

# Customer Satisfaction and Shareholder's Value: The Role of Employee Satisfaction

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## Abstract

This paper explores the relationship between employee satisfaction, customer satisfaction and shareholders value theoretically. A conceptual model discusses about the relationship of these three variables. In first section the link between tow variables employee satisfaction and customer satisfaction is examined. In the second section the link between customer satisfaction and shareholders value is examined while in third section the link between customer satisfaction and shareholder's value is examine. All these three models represent positive relationship among the related variables. Paper concludes that customer satisfaction and loyalty would continue as long as employees are satisfied and they deliver the required quality of goods and services. Customer satisfaction and employee's satisfaction will increase shareholders value.

**Keywords:** Employee satisfaction, Customer satisfaction, Shareholders value

## 1. Introduction

In recent years, new management working patterns and programs are arising, as a result of social, political, technological and economic changes. The human resource has emerged as most important factor in changing social, political and economic environment. The philosophy of total quality management has also emphasis the importance of the human factor in the changing environment and total quality can be achieved only with employees. Further industrial and services organizations are facing numerous problems; these numerous problems only best human resource can solve. Employee satisfaction is very important for improved customer satisfaction and shareholders satisfaction (Kushku, Fatma, 2001).

The satisfaction of the employees is a concept that reflects the level of the employee's needs and wants are meeting by the employers. The Different researchers have given different definitions of employee satisfaction. It is perceived as the positive attitudes towards work and working environment (Staples & Higgins, 1998). It is fact that level of satisfaction is as important for employees as level of satisfaction about work performance is important for organizations. There is close relationship among employee satisfaction, turnover intention, and layout. The relation among employee satisfaction and life satisfaction has been queried in many studies (Chacko 1983, Tait et al., 1989, Jankins, 1993). Employee satisfaction is also regarded as harmony between the rewards given by the work and the working environment and the desire of the individuals for these rewards or expectations from the organizations. There are numerous ways to measure the employee satisfaction within the organizations. Mostly different dimensions are measured and then a general level of the satisfaction is determined (Rice et al., 1991, Scarpello & Vandenberg, 1992).

These measurement ways are known as employee satisfaction dimensions. The first dimension of the employee satisfaction is related to management. Mostly higher management fails to understand the needs and problems of the employees. The first degree superior plays important role in employee satisfaction, which is mostly in interaction with employees directly. Many studies on job satisfactions have emphasized on the importance of the boss or superiors on general job satisfaction. Superiors have role in performance and career development of the individuals (Wall & Payne, 1973).

The second dimension of employee satisfaction is colleagues or coworkers satisfaction. The success and interest shown by coworkers in the work usually effects on the satisfaction that workers feel at their work. Friendship and understanding among the colleagues is important related to job satisfaction (Manager & Eikeland, 1990). Third important factor of job satisfaction is work satisfaction. Many studies have used job satisfaction and employee satisfaction as interchangeable words. Job satisfaction is satisfaction with work itself. It is important component of employee satisfaction. Other components of job satisfaction are physical environment, salary and other benefits. Some studies consider salaries and other financial benefits most important dimension of the job satisfaction (Judge, 1993, Wall & Payne, 1973).

Customers with problems with company or seller mostly do not react and only a small percentage of the customers complain about goods and services. Normally a customer with problems with products and services tells to almost nine other customers, while a satisfied customer tells five other customers (Rana Mustaghel, 2006). These facts develop the importance of the customer satisfaction for any business and organization. Customer satiation has a specific meaning in the marketing terms and is defined by different authors in different ways. Customer satisfaction is an overall evaluation by the customers about the products and services, company and other related services offered by firm. Customer satisfaction is meeting the customer expectations (Anders, Michael & Inger Roos, 2005).

