

Driving Customer Satisfaction Through HR: Creating and Maintaining a Service Climate

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February 2011



ABSTRACT

Research shows that when employees work in a positive service climate, with the right tools to do their job, the result is more satisfied customers, with increased competitive financial performance for the company, often including a stronger market value. HR has a key role to play by creating and sustaining a workplace culture with people management practices and initiatives that encourage, reward and support behavior focused on quality service. This article presents data highlighting the link between service climate, customer satisfaction and human resource management.

Driving Customer Satisfaction through HR: Creating and Maintaining a Service Climate

There are 30 years of robust evidence to support the following conclusion: service businesses where employees have a positive service climate have customers who are more satisfied. This results in increased competitive financial performance and market value. Positive service climates exist in firms where the policies, practices and procedures—and the behaviors that get rewarded, supported and expected— all emphasize service excellence.

HR is well positioned to promote, foster and leverage a positive service climate through the workplace culture, and this focus should be at the top of the HR agenda. Let's look at the evidence.

First, here are the benefits, documented in the relatively new field of services management, for firms able to deliver the service quality that yields customer satisfaction:

- Higher rates of customer retention;
- Lower cost of sales overall - it is easier to sell an existing customer than to attract a new one;
- Fewer errors are made, so there is less need for recovery and rework;
- A decreased need to compete on price (within reason);
- Improved levels of cash flow and decreased variance in cash flow;
- Higher corporate bond ratings making the cost of borrowing money cheaper;
- Increased market value.

HR: Champion of the Service Climate

In today's highly competitive marketplace, proactive HR leaders continually look at how the organization is engaging its workforce and how they can do so to better support the organization's strategic focus. Human resource management practices and policies are crucial to creating and maintaining a positive work culture, one that rewards, supports and expects employees to consistently and thoughtfully focus on the quality of their work and service. The goal, of course, is optimal customer satisfaction and the financial outcomes that follow. Keep in mind the strategic role of HR around workplace culture in this discussion on service climate.

Service Climate

Given the positive consequences of service quality and customer satisfaction, one might ask: Why is service quality frequently terrible? Further, if market researchers are always assessing customer satisfaction, why does service quality remain poor? The

answer is that asking customers about the service quality they experience and how satisfied they are does not tell you much about what needs to be changed.

Simply put, customer satisfaction is an outcome of many things that happen to customers. If you want to know what leads to customer satisfaction within a hotel, a bank branch, an auto dealership or an airline, for example, the evidence says ask the employees who deliver the service because they know what happens to determine customer satisfaction. Those who do the research say: "Customers cannot provide insight into how a company's internal structure, operating policies and attitudes can support or impede the delivery of service excellence. Employees have the knowledge about how companies really work."¹

Research published as early as 1980 began to link the internal organizational HR issue of service climate to customer satisfaction.² We begin with a description of this early evidence.

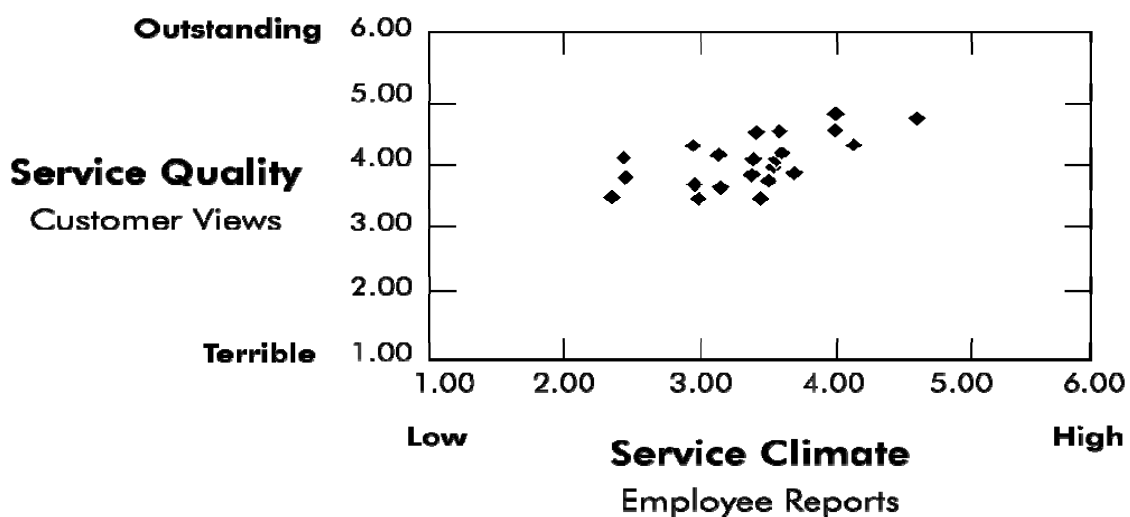


Figure 1: Relationship between employee reports of service climate and customer reports of the service quality they receive for 22 branches of a bank.

