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**In Search of Linkages – Examining the
Relationships between Employee Attitudes,
Customer Satisfaction and Business Performance**

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To my dear parents for the love and encouragement along the way
- Linlin

To my dear family and friends whose lives I am privileged to be part of
- Milla

ABSTRACT

Among scholars and business practitioners, there is a continuous debate about whether or not employee attitudes can be directly associated with customer satisfaction and business performance. According to Heskett et al.'s service profit chain and Wiley's linkage research model it would appear that such a linkage exists. Hypotheses are formulated and statistically tested in the paper, based on the models. Pearson's correlation analysis is used as a research method. The empirical data are collected from three separate sources of information. The sample comprises 51 workshops of an international service network.

Findings indicate that employee satisfaction, leadership and motivation have a positive statistical relationship. However, employee attitudes cannot be linked to customer satisfaction or profitability. Results also reveal that there is a positive correlation between customer satisfaction and profitability. While, on the other hand, employee satisfaction has a negative correlation with productivity. Our findings do not completely correspond to the premise of models presented in the theoretical framework. Implications for the company as well as for future academic research are provided.

Keywords: employee attitudes, business performance, customer satisfaction, linkage research, productivity, profitability, survey

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TABLE OF CONTENTS

PART I: FOUNDATION OF THE STUDY	1
CHAPTER 1: INTRODUCTION	1
1.1 Background to the problem	1
1.2 Problem definition and research questions	2
1.3 Purpose of the research	3
1.4 Delimitations	4
1.5 Outline of the thesis	5
CHAPTER 2: SURVEY AS A MANAGEMENT TOOL	7
2.1 Organizational surveys	7
2.1.1 Employee attitude survey	7
2.1.2 Customer satisfaction survey	9
2.2 Conclusions on organizational surveys	10
CHAPTER 3: THEORETICAL FRAMEWORK.....	11
3.1 Defining key terms	11
3.1.1 Employee satisfaction.....	11
3.1.2 Leadership	13
3.1.3 Motivation	16
3.1.4 Customer satisfaction	20
3.2. Linkage research models	22
3.2.1 Wiley’s linkage research model	22
3.2.2 The service profit chain	24
3.3 Previous linkage studies	27
3.3.1 Linking employee satisfaction to customer satisfaction.....	27
3.3.2 Linking customer satisfaction to profitability	29
3.3.3 Linking employee satisfaction to business performance.....	31
3.3.4 Summary of previous linkage studies.....	32
3.4 Summary of hypotheses	32
PART II: LINKAGE RESEARCH WITHIN AN INTERNATIONAL SERVICE NETWORK.....	34
CHAPTER 4: RESEARCH DESCRIPTION	34
4.1 Introduction of an international service network.....	34
4.2 Methodology.....	35
4.2.1 Research approach.....	35
4.2.2 Sources of information	35
4.2.3 Validity and reliability.....	39
4.3 Sample selection and data treatment	40
4.3.1 Sample selection process	40
4.3.2 Data treatment	41

CHAPTER 5: FINDINGS.....	52
5.1 Relationships between employee satisfaction, leadership and motivation.....	52
5.2 Relationship between employee satisfaction and customer satisfaction	53
5.3 Relationship between customer satisfaction and business performance	55
5.4 Relationship between employee attitudes and business performance	56
5.4.1 Employee satisfaction and business performance	56
5.4.2 Leadership and business performance	59
5.4.3 Motivation and business performance	60
5.6 The impact of unit size on employee satisfaction and business performance	61
CHAPTER 6: ANALYSIS OF THE FINDINGS	62
6.1 Summary of central findings	62
6.2 Relationships between employee satisfaction, leadership and motivation.....	63
6.3 Relationship between employee satisfaction and customer satisfaction	64
6.4 Relationship between customer satisfaction and business performance	66
6.5 Relationship between employee attitudes and business performance	68
6.5.1 Employee satisfaction and business performance	69
6.5.2 Leadership and business performance	74
6.5.3 Motivation and business performance	75
6.6 Relationships between employee attitudes, customer satisfaction and business performance	77
CHAPTER 7: IMPLICATIONS AND CONCLUSIONS	81
7.1 Implications for academic purposes	81
7.2 Implications for the company	82
7.3 Conclusions	85
APPENDICES.....	91
Appendix 1: Variables in SPSS file.....	91
Appendix 2: Table of central findings	92
Appendix 3: Table of country level findings.....	93
Appendix 4: Personal reflections – What did we learn?	94

List of Tables

Table 1: Summary of indices.....	51
Table 2: Correlations between employee satisfaction and customer satisfaction	54
Table 3: Correlations between leadership, motivation and customer satisfaction	55
Table 4: Correlations between customer satisfaction and profitability	56
Table 5: Correlations between employee satisfaction and profitability	57
Table 6: Correlations between employee satisfaction and productivity.....	58
Table 7: Correlations between leadership and business performance.....	60
Table 8: Correlations between motivation and business performance	61
Table 9: Comparing our findings with Silvestro & Cross's (2000) study.....	79

List of Figures

Figure 1: Structure of the thesis.....	6
Figure 2: Benefits of customer satisfaction and service quality.....	22
Figure 3: Wiley's linkage research model.....	23
Figure 4: The service profit chain	25
Figure 5: Summary of hypotheses.....	33
Figure 6: Employee data.....	37
Figure 7: Customer data	38
Figure 8: Correlation between Q29 and Q79.....	46
Figure 9: The TRI*M Grid.....	47
Figure 10: Correlation between employee satisfaction and leadership.....	52
Figure 11: Correlation between employee satisfaction and motivation	53
Figure 12: Correlation between motivation and leadership.....	53
Figure 13: Correlation between employee satisfaction and labour efficiency	58
Figure 14: Summary of central findings.....	62
Figure 15: Employee satisfaction-business performance matrix.....	71

List of Abbreviations

EAS	Employee Attitude Survey
ESI	Employee Satisfaction Index
CSI	Customer Satisfaction Index
CSS	Customer Satisfaction Survey
H	Hypothesis
HR	Human Resources
LI	Leadership Index
MI	Motivation Index
NA	Not Applicable
Q	Question (referring to questions in employee attitude survey)
W	Question (referring to questions in customer satisfaction survey)

List of Statistical Abbreviations and Terms Used in This Study

n	Sample size
r	Correlation coefficient. It describes the direction and strength of the relationship between two variables and ranges from -1 to 1 . The closer r is to -1 or 1 , the more closely the two variables are related. In this study, we regard correlation as 'strong', if $r \geq .7$; 'moderate' if $.699 \geq r \geq .401$; and 'weak', if $r \leq .4$.
p	Significance of the relationship. It represents the probability that the results of a study happen by chance
**	refers to probability. The chance that the results have happened by chance is less than 1%.
*	refers to probability. The chance that the results have happened by chance is less than 5%.
α	Cronbach's alpha. It is a measure of internal consistency for a set of variables being based on the average inter-item correlation. In this study α is used to assess the reliability of a set of questions, i.e. that the questions measure similar issues.
SPSS	Statistical Package for the Social Sciences. Software is widely used in statistical analyses across social sciences.

PART I: FOUNDATION OF THE STUDY

CHAPTER 1: INTRODUCTION

1.1 Background to the problem

“Employee satisfaction drives business performance.”

“Employee satisfaction does not drive business performance.”

The above statements give a picture of different opinions on the outcome of employee satisfaction. During recent decades, the relationship between human issues (including employee satisfaction, leadership and motivation) and business performance has attained the increasing attention of researchers and business practitioners. Scholars aim to provide theoretical models to explain the phenomenon, whereas business practitioners in search of business excellence are interested to know if investments in employees are worthwhile. To make it even more challenging, some authors argue that employee perceptions cannot be directly associated with profitability and productivity, but through a mediator that bridges employees to business success: a customer.

Research investigating the relationships between employees, customers and business results, is often referred to as linkage research, i.e. Wiley’s (1996) linkage research model as well as Heskett et al.’s (1997) service profit chain has contributed to the development of linkage research. These authors argue that employee satisfaction leads to customer satisfaction and further to superior business results. Unfortunately, even these theories follow the tendency within the linkage research field. They lack unambiguous empirical evidence.

In an academic sense, not too many additional studies have been carried out to investigate the interaction between employee perceptions, customer satisfaction and business performance (i.e. profitability and productivity). But, the results of these few studies are contradictory. Many scholars have emphasized the need for further evidence within different business fields and service environments.

In order to investigate linkages, a company must possess proper management tools to assess the prevailing situation of the organization. Employee surveys are increasingly used for this purpose. Though, within a great number of organizations, employee surveys are designed to measure employee perceptions and the outcomes of human resource (HR) practices. In addition, they are utilized to improve management practices in an attempt to reach superior business results through satisfying employees as well as motivating personnel to perform better and better.

These facts create a fascinating background to our research. In this master thesis, we aim to contribute to the existing knowledge by investigating linkages within an international service network. The study is characterized by business-to-business service environment. However, inspired by our great interest in human resource issues, we pay special attention to employee perceptions and involve not only employee satisfaction, but also employee perception on leadership and employee motivation in the research.

An international service network called SAIWONG¹ provides an empirical framework for the study. Executives of the company have long been interested in knowing how their subordinates perceive the working environment. Therefore, an annual employee attitude survey (EAS) is an important management tool within the company. In this study, the survey in addition to company's customer satisfaction survey (CSS) is utilized to investigate whether employee attitudes, customer satisfaction and business performance can be statistically associated.

1.2 Problem definition and research questions

In this paper, we will statistically examine the linkages, if any, between employee attitudes, customer satisfaction and business performance (i.e. profitability and productivity). Based on our own interests, we pay special attention to employee perspective within the triplet. Among scholars and business practitioners, there is a continuous discussion as to whether employee satisfaction can be associated with satisfied customers and business performance.

¹ SAIWONG is an imaginary name for the case company. For reasons of confidentiality, the actual company name is concealed. In order to protect sensitive information, we have also changed some other details of the company.

Using chosen research methods, we aim to give an answer to our main research question, that is:

- ❖ *Is there a linkage between employee attitudes, customer satisfaction and business performance of an organization?*

In order to do so, we will further investigate, if:

- ❖ *employee satisfaction is linked to customer satisfaction*
- ❖ *customer satisfaction is linked to profitability*
- ❖ *employee satisfaction is linked to business performance*

It is not only an overall employee satisfaction, but also employee motivation and quality of leadership play a crucial role in an everyday life of organizations. Therefore, we will furthermore examine how employee satisfaction, motivation and leadership interact in the case company.

1.3 Purpose of the research

The purpose of this study can be divided into three equal perspectives. First, our aim is to contribute to company SAIWONG's business by enhancing the understanding and awareness of the linkage, if any, between employee attitudes, customer satisfaction and profitability as well as productivity. Each of these factors has an important role in strategic decision-making. However, in order to also meet challenges in the future, it is essential to increase the overall understanding on the interaction between them. We hope to provide SAIWONG with knowledge that helps decision-makers to firmly strive for sustainable improvements in practices and processes when it comes to linking employee attitudes to customer satisfaction and further to financial performance.

Second, we hope to contribute to the existing, scientific knowledge within the area of linkage research. Several previous studies exist, but some of them are limited in terms of empirical testing, i.e. they use theoretical approaches to draw conclusions (see, for

example, Payne et al, 2001). Some previous studies have been carried out by using somewhat similar methods to those of our research (e.g. Wiley et al., 1991). However, these studies have been examined in dissimilar industries or they do not involve all of the three main perspectives; employee perceptions, customer satisfaction and financial performance. We believe that there is still enough scientific space for this statistical analysis, especially in business-to-business environment.

Finally, we satisfy our own curiosity that has increasingly provoked along the journey from assignment to accomplishment. When diving deeper into a particular field of interest, we are able to gain a considerable amount of learning experiences, such as how to find a definite indication among the enormous amount of data and information by carrying out statistical analyses; how to generate further understanding, by reflecting results upon theories; and how to manage an international thesis team under a time pressure. These experiences will benefit us in our future professional careers.

1.4 Delimitations

In our paper, we will use a common statistical approach, e.g. correlation examination to investigate the linkages between employee attitudes, customer satisfaction and business performance. The special attention is paid to employee satisfaction. Delimited by comparable data of less than one year, we could not use cause and effect study in our research. Therefore, the focus in our paper is to investigate if relationships exist instead of defining which factor acts as a trigger for the others. Besides, we delimit ourselves in studying the linkages between certain elements of linkage research models. It is not possible to involve all components of the models in a study of one company. Hence, employee loyalty, customer loyalty etc. are not included in our study. Moreover, in the findings and analysis, it is beyond our scope to give reasons to explain these outcomes in a limited thesis time and neither of us is involved in daily operation of company work. For that reason, some explanations are based on our own understanding and speculation. Finally, survey is introduced as a management tool in our study. We will not make an in-depth analysis of how it works and how it could be improved in this particular company.

1.5 Outline of the thesis

This paper is divided into two main parts. In the first part we introduce the background to the problem as well as formulate research questions. Additionally, we aim to generate a shared understanding on theories that are contributing to our research. Previous linkage studies play an important role in the theoretical framework. They act as a trigger for hypotheses that are formulated based on the evidence provided by past studies. The first part also deals with organizational surveys. Surveys measuring employee attitudes and customer satisfaction are used as a part of research methods in this paper. Therefore, it is vital to possess a basic awareness of the ideology behind them.

In the second part we explain in detail how our own linkage research was carried out. We also report and analyze the findings. The findings are also reflected upon the theoretical framework. Finally, we draw overall conclusions and give implications for the company. Furthermore, we suggest some future research topics for persons who might be willing to conduct a research within the related field of interest.

