

## **Work Environment, Service Climate, and Customer Satisfaction: Examining Theoretical and Empirical Connections**

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### **Abstract**

*The main objective of this exploratory study was to examine the relationships among service climate, employee job satisfaction, employee engagement, and customer satisfaction. Structured questionnaires were given to senior employees of selected retail service organizations in India. A total of 369 usable questionnaires were analyzed and the findings indicate that work environment influences service climate, which in turn influences employee job satisfaction, employee engagement, and customer satisfaction. The interactional relationship between Service climate and Job Satisfaction, Service climate and Employee Engagement, Employee Engagement and Job Satisfaction, Job Satisfaction and Customer Satisfaction, Service climate and Customer Satisfaction were proved using hierarchical regression and other statistical tools. Implications and directions for future research are also discussed.*

**Key Words:** *Work environment, Service climate, employee job satisfaction, employee engagement and customer satisfaction*

### **INTRODUCTION**

For organizations in the service industry, the most appropriate criterion for organizational performance is customer satisfaction (Schneider & Chung, 1994). Very few studies exist that evaluate climate for service components against a criterion of customer satisfaction. The objective of this study is to evaluate the effectiveness of proper work environment practices and conditions associated with a service climate, and by determining the relationships between service climate components and customer satisfaction in a large retail organization. Delivering and sustaining service excellence can be essentially the key competitive advantage for many organizations (Albrecht and Zemke, 2001). Service researchers and practitioners also specifically recognize that service climate will lead to increased job satisfaction (e.g. Schneider, 1980; Johnston, 2004). Organizational work environment which favors a service climate can lead to behaviors and attitudes in employees which in turn in higher value and better results (e.g. Deshpandé *et al.*, 1993; Lytle and Timmerman, 2006; Walker, 2007).

### **REVIEW OF LITERATURE**

Review of service quality literature shows that there is a need for organizations to create and maintain a climate for service in order for employees to effectively deliver excellent service (Schneider, 1990; Schneider & Bowen, 1995). In the case of service climate, the criterion is customer satisfaction (Schneider & Chung, 1994). Employees are more likely to deliver excellent service to customers when the organization expects and rewards such behavior and establishes practices that facilitate service delivery (Schneider, Wheeler, & Cox, 1992). Even though there is much discussion on this topic, there is very little research investigating the effectiveness of management practices designed to enhance service delivery.

## **Organizational Variables**

### *Link between the Work Environment and Climate for Service*

Burke, Borucki, and Hurley (1992) showed that employees' perceptions of their work environment could be modeled in terms of two factors: a concern for employees and a concern for customers. However, these researchers did not propose a causal ordering for the constructs. Schneider and Bowen (1993) did propose a causal ordering to the constructs, arguing that a positive work environment acts as a foundation for a climate for service but did not empirically test such an idea.

### **Service Climate**

*Climate for service* refers to employee perceptions of the practices, procedures, and behaviors that get rewarded, supported, and expected with regard to customer service and customer service quality (Schneider, White & Paul, 1998). It is the employee's view about management practices across a range of disciplines including human resources, leadership and marketing (Solnet, 2006). Service climate is built on foundations of caring for both internal and external customers. It is the message employees get about how important service is in their organization. The climate construct relates to the consensual beliefs among the employees with regard to organizational policies, procedures, and practice that are supported and rewarded (Jong *et al.*, 2004).

A climate for service rests on a foundation of fundamental support in the way of resources, training, managerial practices, and the assistance required to perform effectively (Schneider, White & Paul, 1998). Gronroos, 1990; Reynoso & Moores, 1995 proposes two categories of foundation issues: (a) the quality of internal service received from other departments within the organization, and (b) general facilitative conditions which includes efforts toward removing obstacles to work (Burke, Rapinski, Dunlap, & Davison, 1996; Schoorman & Schneider, 1988), supervisory behaviors (e.g., giving feedback and sharing information; Schneider & Bowen, 1985), and HR policies (Schneider & Bowen, 1993). It is important for management to find out from the market, about what the customer expects from the organization in terms of customer service. This information should be then analyzed and disseminated to the employees, particularly the boundary employees. This would help management to create the right work environment and other plans for actually delivering the expected service quality. Management can recruit the right type of employees with the right skills, train and compensate them for providing excellent service. Proper procedures, equipment, tools and technology should facilitate service delivery in the eyes of both the employees and the customers. The functions of operations management, marketing, and human resources should work together, rather than compete, to create a cohesive service system. Albrecht and Zemke (2001) suggested a similar set of practices and conditions that they expected to be related to an organization's ability to deliver high quality service.

