studies and the conclusion drawn is that employee motivation and employee satisfaction are the necessary prerequisites for customer satisfaction, which in turn furthers organizational performance.

Keywords: Employee motivation, employee satisfaction, customer satisfaction and organizational performance

1. Introduction

There are no two opinions on the importance of customers for any organization. Customers are a key to success for any organization. Organizations go great distances to create customers and then to retain them as long as possible. Satisfied customers become loyal customers thereby generating lifetime value (a total sum of series of purchases that a customer is expected to make from a business over its lifetime) for the business organizations. Both theoretical as well practical studies have revealed that customer retention and relationship maintenance exert positive impact on organizational performance (Dovaliene, Gadeikiene and Piligrimmiene, 2007). A satisfied customer is a positive advertisement for the products and services of an organization, whereas a dissatisfied customer spreads negative word-of-mouth about the organization and causes loss to the organization. This is an established fact that a dissatisfied customer tells more people about his experiences than a satisfied customer does. Organizations, therefore, conduct regular customer satisfaction surveys to assess the customers' satisfaction level in order to develop such procedures, products and service to attain maximum satisfaction amongst customers in order to retain existing customers and attract new ones, which results in organization's enhanced performance.

Employees of the organization are very important as these are the employees who create good or bad impression about the organization (Ahmad, Wasay and Malik, 2012). What if they are not satisfied and motivated? Will they be able to provide customers the desired level of services? Love begets love; we can so easily assume that only a satisfied employee can give satisfactory services to the customers and only a motivated employee can give delight to the customers (Daniel, Ashar and Ihsan-ur-Rehman, ND), because a person can give only what he possesses. Employees are the most strategic and valuable asset for organizations to develop competitive advantage over its rivals, because rivals copy each other's products, technologies and processes, but employees and their expertise, skills and commitment can't be copied (Ahmad, Wasay and Malik, 2012).

Organization's success very heavily relies on the satisfaction level of its employees, because customer satisfaction is the natural and normal outcome of employee satisfaction. Customer satisfaction solely depends on whom the customer interacts with to satisfy its need and wants. It is virtually impossible to obtain customer loyalty without first developing the loyalty amongst employees (Naseem, Sheikh and Malik, 2011).

1.1. Problem Identification

While we have maintained in preceding discussion that employees and customer are equally important for organization's performance. Rather, employees have some superiority over customers, as customer satisfaction and the resultant organizational performance single-handedly depend on employees of an organization. Problem arises when organizations in their blind pursuit of customer satisfaction overlook the importance of employees. Organizations spend heavily on the programs of customer loyalty and happen to ignore the importance of employee motivation, in accomplishing their organizational goals and objectives (Ahmad, Wasay and Malik, 2012). Banking practices globally are more overly customer-oriented. One research conducted in UK concluded that employee satisfaction in Banking Sector was the lowest amongst all sectors of UK economy. Banks in Pakistan are certainly no exception to it. It is an observable fact that banks' employees are amongst the most burdened employees in our country, who spend hours after hours working under stress over and above their specified and paid time.

1.2. Problem Statement

Research study conducted in Services Sector of Pakistan, especially banking proved a positive relationship between employee satisfaction and customer satisfaction (Daniel, Ashar and Ihsan-ur-Rehman, ND). The researchers however concluded that sample size was not large and therefore the results may not have generalization in them. Therefore, it is pertinent to explore whether what they concluded stands in agreement with the existing knowledge and understanding on the subject or not. In this way, generalization of their results can be assessed.

1.3. Research Questions

1. Does employee motivation enhance employee satisfaction?
2. Does employee satisfaction positively influence customer satisfaction?
3. Is there a relationship between employee motivation and customer satisfaction?
4. Does customer satisfaction increase organizational performance?

1.4. Research Objectives

1. To explore the relationship between employee motivation and employee satisfaction
2. To examine if employee satisfaction has a positive influence on customer satisfaction
3. To assess the impact of employee motivation on customer satisfaction
4. To determine whether customer satisfaction leads to higher organizational performance.