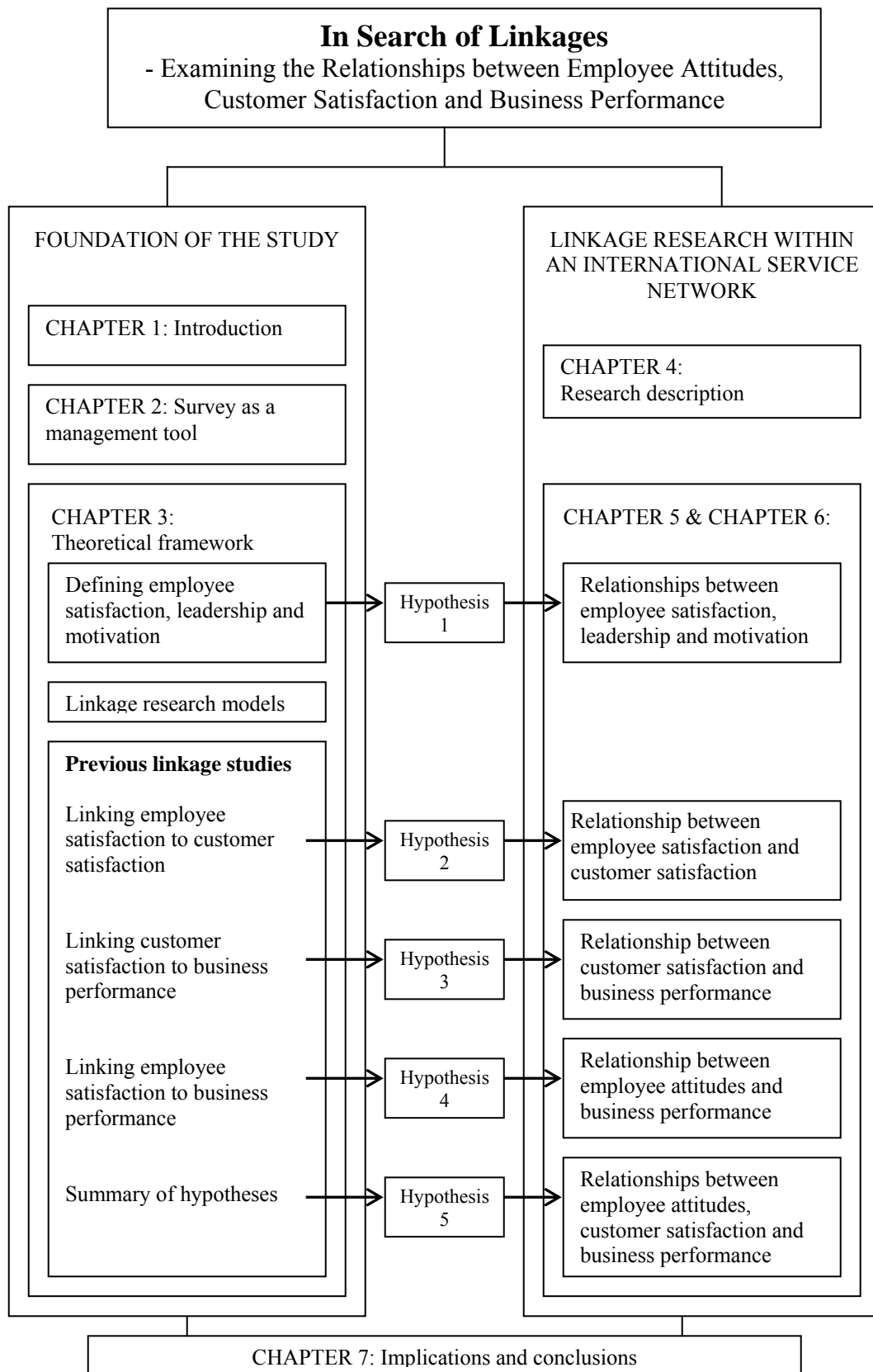


Figure 1: Structure of the thesis

CHAPTER 2: SURVEY AS A MANAGEMENT TOOL

2.1 Organizational surveys

Surveys are becoming a prominent part of organizational decision-making processes. They are increasingly utilized in viewing perceptions of stakeholders, mainly employees and customers. Employee attitude surveys provide HR professionals and line managers with valuable information needed in implementation of changes and new strategies. Respectively, customer satisfaction surveys often help marketing executives to reveal possible shortcomings or, on the other hand, competitive advantages in terms of meeting customer expectations.

Additionally, organizational surveys have awakened the interest of academic scholars. Results of surveys are more and more used in scientific research, especially as a research method across social and behavioural sciences. For example, employment relations scholars regularly operate with employee attitude surveys when conducting their studies. (Hartley, 2001)

What is an organisational survey, then? In the context of this study, there are two applicable definitions. The first one describes survey as "a systematic collection of information from large study groups, usually by means of interviews or questionnaires administered to samples of units in the population" (Rossi and Freeman, 1982, as cited in Hartley, 2001, p. 184). Second, according to Fink (1995, as referred in Hartley, 2001), a survey is "a system for collecting information to describe, compare or explain knowledge, attitudes and behaviour" (as cited in Hartley, 2001, p. 184). Furthermore, Hartley defines three principal elements of surveys. First, the sample of survey must be representative of the whole population. Second, the focus of surveys is on the systematic collection of information. Third, the data are gathered from self-reports, where respondents reflect their experiences, perceptions and expectations. (Hartley, 2001, p. 185)

2.1.1 Employee attitude survey

Employee attitude surveys are often carried out as self-reports. Rentsch (1990, as referred in Ashkanasy et al., 2000) recognizes self-report employee surveys as a means for

employees to record their own perceptions of the reality. He further argues that “behaviour and attitudes are determined not by objective reality but by actor’s perceptions of reality”. Therefore it is appropriate to focus on perceptions rather than on reality when measuring “soft issues” (e.g. job satisfaction) among the members of organizations. (Ashkanasy et al., 2000, p. 133)

In 1958, Rensis Likert argued that too many business managers disregard the human assets of their companies when measuring various types of performance. Likert identified reasons for the prevailing situation at that time. The mostly applied theory, i.e. traditional theory of scientific management, largely ignored motivational and other human behaviour indicators, but gave space for measuring efficiency and profitability. Besides, according to Likert, social sciences were not developed enough to provide methods to measure the quality of human organization. He concluded that it was time for presidents of companies to “build on an organization whose structure, goals, levels of motivation, interaction skills and competence are such that the organizations achieve its objectives effectively”. (Likert, 1958, p. 50)

Today, employee attitude surveys are linked to business strategies and being used for understanding employee satisfaction as well as viewing attitudes on employees’ morale and emotional adjustment. Syedain (1995, as referred in Hartley, 2001) reports reasons for the increase in the usage of surveys as he claims that organizations want to demonstrate their commitment to employee issues. He further explains that HR managers aim at seeking harder facts in order to make decisions and keep a check on morale and its effects on the organization (Hartley, 2001, pp. 186-187).

Saari and Judge (2004) recognize a well-constructed employee attitude survey as the most accurate alternative (of focus group observations or individual employee interviews) for measuring and influencing employee attitudes. When analyzing the validity and reliability of employee surveys, authors refer to two separate employee surveys developed by academics. The first one, Job Descriptive Index (JDI; by Smith, Kendall and Hulin, 1969, as referred in Saari and Judge, 2004) has five focus areas, i.e. pay, promotion, co-workers, supervision and the work itself. According to Saari and Judge, JDI is scientifically reported to have a lot of evidence of validity. On the other hand, the second survey, Minnesota

Satisfaction Questionnaire (MSQ; by Wise, Dawis, England and Lofquist, 1967, as referred in Saari and Judge, 2004) provides more versatile forms and measures. Saari and Judge imply that above mentioned studies best serve scientific purposes, but may also create a foundation for tailor-made, individual organizational surveys (Saari and Judge, 2004, pp. 400-403).

In her study on the impacts of employee surveys on British public sector organizations, Hartley (2001) concludes that the importance of sharing the knowledge obtained from surveys must be acknowledged. Organizational members must be made aware of the results in order to enhance trust towards surveys. Hartley emphasizes that employees should be motivated to contribute and to see the reasons for participating. Otherwise the reliability of survey results may deteriorate and lead to difficulties in drawing conclusions. The researcher also points out that poor processes of surveying employees may undermine intention and impact. Additionally, she acknowledges that employee responses to surveys are likely to be influenced by respondents' previous experiences of having been surveyed. Practically this means that surveys must be carried out professionally in order to get reliable and usable results. Results, in turn, must be communicated to employees the way that they understand the meaning of the results and the importance of doing such surveys. Saari and Judge in line with Hartley emphasize the importance of employee involvement in organizational change processes, which can be facilitated using employee surveys as a management tool.

2.1.2 Customer satisfaction survey

In addition to employee attitudes, customer intentions and customer satisfaction are of great interest to business managers. In order to assess customer perceptions on the company and its services, executives need a tool that measures suitable aspects needed in decision-making. Most often, the investigation is carried out by utilizing a customer satisfaction survey. The form and methods of customer satisfaction survey vary in accordance with company needs and customer scope, but usually they fulfil two main needs. First, according to Jones and Sasser (1995), they provide important information that enables executives to compare the performance of one business unit or several business units in different time periods and locations. Second, customer satisfaction surveys can be a valuable source of

information when developing business processes and improving the quality of products or services (Lin and Jones, 1997, p. 4).

Not only strengths, but also short-comings of customer satisfaction surveys are reported. Lin and Jones (1997) highlight the importance of examining customer satisfaction surveys carefully and using them within a consistent framework. Inadequacies in either surveys or survey processes have been acknowledged by numerous writers within a customer performance measurement field (e.g. Thompson 1998, Aiman-Smith and Markham 2004, Katcher 2003, as referred in Lin and Jones, 1997). Lin and Jones refer to previous studies reporting weaknesses of customer satisfaction surveys. For example, according to Lin and Jones (1997), Reichheld (1996) notes, that an increasing number of customers is tired of being surveyed. On the other hand, Godfrey (1993, as referred by Lin and Jones) claims that at times customer satisfaction surveys are used for gathering data and left without intelligent follow-up and meaningful investigation (Lin and Jones, 1997, p. 4-5).

2.2 Conclusions on organizational surveys

Surveys provide executives with a tool to assess how employees and customers perceive the organization. They can be utilized to measure, influence and develop prevailing practices. On the other hand, survey processes require a lot of resources (e.g. money and time). Therefore, they should be professionally exploited to the fullest.

In this paper, we study linkages between employee attitudes, customer satisfaction and business performance of a particular company. Great deal of the empirical data is gathered from survey results. In addition, referring to Saari and Judge as well as to Hartley, surveys are a way to involve employees in organizational issues, which reflects participative leadership. These issues will be discussed in later chapters.

CHAPTER 3: THEORETICAL FRAMEWORK

3.1 Defining key terms

There are few concepts that are regularly repeated in linkage study reports. This research does not make an exception, when it comes to meeting this standard. Also, this paper is loaded with well-known terms, such as ‘employee satisfaction’ and ‘customer satisfaction’. Since our greatest interest of the overall linkage lies within employee aspects, we additionally discuss about terms that are typically associated with employee satisfaction, i.e. leadership and employee motivation.

3.1.1 Employee satisfaction

Employees have attitudes or viewpoints about many aspects of their jobs, their careers and organizations they work for. From the research perspective, the most common and meaningful employee attitude is job satisfaction. The widely used research definition of job satisfaction is the one by Locke (1976), who defined it as “...a pleasurable or positive emotional state resulting from the appraisal of one’s job or job experiences” (as cited in Saari and Judge, 2004, p. 396). But what are the main causes of employee satisfaction of their jobs? In general, researchers have found the importance of work situation as a cause of employee attitudes, which can be influenced by Human Resources (HR) through organizational programs and management practices. Besides, factors of dispositional and cultural influence on job satisfaction have been understood in the past two decades’ research. In addition, one of the most important aspects of the work situation -the work itself- also has a great influence on job satisfaction (Saari and Judge, 2004, p. 396). In the following texts, we will give an overview of three factors that have an influence on job satisfaction of employees.

1. Dispositional influences

Several pioneering studies have shown the influence of a person’s disposition on job satisfaction. One of the earliest studies (Staw & Ross 1985) found that a person’s job satisfaction scores are stable over time, even when he or she moves to other types of jobs or companies. In a related study, childhood temperament was found to be statistically linked

with adult job satisfaction up to 40 years later (Staw, Bell & Clausen, 1986, as referred by Saari and Judge, 2004).

With this theoretical development, Judge and his colleagues (Judge and Bono, 2001; Judge, Locke, Durham and Kluger, 2000, as referred in Saari and Judge, 2004) found that a key personality trait, core self-evaluation, is statistically related to job satisfaction. They also discovered that one of the primary causes of the relationship was through the person's perception on the job. Therefore, it seems that the most important situational effect on job satisfaction, i.e. the work, is related to what may be the most important personality trait to predict job satisfaction - core self- evaluation.

Above-mentioned research indicates that even though it is hard for managers of an organization to change employees' personality, the application of sound selection methods and a good match between employees and jobs will guarantee that people are selected and put in the appropriate job, which in turn, will help to enhance job satisfaction (Saari and Judge, 2004, pp. 396-397).

2. Cultural influences

The continued globalization of organization poses great challenges for HR managers. More and more research on cross-cultural organisational practices will help HR professionals to get a better understanding on cultural differences. The research may also facilitate implementation processes (Erez, 1994; Triandis, 1994; House, 1995, as referred in Saari and Judge, 2004). The most influential cross-cultural work on employee attitudes has been carried out by Hofstede (1980, 1985). In his early studies, Hofstede found four major dimensions of national cultures: (1) power distance, (2) uncertainty avoidance vs. risk taking, (3) individualism vs. collectivism, (4) femininity vs. masculinity. (Hofstede, 1983.) More recently, Hofstede has presented an additional dimension to his theory. The fifth dimension is known as a long vs. short term orientation (Hofstede, 2005). These five dimensions provide a useful tool to understand cross-cultural differences in employee attitudes as well as to recognize the importance of the cultural causes for employee attitudes.

As discussed in the Chapter Two, employee attitudes are increasingly being surveyed. In an international business setting, it is practical and critical for organizations to be aware of how culture factors influence employees' attitudes.

In this paper, we will not deeply investigate cultural aspects on employee satisfaction. However, we believe that it is important to be aware of that culture may have an influence on our findings, since our empirical study involves workshops of a global service network in five countries. Even though cultural differences are not comprehensively discussed in the analysis, they can not be completely ignored in an international business.

3. Work situation influences

As mentioned before, the work situation also has an impact on job satisfaction. According to a literature review, the most important situational influence on job satisfaction is the nature of work itself – normally called “intrinsic job characteristics”. These characteristics include job challenge, autonomy, variety and scope. These factors have an important influence on employees' job satisfaction. However, it does not mean that any other factors, such as well-designed compensation programmes and effective leadership, are not important. Instead, it means that much could be done to influence job satisfaction by ensuring that performed tasks are as interesting and challenging as possible. For example, in a study examining the importance of job attributes, employees ranked interesting work as the most important job attribute, whereas good wages were ranked the fifth. When it came to managers thinking about what employees want, good wages were ranked first, and an interesting job was ranked fifth. (Kovach, 1995, as referred by Saari and Judge, 2004, p. 396). These results imply that managers may not necessarily be fully aware of the primary factors resulting in employee satisfaction.

3.1.2 Leadership

The term leadership has different meanings to different people. Researchers normally define leadership according to their research interests and their own perspectives. For example, Hemphill and Coons (1957, as referred in Yukl, 1989) define leadership as “the behaviour of an individual when he is directing the activities of a group toward a shared

goal”, whereas Tannenbaum et al. (1961, in Yukl, 1989) perceive it as an “interpersonal influence, exercised in a situation, and directed, through the communication process, toward the attainment of a specified goal or goals”. As it can be seen, leadership is often connected with goal achievement. Stogdill (1974, as referred by Yukl, 1989), in turn, defines leadership in terms of structure by stating that leadership is “the initiation and maintenance of structure in expectation and interaction.” (Yukl, 1989, pp. 2-3)

A major programme of research on leadership behaviour was conducted by researchers at Michigan University. Their study focused on the identification of relationships among leadership behaviour, group processes and measures of group performance. Information about managerial behaviour was collected with interviews and questionnaires to a variety of leaders in different fields. The outcome was summarized by Likert (1961, 1967, as referred by Yukl, 1989). This research found three types of leadership behaviour differentiated between effective and ineffective managers. These types of leadership behaviour include task-oriented behaviour, relationship-oriented behaviour and participative leadership (Yukl, 1989, p.81).

During our management studies, company SAIWONG is often brought up as an example on various occasions. Based on these case studies as well as on the introduction material for SAIWONG employees, we have got an impression that participative leadership is widely applied leadership style within the organization. The impression is also supported by the fact that SAIWONG regularly conducts employee attitude surveys in order to let employees influence the decision-making. Therefore, participative leadership is introduced in this section.