Figure 1 shows the service climate perceptions of employees from 22 bank branches plotted against the service quality experiences of each branch's customers. Surveys were collected at each of the 22 branches from both employees and customers, and each set of surveys was averaged to produce a score for employees (service climate) and a score for customers (service quality or customer satisfaction) for each branch. The two scores are jointly plotted as a single point.

The resultant strong link between the two is shown in Figure 1. This type of study eventually came to be called "linkage research,"³ and there are now perhaps 50 linkage studies in the academic Marketing, Services and HR literatures (including related HR fields) to support this relationship and many more proprietary studies that validate the link shown.

Figure 2 displays the results of a June 2009 study⁴ in which service climate data from the employees of six airlines were plotted against customer satisfaction data from the American Customer Satisfaction Index (ACSI).⁵ Here, you can see that even on a small sample of companies, the link is obvious and significant. This is true even if you remove the one outlier that appears in the upper right corner of the graph.

What are the employees in these projects asked to describe when they are surveyed about the service climate in which they work? They are asked to tell what they see happening around them that reflects the importance placed on service quality in their organization. More specifically, they are asked to describe the policies, practices and procedures connected to service quality, as well as the behaviors that get

rewarded, supported and are expected that emphasize the firm's singular focus of service quality.⁶

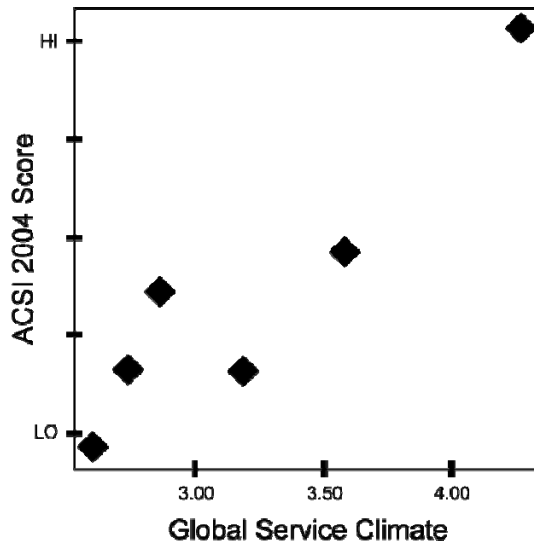


Figure 2: Link between service climate and the American Customer Satisfaction Index (ACSI) for six airlines.

Assessing Service Quality Using Employee Surveys

To determine the level of service quality present within a given organization, it is essential to have useful tools to measure employees' as well as customers' perceptions. Therefore, we turn next to a brief discussion of this topic. To begin, a sample survey item that might be used is as follows: "How would you rate the tools, technology and other resources provided to employees to support the delivery of superior service quality?"

Presented with this item, employees respond using the following five-point response scale (corresponding numerical ratings are indicated in parentheses):

Excellent (5), Very Good (4), Good (3), Fair (2), and Poor (1). Other items on the survey would also focus on delivering service quality and addressing issues like employees' perceptions of their immediate manager, their co-workers' competence and rewards for service quality. In other words, the survey tool used to measure service quality demonstrates a direct connection to many of the messages companies inherently communicate to their employees by what they do. In turn, the companies' actions collectively form a *gestalt* for employees, or a climate which communicates the degree to which service quality is important.

Note that employees are not asked questions about whether customers are in fact satisfied. Rather, respondents report on the conditions that exist in their workplace to promote the delivery of service quality to customers. Employees serve as reporters of what happens in their workplace. Subsequently, as we have shown in Figures 1 and 2, their reports are validated by customer experiences.

Creating a Service Climate

Can any company under any circumstance create a service climate? The answer is, "No." Research evidence shows that service climate itself depends on a strong foundation – a suitable environment upon which a service climate can be built.⁷ Such an environment is characterized by well-trained employees who have the tools that they need to do their jobs, have the opportunity to participate in decisions affecting how they do their work, and receive the service and support they need from other organizational members so that they are able to serve customers well.

