

## A Happy Ending?

**The theory that satisfied employees result in satisfied customers is a faulty one, say two professors, whose recent study indicates no such correlation. While keeping employees happy is admirable, HR leaders also need to make sure communication efforts and internal processes assist workers to meet company strategies.**

By Lin Gensing-Pophal

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Forget the conventional wisdom: Happy employees do not result in happy customers. So say Rosa Chun, a professor of business ethics and corporate social responsibility, and Gary Davies, a professor of corporate reputation, at Manchester Business School in the UK.

Their thesis, based on a study that found no correlation between customer satisfaction and employee satisfaction, was outlined in a brief article published this spring by *Harvard Business Review*.

"Our own surveys of the customers and staffs of 49 business units of 13 service organizations in the UK, in fields ranging from financial services to retailing, failed to confirm that service businesses with more contented staff also have more satisfied customers," they write.

"In fact, we found a positive correlation between the two at only one firm ... . At two other firms, we found a negative correlation: We observed that factors that increased customer satisfaction decreased employee happiness."

The authors acknowledge that "satisfying customers is crucial to a business ... [and] satisfying employees is a worthwhile aim in itself for many reasons." They note, however, that there is no hard data supporting a link between the two.

"Simply being served by a satisfied employee isn't enough to win customers' loyalty," Chun and Davies write.

But others remain skeptical.

Bobby Baker, vice president with Corvitus, a strategic consulting firm in Colorado Springs, Colo., says he has "two primary counter opinions to this article. First, the authors' premise is simply not an accurate reflection of what is meant by the traditional 'service-profit chain.'

"Second, given this misleading premise, the authors' definition of job satisfaction is likely too global or otherwise ill-defined," he says.

"A compelling employee experience [and not general satisfaction] drives employee loyalty which, in turn, drives customer satisfaction and long-term loyalty," he says.

## A Matter of Semantics?

It's hard to believe, says Leslie Yerkes, author of *Fun Works: Creating Places Where People Love to Work*, that "a person who is happy in their work and happy in their relationships with their co-workers and their supervisor would not then be able to extend that happiness to their customers."

One reason for the discrepancy may be semantics, says Michelle Smith, president of the board of trustees for [The Forum for People Performance Management and Measurement](#), a research center within the Medill Integrated Marketing Communications graduate program at Northwestern University.

The Forum's recent research study, *Linking Organizational Characteristics to Employee Attitudes and Behavior*, does, in fact, show a direct link between employee satisfaction and customer satisfaction -- and financial performance, Smith says.

The UK study authors "talk a lot about causal links between happy customers and higher profits, which I totally agree with, but we have to be very careful with interchanging the words 'satisfaction' and 'engagement' -- they are two very different things."

A satisfied employee could be disengaged and a poor performer on the job -- but he or she may be satisfied because they're "overpaid, sitting around 'Twittering' all day or managing their MySpace page, but not necessarily doing great work," she says.

As for happy employees? Sarah Johnson, a survey practice leader of The Corporate Executive Board in Washington, says that she doesn't "know of any employers focused on employee happiness."

"Most companies that are at all enlightened or progressive in their thinking," she says, "are interested in employee engagement, which is fundamentally a different thing. I can be happy, but not productive."

Part of the problem in measuring correlation may be the number of words that can be used in such studies. Terms such as "happiness," "satisfaction" and "engagement" are not interchangeable, experts say.

What companies should be looking for, says Johnson, is alignment.

"In the work that we've done," she says, "we've found not only a strong link between employee engagement and customer satisfaction, but we found an even stronger link between customer alignment and satisfaction."

Alignment, Johnson says, is the "extent to which employees feel they can deliver to customers" -- that they have the training and tools necessary to meet identified customer needs.

Davies says the study and article he co-authored has provoked "two quite different types of response," including "positive reactions ... from managers welcoming new insights into an issue that concerns all those working in the service industries [and] negative reactions ... almost exclusively from management consultants, often criticizing us for saying what we clearly did not say."

The study, he says, disproved the "service-profit chain" theory that, by improving the satisfaction of their employees, service companies will improve customer satisfaction.

"If you threw 10 balls into the air and only one came back down, you should be entitled to challenge the theory of gravity and argue for its replacement with a theory that actually works.

"We share the view that employees hold the key to success with customers in a service business. But the game is up for those who chant the mantra that happy staff means happy customers," Davies says.

Happy and loyal employees, in and of themselves, do not necessarily create improved business performance or profitability, agrees Tim Keiningham, co-author of *Why Loyalty Matters*.

"Companies succeed by meeting customers' needs and they meet customer needs, in part, through the creation of a set of business processes that provide value for customers, and the creation of a culture that supports these processes," he says. To do that, organizations must take into account "the nature of the operations and the service being delivered -- [and] customer expectations."

"Take Amazon's highly effective service strategy, for example," Keiningham says. "The role of employees is limited to packing the books for delivery and is not a hugely added value element of the total offer."

## **The Role for HR**

Gochman says an organization's performance-review process is "a very, very critical area for HR to get people focused on."

"HR can really help [employees and the organization succeed by ] communicating and making sure it's really clear what the company goals are and how the people fit in and really trying to make sure they're engaging employees," she says.

And it must be modeled by the company leaders.

As Yerkes notes: "I personally couldn't serve a leader who didn't 'walk the talk.' The lack of congruency between stated values and behaviors will undermine employee satisfaction any day of the week."

Baker, of Corvitus, suggests six questions that HR professionals should answer when determining if their organization fosters an environment where employees can create connections with customers and, ultimately, "deliver your intended brand authentically."

They are:

- \* Are you providing clear direction to your people?
- \* Are you fostering a sense of community for your people?
- \* Are you giving your people the license to succeed?
- \* Are your people aware of your brand, specifically with regard to your customers?
- \* Are your people fully engaged?
- \* Is there a sense of over-arching positivity in your work environment?

But, "culture," says Keiningham, "will never be a substitute for a sound strategy."

"In the end, managers must make certain that their firms effectively address customer needs. There is no meaningful solution for employees to the problem of 'I don't have what you want' regardless of how satisfied these employees may be."