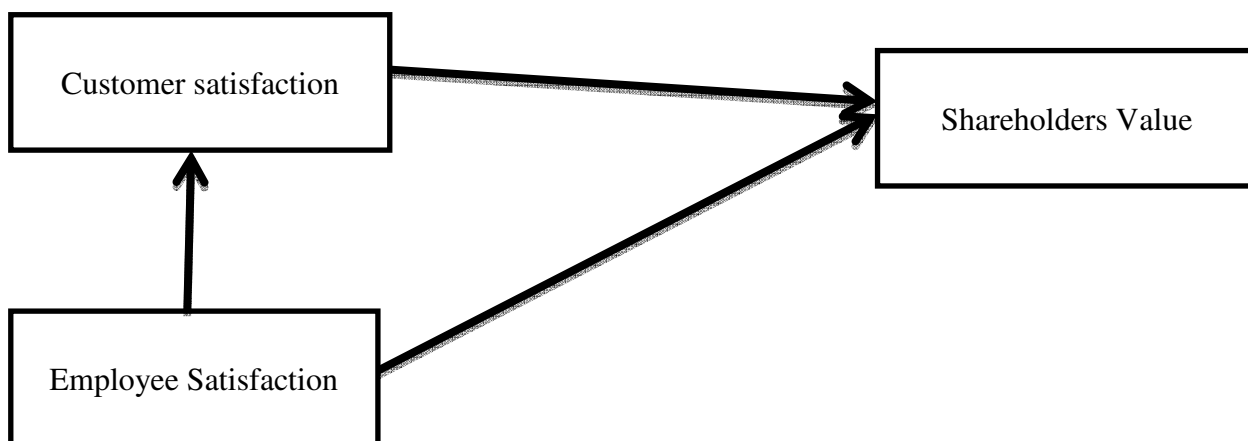
Ingrid feclikova (2004) says customer is feeling towards marketer which involves a process of the evaluation related to what was expected and what was received from the seller. Satisfaction is basically the achievement of what we want to achieve. In order to increase the level of the satisfactions among the customers company must improve its products and services. There is correlation between the customer expectations and customer satisfaction. Customers with fewer expectations are more satisfied. The companies with most innovative ideas will easily increase satisfaction level among the customers. When customers are not awaked of the improvements and are suffering because of existing quality of goods and services will be less satisfied (Rana Mustaghel, 2006).

Managers are under pressure to show that on the regular basis they are creating the shareholders' value. Management must adopt various measures to create shareholders value. There is need to understand why there is sever need to create shareholders value. There are many reasons for measuring and managing the shareholders' value. The shareholder is the central stakeholder of the business and company. Placing the shareholders at focal point is important for management as there is capital flow risk for shareholders. The value creating is basically maximizing the shareholder's wealth while satisfying the remaining stakeholder's requirements (IMA, 1997).

Value creating is when management is generating revenues over the costs to generate these revenues. Under this value based view the value is created when revenues of the firm exceed all the costs including the capital charges. The value is for the shareholders as they are the residual owners of the firm. Shareholders expect from the management to generate more revenues and minimize costs. The suppliers of the capitals, if do not take best return on their capital; they will withdraw their capital for another investment therefore the value of the shareholders will be lost (IMA, 1997).

**2. Conceptual relationship of Job satisfaction, Customer satisfaction and Employee** satisfaction is not something which should be measured only once a year but job satisfaction needs to be built in day to day activities. Day to day activities employees continuously take part in more advanced and diverse activities that result in various benefits for organization and shareholders. Employees are taking greater responsibility at work and in dealing with customers. Employees use skills and abilities at work for higher earning. Majority of the employees use proper their skills and abilities in proper way and for the success of the organization; when they are satisfied with their job. Job satisfaction appears to be important for employees and management. As this aspect continues to be important organizations need to pay attention to employee's satisfaction.

Employees can build a bridge between customers and shareholders by playing mediating role, as employees are regularly in engagement with customers. The Satisfied employees serve the organizations and shareholders in two ways, first direct that is using skills and abilities in work to meet targets and organizations performance, secondly they are serving customer , increasing customer loyalty and satisfaction. Therefore satisfied employees satisfy to customers and shareholders. This relationship among the customer satisfaction and shareholders value as supported by satisfied employees is given below in figure 2.