1.5. Scope

The topic is of fundamental importance for managers across all sectors of economy and we see organizations placed on different points of a wider spectrum with employee satisfaction and customer satisfaction on extremes. Too much tilt towards either of two may lead to worse effects on organizational performance. Success of organizations very heavily depends on seeking the right balance between the two. Therefore, this study can be very important for managers in the proposed Banking Sector, who have to play a mediating role between ever-and-extra demanding customers and employees who often feels themselves as over-worked, disrespected and deprived of work-life balance. The results are likely to have significant bearing on the management practices in the Banking and other Sectors, because if it is proved and generalized that employee satisfaction is necessary to accomplish customer satisfaction, which in turn results in higher organizational performance, the management practices would then need to be employees-oriented to achieve employee satisfaction in order to attain higher customer satisfaction and better organizational performance. That will be a paradigm shift that will take employee motivation and satisfaction to centre of organizational strategic planning in Banking and other Sectors of Pakistan.

2. Literature Review

Studies already conducted in this field show a positive impact of employees' satisfaction on customers' satisfaction. (Daniel, Ashar and Ihsan-ur-Rehman, ND). A research conducted in USA concluded that employees' satisfaction had positive influence on hospital patients' experiences (Peltier and Dahl, 2009). A positive relation of employees' motivation has been established on customers' satisfaction in airline industry of in Pakistan (Ahmad, Wasay and Malik, 2012). Still, the banking sector of Pakistan seems to have adopted the advice of Mr. Stew Leonard whose rule no. 1 is that customer is always right and rule no. 2 is that even if the is customer is wrong, reread rule no. 1 (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010). Organizations worldwide have been following these rules and banks in Pakistan are no exception to it. The significance of employee motivation, employee satisfaction, employee loyalty and their influence on organizational performance have largely been ignored in the Operations Management literature (Boudreau, 2004). An account of turn-around of once failing HCL Technologies Ltd. India into one of the IT giants in the World today proved that putting employees ahead of customers yields better results for organizations (Nayar, 2010). CEO of Southwest Airlines, Herb Kelleher, always puts employees first, not customers. He says, "If they are happy, satisfied, dedicated and energetic, they will take good care of customers. When the customers are happy, they come back, and that makes shareholders happy" (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010). Employee satisfaction results in customer satisfaction; because when internal customers (employees) are happy, they treat external customers well thus creating loyalty amongst the customers (Linking Employee Satisfaction with Productivity, 2003 & Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010).

2.1. Employee Motivation

“Motivation refers to process by which a person’s efforts are energized, directed and sustained towards attaining a goal”, (Robbins, Coulter and Vohra, 2010). Therefore, employee motivation may very simply be defined level of energy, commitment and creativity that company’s workers employ in performing their jobs and duties in order to achieve organization’s goals and objectives. “It is common sense that when people feel great about the place where they work, they provide better customer services”, says Dick Clark, Group Leader of Financial Services at Monsanto (Linking Employee Satisfaction with Productivity, 2003). Employee motivation is always a challenging task for organization, because it is not precisely known what motivates the employees. A Gallop poll indicates that as high as 73 % of the US employees don’t feel excited and motivated about their work (Robbins, Coulter and Vohra, 2010). A factor may be motivating for some employees and may not be motivating for others. It is for this reason that both managers and academics are still making their attempts to understand and explain employee motivation (Robbins, Coulter and Vohra, 2010). However, as the global best practices are, organizations try to achieve employee motivation by aligning employees’ personal interests along with organization’s interests and providing them with conducive work environment, empowerment and support, excellent appraisal & rewards system and good leadership etc.

Only a motivated employee brings out it best efforts and abilities while at work, others only work in a mechanical way-sleepwalking through their workday, putting time but not energy or effort into their work (Robbins, Coulter and Vohra, 2010). Motivated employees exhibit better results as compared with those employees who are unsatisfied (Ahmad, Wasay and Malik, 2012). Employee empowerment is one effective way of employee motivation and, employee motivation leads to both employee satisfaction as well as customer satisfaction (Naseem, Sheikh and Malik, 2011). Employee motivation can be used as a tool to achieve customer satisfaction, because those who directly deal customers highly influence customers’ satisfaction (Ahmad, Wasay and Malik, 2012).