Participative leadership

According to Koopman and Wierdsma (1998, as referred in Yukl, 1989), participative leadership can be defined as a joint decision-making or at least shared influence in decision-making by a superior and his or her employees. Likert advises that managers should make an extensive use of group supervision instead of supervising each subordinate separately. Group meetings help subordinates to participate in decision-making, improve communication, and promote cooperation as well as conflict resolution. The role of a

manager in the group meetings should be to lead the discussion and keep it supportive, productive and oriented towards problem solving. However, the use of participation does not mean abandonment of managerial responsibility. Thus, the manager should be responsible for the decisions and results. Researchers at Michigan University report that subordinate participation in decision-making tends to lead to higher satisfaction and performance (Coch & French, 1948; French, 1950, as referred in Yukl, 1989, p. 82)

Other terms used to refer to participative leadership include consultation, joint decision-making, power sharing, decentralization and democratic management. The participation process is carried out among subordinates, peers, superiors or outsiders. Participation can be used in a variety of ways to accomplish different objectives, including: (1) improved decision quality, (2) widely acceptance of decisions, (3) better understanding of decisions by people who will carry out them, (4) improvement of decision-making skills among subordinates, (5) enrichment of subordinate jobs by making jobs more interesting, and (6) contribution of conflict resolution and team building (Yukl, 1989, p. 83).

Several studies (Spector 1986; Miller and Monge 1986; Fisher 1989, as referred by Kim, 2002) have demonstrated that participative decision-making may be beneficial to employees' mental health and job satisfaction. However, Daniels and Bailey (1999, as introduced in Kim, 2002) argue that evidence regarding the participative decision-making on job satisfaction has not been consistent. On the other hand, Spreitzer, Kizilos and Nason (1997, as referred in Kim, 2002) argue that the term of empowerment has originated from theories of participative leadership and employee involvement. According to these authors, the basic assumption of participative leadership is that sharing manager's decision-making power with employees will enhance performance and job satisfaction. They believe that the key issue of the quality-of-life movement is strengthening employee satisfaction, improving intrinsic motivation, and facilitating employees to feel good about their work. Therefore, job satisfaction was one of the earliest anticipated consequences of the empowerment (Kim, 2002, p. 232).

More studies on participation have been carried out by Lewin, Lippitt and White (1939), and Coch and French (1949, as referred in Yukl, 1989). The methods of research include laboratory experiments, field experiments, and correlation field studies by using

questionnaires to measure participative leadership. However, different conclusions have been drawn on the effects of participative leadership. Some discrepancies exist because of the way the reviewers interpreted the results, and some other discrepancies are because of different methodologies used in the research. Generally speaking, the evidence was not strong enough to reach any definite conclusions. Besides, little empirical research has been conducted between the participative leadership and employees' job satisfaction in the industry field. After many years of research into participation, a conclusion was drawn that participative leadership sometimes leads to higher satisfaction, decision acceptance effort and performance and sometimes it does not (Yukl, 1989, p. 86).

When it comes to services, participative leadership can be applied in various ways. The nature of services sets special requirements for employees and managers. Customer service personnel are in the position to meet customers and customer needs. In order to respond to customer expectations, service employees must have clearly defined freedom to make instant decisions in order to enhance customer satisfaction. This type of empowerment is an example of power sharing, as introduced earlier in this chapter.

When it comes to our empirical research, we will investigate if employee perceptions on leadership are linked to employee satisfaction and motivation, and besides, to business performance. Therefore, it is important to understand the nature of participative leadership style.

3.1.3 Motivation

The relationship between people and their work has long attracted psychologists and other behavioural scientists. The study of motivation has become an essential part of both industrial and vocational psychology. Motivation is described as a process that drives the individual to voluntarily produce efforts in his work (Lawler, 1964; Porter and Lawler, 1968 as referred in Wiley, 1997). There are three assumptions that direct contemporary research on human motivation: (1) Motivation is inferred from a systematic analysis of how personal, task and environmental factors influence behaviour and job performance. (2) Motivation is not a fixed trait. It refers to a dynamic internal situation that is the result of the influence of personal and situational factors. Motivation may vary with changes in

personal, social and other factors. (3) Motivation affects behaviour, rather than performance. Initiatives designed to enhance job performance by increasing employee motivation may not be successful if there is a weak link between job performance and an employee's efforts. (Wiley, 1997, p. 263)

Recently, HR practitioners increasingly realize the importance of motivation, which is central to an organizational success. They are eager to make clear what employees in reality want from work and what can drive them to exert efforts? Author Max Depree's (1989) insight well describes the phenomenon:

“What is it that most of us want from work? We would like to find the most effective, most productive and most rewarding way of working together... We would like a work process and relationships that meet our personal needs for belonging, for contributing, for meaningful work, for the opportunity to make a commitment, for the opportunity to grow and be at least reasonably in control of our own destinies. Finally, we'd like someone to “Thank you”.” (Cited in Topolosky, 2000, p. 71)

There are numerous motivation theories concluding that various factors may lead to employee satisfaction. Among them, Frederick Herzberg's motivator-hygiene theory is one of the most applicable and comprehensive ones when it comes to our empirical research. Herzberg's theory gives us a chance to analyse if employee motivation can be theoretically linked to participative leadership which, in turn, emphasizes factors that Herzberg calls motivators. On the other hand, the theory also creates a basis for understanding the relationship between employee motivation and effectiveness. Herzberg et al. (1959) proposes that an employee's motivation to work is best understood when the respective attitude of the employee is understood. That means, the attitude which originates from a state of mind, would reveal the most practical information for the managers with regard to the motivation of employees (Tietjen and Myers, 1998, p. 226).

Herzberg et al. (1959) conclude that job satisfaction consists of two distinct lists of factors based on the investigation results on the employees' attitudes. One set of factors cause good feelings, and Herzberg has named them motivators (job factors). These work-related or intrinsic factors lead to satisfaction and they include recognition; achievement; possibility of growth; advancement; responsibility and the work itself. The main characteristics of

these factors are to foster and promote individual's needs for self-actualisation and self-realization in his/her work. A feeling of doing interesting work (work itself), job responsibility and advancement are the most important factors for a lasting and stable employee attitude. Achievements are frequently associated with responsibilities and the job itself. Recognition produces good feelings, which does not necessarily come from superiors; it may also come from peers, customers or subordinates. Recognition is based on achievement and it delivers more intense satisfaction.

The other set of factors are not directly related to the work itself, but to the context or environment in which employees do their jobs. Herzberg has named the second group as hygiene factors, which are the primary cause of employee unhappiness. Among these dissatisfaction factors, one of the most important is company policy and administration that promotes ineffectiveness or inefficiency in the organization. The second most important factor is unqualified technical supervision - supervision that is in short of knowledge of the job and ability to delegate responsibility and teach. Working conditions, interpersonal relationship with supervisors, salary, status and job security can also cause dissatisfaction (House and Wigdor, 1967, p. 370; Herzberg, 1968, p. 57)

According to Griffin (1990, in Wiley, 1997), in most instances, employee performance is determined by three things: (1) ability; (2) the work environment; and (3) motivation. If an employee lacks capability, proper training can be employed. If there is a problem of work environment, changing the environment to promote high performance is the key. However, if motivation is a problem, then it is much more complicated and challenging to solve it. Currently, conducting regular employee attitude surveys is one of the most efficient ways to understand what sparks and sustains employees' desire to work. The employees' responses may guide the employer to change the work environment, increase salaries, adjust company policy, redesign jobs and so on (Wiley, 1997, p. 266.)

In her report, Wiley makes comparisons of year 1946, 1980, 1986, 1993 research survey results on what motivates employees. It is striking to see, with the fast development of economy and innovation, the motivators have varied a lot and more new motivators have emerged. Today's employees are very different from those of early years, which makes the motivation process more complex (Wiley, 1997, pp. 271-275). According to Wiley's

research, employees can be motivated by providing them with (1) good wages, (2) full appreciation for the work done, (3) job security, (4) promotion and growth in the organization as well as with (5) interesting works. We have to keep in mind that Wiley's study is carried out among American workers of diverse industries. Therefore, it is not completely applicable in our study, but gives an insight into the themes perceived important by a sample of workers.

Other studies have also reported diverse findings. Miller (1999, as referred in Appelbaum et al., 2005) found that participation in decision making can better satisfy employee's higher requirements for job satisfaction and lead to higher motivation and increased productivity (Appelbaum et al., 2005, p. 3).

Researchers (Hackman and Lawler 1971; Hackman and Oldham 1975; Ting 1996, as referred in Kim, 2002) have found that individuals are motivated not only by their extrinsic needs, but also by positive job-related factors such as task clarity, skill utilization, task significance and social interactions (Kim, 2002, p. 233).

Formulating the first hypothesis

According to Malim and Birch (1997), hypothesis is a defined and operationalised version of the theory. They further explain, that in a hypothesis, theory is "put into a form which can be tested by experiment, observation or some other form of investigation, such as correlational study or a survey" (p. 7). In other words, hypotheses formulate a basis for an empirical research, which in this case takes a form of correlation analysis.

In this chapter we have given a theoretical introduction to employee satisfaction, leadership and motivation. All of these theories contribute to the understanding of human aspects in organizations. In addition, research within employee satisfaction, leadership and motivation is widely utilized in business sense. Many researchers and business practitioners have addressed a question: how to best make use of the human capital of the company in order to achieve business goals? The answer has been searched from studies introduced earlier, for example.

Since employee satisfaction, leadership and motivation have many similar characters, and since the research within these three has a similar goal, we have a reason to assume that they also have a statistical relationship. Previous studies also generate understanding of that leadership behaviour and employee motivation contribute to job satisfaction.

Our assumption is supported by some empirical studies as well. When testing service profit chain within a retail chain in the UK, Silvestro and Cross (2000, p. 254) found a strong and significant correlation between employee satisfaction and style of supervision of a supermarket. On the other hand, Mehta et al. (2003, p. 71) found a significant statistical relationship between participative leadership practices and partner motivation in a global marketing channel context. Thus, we build the first hypothesis on the belief that employee perceptions on leadership, motivation and satisfaction are linked in our case company.

Hypothesis 1:

There are positive correlations between employee satisfaction, leadership and motivation.

3.1.4 Customer satisfaction

In traditional face-to-face services, employees of a company work closely with customers. The nature of services is a reciprocal process involving perceptions and attitudes of both parties dealing in the customer interface; employees responding to customer expectations as well as customers consuming the services they are willing to utilize. Grönroos (2000) has a more up-to-date perspective to services as he defines them as follows:

[Service is] “a process consisting of a series of more or less intangible activities that normally, but not necessarily always, take place in interaction between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems.” (Grönroos, 2000, p. 46).

In the linkage research, one of the main factors is the perceived service quality as well as customer satisfaction. In order to make statistical measurements, it is necessary to clarify what is meant by ‘customer satisfaction’ in the context of our study. Among many researchers, there is a consensus that satisfaction represents the customers’ assessment of

the service or product in terms of the extent to which their expectations are met or exceeded (e.g., Bolton & Drew, 1991; Oliver, 1980, 1997, as listed in Allen and Grisaffe, 2001, p. 213). In other words, customer satisfaction can be created by delivering customer-perceived value to the customers, i.e. to make customers feel that their perceived sacrifices of using services are lower than perceived benefits (Monroe, 1991 as referred in Ravald and Grönroos, 1996, p. 21).

There are two different major conceptualisations of customer satisfaction, i.e. transaction-specific and cumulative (Boulding et al. 1993). From a transaction-specific perspective, customer satisfaction is considered as a post-choice evaluative judgement of a specific purchase occasion (Hunt, 1997; Oliver 1997). Cumulative customer satisfaction is an overall evaluation based on the total purchase and consumption experience with a product or service for a long time (Fornell, 1992; Johnson and Fornell, 1991). Comparatively speaking, transaction-specific satisfaction offers specific information or experience on a particular product or service encounter, while cumulative customer satisfaction is a more stable and fundamental combination of the company's past, current and future performance when it comes to meeting customer expectations. It is cumulative satisfaction that encourages the company's investment on customer satisfaction. Because the focus here is the linkage between customer satisfaction and business performance, in this study we treat customer satisfaction as cumulative. (Anderson et al., 1994, p. 54). Also relationship marketing scholars encourage businesses to invest in long-term high value customer relationships due to benefits in terms of profitability (Storbacka et al., 1994.)

The outcome of customer satisfaction and service quality is illustrated in the figure on the next page. Lovelock (2001) argues that reaching and maintaining high level of customer satisfaction has many benefits for business organizations. Satisfied customers have potential to become loyal customers, who not only consume services again, but also spread positive word of mouth of the company. Additionally, satisfied customers may be more tolerant for possible service failures. Altogether, these factors eventually result in the financial performance of the company. (Lovelock, 2001, p. 122)



Figure 2: Benefits of customer satisfaction and service quality

(Source: Lovelock, 2001, p. 122)

3.2. Linkage research models

In this chapter we introduce two models that explain connect employee attitudes to customer satisfaction and business performance. The first model is invented by Jack W. Wiley, whose professional background consists of research, consultancy and management tasks within a number of companies. (Pugh et al. 2002.) The second model is called the service profit chain. The main contributors, James L. Heskett, W. Earl Sasser and Leonard A. Schlesinger are merited scholars of Harvard Business School.

3.2.1 Wiley’s linkage research model

A significant amount of linkage research has emerged during resent years. This research is devoted to examine the relationship between employee attitudes on the work environments and the relative organizational or unit performance. Wiley (1996) has named this kind of research ‘linkage research’ and provided the definition and purpose as follows:

“Linkage research involves integrating and correlating data collected from employees with data in other key organizational databases. The

purpose of linkage research is to identify those elements of the work environment —as described by employees— that correlate, or link, to critically important organizational outcomes such as customer satisfaction and business performance” (Wiley, 1996, p. 330)

Wiley (1996) summarized about 20 studies that included both qualitative case studies and quantitative empirical studies. Based on the summary, Wiley developed the linkage research model seen below.



Figure 3: Wiley’s linkage research model

(Source: Wiley, 1996, p. 335)

In the linkage model, Wiley (1996) has drawn following conclusions: employee satisfaction and customer satisfaction are strongly and positively linked. A leadership value system observed by employees, which emphasizes customer service and product quality, is the foundation of this linkage. Leadership practices of the managers in the organization include offering employee support and training in order to carry out work effectively and empowering employees to take proper actions in order to meet customers’ expectations. Employee retention is positively related to customer satisfaction with the service quality

that customers receive. Customer satisfaction has a long-term positive correlation with customer retention, market share and profitability. Investment in practices that support quality and employee and customer satisfaction should be a long-term business strategy, not a fast short-term solution (Wiley, 1996, p. 334).

The linkage model points out that the more certain leadership practices are given, the more satisfied and productive the workforce. In return, the more satisfied and productive the workforce, the more satisfied customers and the more superior the long-term business performance of the organization. In addition, the linkage research model implies that leadership practices precede employee outcomes, which precede customer outcomes, which precede business performance. It means that leadership behavior is considered as the foundation in order to achieve higher customer satisfaction and more excellent business performance. (Wiley and Brooks, 2000, pp. 177-180)

In addition, Wiley (1996) advises in linkage research, the unit of analysis should not be individual but at organizational level. Ostroff (1993, as referred by Wiley, 1996) explains that individual perceptions are inclined to influence group-level variables, such as climate, which can result in uniformity of individual responses within a sole group. Therefore, the data should be aggregated to group-level (Wiley, 1996, p. 344) Furthermore; the links demonstrate neither causality nor directionality in linkage research (p. 347).