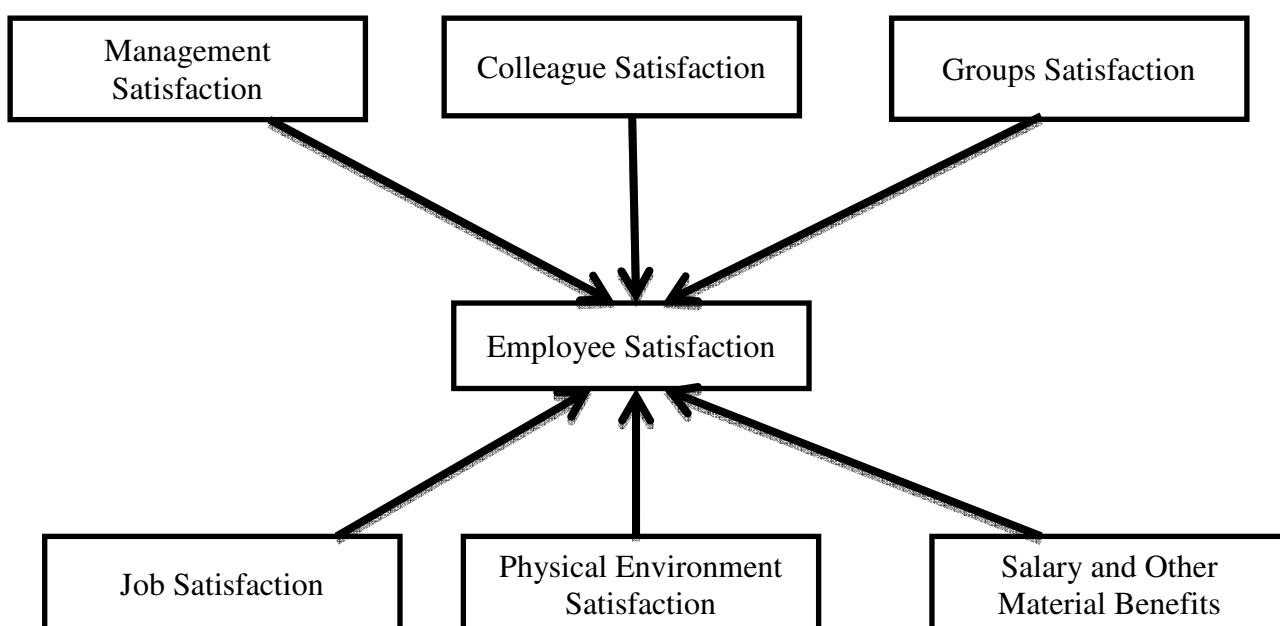


**Figure No 2:** Conceptual Model

The Conceptual model in figure no 2.1. Shows employees satisfaction, customer satisfaction and shareholders value. This relationship management can build as positive through employee satisfaction. Where shareholders value and customer satisfaction are related to employees satisfaction.

**2.1. Dimensions of Employee Satisfaction**

Studies regard job satisfaction as a function of the harmony of rewards and desire for the rewards. Overall job satisfaction is dependent on various dimensions of the job satisfaction. The most common dimensions in various studies are given below in figure no. 2.1. These dimensions include management satisfaction, colleague satisfaction, group satisfaction, job satisfaction, environment satisfaction and salary, other financial benefits (Rice et al, 1999).



**Figure No. 2.1.** Dimensions of employee satisfaction

As already discussed Management satisfaction is related to boss, superior, head satisfaction, as head has role in employee performance and career development. Colleagues are the people who are working in the same environment and doing the similar type of the work. The interest and support of other employees on the work has strong effect on the employee satisfaction. The people who work in the same organization in other area with different work can make working environment more productive that is why they have effect on the employee satisfaction. Job satisfaction is the actual work performed by employee. Work itself can be interesting and is important component of the job satisfaction. Various physical characteristics of work environment effect on the

job satisfaction. Salary and other material benefits are the prime aims for working in any organization. Financial pressure seriously influences the individuals.

### 2.2. Employee's satisfaction and Customer satisfaction

The concept of the customer satisfaction is getting much attraction from management and shareholders. The organizations which are working on this concept are analyzing different option. Employee's satisfaction is focal point during analyzing customer satisfaction. Many studies suggest the positive relationship between customer satisfaction and employee satisfaction. Because of this positive relationship employee satisfactions have gotten much attention from managers and owners (Harter et al., 2002; Koys, 2003).

The importance of the customer satisfaction more increases when there is case of services industry. In service industry employees have direct interaction with customers. According to service profit chain providing the superior working environment will lead to satisfied employees, who will be loyal to the organization and will provide excellent services to customers. Customer will recognize this employee's services and value this outstanding services offered to them by employees (Lam et al., 2001). This relationship of employee satisfaction which leads to customer satisfactions is given below in figure 2.1.



**Figure No. 2.2.** Employee and Customer Relationship.

The excellent employee services to customers will result in customers continued purchasing and increased referrals. This behavior of the customers and loyalty to firm will generate market share and profitability for a firm. The increased profitability and market share will increase shareholders value. Employees one way service the firm and other way they are serving the customers. Beside customer satisfaction, these employees serve to the shareholders as well by meeting their expectations. Employee satisfaction is important for increased market value and profitability of the firm. Satisfied employees create satisfied customers and satisfied customer creates higher sales. Increased market sales will result in higher financial returns. Higher financial returns are the result of the behavior and loyalty of the employees with firm and shareholders of the firm. Firm should allocate significant resources for employee satisfaction.

### 2.3. Customer Satisfaction and shareholders value

Shareholders value is a widely used indicator for measuring company's success. This shareholders value orientation is also changing the decision making and preferences. Different market strategies are evaluated by their ability to enhance the shareholder's value, beside market growth, sales growth and return (Srivastava et al, 1998). Higher customer satisfaction can be achieved through quality of products and services. Improved quality of the service and products enhances the customer loyalty and engagement. Customer loyalty, quality of products and services increases customer satisfaction. Customer satisfaction increase sales, market growth and return in this way increases shareholders value and satisfaction. This relationship between quality products and services, customer satisfaction and shareholders value is given below in figure no2.1.