When the practices that are likely to facilitate the accomplishment of the goal of customer satisfaction have been identified, their status in organizations can be evaluated and changes can be made in the way they function (Schneider, 1990). Schneider *et al.* (1980) were the first to link employee perceptions of service climate themes to ratings of customer satisfaction from actual customers by collecting data from employees and customers in 23 branches of a large bank. Customer retention also depends on customer satisfaction. Current customers can also be a source of good ideas. More importantly, it is less expensive for an organization to keep a current customer than to gain a new one. The U.S. Office of Consumer Affairs (Peters, 1988, as cited in Rust & Zahorik, 1993) concluded that it typically costs about five times as much to acquire a new customer, than it does to retain a current one.

### **Employee Engagement**

Employee engagement is the degree to which individuals are personally committed to helping an organization by doing a better job than what is required to hold the job. Kahn (1990) defines employee engagement as "the harnessing of organization members' selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances". The cognitive aspect of employee engagement concerns employees' beliefs about the organization, its leaders and working conditions. The emotional aspect concerns how employees feel about each of those three factors and whether they have positive or negative attitudes toward the organization and its leaders. The physical aspect of employee engagement concerns the physical energies exerted by individuals to accomplish their roles. Thus, according to Kahn (1990), engagement means to be psychologically as well as physically present when occupying and performing an organizational role.

Engaging employees is one of the top five most important challenges for management, according to a survey of 656 chief executive officers (CEOs) from countries around the world (Wah, 1999). It has become a hot topic in recent years among consulting firms, although it is now catching up in the academic sector. One of the most popular approaches in this area comes from the Gallup Organization (Harter, Schmidt, & Keyes, 2003; Harter & Schmidt, 2008). Gallup's Employee Engagement Index estimates that 70% of employees are disengaged. Gallup estimates that these disengaged workers are costing US businesses \$300 billion a year in lost productivity. Although training does not solely contribute to employee engagement, it's time for learning leaders to train managers about the warning signs of disengagement and how to keep workers engaged.

### **Job Satisfaction**

Job satisfaction is a pleasurable or positive emotional state that arises when people appraise their job or job experiences (Locke, 1976). Implicit in Locke's definition is the importance of both affect, or feeling, and cognition, or thinking. Of all the major job satisfaction areas, satisfaction with the nature of the work itself—which includes job challenge, autonomy, variety, and scope—best predicts overall job satisfaction, as well as other important outcomes like employee retention (e.g., Fried & Ferris, 1987; Parisi & Weiner, 1999; Weiner, 2000). Thus, to understand what causes people to be satisfied with their jobs, the nature of the work itself is one of the first places for practitioners to focus on. Many studies have shown that dissatisfied employees are more likely to quit their jobs or be absent as compared with satisfied employees (e.g., Hackett & Guion, 1985; Hulin, Roznowski, & Hachiya, 1985; Kohler & Mathieu, 1993).

A recent meta-analysis of over 7,939 business units in 38 companies explored the relationship at the business-unit level between employee satisfaction-engagement and the business-unit outcomes of customer satisfaction, productivity, profit, employee turnover, and accidents (Harter & Schmidt, 2002). Relationships, large enough to have substantial practical value, were found between unit-level employee satisfaction-engagement and these business-unit outcomes. This suggests that management practices that affect satisfaction can have positive results on productivity and profit. The driving force behind the popularity of employee engagement is that it has positive consequences for organizations. There is a general belief that there is a connection between employee engagement and business results (Harter et al., 2002). However, engagement is an individual-level construct and if it does lead to business results, it must first impact individual-level outcomes. There is thus reason to expect employee engagement to be related to individuals' job satisfaction. Although neither Kahn (1990) nor May et al. (2004) included outcomes in their studies, Kahn (1992) proposed that engagement leads to both individual outcomes (i.e. quality of people's work and their own experiences of doing that work), as well as organizational-level outcomes (i.e. the growth and productivity of organizations).