3.2.2 The service profit chain

The service profit chain, developed by scholars of the Harvard Business School, may be the best-known example of a “linkage model” that measures different components of an organization’s performance (see Figure 4). The researchers (Heskett, Sasser and Schlesinger, 1997) acknowledge the importance of understanding the relationship between employees, customers and corporate performance. According to Loveman and Heskett (1999), the ideas of the concept (service profit chain) can be traced back to the works of Bennis (1970), Lawler (1973) and Blau (1974) and their work on the organization of work and its impact on quality, productivity and employee satisfaction. In addition, some later research by numerous authors is argued to have an influence on service profit chain.

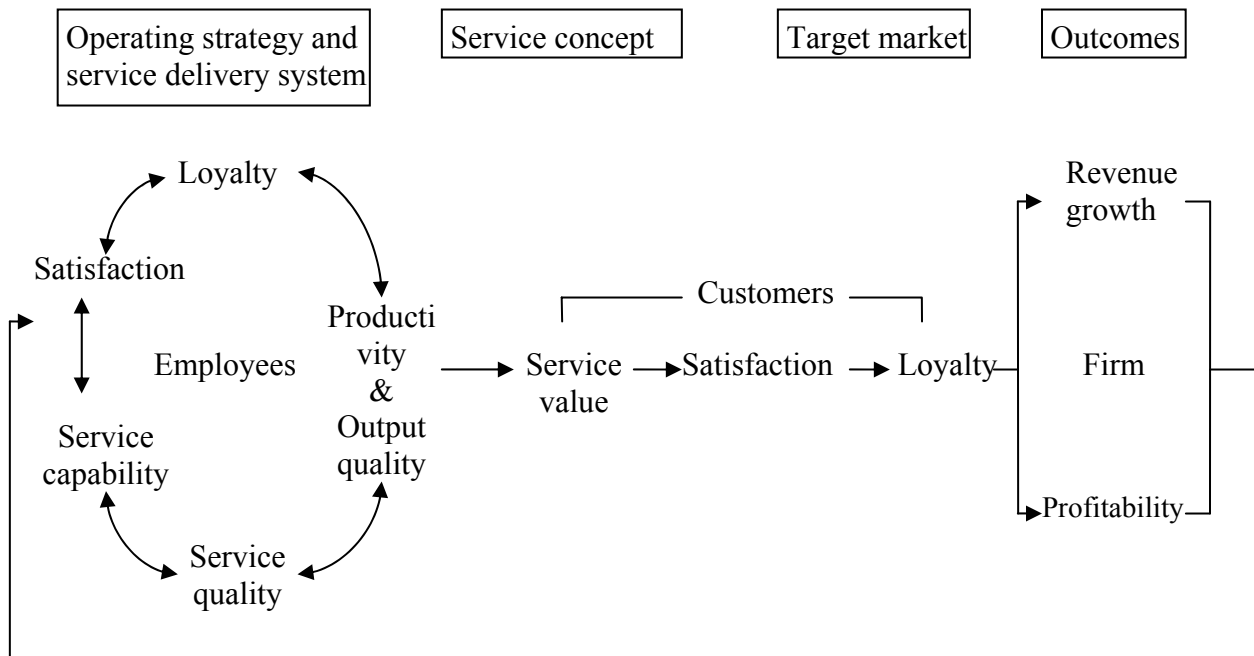


Figure 4: The service profit chain

(Source: Heskett et al, 1997, p. 19)

Heskett et al. define the service profit chain as “maintaining direct and strong relationships between profit; growth; customer loyalty; customer satisfaction; the value of goods and services delivered to customers; and employee capability, satisfaction, loyalty, and productivity.” (Heskett et al., 1997, p. 11).

Heskett et al. describe the links in the chain (which should be regarded as propositions) as follows:

“Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to the customers. Value is created by productive employees. Employee loyalty drives productivity and loyalty is the outcome of satisfied employee. Employee satisfaction, in turn, results primarily from high-quality support services of leaders and policies from organization that enable employees to deliver results to customers” (Heskett, et al., 1994, p. 165).

Based on the service profit chain, what we say that the internal service quality of a working environment contributes most to employee satisfaction. Internal service quality is measured by the perceptions that employees have toward their jobs, colleagues and companies. It is

also reflected by the attitudes that people have toward one another and the way people serve each other inside the organization (Heskett, 1994, p.168). Internal service quality has an impact on employees' service capability, i.e., their ability, authority, and latitude to meet the customers' needs. Service capability increases employees' productivity and output quality. Further, employees' productivity influence service value perceived by customers. Service value means the results customer receive in relation to the total costs (both the price and other costs to customers incurred in acquiring the service). Service value has a positive connection with customer satisfaction, which leads to customer loyalty. Finally, customer loyalty enhances company revenue growth and profitability. (Pugh et al. 2002, p. 75)

Simply stated, the service profit chain declares that satisfied and motivated employees produced satisfied customers, and satisfied customers purchase more, which increases organizational revenue and profitability. The central proposition of the service profit chain is that customer satisfaction acts as a bridge to connect the relationship between employee satisfaction and financial performance (Gelade and Young, 2005, pp. 2-5.) The service profit chain gives implications for the managers. Attitudes and performance of employees are crucial to the provision of customer service and business performance. (Silvestro and Cross, 2000, p. 245)

Heskett et al. claim that leadership is one the most important elements: it underlies the chain's success. Leaders who understand the service profit chain develop and remain a corporate culture centered on the services to the customers and employees. Leaders exhibit a willingness and enthusiasm to listen. They show their concern about employees and spend a great amount of time selecting, tracking, motivating and recognizing employees (Heskett et al., 1994, p. 168).

The service profit chain measures numerous indicators of corporation's performance. Barber et al. (1999, as referred in Payne et al., 2000) developed a model that includes many elements of the service profit chain. They found significant linkages between employees, customers and business performance. They also discovered a linkage between employee satisfaction and leadership (Payne et al., 2000, p. 264).

Also, many case studies on service profit chain have been carried out in a variety of service industries. These studies have further proved relationships between elements of the chain. However, Heskett et al (1997, p. 31) point out that only a few studies relate all the linkages of the chain in a comprehensive way and they only consider the link between a subset of the variables in the service profit chain. The studies of these companies revealed relationships between certain of the components, including: customer loyalty and company growth and profitability; employee satisfaction and customer satisfaction; and employee satisfaction and capability. (Payne et al., 2001, p. 794.)

In addition, the documented evidence which Heskett et al. themselves support their model is limited to a small number of companies and many links of the chain have no empirical support (Heskett et al., 1997, p. 31). For instance, there is no evidence to be delivered for a link between growth and profit and employee productivity; and between customer value and either employee satisfaction or loyalty. Moreover, Heskett et al. appear not to have any single company in which the whole linkages of service profit chain have been realized. (Silvestro and Cross, 2000, p. 247)

Heskett et al. acknowledge that more work needs to be done to properly establish the causality. Work is still going on the modification and development of the service profit chain model with longitudinal data that can identify “causes and effects among elements in the chain” (Loveman and Heskett 1999, as cited in Payne et al., 2001, p. 794)

3.3 Previous linkage studies

This chapter is dedicated to previous studies in the linkage research field. Moreover, hypotheses are formulated at the end of each part.

3.3.1 Linking employee satisfaction to customer satisfaction

Many management studies give evidence that positive working attitudes, on the part of employees, will translate into customer satisfaction. Although the employees’ work attitudes can take various forms, the focus in this paper is on employee satisfaction towards the job and organization. Several researchers have concluded that employee satisfaction is

linked with customer satisfaction. (e.g, Schneider 1973; Schneider et al.1980; Czepiel et al.1985; Schneider & Bowen 1985; Schlesinger & Zornitsky 1991; Wiley 1991; Rosenbluth & Peters 1992; Bycroft & Voegele 1994).

Links between employee satisfaction and customer satisfaction have been studied in the service quality literature. Early contributors include, for example, Marriott, who is the founder of an American hotel chain. His famous saying “you cannot make happy guests with unhappy employees” (Hostage, 1975 as cited in Silvestro and Cross, 2000, p. 246) has frequently been quoted by authors in various articles. Also Carlzon’s (1987) studies on empowerment have contributed to the early development of linkage research on the relationship between employees and customers. (Silvestro and Cross, 2000, p. 246)

Schneider and his colleagues (1980 and 1985) carried out an investigation within bank branches and found a strong relationship between employee and customer perceptions of service practices and quality. Besides, significant positive relationships were found between branch employees’ perceptions on human resources (HR) practices and branch customers’ attitudes on service received (Tornow and Wiley, 1991, p. 105). Heskett et al. (1997, p. 101) describe this phenomenon as a “satisfaction mirror”. The idea behind the concept is that employees’ work attitudes and customers’ satisfaction level will parallel each other. This means that customer satisfaction is a reflection of employee satisfaction.

In addition, according to Wiley (1996), Zemke (1989) concludes that, in many companies that are known for excellent customer service, employees are more satisfied because they are treated in the same way as they are expected to treat their customers. When investigating and evaluating key human resource practices of a hotel chain, Wiley refers to Weaver (1994), who concludes that “What we have learned is that the only way to put the customer first is by putting the employee first“ (Wiley, 1996, p. 112).

However, other researches hold different opinions. Silvestro and Cross (2000) found that employee satisfaction has no relationship with customer satisfaction. The authors speculate that the nature of contacts between employee and customer as well as the use of advanced automatic self-scanning techniques may have an influence on negative findings. The study was conducted among fifteen shops of a supermarket chain in the UK.

Moreover, in addition to Silvestro and Cross, also Harrington (1999) found no association between employee satisfaction and customer satisfaction when examining relations between employees and customers. He concluded that even though employees are satisfied, they do not necessarily meet customer expectations. Customers may have requirements that cannot be met as a consequence of some other reasons.

As it has become introduced in this chapter, many studies have been carried out to investigate linkages between employee satisfaction and customer satisfaction. The results are somewhat contradictory. Some authors provide empirical evidence on correlations between employee satisfaction and customer satisfaction. In turn, some authors criticize these findings and state that the connection cannot be statistically confirmed. Based on the theoretical models of linkages research, we are willing to assume that satisfied employees can be associated with satisfied customers in our empirical study. Therefore, we will examine the relationship between them testing the following hypothesis in business-to-business environment:

Hypothesis 2:
Employee satisfaction is positively correlated with customer satisfaction.

3.3.2 Linking customer satisfaction to profitability

High customer satisfaction ratings are by many researchers considered to be the best indicator of company's future profits. Both consumer and organizational researchers have investigated the relationship between customer satisfaction and financial performance at the business unit level. Studies in the restaurant field by Bernhardt, Donthu and Kennett (2000, as referred in Gelade and Young, 2005) and in the retail field by Rucci et al. (1998) indicate that there is a correlation between customer satisfaction and financial results. In the banking field, Loveman (1998) discovered that increased customer satisfaction results in increased sales at the branch level (Gelade and Young, 2005, pp. 4-5). Rust and Zahorik (1993) empirically validate the relationship between customer satisfaction and profitability in a health care organization (Anderson et al. 1994, p. 54)

In an investigation of the relationship between customer satisfaction, customer loyalty and profitability, Hallowell (1996) suggests that “attainable increases in satisfaction would dramatically improve profitability” (as cited in Payne et al., 2000, p. 263). Moreover, Reichheld and Sasser’s research (1990, as referred by Payne et al.) suggests that it is customer loyalty, instead of relative market share, that is the primary determinant of profitability. (Payne et al., 2000, p. 263)

However, on the contrary, a survey carried out among vice presidents of some US companies found that only 28% of them could relate customer satisfaction to accounting returns and only 27% to stock returns (Ittner and Larcker, 1998). Besides, the accounting company’s study of the food, toys/games, airlines and automotive industries also found only a insignificant relation between customer satisfaction levels and profitability, which led them to conclude that “the assumption that profits flowed inevitably from customer satisfaction simply didn’t hold up” (Arthur Anderson & Co, 1994, p. 1, as cited in Ittner and Larcker, 1998, p. 4).

Anderson et al. (1994) found positive contemporary linkages between customer satisfaction and return on investment in Swedish manufacturing companies, but weaker or negative relationships in service companies. Using surveys and revealed preference experiments, Mavrinac and Siesfeld (1997, as referred in Ittner and Larcker, 1998) found that customer satisfaction index is ranked only the eleventh most useful among non-financial measures by institutional investors. These participating investors do not take customer satisfaction measures into account when valuing companies (Ittner and Larcker, 1998, p. 4).

Based on these documented findings, we want to investigate whether there is a link between customer satisfaction and financial performance within the international service network. The third hypothesis is given as follows:

Hypothesis 3:

Customer satisfaction is positively correlated with business performance.

3.3.3 Linking employee satisfaction to business performance

Recent linkage researches have been carried out examining, whether or not employee satisfaction can be translated into financial benefits. Researchers recognize that organizational performance is not simply a sum of individuals' performance, but also influenced by a working climate (e.g. Guzzo, 1988; Guzzo and Shea, 1992).

In his book *The Healthy Company*, author Robert Rosen (1991) describes a healthy organization as one where “people and practices combine and coordinate to produce exceptional performance...where all within the organization possess and emanate a certain vitality and spirit” (as cited in Topolosky, 2000, p. 27). Rosen cites a study by Kravetz (1998), who found that companies with progressive people management styles have 64 percent higher annualized sales growth in a five year phase and superior profit margins than those without a people-oriented culture (Topolosky, 2000, p. 27).

Heskett et al. (1997, p.101) use the analogy of “satisfaction mirror” to describe the relationship between employee satisfaction and customer satisfaction, which vividly reflects that corporate financial performance results from employee satisfaction being “reflected” in terms of customer satisfaction. The satisfaction mirror is a part of the service profit chain and has provoked discussion among scholars (e.g. Silvestro and Cross, 2000) due to lack of empirical evidence.

In an automotive credit company, Johnson et al. (1994, as referred in Wiley, 1996) found some employee survey measures, such as job and company satisfaction as well as team work, to be significantly and positively associated with certain key business performance indicators, for example, lower loan delinquency, higher market share and higher business volume (Wiley, 1996, p. 334).

However, other researchers have different findings. In the study of Silvestro and Cross (2000) within a supermarket chain, employee satisfaction was found to be negatively correlated with the store's profit margin. In other words, results of the study indicate that employee satisfaction is greater in the poor performing stores. Furthermore, no correlation

between employee loyalty and financial performance was found (Silvestro and Cross, 2000, p. 257).

After reviewing the literature on outcomes of employee satisfaction, we postulate that satisfied employees may significantly contribute to business performance. Based on this understanding, we want to examine the fourth hypotheses, that is:

Hypothesis 4:

Employee satisfaction is positively correlated with business performance.

3.3.4 Summary of previous linkage studies

To conclude, a cross-functional review of the management studies reveals that positive linkages between employees, customers and business performance are widely accepted. Many scholars agree that employee satisfaction is a driver of organizational profitability. However, researchers acknowledge the fact that more empirical evidence is needed in order to draw unambiguous conclusions. The relationship between employee satisfaction and business performance is more complex than the service profit chain implies (Silvestro, 2002, p. 34).

In summary, previous empirical studies offer mixed evidence on the relationships between employee satisfaction, customer satisfaction and profitability and productivity. To respond to the need of further empirical evidence, we will test our main hypothesis in the latter part of the paper.

Hypothesis 5:

There are positive correlations between employee satisfaction, customer satisfaction and business performance.