2.2. Employee Satisfaction

Employee satisfaction is quite simply how content or happy employees are with their jobs. It is a feeling of having achieved personal desires. Research conducted in the area of consumer psychology is indicative of the fact that when a customer interacts with happy and satisfied employee, he develops a favorable image towards the product (Howard and Gengler 2001). Research indicates that employee satisfaction increases shareholders’ wealth (Linking Employee Satisfaction with Productivity, 2003). Like employee motivation, employee satisfaction, often referred to as job satisfaction, is different for different employees. Some employees may derive satisfaction from their pay-checks and others from challenging work (Robbins, Coulter and Vohra, 2010). Good organizations often conduct employee satisfaction surveys to measure their employees’ satisfaction level in order to keep them satisfied to reduce employees’ turnover. Satisfied employees are more hard-working, provide better services and get more involved in their organization. (Yoon and Suh, 2003).

Only satisfied employees can satisfy and retain the customers. Organizations should chalk out such strategies to make employees happy and satisfied with their jobs, because happy employees make customer happy (Daniel, Ashar and Ihsan-ur-Rehman, ND). Employee satisfaction results in productivity as well as quality and, it are virtually impossible to develop customer satisfaction without first developing satisfaction amongst employees, because customer service is finally dependant on those who provide it-the employees (Naseem, Sheikh and Malik, 2011).

2.3. Customer Satisfaction

Customer Satisfaction is defined as “The extent to which a product’s perceived performance matches a buyer’s expectations” (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010). It is lifeblood for any organization. Organizations spend heavily in these modern times to utilize latest technology for Customer Relationship Management. It includes creating, retaining and increasing the number of customers of the organizations. If an organization’s products’ performance falls short of customer’s expectations, the customer will be dissatisfied. If that performance matches customer’s expectations, the customer will be satisfied. And if it exceeds customer’s expectations, the customer will be in a more desirable state of delight. (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010). Word-of-mouth of a satisfied customer brings positive impact on organizations and attracts new customers, where word-of-moth from a dissatisfied customer works the other way. (Fornell, 1992). Customer satisfaction leaves a long-term impact on financial performance of an organization (Nagar and Rajan, 2005).

Customer Satisfaction results in enhancing organizational performance in number of ways. First, Customers become loyal and they spend more in future (Verhoef, 2003) and this increases profitability (Mittal and Kamakura, 2001). Secondly, loyal customers are willing to pay premium prices and are less price sensitive (Anderson, Fornell and Lehmann, 1994). Lastly, customer satisfaction enhances market reputation of the organizations allowing it to establish and maintain beneficial relationship with its key suppliers and distributors (Anderson, Fornell and Lehmann, 1994).

2.4. Organizational Performance

Performance is end result of an activity and Organizational performance is therefore defined as the accumulated results of all work activities of an organization (Robbins, Coulter and Vohra, 2010). It is measured by efficiency, effectiveness and rankings. Efficiency refers to doing right things and effectiveness to doing right things. Efficiency is means and effectiveness is ends. And, ends justify means. Effectiveness is simply defined as how appropriate an organization’s goals are and the extent to which the organization has achieved its goals (Robbins, Coulter and Vohra, 2010). Business’s objectives include financial objectives such as profitability and non-financial objectives such as pursuing management interest (Agency Problem) and survival in down-turn etc. (Harris, 2001).

It is proved in number of studies that a connection amongst employee satisfaction, customer satisfaction, productivity and financial performance exists (*Linking Employee Satisfaction with Productivity, 2003*). Satisfied customers become loyal customers (Daniel, Ashar and Ihsan-ur-Rehman, ND. Oliver, 1980) thus securing future revenues (Fornell, 1992). A satisfied customer is an advertisement of the business. Research has proved that customer satisfaction leads to enhanced organizational performance (Ahmad, Wasay and Malik, 2012). Business organizations worldwide tend to enhance their performance as much as possible and only way to achieve this is through customer satisfaction.

2.5. Integration of Variables

All these variables namely employee motivation, employee satisfaction, customer satisfaction and organizational performance are very closely related. Employee motivation leads to employee satisfaction. This creates loyalty amongst employees thereby decreasing organization's induction, training and retention costs. A satisfied employee is more productive one (Yoon and Suh, 2003). Thus more customers are served in less variable cost as employees work efficiently and make fewer mistakes (Peltier and Dahl, 2009). Then satisfied customers become loyal ones and they come again and again (Verhoef, 2003). Lower employee recruitment, training and retention costs, higher customer loyalty and lower costs of delivery of services to customers yield better financial results. (Peltier and Dahl, 2009).