There are a number of reasons to expect engagement to be related to work outcomes. For starters, the experience of engagement has been described as a fulfilling, positive work-related experience and state of mind (Schaufeli and Bakker, 2004; Sonnentag, 2003) and has been found to be related to good health and positive work affect (Sonnentag, 2003). These positive experiences and emotions are likely to result in job satisfaction and other positive work outcomes. As noted by Schaufeli and Bakker (2004), engaged employees likely have a greater attachment to their organization and a lower tendency to leave their organization. In addition, there is some empirical research that has reported relationships between engagement and work outcomes. For example, engagement has been found to be positively related to organizational commitment and negatively related to intention to quit, and is believed to also be related to job performance and extra-role behavior (Schaufeli and Bakker, 2004; Sonnentag, 2003). Schaufeli and Bakker (2004) found that engagement was negatively related to turnover intention and mediated the relationship between job resources and turnover intention.

### **Customer satisfaction**

*Customer satisfaction* refers to an affective state that is the emotional reaction to an experience or a sequence of experiences with a seller. It is produced by the customer's assessment of the degree to which a seller's performance is perceived to have met or exceeded some comparison standard. This conceptualization of customer satisfaction is consistent with previous research (e.g., Cadotte, Woodruff, and Jenkins 1987; Spreng, MacKenzie, and Olshavsky 1996). Although it has frequently been argued that the job satisfaction of a company's employees is an important driver of customer satisfaction, systematic research exploring this link is scarce. Results indicate the presence of a positive relationship between salespeople's job satisfaction and customer satisfaction, and this relationship is found to be particularly strong in the case of high frequency of customer interaction, high intensity of customer integration into the value-creating process, and high product/service innovativeness (Brown & Peterson 1993, 1994).

In recent years, many companies have invested considerable resources into programs for measuring and increasing employees' job satisfaction (e.g., Heskett, Sasser, and Schlesinger 1997). Numerous empirical studies show a strong positive relationship between employee satisfaction and customer satisfaction (e.g., Band, 1988; George, 1990; Reynierse & Harker, 1992; Schmitt & Allscheid, 1995; Schneider & Bowen, 1985; Schneider, White, & Paul, 1998; Schneider, Ashworth, Higgs, & Carr, 1996; Johnson, 1996; Ulrich, Halbrook, Meder, Stuchlik, & Thorpe, 1991; Wiley, 1991). As suggested by this wealth of findings, positive changes in employee attitudes lead to positive changes in customer satisfaction.

The main assumption underlying these activities is that increased employee satisfaction ultimately leads to increased customer satisfaction, and this central element of conceptual framework is referred to as the service-profit chain (Heskett et al, 1997). This model suggests a causal chain linking employee satisfaction to financial performance through the mediating constructs of employee loyalty, customer satisfaction, and customer loyalty. However, the suggested link between employee satisfaction and customer satisfaction is based on limited and anecdotal evidence. Academically speaking, customer satisfaction (e.g., Fomell, Johnson, Anderson, Cha, and Bryant 1996; Oliver 1997) and employees' job satisfaction (e.g., Brown and Peterson 1993; Churchill, Ford, Hartley, and Walker 1985) are two of the most widely studied constructs in marketing research. However, there is little systematic research relating the two constructs to each other.

The existing studies mostly provide support for a positive link between employee and customer satisfaction in several industries such as fast-food restaurants (Bernhardt, Donthu, and Kennett 2000), software industries (Tornow and Wiley 1991) and retailing (Wiley 1991). Loveman's (1998) study within the banking sector, does not provide empirical support for the suggested positive impact of employee satisfaction on customer satisfaction. The authors explore the direct relationship between job satisfaction and customer satisfaction. The link between job satisfaction and customer satisfaction is perhaps stronger when innovative products are involved due to the need to track and understand product changes. All employees are seen as ambassadors of their company by any average customer. So if a customer sees that an employee does not have a positive attitude, a customer may make the wrong assumptions leading the customer to question the trustworthiness of the company and resulting in decreased sales for the company. It is necessary for an organizational manager to focus on increasing employee job satisfaction as an integral part of creating a positive work environment. Employees with positive attitudes should be encouraged to make contact with customers at every opportunity to create the best customer relations to generate the best experience a customer can attain. They should also be encouraged to take responsibility for customer satisfaction that pays off in increased customer retention and higher profits for the company.