3.4 Summary of hypotheses

In this chapter we have defined key terms, introduced two linkage research models as well as presented a number of previous studies in the field on linkage research. These studies

have inspired us to formulate five hypotheses that have also been introduced in the chapter. The hypotheses create a basis for our empirical study in the second part of the paper. With the aim of giving a clear picture of our research goals, we summarize and graphically demonstrate these hypotheses below.

Hypothesis 1 (H1):

There are positive correlations between employee satisfaction, leadership and motivation.

Hypothesis 2 (H2):

Employee satisfaction is positively correlated with customer satisfaction.

Hypothesis 3 (H3):

Customer satisfaction is positively correlated with business performance.

Hypothesis 4 (H4):

Employee satisfaction is positively correlated with business performance.

Hypothesis 5 (H5):

There are positive correlations between employee satisfaction, customer satisfaction and business performance.

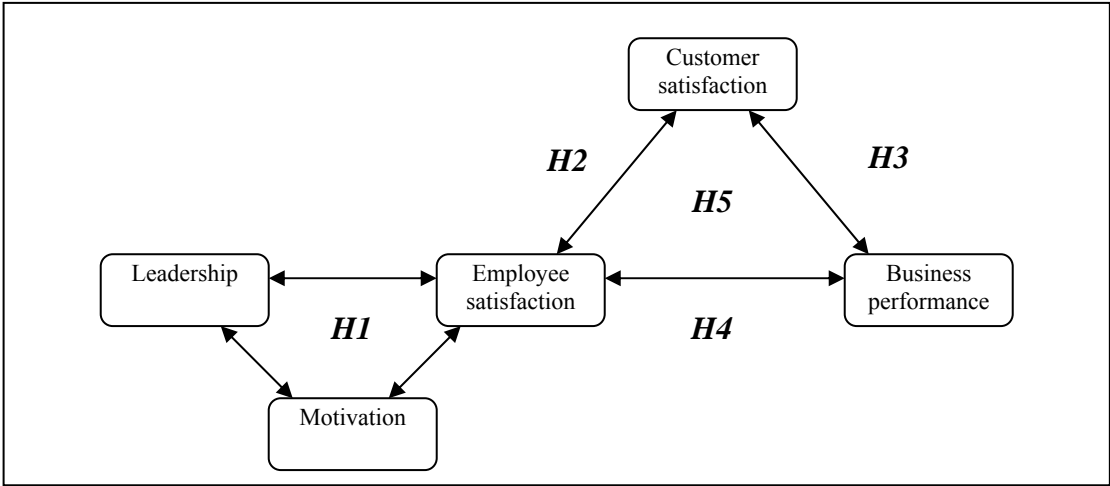


Figure 5: Summary of hypotheses

PART II: LINKAGE RESEARCH WITHIN AN INTERNATIONAL SERVICE NETWORK

This latter part of the paper is dedicated to our own linkage research. First we introduce the way we carried out the study and motivate our research technical decisions. Methodological issues are followed by findings and analysis, after which we draw conclusions and provide implications for the company and future researchers.

CHAPTER 4: RESEARCH DESCRIPTION

As introduced earlier in this paper, linkage research involves examining the data in various organizational databases in an attempt to find correlations between employee perceptions, customer satisfaction and business performance (Wiley, 1996, p. 330). In our research, we adapt this approach to an international service network and examine above-mentioned linkages in business-to-business services of a company.

4.1 Introduction of an international service network

Company SAIWONG is one of the leading manufacturers of business-to-business products within a particular industry². The organization consists of diverse units taking care of diverse tasks. In this thesis, we have selected a number of comparable units that are positioned on the same level of organizational hierarchy and perform similar responsibilities. Besides, all the selected units are located in Europe, since the European service organization of SAIWONG provides the most comparable data.

Our study is based on workshop level. Workshops are service organizations that respond to customer needs when it comes to maintenance and break-down services of customer products. In this company, European dealer network comprises service centres, dealers and workshops in accordance with organizational hierarchy. Basically, organizational performance indicators can be tracked down to workshop level in most of the workshops. In other words, workshops are the lowest level of comparable measurement in this

² Due to confidentiality reasons, more precise information is concealed.

organization and therefore of our interest. In addition, compared to other organizational levels, workshops are more stable in financial performance. They take care of repairing and maintenance. This means that market fluctuations do not affect financial results of workshops as much as they affect, say dealers, who also sell new products.

4.2 Methodology

4.2.1 Research approach

This research is designed as a descriptive study using correlation statistics. According to Malim and Birch (1997, p. 59) descriptive statistics aim to describe or summarize the data that are collected in practice. In turn, correlation analysis is referred to as a research method, where “*association between scores on two or more variables*” is measured and tested by using quantitative tools (Aron et al., 2005, p. 443).

We believe that quantitative research approach is suitable for giving answers to our research questions. Previous linkage studies are carried out theoretically or using similar or related statistical methods. Some authors criticize existing studies on the lack of cause and effect analysis. Despite the criticism and request for a regression analysis, we have chosen to conduct a correlational examination in order to investigate the possible linkages between the chosen factors. Cause and effect (regression) type of study would have required comparable data of more than one year, which was out of our reach for various reasons.

4.2.2 Sources of information

The data are collected from three separate sources of information. They are briefly introduced below.

Employee data

Employee satisfaction, motivation and leadership are measured by using an annual employee attitude survey of the company SAIWONG. This employee survey was conducted in March 2005 by an independent service provider specializing in internet-based surveys. The survey consists of 55 questions assessing employees’ perceptions on their

work settings, such as respect, co-operation and communication, just to mention a few. Each employee responds to all the questions in his/her native language using Likert-type scale. Scores range from 0 to 5 and they stand for following values:

1 = “no, improvements are very necessary”,

2 = “no, improvements are necessary”,

3 = “neither yes nor no”,

4 = “yes, good”,

5 = “yes, excellent” and

0 = “don’t know”.

The survey aims to involve all the employees in the organization. Our sample involves 791 employees in 51 workshops in five European countries. The overall response rate within this sample was 91.6%, which implies that level of employee participation is high.

We received the data as MsExcel files (see Figure 6). The mean of each question was calculated by the data provider before the data became delivered. “Don’t know” answers were excluded when calculating the mean.

Figure 6: Employee data

	Workshop xxx					Workshop yyy					Workshop zzz											
	9 answers					8 answers					12 answers											
	Average	1	2	3	4	5	0	Average	1	2	3	4	5	0	Average	1	2	3	4	5	0	
1. Tycker du att din arbetsgrupp leds på ett bra sätt?	4.444	0	0	0	5	4	0	3.625	0	1	2	4	1	0	3.636	0	0	0	0	0	0	0
2. Tycker du att ni arbetar kostnadsmedvetet inom er arbetsgrupp?	4.333	0	0	0	6	3	0	4.125	0	0	2	3	3	0	3.5	1	0	0	0	0	0	0
4. Tycker du att det finns positiv energi inom din arbetsgrupp?	4.333	0	0	0	6	3	0	3.142	1	1	1	4	0	1	3.545	2	0	0	0	0	0	0
5. Känner du dig respekterad av din närmaste chef?	4.333	0	0	0	6	3	0	3.75	0	1	2	3	2	0	3.416	0	0	0	0	0	0	0
7. Är din arbetsgrupp fri från konflikter som negativt påverkar gruppen?	4.125	0	0	0	7	1	1	2.875	1	3	1	2	1	0	3.444	0	0	0	0	0	0	0
9. Kan du påverka din arbetssituation?	4.125	0	0	0	7	1	1	3.125	0	1	6	0	1	0	2.916	0	0	0	0	0	0	0
10. Involverar din närmaste chef dig när beslut skall fattas som rör dig?	4.125	0	0	0	7	1	1	3.625	0	1	2	4	1	0	3	1	0	0	0	0	0	0
11. Får du regelbundet veta hur det går för dig i ditt arbete?	4	0	0	1	7	1	0	3.125	0	1	5	2	0	0	2.818	2	0	0	0	0	0	0
14. Är du nöjd med den information du får från din närmaste chef?	4.125	0	0	0	7	1	1	3.428	0	1	2	4	0	1	3	2	0	0	0	0	0	0
15. Är du nöjd med den information du får från ditt företags ledning?	3.333	1	0	3	5	0	0	2.25	2	4	1	0	1	0	2	3	0	0	0	0	0	0
16. Får du information om ditt företags affärsresultat (t.ex. försäljning)?	3.444	1	0	2	6	0	0	3	1	2	2	2	1	0	2.25	3	0	0	0	0	0	0
19. Är den service/kvalitet tillfredsställande som din grupp levererar?	4	0	0	0	9	0	0	4	0	0	2	4	2	0	3.909	0	0	0	0	0	0	0
21. Känner du till ditt företags övergripande mål?	4.111	0	0	0	8	1	0	3.75	0	0	3	4	1	0	3.545	1	0	0	0	0	0	0
23. Tycker du att din närmaste chef stöder din personliga utveckling?	4	0	0	0	8	0	1	3.375	0	2	1	5	0	0	3.090	1	0	0	0	0	0	0
24. Har du möjlighet till personlig utveckling i ditt arbete?	3.75	0	1	0	7	0	1	3.625	0	0	3	5	0	0	3.166	1	0	0	0	0	0	0
25. Får du den vidareutbildning som du behöver för ditt arbete?	3.777	0	1	0	8	0	0	3.5	0	2	1	4	1	0	3.583	0	0	0	0	0	0	0
27. Är det lätt att få saker genomförda inom din arbetsgrupp?	4.125	0	0	1	5	2	1	4	0	0	2	4	2	0	4	0	0	0	0	0	0	0
28. Trivs du med ditt arbete?	4.375	0	0	0	5	3	1	4.5	0	0	0	4	4	0	4.666	0	0	0	0	0	0	0
29. Känner du dig motiverad i ditt arbete?	4.444	0	0	0	5	4	0	3.75	0	1	2	3	2	0	3.916	0	0	0	0	0	0	0
30. Blir du tillräckligt uppmärksam och uppskattad för ditt arbete?	4	0	0	0	9	0	0	2.875	1	1	4	2	0	0	3.083	2	0	0	0	0	0	0
33. Är du stolt över att arbeta på ditt företag?	4.555	0	0	0	4	5	0	3.857	0	0	1	6	0	1	4.5	0	0	0	0	0	0	0
34. Är den fysiska arbetsmiljön acceptabel på din arbetsplats?	4.222	0	0	0	7	2	0	3.5	0	0	5	2	1	0	4	0	0	0	0	0	0	0
35. Planeras arbetet på ett bra sätt inom din arbetsgrupp?	4.222	0	0	0	7	2	0	3.25	2	0	2	2	2	0	3.545	1	0	0	0	0	0	0
36. Följs din arbetsgrupps resultat upp regelbundet?	4	0	0	0	9	0	0	3.571	0	1	3	1	2	1	3.857	0	0	0	0	0	0	0
38. Tar du egna initiativ till förändringar?	4.222	0	0	0	7	2	0	3.875	0	0	3	3	2	0	3.454	0	0	0	0	0	0	0
41. Tycker du att dina planerings-/utvecklingssamtal är givande?	4.222	0	0	1	5	3	0	3.875	0	1	1	4	2	0	3.2	2	0	0	0	0	0	0
42. Samarbetar ni inom din arbetsgrupp?	4.375	0	0	0	5	3	1	4	0	0	2	4	2	0	4	0	0	0	0	0	0	0
43. Ställer din närmaste chef tydliga krav på dig?	4.125	0	0	0	7	1	1	3.75	0	1	1	5	1	0	3.636	0	0	0	0	0	0	0
44. Tycker du att din närmaste chef kan hantera konflikter inom arbetsgruppen?	4.375	0	0	0	5	3	1	3.125	2	0	2	3	1	0	3.166	2	0	0	0	0	0	0
45. Får du information i tid rörande ditt arbete?	4	0	1	0	6	2	0	3.75	0	1	1	5	1	0	3.333	0	0	0	0	0	0	0
46. Är den service/kvalitet tillfredsställande som ni får från andra avdelningar/grupper?	4.111	0	0	0	8	1	0	4.142	0	0	1	4	2	1	3.166	1	0	0	0	0	0	0
47. Fungerar samarbetet med avdelningar/grupper som är viktiga för ert företag?	4.222	0	0	0	7	2	0	4.142	0	0	1	4	2	1	3.9	0	0	0	0	0	0	0
48. Förstår du ditt företags 'mission' /affärsidé?	4.222	0	0	0	7	2	0	4	0	0	2	4	2	0	3.2	1	0	0	0	0	0	0
49. Känner du till din arbetsgrupps mål?	4.333	0	0	0	6	3	0	4	0	0	1	6	1	0	3.818	1	0	0	0	0	0	0
50. Kan din arbetsgrupp klara av stress/oro som påverkar gruppen?	4.333	0	0	0	6	3	0	3	1	2	1	4	0	0	4	0	0	0	0	0	0	0
52. Kan du fritt framföra dina åsikter inom arbetsgruppen?	4.333	0	0	0	6	3	0	3.75	1	0	1	4	2	0	3.5	2	0	0	0	0	0	0
53. Genomförs beslutade åtgärder tillräckligt snabbt inom ditt företag?	3.777	1	0	1	5	2	0	3.142	1	1	1	4	0	1	3.545	0	0	0	0	0	0	0
54. Har ni inom arbetsgruppen arbetat aktivt med resultaten från föregående år?	3.222	1	1	2	5	0	0	2.428	0	5	1	1	0	1	2.6	3	0	0	0	0	0	0

Customer data

Results of the customer satisfaction survey (CSS) are provided by the company SAIWONG. In this thesis we use the results of the survey that was carried out in autumn (August-October) 2004. The survey is conducted by an external service provider. Customers in 15 countries across Europe are interviewed by telephone. In total, 15 000 customers are contacted. Markets and customers are segmented to correspond to the shares and purchase behaviours. A customer may answer in his/her mother tongue using the following scale:

- 1 = “completely dissatisfied”,
- 2 = “fairly dissatisfied”,
- 3 = “fairly satisfied”,
- 4 = “very satisfied”,

5 = “completely satisfied”,

9 = “don’t know”.

The data were delivered to us as pdf-files. In some cases, the data were in the .ppt format. The mean of each question was provided by the company before the data delivery. Below you will see an example of a file we used for finding the information needed (Due to confidentiality reasons, the figure has been manipulated).

	INDEX	BASE	Not appl DK	Comp dis.	Fair dis.	Fair sat.	Very sat.	Comp sat.	Satis fied 5,4	Dis- sat. 2.1	MEAN
TOTAL INDEX	63										
BASE:		10									
Workshop	53										
W1 Courtesy and helpfulness		9	10%	0%	0%	33%	44%	22%	67%	0%	3.9
W2 Service/repair satisfactory first time		9	10%	11%	22%	11%	33%	22%	56%	33%	3.3
W3 Reasonable waiting time for an appointment		9	10%	11%	11%	22%	22%	33%	56%	22%	3.6
W4 Completing service/repair when promised		9	10%	0%	11%	22%	33%	33%	67%	11%	3.9
W5 Providing estimates/quotations		7	30%	14%	14%	43%	14%	14%	29%	29%	3.0
W6 Informing on additional work/cost		8	20%	13%	0%	38%	25%	25%	50%	13%	3.5
W7 Providing maintenance reminders		9	10%	0%	0%	0%	67%	33%	100%	0%	4.3
W8 The opening hours of the workshop		9	10%	11%	11%	44%	22%	11%	33%	22%	3.1
W9 Readiness/ability for emergency repairs		9	10%	0%	33%	22%	22%	22%	44%	33%	3.3
W10 Contact/follow-up after workshop visit		8	20%	0%	50%	25%	13%	13%	25%	50%	2.9
W11 Information on service/repair		9	10%	0%	11%	78%	0%	11%	11%	11%	3.1
W12 Personal relations		9	10%	0%	0%	11%	56%	33%	89%	0%	4.2

Figure 7: Customer data

Financial data

Profitability and productivity indicators are collected from the accounting databases of the company. Together with financial professionals of SAIWONG, we have chosen five performance indicators to be used as variables in this thesis. Profitability indicators are workshop level turnover, gross-profit margin and contribution in percentage of sales, whereas productivity is measured by labour efficiency percentage and labour utilisation percentage. These indicators are calculated by the professionals within the company. Above mentioned five financial indicators are based on the performance of the first quarter

(January-March) in the year 2005. For confidentiality reasons we are not able to demonstrate a picture of the actual file we received.