This latter issue is particularly interesting because it suggests that people who deliver service to customers are dependent on the service they in turn get from others (i.e., from the “back room” support team). When this service is good, customers report higher levels of satisfaction. In fact, both the underpinnings of a service climate and the service climate in branch banks were measured and predicted branch level customer satisfaction three years later.⁸ Indeed, there is evidence to show that the personality characteristics of the department managers in supermarkets, for example, predict who is most likely to create the conditions that foster a service climate for employees.⁹

Increasing Customer Satisfaction

The studies referenced herein have demonstrated a positive relationship between service climate and customer satisfaction. However, does service climate produce more than customer satisfaction? Further, does it also produce financial consequences? Additional studies have demonstrated that the answer to both of these questions is, “Yes.” As we noted earlier in this article, customer satisfaction has many positive consequences for organizations. Figure 3 shows results from a recent study demonstrating how service climate predicts customer satisfaction and market value for 36 *Fortune 500* companies.

For Figure 3, we selected the top and bottom 25 percent of the companies that were rated on service climate and examined how those same companies performed in terms of both customer satisfaction and market value. We again measured customer satisfaction using the ACSI. We indexed market value using an economic formula called

Tobin's q. Tobin's q reports an index of market value adjusted for the costs of replacing the firm's assets. So, a value of 1.00 means a company's market value is the same as the replacement costs of its assets.¹⁰ Companies that possess better service climates, as shown in Figure 3, obviously have a competitive advantage.

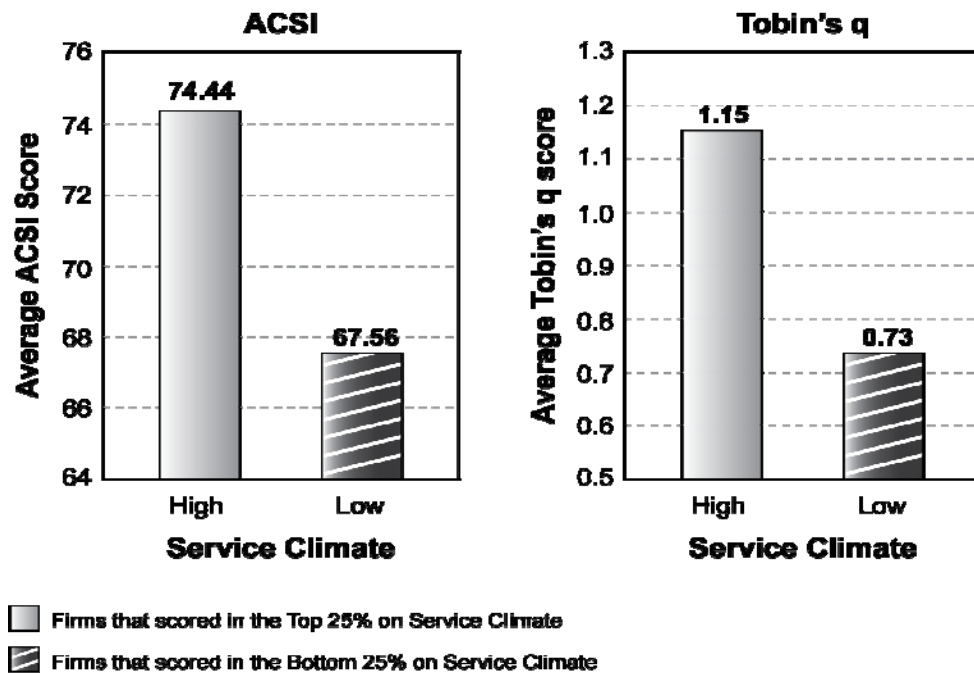


Figure 3: Comparing customer satisfaction (ACSI) and market value (Tobin's q) for companies in the top and bottom 25 percent on service climate.

Figure 3 provides strong evidence for why companies should continually assess their service climate and pay constant attention to the service climate reports from their employees. When companies solicit feedback from employees through service climate surveys and take action on the results, customer satisfaction improves and employee turnover goes down. Moreover, future response rates to employee surveys increase. Not only do companies acquire valid data from their employees, but a whole host of additional positive results then follows.

If evidence exists that service climate is something companies should strive for, then why is service still a challenge for so many businesses? One possible answer is that managers and executives, perhaps HR managers and executives, are not taking the actions that will foster, build and promote a service climate. Instead, they may be more focused on production than on service.

For example, think about call center operations where managers set goals for their employees who answer incoming calls within two or three rings and get off the phone as soon as possible so “productivity” will be high. Or, take another example: When sales clerks are hired for retail stores, they are trained on the attributes of the products they will sell and the operation of the computer that records and handles sales, but they are not trained to deal with service recovery issues—that is, issues surrounding unhappy customers, customers who purchased items that went on sale the next day, and so forth.