### **Impact of employee engagement on customer satisfaction**

Employee engagement is assumed to be a key driver in reduction of attrition. But the question is how to get staff to be more involved in the business. In order to increase job satisfaction and encourage employees to deliver consistently high performance levels and increase customer satisfaction it is important to find out what motivates each employee. Forward thinking companies are now moving beyond that, also asking how they can link employee engagement and customer satisfaction. The obvious linkage is from increased satisfaction to increased customer retention to increased revenue.

Salanova, Agut, Peiró (2005) examined the mediating role of service climate in the prediction of employee performance and customer loyalty. Employees from the hotel industry provided information about organizational resources, engagement, and service climate. Customers from these units provided information on employee performance and customer loyalty. Structural equation modeling analyses were consistent with a full mediation model in which organizational resources and work engagement predict service climate, which in turn predicts employee performance and then customer loyalty. Further analyses revealed a potential reciprocal effect between service climate and customer loyalty. Ching-Wen Yeh (2009) study of airline managers and flight attendants uses survey information to look at relationships between service climate, professional commitment and job performance. It finds that service climate positively influences professional commitment and influences job performance while professional commitment positively influences job performance and smoothes the relationship between service climate and job performance.

### **THEORETICAL FRAMEWORK**

The theoretical framework of this study focuses on a market-oriented service climate followed by systematic paths or links to work environment, employee satisfaction, employee engagement, and customer satisfaction. Figure 1 shows the hypothesized relationships among the variables investigated.

The relationship between service climate and employee job satisfaction was firstly addressed. It has been recognized that a good work environment is critical. Higher employee satisfaction would lead to better service quality and service productivity.

### The Present Study

The purpose of this study is to identify organizational work environment practices and a proper service climate that facilitates the delivery of service by determining the relationships between these practices and actual ratings of customer satisfaction. The measure of service climate used in this study is an employee opinion survey that is designed to measure employees' perceptions about the performance of their organization in managing the delivery of quality service. It is based on the service climate components identified by Schneider, White & Paul, 1998. The current research considers reputed retail outlets in India for carrying out the empirical survey (names are kept anonymous to ensure confidentiality of the data collected).

Therefore, the first hypothesis is:

**H1:** Positive work environment is positively correlated to service climate.

**H2:** Service climate positively influences the employee job satisfaction.

The service organizations that are conscious of their employee job satisfaction will lead to better level of employee engagement. This happen because as the employees are satisfied with the organizations that they work, will continue to be more engaged with their job and organization for longer time and committed to serve the organizations and their valued customers. So, the hypothesis is:

**H3:** Service climate positively influences employee engagement

A good service organization will always make priority to their employee satisfaction. It can assist the organization in order to be an effective service provider. The more satisfied the employees the better the service quality that they delivered. Besides, employee that satisfied will be actively engaged with the organization because they feel that they are belongs to the organization. Therefore, it is hypothesized that:

**H4:** Employee engagement positively influences job satisfaction.

Employee job satisfaction is one of the important aspects that can affect the customer satisfaction. The hypothesis is:

**H5:** Employee job satisfaction positively influences customer satisfaction

Employee engagement is one of important aspects that can affect the customer satisfaction. Employees who are more engaged with the organization usually will do their job as best as they can. If the entire employee group is highly engaged with the organization it will enhance and increase the customer satisfaction. Therefore, the next hypothesis is:

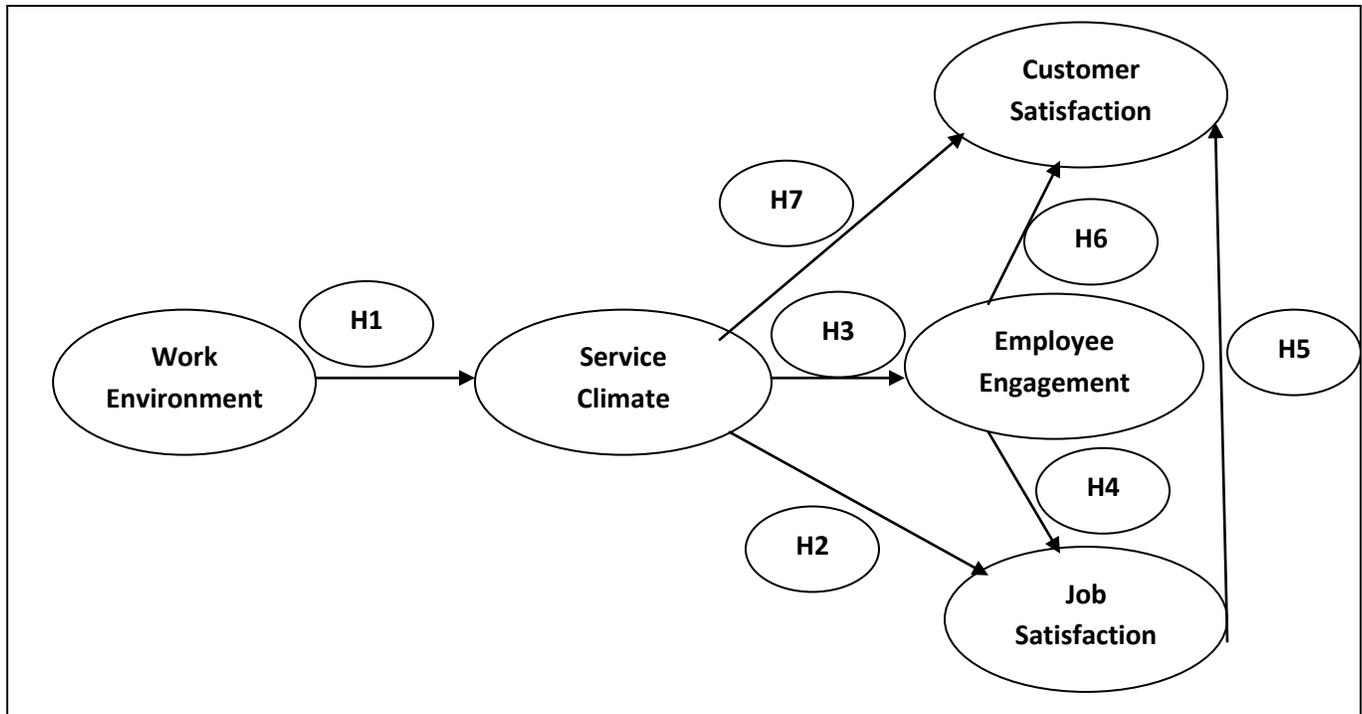
**H6:** Employee engagement positively influences customer satisfaction.

Overall, service climate plays an important role specifically for improving customer satisfaction. Schneider *et al.* (1998) found that the organization climate that encourages service employees to exert effort and to use their competencies accordingly would tend to produce superior service quality. Specifically, Jong *et al.* (2004) found that service climate positively influenced the service performance outcome. Solnet (2006, p. 578) illustrated that "When all the aggregate conditions exist for excellent service to be provided to customers, a positive climate for service is said to exist." Hence, the key hypothesis in this study is:

**H7:** Service climate positively influences customer satisfaction.

Service Climate was related to Work Environment ( $r = .52, p < .01$ ), Job Satisfaction was related to Work Environment ( $r = .46, p < .05$ ), Employee Engagement was related to Work Environment ( $r = .51, p < .05$ ). Customer Satisfaction was related to Work Environment ( $r = .54, p < .01$ ), Job Satisfaction was related to Service Climate ( $r = .49, p < .05$ ), Employee Engagement was related to Service Climate ( $r = .55, p < .05$ ), Customer Satisfaction was related to Service Climate ( $r = .31, p < .01$ ), Employee Engagement was related to Job Satisfaction ( $r = .40, p < .05$ ), Customer Satisfaction was related to Job Satisfaction ( $r = .37, p < .05$ ), Customer Satisfaction was related to Employee Engagement ( $r = .42, p < .05$ ). The figures on the diagonal and in bold are Service Climate coefficients and it is evident that the Service Climate for the dimensions considered for the study are high and are acceptable.