4.2.3 Validity and reliability

When carrying out a study, it is essential to use research methods that actually measure what they are expected to measure (Malim & Birch, 1997, p. 47). Surveys measuring employee attitudes and customer satisfaction are widely used in behavioural sciences (Hartley, 2001, p. 184). When it comes to assessing performance of an organization, accounting-based indicators are easily accessible and comparable between units. However, Wilderom et al. (2000) question the use of accounting-based indicators in linkage research by criticizing indicators' proneness to manipulation, backward orientation and short-termism. (Wilderom et al., 2000, p. 203).

In a research work, reliability of a study plays a crucial role when it comes to the use of the generated knowledge. According to Malim and Birch (1997), researchers must pay a close attention to measures obtained in order for them to accurately reflect upon real phenomena. (Malim and Birch, 1997, p. 46)

In this study, both validity and reliability are given a special attention. First, we realized the fact that employees and customer representatives responding to surveys are human beings, whose attitudes may fluctuate from day to day. Their perceptions may be influenced by bad moods or other issues that are not related to work or business. This influence is unavoidable and is generally acknowledged in the social sciences. Therefore, we treat the answers of employees and customers surveys as being as reliable as they can get. Furthermore, in our paper, employee satisfaction, customer satisfaction and profitability are measured at the same level of organization. In addition, though the sample comprises workshops in five different countries, we have been assured by the company representatives that the financial figures are comparable between the chosen units. Moreover, in order to make the study valid, we clearly define concepts that are used in the paper. Too wide generalizations are avoided even though the response rates of surveys are high all over the organization.

4.3 Sample selection and data treatment

4.3.1 Sample selection process

In statistical analysis, both population and sample play an important role. Glegg (1982) defines population as “any group of numbers, finite or infinite, which refer to real hypothetical events” (as cited in Malim and Birch, 1997, p. 2). Samples allow researchers to examine the characteristics of the population without studying the whole of it, but a representative part of it. In statistical terms ‘representative’ implies that the sample accurately reflects the composition of the population from which it is drawn. Apart from the size, sample has the same characteristics in the same proportion as the population (Malim and Birch, 1997).

At the beginning of this research, our aim was to reach a sample consisting of 100 comparable units all across Europe. We believed that 100 study units could reflect the whole service network and give us a position to draw valid conclusions. Together with a company representative we started to look through employee attitude survey (EAS) database in order to find a suitable level of measurement. We found that workshop level would be ideal and interesting altitude to study. Soon after that, challenges started to emerge in the form of comparability. We faced the fact that financial performance was not measured in line with EAS structure. Additionally, the organizational structure used in the customer satisfaction survey did not entirely correspond to that of EAS or financial measurement. For example, workshops in Austria were also included in our study at the beginning. However, when it came to customer data, we were not able to track data down to workshop level, since there were too few customers and therefore, it was not possible to match customer data with employee data and financial data that we already had. For that reason, we finally had to leave out all workshops in Austria. The whole process of sample selection and matching was time-consuming. Additionally, in this phase we became familiar with the facts that units have different names in different databases. Accompanied with frequent emails and phone calls with people in different departments in the company, we tried to match units that perform similar tasks and represent the same level of organizational hierarchy.

Finally, we were able to identify 51 comparable workshops where the necessary data were reliably available. The selected workshops are located in five countries (Sweden, Germany, France, Switzerland and Norway) across Europe. Besides, we excluded seven workshops due to the fact that these workshops had less than five employees. We believe that in too small units, an individual employee has a very big influence on the index and thus on our findings. Additionally, small units have some limitations when it comes to EAS results and the use of the data.

4.3.2 Data treatment

This section deals mainly with the selection and treatment processes of employee attitude indices, customer satisfaction index and business performance indicators. First we will look upon employee attitudes and formulate and motivate indices for employee satisfaction, leadership and motivation. Employee perspective is followed by the formulation of customer satisfaction index. Finally, the profitability and productivity indicators are introduced at the end of this part.

Employee attitude indices

(1) Employee satisfaction index (ESI)

Early management researches have acknowledged that the physical environment can influence attitudes, evaluations and behaviour (Barnard, 1938; Roethlisberger & Dickson, 1939, as referred in Earle, 2003). Referring to Earle (2003), for most people, the workplace is where people spend the majority of their waking lives. It makes sense to think that if organization can provide a comfortable environment for employees to perform and contribute; personnel may feel energetic and respected. Even though the job is well-paid or challenging, but if the physical environment is unpleasant, employees may get negative feelings towards the position and organization.

Providing a better work environment can be an extremely effective tool for employee satisfaction. In a study assigned by the American Society of Interior Designers, the physical workplace is ranked in the top three when examining what factors contributing to the job satisfaction. Employees who were happy with their physical workplaces were 31 percent

more likely to be satisfied with their jobs than those who were not. When asked if physical environment would have an impact on their decision to accept a position, 41 percent of employees and job seekers answered it would. Similarly, when asked whether the physical environment would influence their decisions to leave a position, 51 percent of employees and job seekers answered it would (Earle, 2003, p. 248). Based on the above discussion, we selected Q34 from the employee attitude survey (EAS) of SAIWONG.

Q34: Is the physical working environment acceptable at your place of work?

As introduced in Chapter Three, the work situation has an important impact on job satisfaction. Referring to Judge and Bono (2001), the job itself is treated as the most important factors of work situation to predict job satisfaction. In his study in 1995, Kovach examined the importance of job attitudes. The findings indicate that employees rank interesting work as the most important job attribute.

In a previous study by Irfaeya and Liu (2003), researchers examine employeeship within the automotive industry. Employeeship is a relatively new concept, which describes “how employees are handling (performing) the more active role in their work under circumstances they are assumed to be prepared for taking more responsibilities in” (Irfaeya and Liu, 2003, p. 14). Irfaeya and Liu argue that an active role of employees enhances commitment to the organization. On the other hand, we believe that commitment is driven by the fact that employees like their work and are satisfied with the working framework. Based on these viewpoints, we select Q28 to characterize employee satisfaction in this study.

Q28: Do you like your work?

According to Meyer and Allen (1997), commitment can be seen as showing “an affective orientation toward the organization, a recognition of costs associated with leaving the organization and a moral obligation to remain with the organization” (p. 11). Scotter (2000) further states that employees with high levels of organizational commitment are more work-oriented than other employees. They will obtain more satisfaction from job and deem their jobs as more fulfilling for their personal needs (Irfaeya & Liu, 2003, p. 17). Again,

referring to the previous question selection (Q28), commitment and satisfaction are associated in our understanding. Additionally, we believe that if employees say that they are proud of their working place, a certain level of employee satisfaction has been achieved. Therefore, we perceive Q33 as a suitable measure for employee satisfaction.

Q33: Are you proud of working for your company?

After finishing the questions selection in terms of employee satisfaction, we wanted to know the correlations between Q28, Q33 and Q34. In each workshop, Q28, Q33 and Q34 get a mean of all employees' answers respectively. Our sample has 51 workshops. As a result, we acquired 51 means for each question, after which we calculated the correlations between questions. Results indicate that these three questions have significant correlations ($r = .762^{**}$, $p = .000$ between Q28 and Q33; $r = .440^{**}$, $p = .001$ between Q28 and Q34 and $r = .506^{**}$, $p = .000$ between Q33 and Q34). Besides, reliability statistics show that the internal consistency among these questions is very high (Cronbach's alpha, $\alpha = .772$). Basically, this means that they can be put together to represent one phenomenon.

(2) Leadership index (LI)

Referring to the findings of researchers at Michigan University, employees achieve more job satisfaction and superior performance when they are involved in the decision-making process.

Along with participative leadership theories introduced in Chapter Three, we know that participative decision-making has a variety of potential advantages. Job satisfaction was one of the earliest anticipated consequences of this leadership style. In addition, participative leadership is likely to increase the quality of decisions (e.g., Scully, Kirkpatrick, & Locke, 1995), and the quality of employees' work life (e.g., Somech, 2002). Moreover, it is likely to enhance employees' motivation (e.g., Locke & Latham, 1990), and commitment (e.g., Armenakis, Harris, & Mossholder, 1993; Yammarino & Naughton, 1992). Consequently, Q10 that reflects participative decision-making, is involved in the leadership index.

Q10: Does your immediate manager / supervisor involve you in making decision affecting your working group / team?

When employees are encouraged to participate in decision-making, it is important for them to get clear information from managers. Adequate information helps employees to give positive influence on the process of decision-making. Explicit and sufficient information will contribute to improve communication, promote cooperation and solve conflict, while implicit and inadequate information may result in low efficiency and misunderstanding within the organization.

According to Yukl (1989), participation could be applied to achieve objectives such as improved decision quality, wide acceptance of decisions and better understanding of decisions by people who will implement them. In order to achieve these objectives, effective communication is a requirement in the work place. By doing this, employees can be supportive, productive and oriented towards the business goals. Therefore, Q14 was selected for measuring how employees perceive information flow from leaders to their subordinates.

Q14: Are you satisfied with the information you receive from your immediate manager / supervisor?

Employee development is one of the most important functions of human resource practice. Employee development is vital in maintaining and developing the capabilities of both individual employees and the organization as a whole. According to Sunil (2004, p. 59), employees prefer to work in an organization that provides challenges, offers new learning opportunities, and gives chances for promotion and personal development based on success and interest in a particular field.

A central premise in perceived investment in employee development is that it creates the situation where employees believe their contribution is recognized and valued by their organizations. Investment in employee development drives greater obligation by employees towards the organization and a desire by employees to work hard to increase the organization's effectiveness. Chase and Tansik (1983) argue that greater employee knowledge and skills are needed in the services because uncertainty occurs during the

process of service that requires employees to make prompt and continuous decisions. In that sense, organizations should exert their efforts to develop work systems, offer adequate trainings, and increase individual knowledge and skills in order to deliver high-quality services. Furthermore, with the rapid change and development taking places in workplaces, it is vital for the organizations to constantly review their employees' needs for continuous skills in order to remain competitive (Lee and Bruvold, 2003, p. 981). A failure to provide these opportunities can lead to employee dissatisfaction, decrease of morale, inefficient work and excessive employee turnover. Based on the above reasons, Q23 that is about whether managers can give adequate support to employees' personal development was selected in this part.

Q23: Do you feel that your immediate manager / supervisor supports your personal development?

Following the same way as in the formulation of the employee satisfaction index, we got three groups of means of above three questions and investigated if they are correlated with each other. The results proved that these three questions have significant correlations ($r = .849^{**}$, $p = .000$ between Q10 and Q14; $r = .830^{**}$, $p = .000$ between Q10 and Q23 and $r = .808^{**}$, $p = .000$ between Q14 and Q23). Again, Cronbach's alpha ($\alpha = .933$) reveals the high level of internal consistency among these questions.

(3) Motivation index (MI)

After looking through all questions in the employee attitude survey, we chose the following two questions with a keyword "motivate" to indicate how motivation is perceived by employees of SAIWONG.

Q29: Do you feel motivated in your work?

Q79: Do you feel that your colleagues / co-workers are motivated in their work?

Q29 is a direct question on self-motivation, while Q79 is the perception of peers' motivation at work. We believe an employee would have clear and accurate insights of his

colleagues or co-workers' motivation status through close cooperation, frequent contact and non-hierarchical communication.

As in employee satisfaction and leadership indices, the means of these two questions were calculated, being followed by a correlation. A significant correlation ($r = .619^{**}$, $p = .000$) between Q29 and Q79 was found, which is shown in Figure 8.

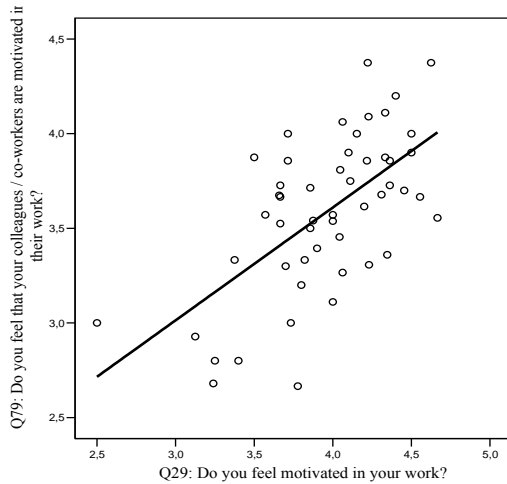


Figure 8: Correlation between Q29 and Q79

Customer satisfaction index (CSI)

When it comes to customer satisfaction index, we selected three representative questions after comparing and analysing TRI*M Grid of five countries. TRI*M Grid is created by the consultant company which is responsible for the annual customer satisfaction survey for SAIWONG. The TRI*M Grid is an action tool that helps the company to focus on the most important areas of customer retention. All attributes are put into the grid and the classification (Motivators, Hidden Opportunities, Hygienics and Potential Savers) is an indication on the importance for customer retention. The basic skeleton of TRI*M is introduced in Figure 9:

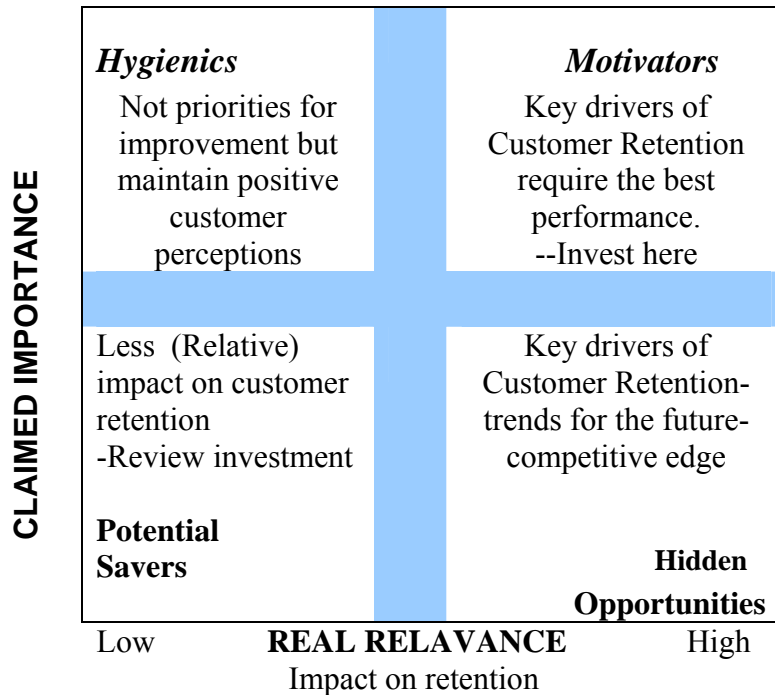


Figure 9: The TRI*M Grid

When the services are classified as **Motivators**, the object is to maximize the satisfaction level, e.g. the customers should be very or completely satisfied. Performance should be improved in order to increase customer loyalty. The **Hidden Opportunities** have a high impact on customer loyalty, but customers may underestimate the importance of these services, or possibly they are not fully aware of the importance. In that sense, these services should be potential opportunities for Company SAIWONG to remain competitive in the future competition. **Hygienics** should be delivered at 100% to satisfy customers. However, according to the data provider, it is enough that the customers are fairly satisfied. The satisfaction level does not need to be optimised, as it will not lead to increased customer loyalty. The **Potential Savers** are services that have little influence on customer loyalty and the customers claim that they are not important. Hence, the Potential Savers are possible areas for disinvestments and re-allocation of funds without decreasing customer loyalty (SAIWONG, 2004).