Many service companies often fail to understand that service involves actions that produce experiences. Some services only produce experiences—and people are willing to pay for them. For example, people pay to go to the theater, the symphony, rock concerts and theme parks. One could say the theme that unites all of these pure experiences is that they are in essence “theater”—that is, people performing for others.

If HR managers and executives viewed their companies’ delivery of service to customers as an “experience,” they would likely do more to create a service climate for their employees. Then they could benefit from the customer satisfaction and financial performance that follow. They could do this by ensuring that:

- People hired have the orientation and training necessary to do the difficult interpersonal work that service requires.
- People have the appropriate resources (e.g., tools, technology) to deliver high quality to customers.
- Customer-facing employees receive the same excellent customer service internally from those supporting them as they are expected to deliver to customers.
- Performance management and appraisal systems focus on recognition and reward systems that emphasize service quality and customer satisfaction.
- Goals for customer satisfaction are set along with the actions stated that are necessary to achieve them.
- Managers and leaders of service workers have the attributes necessary to serve as role models for those they manage, and are held accountable for doing so.

The evidence is in: HR can be a strategic leader in improving companies' customer satisfaction by ensuring their policies, practices and procedures produce the behaviors that get rewarded, are supported and are expected to produce a superior service climate.

¹ The quote comes from: Schneider, B., Young, S. A., & Macey, W. H. (2007). Service smarts. *Marketing Management*, 16 (4), 29-34.

² The original study is reported in two different journal articles: Schneider, B., Parkington, J. P., & Buxton, V. M. (1980). Employee and customer perceptions of service in banks. *Administrative Science Quarterly*, 25, 252-267; Schneider, B. (1980). The service organization: Climate is crucial. *Organizational Dynamics*, 9 (2), 52-65.

³ Jack Wiley was the first to use this term to describe the kind of research originated by Schneider; see Wiley, J. W. (1996). Linking survey results to customer satisfaction and business performance. In A. I. Kraut (Ed.), *Organizational surveys: Tools for assessment and change* (pp. 350-369). San Francisco: Jossey-Bass.

⁴ See Schneider, B., Macey, W. H., Barbera, K. H., & Martin, N. (2009). Driving customer satisfaction and financial success through employee engagement. *People and Strategy*, 32, 22-27.

⁵ See the following web site for complete information about the ACSI: theacsi.org. Evidence for the validity of the ACSI includes the following: The ACSI predicts GDP growth over time for the U.S. economy; it predicts firms' stock prices over and above the averages for the Dow, the S&P 500 and the NASDAQ; for each one-point difference in ACSI the following are true for a typical *Business Week* 1000 firm:

- a increase of 11.4% of ROI
- a difference of \$55 million a year in net operating cash flow
- a reduction of variance in future cash flow of more than 4%

⁶ The service climate assessment tool described here, with results, is detailed in: Schneider, B., White, S. S., Paul, M. C. (1998). Linking service climate and customer perceptions of service quality: Test of a causal model. *Journal of Applied Psychology*, 83, 150-163. For more recent studies of companies and the way service climate yields customer satisfaction and market value see: Schneider, B., Macey, W. H., & Young, S. A. (2009). Organizational service drivers of the American Customer Satisfaction Index (ACSI) and financial and market performance. *Journal of Service Research*, 12, 3-14.

⁷ These results are also reported in Schneider, B., White, S. S., Paul, M. C. (1998). Linking service climate and customer perceptions of service quality: Test of a causal model. *Journal of Applied Psychology*, 83, 150-163.

⁸ These results are also reported in Schneider, B., White, S. S., Paul, M. C. (1998). Linking service climate and customer perceptions of service quality: Test of a causal model. *Journal of Applied Psychology*, 83, 150-163.

⁹ This research shows that leaders of supermarket departments who have high core self efficacy (they are Conscientious, they have high Self Esteem, they are Emotionally Stable and they believe that there fate is dependent on what they do not luck) have employees who report a more positive service climate. See: Salvaggio, A. N., Schneider, B., Nishii, L. H., Mayer, D. E., Ramesh, A., & Lyon, J. S. (2007). Manager personality, manager service quality orientation, and service climate: Test of a model. *Journal of Applied Psychology*, 92, 1741-1750.

¹⁰ The data in Figure 3 are based on evidence presented in: Schneider, B., Macey, W. H., & Young, S. A. (2009). Organizational service drivers of the American Customer Satisfaction Index (ACSI) and financial and market performance. *Journal of Service Research*, 12, 3-14.