**Figure 1: The Research Model**



**Table 1: Correlation Matrix**

	1	2	3	4	5
Work Environment	1.00				
Service Climate	0.527***	1.00			
Job Satisfaction	0.467**	0.495***	1.00		
Employee Engagement	0.516***	0.553***	0.407***	1.00	
Customer Satisfaction	0.543****	0.314**	0.377**	0.426*	1.00
Notes: * p < 0.1; ** p < 0.05; *** p < 0.01; **** p < 0.001 ,Sample Size = 369					

**Table 2: Descriptive Statistics for Variables Considered**

Variable	Label	Mean (n = 369)	Std. Dev
Work Environment	WE	1.05	.82
Service Climate	SC	1.61	.87
Job Satisfaction	JS	1.68	.61
Employee Engagement	EE	1.35	.58
Customer Satisfaction	CS	1.46	.91

**Multivariate analyses of variance**

Multivariate analyses of variance (MANOVA) were conducted using Work Environment, Service Climate, Job Satisfaction, Employee Engagement, and Customer Satisfaction. Table 2 presents the Means and standard deviations of these variables. The items in the questionnaire were scaled using a five-point Likert scale scoring Strongly Agree = 2, Agree = 1, Undecided = 0, Disagree = -1, Strongly Disagree = -2.

Table 3 shows that the sample had a significantly higher level of Service Climate ( $M = 1.61$ ,  $SD = .87$ ), Job Satisfaction ( $M = 1.68$ ,  $SD = 0.61$ ), Employee Engagement ( $M = 1.35$ ,  $SD = .58$ ), Customer Satisfaction ( $M = 1.46$ ,  $SD = .91$ ).

**Table 3: Summary of Moderated Hierarchical Regression Analysis 1**

Variable	B	R	R <sup>2</sup>	ΔR <sup>2</sup>
Education	.43	.29	.09	.09 *
Age	.46			
Experience	.51			
Work Environment	.57			
Service Quality	.39 ***	.62	.38	.31 ***
Job Satisfaction	.32 ***			
Employee Engagement	.51	.65	.40	.10
Customer Satisfaction	.52			
Work Environment x Service Quality	.80	.65	.42	.20
Service Quality x Job Satisfaction	.56			
Service Quality x Employee Engagement	.78			
Service Quality x Customer Satisfaction	.49			

Note: \* $p < .05$ , \*\* $p < .01$ , \*\*\* $p < .001$ ;  $N = 369$

Hypothesis 1 stated that Work Environment has a positive influence on Service Climate. Hypothesis 2 states that Service Climate impacts Job Satisfaction. The third Hypothesis reiterates the positive influence of Service Quality on Employee Engagement. Hypothesis 4 states that Employee Engagement influences Job Satisfaction amongst organizational members. Hypothesis 5 enunciates the positive impact of Job Satisfaction on Customer Satisfaction. Hypothesis 6 states that Employee Engagement has a positive effect on Customer Satisfaction. And, Hypothesis 7 states that Service Quality has a positive impact on Customer Satisfaction.

### Hierarchical Regression Analyses

To test these hypotheses, two moderated hierarchical regression analyses with a Type I error rate of .05 were used. In the first moderated hierarchical regression analysis (Analysis 1), education, age, and experience were entered as control variables. In the second step, variables Work Environment, Service Climate, Job Satisfaction, Employee Engagement and Customer Satisfaction were entered into the equation. Finally, in the third step, interaction terms between each of the variables and each of the variables were entered (i.e., Work Environment x Service Quality, Service Quality x Job Satisfaction, Service Quality x Employee Engagement, and Service Quality x Customer Satisfaction).

In the second moderated hierarchical regression analysis (Analysis 2), only the order of the entry of the variables was altered. The control variables were entered in the first step. In the second step, the variables Work Environment, Service Climate, Job Satisfaction, Employee Engagement, and Customer Satisfaction were entered. In the third step, interaction terms were entered (i.e., Work Environment x Service Quality, Employee Engagement x Job Satisfaction, Job x Satisfaction x Customer Satisfaction, and Employee Engagement x Customer Satisfaction). Results are indicated in Tables 3 and 4 for Analysis 1 and Analysis 2. For the common first and fourth steps (as they include the same variables) results are same. Hence, the tables show the control variables in the first step explained 8% of the variance in Educational levels, ( $R^2 = .09$ ,  $F(5,369) = 2.53$ ,  $p < .05$ ). It may be noted that these variables were significantly related to Customer Satisfaction, Education ( $\beta = .43$ ,  $p = .87$ ), Age ( $\beta = .46$ ,  $p = .06$ ), Experience ( $\beta = .51$ ,  $p = .25$ ), Work Environment ( $\beta = .57$ ,  $p = .67$ ). The second step in Analysis 1 tested the main effects of the two variables, Work Environment and Service Quality on Job Satisfaction, Employee Engagement and Customer Satisfaction. Table 3 shows that the overall relationship of this step was significant,  $R^2 = .38$ ,  $F(7,369) = 13.06$ ,  $p < .001$ .