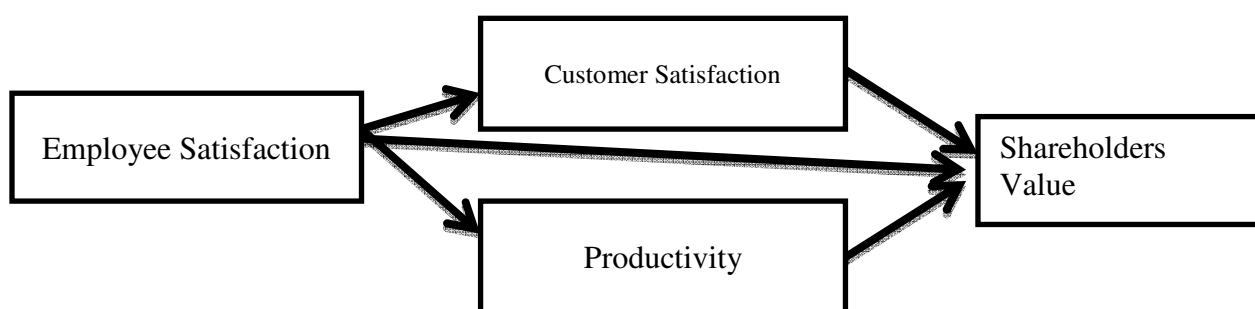
**Figure No. 2.3.** Quality products and services, Customer satisfaction and shareholders value.

There is tradeoff between quality and quantity, especially when services by personals to better meet customer needs. Customer satisfaction is an overall evaluation of the firm products and services. Higher customer satisfaction is one indicator of improved products and services (Fornell et al., 1996).

The quality that meets the customers' needs refers to the design of characteristics of the product. Quality may be free and may not be free at a time; as companies can recover the cost of the quality from the customers. Although there likely diminishing return to such efforts to improved quality. Quality is more useful in resolving the customer satisfaction then the increasing the quantity of goods and services.

#### 2.4. Employee satisfaction and Shareholders Satisfaction

Customer satisfaction is a central concept in the theory and in the practice. It is accepted that delivering products and services of the high quality improves customer satisfaction. These improved products and services are basically provided by employees of the firm. The quality of the improved goods and services depends on the quality of employee satisfaction. It is not only customer satisfaction but both the superior customer satisfaction and productivity. Although these two goals are not compatible but both these goals depend on the employees. These both goals can be achieved through higher employee satisfaction. This relationship is given below in figure no , which shows employees satisfaction increases productivity and customer satisfaction and customer satisfaction and productivity increases the shareholders' value.



**Figure No. 2.4.** Employee satisfaction, Productivity, Customer satisfaction and shareholders value.

If a firm increases productivity it may achieve increase in profitability. But future profitability may be threatened if customers are not satisfied. Customer satisfaction can be improved if employees are satisfied. Human resource effectiveness and impact is the first in increasing the value and satisfaction of the customers, this will in return will increase shareholders value and satisfaction. Employee's satisfaction can make difference in business results and employee's satisfaction is based on the best human resource practices. These best human resource practices can be formulated and implemented by the management for higher customer satisfaction, management has to realize that human resource can make differences (John Wiley, 1997).

### 3. Conclusion

There is a common belief that a firm should be superior in the customer satisfaction and the productivity; as Customer satisfaction and productivity are increasing the shareholders' value. This becomes very difficult to persuasive the both goals especially when firms sees to customizes the market offering in order to meet customer's needs; when customer satisfaction is firms top priority and increasing shareholders value is firms main target. This challenge firms can face with only satisfied employees. It is important to recognize the role of the satisfied employees for a firm.

The employee satisfaction not only decreases turnout but the employees will be more productive if they are satisfied as long as they are satisfied with job and working environment in the organization. Employee satisfaction is dependent on various factors including management satisfaction, coworker's satisfaction; work itself salary and other fringe benefits are some of the common employee satisfaction dimensions. Beside these all benefits of employee satisfaction, it increases shareholders' value and customer satisfaction.

Profit maximization of the company depends on the satisfied customers. Customer satisfaction is dependent on the employee's satisfaction as satisfied employees provide improved services to customers. Customers always value this improved services which further results in increased sales and market growth. Therefore understanding the customer satisfaction is very important for management. Shareholders value maximization is most important for management because of capital related risk for owners. Shareholders value maximization is basically increase their worth and wealth. Wealth of the shareholders' will increase if there are more revenues then the expenses. These revenues will increase when sales of the company increases. Satisfied customers will only

increase the sales of the firm. Employee satisfaction increases customer satisfaction and productivity. Customer satisfaction and productivity increases shareholders satisfaction and value.

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