Services understand the service-profit-chain, which links employee satisfaction with customer satisfaction and customer satisfaction with organizational performance (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010). Conducive work environment and strong support of those employees who interact with customers produces motivation, satisfaction, loyalty and hard-work amongst employees, who in turn provide superior customer services to make customers happy and loyal who not only repeat their purchase, but also bring new-to-the-organization customers and end result of this entire chain is more profits and growth- superior organizational performance (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010). Employees treat the customers the way organization treats them (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010). Organizational performance rests on external customers and they on internal customers- the employees (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010).

2.6. Hypothesis

- H1: There is positive influence of employee motivation on employee satisfaction.
- H2: There is positive influence of employee motivation on customer satisfaction
- H3: There is positive influence of employee satisfaction on customer satisfaction
- H4: There is positive influence of customer satisfaction on organizational performance.



Figure 1

3. Discussion

People can be the most invaluable and unrivaled resource for the organization. Because, competing organizations copy each other's products, process and strategies, but what remains unique for an organization is its employees' level of skills, commitment, attitude and sincerity. Therefore, People are the most strategic asset of an organization and Human Resources Management practices play a central role in organization's success. If an organization succeeds in having the right number of efficient and effective people placed at right positions at right time, the organization is certainly success-bound. Organizations rest in the hands of its people for every aspect right from strategic planning to customer services.

The hard task that lies before organization is to determine what motivates employees and what results in employee satisfaction, which then produces positive impact on organizational performance. (Saleem, Mahmood and Mahmood, 2010). Humans are different in their needs and psychology. What may be motivating for one individual may not be motivating factor the other. However, factors like Work Environment, Pay & Benefits, Management Systems and Organizational Vision are proved to have positive effect on employee motivation, which in turn affects customer satisfaction positively (Ahmad, Wasay and Malik, 2012). Services understand the service-profit-chain, which explains how employee motivation and satisfaction results in customer satisfaction, which ultimately lifts organizational performance. Encouraging work environment and strong support of those

employees who are in direct connection with customers generates motivation, satisfaction, loyalty and hard-work amongst employees, who then provide excellent customer services to make customers delighted, happy and loyal who not only come again and again for their purchase, but also spread positive word-of-mouth amongst their circles of influence and thus bring new-to-the-organization customers. The end result of this entire chain is more profits and growth- superior organizational performance (Kotler, Armstrong, Agnihotri and Ehsan-ul-Haq, 2010).

Employee performance comes from ability and motivation level of employees. Organizations must motivate their employees so that they perform to the best of their abilities. The only competitive advantage that commercial banks in Pakistan have is their motivated employees who extend high quality services to their customers, which results in customer satisfaction. Conclusions drawn from the results of a study suggest that work motivation yields job satisfaction and resultantly, employees are more productive and committed. (Ayub and Rafif, 2011). There is a very strong degree of association between motivation and job satisfaction. (Singh and Tiwari, 2011).

Only satisfied employees can satisfy and retain the customers. Organizations should chalk out such strategies to make employees happy and satisfied with their jobs, because happy employees make customer happy (Daniel, Ashar and Ihsan-ur-Rehman, ND). Employee satisfaction results in productivity as well as quality. It is virtually impossible to develop customer satisfaction without first developing satisfaction amongst employees, because customer service is finally dependant on those who provide it- the employees (Naseem, Sheikh and Malik, 2011).

A very recent research conducted in UK with reference to customer satisfaction and business performance of a particular bank revealed that results are only addition to already existing body of knowledge and understanding that customer satisfaction and organizational performance have positive relationship and association (Neupane, 2014).

4. Conclusion and Recommendations

While this is as evident as a broad day-light from our preceding discussion and literature review that employee motivation results in both employee satisfaction and customer satisfaction. Employee satisfaction also positively fosters customer satisfaction and customer satisfaction positively influences organizational performance. The conclusions drawn are in perfect agreement with existing body of knowledge and understanding on the subject and variables. Therefore, recommendations for banks and other organizations operating in Pakistan from the study are that they must take paradigm shift in their strategic planning. While chalking out strategic plans for improving their organizational performance, their starting, central and focal point must be employee motivation and satisfaction instead of traditional one-customer satisfaction. The study has its limitations too. Due to constraints of time and resources, we could not undertake quantitative research into our model and have left it out for future studies.

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