The two variables together explained an additional 30% of the variance in Service Quality above and beyond the variance explained by the control variables,  $\Delta R^2 = .31$ ,  $\Delta F (2,369) = 36.49$ ,  $p < .001$ . Each of these variables was also related significantly to Customer Satisfaction; Service Quality ( $\beta = .39$ ,  $p < .001$ ) and Job Satisfaction ( $\beta = .32$ ,  $p < .001$ ).

Table 3 shows that the interactional relationship of variables was significant,  $R^2 = .39$ ,  $F (9,369) = 10.52$ ,  $p < .001$ . The two variables Employee Engagement and Job Satisfaction together explained additional 10% of the variance in Customer Satisfaction above and beyond the variance explained by the Service Quality and Work Environment in support of H1,  $\Delta R^2 = .10$ ,  $\Delta F (2,369) = 1.39$ ,  $p = .25$ . Further, Employee Engagement ( $\beta = .50$ ,  $p = .98$ ) and Job Satisfaction ( $\beta = .51$ ,  $p = .10$ ) were significantly related to Customer Satisfaction. The third step in Analysis 1 tested the interaction effects between the Work Environment and Service Quality  $R^2 = .42$ ,  $F (13,369) = 7.69$ ,  $p < .001$ . The interaction terms explained an additional 20% of the variance in Service Quality beyond the variance explained by the control variables,  $\Delta R^2 = .20$ ,  $\Delta F (4,369) = 1.20$ ,  $p = .31$ . Moreover, other interaction terms were significant, Work Environment x Service Quality ( $\beta = .80$ ,  $p = .16$ ); Service Quality x Job Satisfaction ( $\beta = .56$ ,  $p = .38$ ) supporting H2; Service Quality x Employee Engagement ( $\beta = .78$ ,  $p = .26$ ) supporting H3; Service Quality x Customer Satisfaction ( $\beta = .49$ ,  $p = .76$ ) supporting H7.

Analysis 2 shared the first and fourth step with Analysis 1. The second step in Analysis 2 is to test the effects of Employee Engagement on Job Satisfaction and on Customer Satisfaction. This step also tested the effect of Job Satisfaction on Customer. A look at Table 4 shows that the overall relationship of this step was significant,  $R^2 = .14$ ,  $F (7,369) = 3.17$ ,  $p < .05$  for Service Quality. Job Satisfaction was related significantly to Customer Satisfaction ( $\beta = .21$ ,  $p < .05$ ). Results showed that not only was the overall relationship significant,  $R^2 = .39$ ,  $F (9,369) = 10.52$ ,  $p < .001$ , but also the variables together explained an additional 26% of variance in Customer Satisfaction  $\Delta R^2 = .26$ ,  $\Delta F (2,369) = 31.79$ ,  $p < .001$ . The interactional relationship for Employee Engagement and Job Satisfaction was proved ( $\beta = .65$ ,  $p < .05$ ) confirming H4, that between Job satisfaction and Customer satisfaction ( $\beta = .82$ ,  $p < .05$ ) confirming H5, and also the relationship between Employee Engagement and Customer Satisfaction was proved ( $\beta = .62$ ,  $p < .05$ ) supporting H6.