Motivators quarter involves elements of services that have the biggest potential to maximize the customer satisfaction level. Therefore, we decided to select questions scattered in this area. We found that questions W2, W4 and W9 appeared in the Motivators area in separate TRI*M Grid of five countries, i.e. Sweden, Germany, Norway, France and

Switzerland. Consequently, questions W2, W4 and W9 are chosen to measure customer satisfaction in our study.

Question W2 Service / repair satisfactory first time (the complete question is: Ability to carry out service and repair work in a satisfactory way the first time, i.e. not several visits for the same problem) may be interpreted as to represent **service quality**. Basically this means that if a customer perceives the service quality adequate for his needs, he does not need to do other visits because of the same problems he met before.

Question W4 Completing service and repair work when promised could be interpreted as a **service delivery** in terms of time. Quite often customers of workshops use products as equipment for their professional purposes. Therefore it is vital for them that service provider is capable of completing the service as agreed.

Question W9 Readiness / ability to take care of emergency repairs could be interpreted as **service availability**. This implies that workshops are expected to obtain the capability of taking prompt and accurate actions to meet customer needs when urgent situations happen.

Following the same procedure as before, we calculated the correlations between questions W2, W4 and W9. Significant correlations were found ($r = .521^{**}$, $p = .000$ between W2 and W4; $r = .625^{**}$, $p = .000$ between W4 and W9; $r = .653^{**}$, $p = .000$ between W2 and W9). Reliability statistics reveals a high level of internal consistency (Cronbach's alpha .817)

Business performance indicators

In this study, business performance indicators are suggested and calculated by professionals of SAIWONG. These professionals are responsible for daily financial work. In total, five financial indicators are used in our study. Three indicators (total workshop turnover, workshop gross profit in percentage of sales, also referred to as gross profit margin and contribution in percentage of sales) stand for profitability. The remaining two indicators, i.e. labour utilisation percentage and labour efficiency percentage, indicate the level of productivity of workshops. Below we will give a detailed description for each of the financial indicators.

Each of these indicators is treated as an individual variable. Therefore, we do not need to calculate internal consistency for them. Internal consistency is calculated only for indices that were formulated by selecting questions.

Total workshop turnover refers to invoiced hours of services provided by a workshop. It includes all the work that is done in the unit, though excluding the sales of spare parts. In many workshops, spare part group is a separate team. Therefore, we have tried to keep the sales figures on a comparable level, focusing on the most basic functions of a workshop. Hereafter in this paper, total workshop turnover may also be called turnover.

Workshop Gross Profit in percentage of sales can also be called as gross-profit margin. It is calculated as follows:

$$\frac{\text{Sales - Product Costs}}{\text{Sales}} \times 100$$

where product costs mainly consist of wages and social costs of blue-collar employees producing a service within a workshop. Basically this indicator reveals the share of sales that is left for covering operating costs and profit, when above-mentioned employee costs have been subtracted from the sales. As an example, if the gross profit margin in percentage is 40, the workshop has 40 cents of each euro to cover the operating costs and to make a profit.

Contribution in percentage of sales involves sales, product costs and direct expenses. It can be defined as:

$$\frac{\text{Sales - Product Costs - Direct Expenses}}{\text{Sales}} \times 100$$

Product costs are the same as in the gross profit margin. In turn, direct expenses cover productive and non-productive employee costs. Compared to product costs, direct expenses

also cover costs that are not directly related to service sales, but to maintaining the level of services, such as the salary of a receptionist in the workshop or other types of staff employment expenses. Vehicle expenses of the service department as well as marketing and advertising expenses in addition to expenses caused by goodwill activities and depreciation are included. Most basically, all the expenses that belong directly to a service department, but not directly to the service itself are taken into account in the direct expenses part.

Labour utilisation percentage refers to the customer situation in a workshop. It reflects if there are customers queuing for services, since the workshop is totally utilized. On the other hand, it also indicates if the employees are performing tasks of secondary importance due to the fact that there are no customers. Labour utilisation percentage is calculated as follows:

$$\frac{\text{Hours booked in jobs}}{\text{Total hours available}} \times 100$$

Labour efficiency percentage involves corporate standards on how long particular activities are standardized to occupy time of workers. Activities are invoiced based on the Standard Time. Basically this indicator reveals if employees are capable of working more efficiently than expected in general standards. The higher the labour efficiency percentage is the more efficient staff. The indicator is calculated as follows:

$$\frac{\text{Hours invoiced}}{\text{Hours booked}} \times 100$$

Standards are set and updated on a central level at SAIWONG. The aim is to apply standards as much as possible. Thus, the framework for using them is the same for all the workshops, though some workshops use them more than the others. However, there are also tasks that cannot be performed meeting standardized times, since the problem may require more comprehensive investigations before repairing. Basically this means that there might be differences between workshops. This fact has been acknowledged by the company when calculating the indicator.

Summary of indices

In this chapter we have introduced the indices that are used in our empirical study. These indices are summarized in the table below.

Table 1: Summary of indices

Employee perspective			Customer perspective	Business performance
Employee Satisfaction Index	Leadership Index	Motivation Index	Customer Satisfaction Index	Five individual indicators
Q34: Is the physical working environment acceptable at your place of work? Q28: Do you like your work? Q33: Are you proud of working for your company?	Q10: Does your immediate manager/supervisor involve you in making decision affecting your working group / team? Q14: Are you satisfied with the information you receive from your immediate manager / supervisor? Q23: Do you feel that your immediate manager / supervisor supports your personal development?	Q29: Do you feel motivated in your work? Q79: Do you feel that your colleagues / co-workers are motivated in their work	W2: Service / repair satisfactory first time W4: Completing service and repair work when promised W9: Readiness / ability to take care of emergency repairs	Total workshop turnover Workshop gross profit in percentage of sales Contribution in percentage of sales Labour utilisation percentage Labour efficiency percentage

After selecting comparable data from three separate databases, we converted independent variables into SPSS file for further analysis. Appendix 1 demonstrates the file.

CHAPTER 5: FINDINGS

5.1 Relationships between employee satisfaction, leadership and motivation

As introduced in the first part of the paper, employee satisfaction is often in the center of the attention when dealing with employee attitudes. Leadership and motivation are regularly brought up when talking about employee satisfaction. In a scientific sense, studies on these three issues have shown different opinions. According to Yukl (1989), leadership sometimes leads to employee satisfaction, while sometimes it does not. In order to gain a better understanding of how employee satisfaction, leadership and motivation interact in SAIWONG, we addressed our hypothesis to investigate this triangle.

Earlier we have introduced the variables that indicate employee satisfaction, leadership and motivation. All of them consist of means of selected questions. Statistically speaking, the indices are internally consistent, which can be proved by a reliability test.

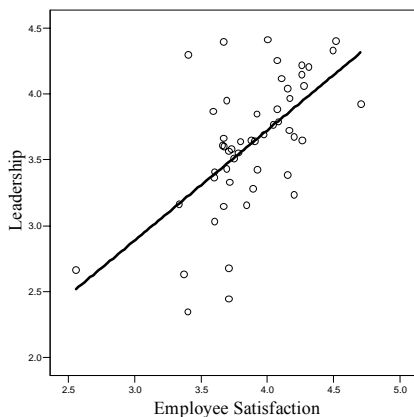


Figure 10: Correlation between employee satisfaction and leadership

Utilizing opinions of 791 blue-collar workers and Pearson's correlation, we found that Leadership Index (LI) has a significant correlation with Employee Satisfaction Index (ESI) ($r = .598^{**}$, $p = .000$. See Figure 10). In addition, Motivation Index (MI) correlates significantly with ESI ($r = .682^{**}$, $p = .000$. See Figure 11).

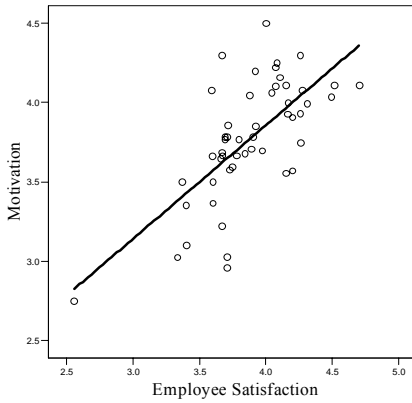


Figure 11: Correlation between employee satisfaction and motivation

Moreover, LI has a strong and significant correlation with MI ($r = .767^{**}$, $p = .000$. See Figure 12). Based on these results, the first hypothesis, H1: there are positive correlations between employee satisfaction, leadership and motivation, can be validated.

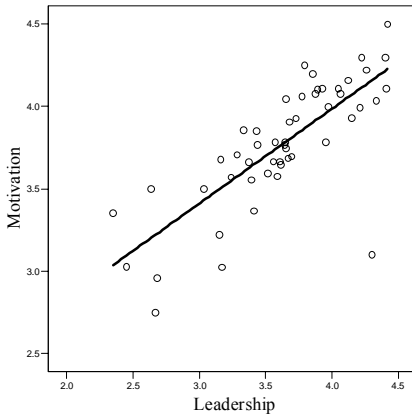


Figure 12: Correlation between motivation and leadership

5.2 Relationship between employee satisfaction and customer satisfaction

According to Heskett et al. (1997), service profit chain can be used to describe the value delivery from employees to customers. Authors conclude that happy employees would translate their satisfaction to customer satisfaction through delivering high value service. However, other researchers, such as Harrington (1999) and Sivestro (2000), hold different opinions. In their studies employee satisfaction and customer satisfaction are not linked together.

In order to contribute to the empirical evidence in this field, we wanted to examine the association between employee satisfaction and customer satisfaction within SAIWONG's

business-to-business services. Our second hypothesis is built on the assumption that service profit chain, though carried out as a simplified version in this research, can be applied to employee-to-customer relations in business-to-business environment.

After having calculated the correlation between Employee Satisfaction Index (ESI) and Customer Satisfaction Index (CSI), we found no correlation between employee satisfaction and customer satisfaction ($r = -.036$, $p = .802$). Statistically it means that employee satisfaction has no relationship with customer satisfaction. In this way, Heskett et al.'s (1997) "mirror" effect of employee satisfaction and customer satisfaction no longer applies in our research. The satisfaction of employees is not mirrored by satisfaction of customers. Even though we were aware of ambiguous findings in the past, the result presented us with a surprise. Based on this result, the second hypothesis cannot be approved.

Additionally, in order to further investigate the statistically nonexistent relationship between employee satisfaction and customer satisfaction, we conducted another round of correlation analysis. This time we aimed to examine, if any items of employee satisfaction and customer satisfaction could be linked to each other. Results of the second round calculation support the index-level findings: none of the questions used measuring employee satisfaction can be statistically associated with customer satisfaction (see Table 2 below).

n = 51	Customer Satisfaction Index	W2 (Service quality)	W4 (Service delivery)	W9 (Service availability)
Employee Satisfaction Index	$r = -.036$ $p = .802$	$r = -.009$ $p = .949$	$r = -.067$ $p = .641$	$r = -.021$ $p = .885$
Q34	$r = .082$ $p = .566$	$r = .014$ $p = .923$	$r = .127$ $p = .375$	$r = .079$ $p = .581$
Q28	$r = -.153$ $p = .284$	$r = -.094$ $p = .510$	$r = -.194$ $p = .172$	$r = -.112$ $p = .435$
Q33	$r = -.060$ $p = .678$	$r = .052$ $p = .717$	$r = -.167$ $p = .241$	$r = -.054$ $p = .708$

Table 2: Correlations between employee satisfaction and customer satisfaction

Besides, the same tests were taken when it comes to employee perceptions on leadership and motivation in relation to customer satisfaction. Both index-level and item-level correlations have been examined. Unfortunately, neither leadership practices nor employee motivation could reliably be associated with customer satisfaction. (For results see Table 3 below.)

n = 51	Customer Satisfaction Index	W2 (Service quality)	W4 (Service delivery)	W9 (Service availability)
Leadership Index	r = -.128 p = .371	r = -.029 p = .842	r = -.140 p = .326	r = -.168 p = .239
Q10	r = -.117 p = .413	r = -.044 p = .758	r = -.118 p = .408	r = -.143 p = .316
Q14	r = -.142 p = .319	r = -.040 p = .781	r = -.140 p = .328	r = -.193 p = .175
Q23	r = -.100 p = .486	r = .003 p = .982	r = -.136 p = .341	r = -.133 p = .351
Motivation Index	r = -.137 p = .339	r = -.053 p = .710	r = -.180 p = .206	r = -.127 p = .374
Q29	r = -.134 p = .347	r = -.021 p = .885	r = -.235 p = .097	r = -.105 p = .463
Q79	r = -.111 p = .437	r = -.076 p = .595	r = -.086 p = .547	r = -.124 p = .387

Table 3: Correlations between leadership, motivation and customer satisfaction

Generally speaking, employee attitudes, which are job satisfaction, employee perceptions on leadership and motivation, in this specific company, cannot be linked to customer satisfaction.

5.3 Relationship between customer satisfaction and business performance

The next hypothesis in our simplified linkage research deals with the relationship between customer satisfaction and profitability. Previous studies in the service industry speak in favour of existing connection. On the other hand, also contradictory and somewhat criticizing results have been reported.

Using our research data and selected methods, we were able to find a statistical relationship between customer satisfaction and financial performance within the case company. Even though the observed linkage cannot be considered as a very strong one, it exists and the tendency is significant. Therefore, our third hypothesis is validated by the results. The complete results are given in Table 2. Customer satisfaction index (CSI) correlates moderately with gross profit margin ($r = .464^{**}$, $p = .001$) whereas the correlation between CSI and contribution in percentage of sales is as follows: $r = .364^{**}$, $p = .009$. The strongest correlation between customer satisfaction and performance variables was found between gross profit margin and the question that measures service delivery in terms of time, i.e. “Completing service and repair work when promised” ($r = .568^{**}$, $p = .000$). Total workshop turnover cannot be found to be linked to any customer satisfaction indicators.

n = 51	Profitability Indicators		
	Total workshop turnover	Gross profit margin	Contribution in % of sales
Customer Satisfaction Index	$r = .035$ $p = .806$	$r = .464^{**}$ $p = .001$	$r = .364^{**}$ $p = .009$
W2 (Service quality)	$r = -.140$ $p = .326$	$r = .234$ $p = .098$	$r = .204$ $p = .152$
W4 (Service delivery)	$r = .056$ $p = .697$	$r = .568^{**}$ $p = .000$	$r = .436^{**}$ $p = .001$
W9 (Service availability)	$r = .188$ $p = .186$	$r = .415^{**}$ $p = .002$	$r = .313^{*}$ $p = .025$

Table 4: Correlations between customer satisfaction and profitability

Customer Satisfaction Index: mean of questions W2, W4 and W9.