**Table4: Summary of Moderated Hierarchical Regression Analysis 2**

Variable	B	R	R <sup>2</sup>	$\Delta R^2$
Education	.43	.29	.09	.09 *
Age	.46			
Experience	.51			
Work Environment	.57			
Service Quality	.078	.37	.14	.05*
Job Satisfaction	.21*			
Employee Engagement	.37***	.62	.39	.26***
Customer Satisfaction	.30***			.26***
Work Environment x Service Quality	.80	.65	.42	.20
Employee Engagement x Job Satisfaction	.65			
Job x Satisfaction x Customer Satisfaction	.82			
Employee Engagement x Customer Satisfaction	.62			

Note: \* $p < .05$ , \*\* $p < .01$ , \*\*\* $p < .001$ ; N = 369

**Table 5:** Cronbach Alpha scores for each dimension

<b>Dimension</b>	<b>Cronbach Alpha Score obtained</b>
Work Environment	0.84
Service Climate	0.86
Job Satisfaction	0.69
Employee Engagement	0.76
Customer Satisfaction	0.89

Table 5 summarizes the Cronbach alpha coefficients for Work Environment, Service Climate, Job Satisfaction, Employee Engagement and Customer Satisfaction.

**Table 6: Factor Loading (Principal Component Method)**

Rotated Factor Matrix Factor Analysis

<b>Factor Matrix</b>	
<b>Dimension</b>	<b>Factor 1</b>
Work Environment	0.914
Service Climate	0.906
Job Satisfaction	0.894
Employee Engagement	0.861
Customer Satisfaction	0.898

Factor Analysis was employed on the variables in each of the theoretical dimensions of the Questionnaire employed for this study. The Principal Axis Factoring (PAF) method was used with Varimax Rotation. Table 6 shows the Rotated Factor Matrix for Factor Analysis. The results confirm the relationship between Work Environment, Service Quality, Job Satisfaction, Employee Engagement, and Customer Satisfaction. The hypotheses considered in this study are supported by the evidence from data collected from a sample of respondents drawn from the service industry, in this case the retailing industry operating in India.

### **Conclusions and Recommendations**

HR can help businesses to find out who is producing happy customers, and which employees need more training in order to feel 'empowered' to cross-sell and up sell. Perhaps more importantly, HR should be able to identify which staff is at risk of defecting to the competition which would result in costly replacement. It is possible to track employee attitude towards the company with pulse checks at key moments of truth during the employee lifecycle – following recruitment and selection, and before/after training courses, after promotion etc. This would enable HR to find out what motivates an individual throughout their tenure. But in the current climate, marrying employee engagement with customer satisfaction could be the key to survival. Frontline employees are often the only people speaking to customers and generating the greatest impact to customers' interaction with the business. Their motivation, sense of empowerment, comfort with products and their levels of training determine the quality of the experience they produce. Understanding these from their perspective can help companies make appropriate decisions about further training and even how they continue in their roles.

Answers to questions such as "do you have a degree of product knowledge sufficient to handle your customers' questions?" or "are you empowered to solve your customers' problems?" in aggregate provide insight into the employee's attitude towards their job and their company. Combined with data regarding satisfaction of customers handled by that employee provides increased insight that helps managers make the best decisions. Companies have long used technology to identify and analyze customer buying habits, aspirations and concerns but it is only now that the results of employee engagement and customer satisfaction surveys can be combined to provide a 360 degree view of the business. Managers want all their employees to be highly motivated and producing high customer satisfaction. For example, one might expect that those employees who are disengaged and whose customers are dissatisfied, may defect to the competition.

But what of those employees who are disengaged and whose customers are very satisfied? What if they defected instead? Would those customers move with them? And do those employees who are motivated but whose customers are unhappy simply need additional training? The ability to measure and understand employee attitude in relation to their ability to efficiently and effectively produce happy, satisfied customers will enable companies to identify which personnel are contributing most effectively to the business and to appropriately handle those who aren't. Creating an 'employee engagement' score and correlating it directly to the customer satisfaction score on the same chart could provide managers with an invaluable tool to manage its two most important relationships – with its staff and its customers. Ultimately, the need to understand the impact of employee engagement on customer satisfaction is more important in the case of frontline or boundary employees rather than in many other areas of the company. In order to reduce employee turnover, improve relationship management, increase performance and reduce costs, businesses must identify trends that link the quality of service provided with training, motivation and experience of such key employees.

### **Limitations and Future Research Scope**

The research does not consider the effects of Leadership and Strategic intent the authors found to be important for this kind of study. The study is also not longitudinal and future research could consider this proposition. The findings from this empirical study are confined to the Indian scenario, and may be generalized to other settings with further exploration. The findings could be further explored to ascertain their validity with leadership and strategic direction taken as dimensions in future studies.

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