W2: Workshops ability to carry out service and repair work in a satisfactory way the first time.

W4: Completing service and repair work when promised

W9: Readiness and ability to take care of emergency repairs

5.4 Relationship between employee attitudes and business performance

5.4.1 Employee satisfaction and business performance

Heskett et al's (1997) service profit chain indicates that a high level of employee satisfaction will in the end result in superior business performance. Yet, some other studies

conclude that it is impossible to link employee attitudes directly with business performance. Mediators like customer satisfaction and customer loyalty are applied to connect employee attitudes to business performance. Researchers within the field of linkage research have not reached a consensus, and therefore, more empirical studies are required in order to validate the results.

Following the academic discussion, we wanted to investigate, if employee attitudes can be associated with business performance in this case company. As mentioned before, five financial indicators are used in our study, which are suggested by professionals of SAIWONG. These five financial indicators act as independent variables in the research.

We calculated the correlations between Employee Satisfaction Index (ESI) and five financial indicators. The results indicate that the relationship between employee satisfaction and profitability is not statistically strong. However, a negative tendency can be observed, since correlations between ESI and contribution in percentage of sales ($r = -.211$, $p = .138$) and between ESI and gross profit margin ($r = -.112$, $p = .433$) are negative. These results may partially be influenced by questions 28 (Do you like your work?) and 33 (Are you proud of working for your company?), which show the strongest negative tendency in relation to profitability measures. Table 5 demonstrates the results, involving also the item-level correlations.

n = 51	Profitability indicators		
	Total workshop turnover	Gross profit margin	Contribution in % of sales
Employee Satisfaction Index	$r = .123$ $p = .389$	$r = -.112$ $p = .433$	$r = -.211$ $p = .138$
Q28	$r = -.023$ $p = .871$	$r = -.259$ $p = .067$	$r = -.277^*$ $p = .049$
Q33	$r = .007$ $p = .961$	$r = -.249$ $p = .078$	$r = -.207$ $p = .146$
Q34	$r = .267$ $p = .058$	$r = .140$ $p = .328$	$r = .081$ $p = .572$

Table 5: Correlations between employee satisfaction and profitability

Q28: Do you like your work?

Q33: Are you proud of working for your company?

Q34: Is the physical working environment acceptable at your place of work?

When it comes to productivity, the results were to a certain extent surprising. ESI correlates negatively with labour efficiency ($r = -.640^{**}$, $p = .000$). In other words, employee

satisfaction is greater in the poorer performing workshops, and on the other hand, lower in better performing workshops. The relationship is demonstrated in Figure 13.

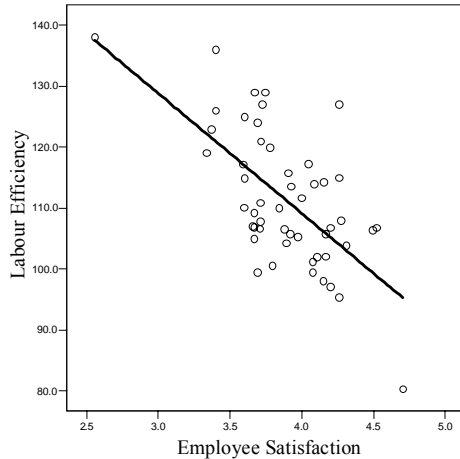


Figure 13: Correlation between employee satisfaction and labour efficiency

To take this finding to an item-level investigation, the table below further demonstrates the relationships between productivity indicators and employee satisfaction. Corresponding to the relationship between employee satisfaction and profitability, also here questions 28 and 33 have the strongest influence on the result.

	Productivity indicators	
	Labour utilisation	Labour efficiency
Employee Satisfaction Index	r = .019 p = .894	r = -.640** p = .000
Q28	r = .081 p = .572	r = -.663** p = .000
Q33	r = .169 p = .236	r = -.625** p = .000
Q34	r = .142 p = .319	r = -.379** p = .006

Table 6: Correlations between employee satisfaction and productivity

Q28: Do you like your work?

Q33: Are you proud of working for your company?

Q34: Is the physical working environment acceptable at your place of work?

In order to get a better understanding of the results, we selected some cases of the sample for further clarification.

1. Workshop 41 is one of the 19 workshops in Sweden. It has the lowest ESI (= 2.6) among the whole sample, i.e. 51 study units. However, it achieved the highest labour efficiency (= 138%) of all sample workshops.
2. Workshop 48 is located in Switzerland. It obtains the highest score in terms of ESI (= 4.7), while the labour efficiency ratio (=80.3%) ranks the lowest among 51 workshops.

Besides these two notable, but extreme cases, the same phenomenon is also found in other workshops.

3. Workshop 37 is a Swedish workshop. Employee satisfaction index scores 3.4, which is the third lowest among 51 workshops, while the labour efficiency (=136%) ranks the second highest among all the workshops.
4. Workshop 19 is placed in France. Its ESI (4.5) is the second highest among all workshops, while labour efficiency (=106.8%) is far below the average (111.5%).

Above examples further explain that satisfied employees are inclined to have lower productivity while unsatisfied employees maybe produce more in the case company. This finding is opposite to the premise of service profit chain, which implies that employee satisfaction is a profit driver. In this way, the hypothesis that employee satisfaction is positively correlated with profitability and productivity cannot be validated in this research.

5.4.2 Leadership and business performance

In this research, employee attitudes involve three areas, i.e. employee satisfaction, employee perceptions on leadership and employee motivation. Even though the greatest interest lies in employee satisfaction, we also investigated, if employee perceptions on leadership can be linked to profitability and productivity. The results including item-level findings can be seen in Table 7.

Correlation analysis reveals that there is a negative relationship between leadership and profitability. Even though the negative tendency can not be considered as a strong one, it is

consistent throughout the profitability measures. Basically this implies that the better leadership (perceived by employees), the less profitable workshop, or vice versa.

When it comes to productivity, there is a positive connection between labour utilisation and leadership, but a negative tendency between leadership and labour efficiency. Therefore, it is challenging to draw exact conclusions on the linkage. Also these findings will be brought up in chapter 6.

n = 51	Profitability indicators			Productivity indicators	
	Total workshop turnover	Gross profit margin	Contribution in % of sales	Labour utilisation	Labour efficiency
Leadership Index	r = -.069 p = .632	r = -.326* p = .020	r = -.237 p = .094	r = .323* p = .021	r = -.195 p = .170
Q10	r = -.006 p = .969	r = -.281* p = .046	r = -.263 p = .062	r = .276* p = .050	r = -.094 p = .512
Q14	r = -.070 p = .625	r = -.393** p = .004	r = -.239 p = .092	r = .383** p = .005	r = -.208 p = .142
Q23	r = -.114 p = .426	r = -.236 p = .096	r = -.168 p = .238	r = .242 p = .087	r = -.241 p = .089

Table 7: Correlations between leadership and business performance

5.4.3 Motivation and business performance

In this linkage research, the relationship between motivation and business performance reminds greatly of the one between leadership and business performance. In other words, when it comes to profitability, there is negative association between employee motivation and profitability of a workshop, implying that the more motivated employees, the less profitable workshop, or the other way around: the more profitable workshop, the less motivated employees.

Again, when it comes to productivity, the findings are somewhat contradictory. Using labour utilisation indicator, there is a positive tendency between employee motivation and productivity. However, the other productivity indicator, labour efficiency, reveals a negative correlation with motivation. More in detail, the correlation between labour

efficiency and question 29 (Do you feel motivated in your work?) is significantly negative, having an influence on the entire Motivation Index. These results can be found in Table 8.

n = 51	Profitability indicators			Productivity indicators	
	Total workshop turnover	Gross profit margin	Contribution in % of sales	Labour utilisation	Labour efficiency
Motivation Index	r = -.081 p = .571	r = -.383** p = .006	r = -.279* p = .047	r = .281* p = .046	r = -.368** p = .008
Q29	r = -.062 p = .665	r = -.407** p = .003	r = -.325* p = .020	r = .265 p = .060	r = -.504** p = .000
Q79	r = -.084 p = .556	r = -.280* p = .047	r = -.175 p = .221	r = .240 p = .089	r = -.152 p = .287

Table 8: Correlations between motivation and business performance

5.6 The impact of unit size on employee satisfaction and business performance

We had an additional interest to further examine workshops of this international service network. We were willing to know if unit size can be linked to employee perceptions in terms of satisfaction as well as to business performance. In this stage we had to choose whether to use the actual number of employees, or the number of employees who had responded to the employee attitude survey. Because the working climate and business performance of workshops is created by all employees who work there, we decided to include all employees of each workshop instead of respondents of the survey.

First we examined the relationship between unit size and business performance. Results indicate that unit size is strongly and significantly correlated with total workshop turnover ($r = .922^{**}$, $p = .000$). The relationship is quite obvious, since logically more employees can serve higher volume of customers.

Apart from abovementioned finding, we found no other statistically significant correlations. This implies that in SAIWONG, unit size has no impact on employee perceptions or profitability and productivity.

CHAPTER 6: ANALYSIS OF THE FINDINGS

This chapter is dedicated to analysis of the findings. We will reflect the empirical results upon the theoretical linkage research models and previous studies. We also aim to come up with speculated reasons behind the results.

6.1 Summary of central findings

In previous chapter, we reported the findings of the research within SAIWONG. The figure below summarizes the central findings in relation to our hypotheses. Employee satisfaction, leadership and motivation are closely connected in the organization. Moreover, there is no statistical relationship between employee satisfaction and customer satisfaction. However, customer satisfaction can be linked to profitability, while the connection between employee satisfaction and productivity is significant, but negative.

More comprehensive summary can be found as Appendix 2.

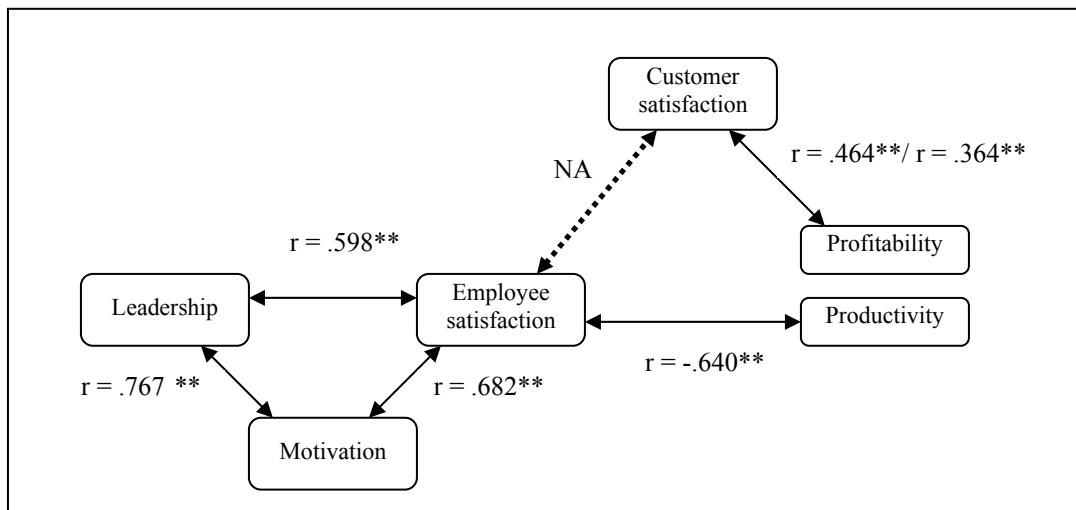


Figure 14: Summary of central findings

6.2 Relationships between employee satisfaction, leadership and motivation

The positive relationship between leadership and employee satisfaction implies that the better leadership behaviour (perceived by employees), the higher employee satisfaction. This result corresponds to the premises of service profit chain and Wiley's linkage research model, which implies that leadership behaviour acts as a foundation for the later success of the value chain. In addition, the findings support the model of Barber et al. (1999) who discovered a linkage between employee satisfaction and leadership.

Significant correlations between motivation and employee satisfaction reveal that successful motivation approaches foster positive employee attitudes. By meeting employee requirements and needs, leaders may motivate employees to contribute more. Furthermore, we have noticed that the positive relationship between leadership and motivation is very strong, which means that the more effective leadership, the more motivated employees.

Returning to the company SAIWONG, results indicate that leadership is linked closely to employee satisfaction. The basic assumption of participative leadership, i.e. sharing manager's decision-making power with employees, will enhance job satisfaction, is proved in this case. Through the approaches of participative leadership, i.e. empowerment, communication and support to employees' personal development, company SAIWONG will increase employees' job satisfaction. In addition, in the case company, when employees feel they can have an influence on team's decision-making, they may easily become satisfied. This result coincides with the findings of Miller (1997), who found that participation in decision-making can better satisfy employees' higher needs of job satisfaction. It can also be observed that employees of the case company tend to accept the motivation efforts, since the relationship between employee satisfaction and motivation is tight. This phenomenon can be interpreted the way that the motivators, e.g. the work itself, recognition and achievement respond to individual's needs and foster employee job satisfaction. Moreover, the results also demonstrate that participative leadership application helps to motivate employees in the case company.

The idea that leadership creates a basis for the service profit chain is tested and proved in our research. Based on our findings, we can say that leadership, motivation and employee satisfaction are tightly associated in SAIWONG. Employee involvement, efficient communication and personal development motivate employees and make them to like their jobs and be proud of the company.

6.3 Relationship between employee satisfaction and customer satisfaction

After analysing the case company SAIWONG, we explored the following reasons that may explain the lack of statistically significant connection between employee attitudes and customer satisfaction. First of all, customers of this company are different from those studied in previous linkage examinations. Previous linkage studies have mainly paid attention to business-to-customer service contexts. However, as introduced earlier in this paper, SAIWONG provides solutions in ways of producing business-to-business products. Considering the nature of business, we may say that the customers of the company buy products for business use, not for private consumption. Therefore, the nature of the relationship between the service provider and customer is oriented as a business-to-business type of business relation.

From the key motivators of customer satisfaction survey, we can conclude that in this company, customers' priorities appear to be business-oriented issues, such as service quality, service delivery in terms of time and service availability, rather than friendliness and personal care that are often conveyed by employee behaviour in business to consumer services. Thereby, employee attitudes, like employee satisfaction cannot easily be translated into customer satisfaction in this case.

Second, the lack of the linkage might be influenced by the nature of workshop operations. The company promotes its services by telling that they have one of the most comprehensive networks of service workshops in the world. Each staff has well-equipped, trained mechanics to be used in daily work. Assisted by advanced IT technology, workers can detect problems quickly and solve them efficiently. Compared to the service years ago, the operation time of fixing or repairing customer products has shortened greatly, which

implies the contact time between employees and customers also may have decreased accordingly. Nowadays, IT trend and computer application in this industry may alienate employees from customers. As a consequence, it may reduce even more employees' influence on customer satisfaction.

Besides, maybe there is another possible reason that should be paid attention. If employees are happy, are they working hard in order to meet customer expectations? Are employees motivated to work in a customer-oriented way? Are they rewarded for meeting customer expectations on service quality, delivery and availability? Is it common that employees satisfy one customer at the expense of another? Harrington (1999) has studied employee-customer relations. In his studies, he has not been able to find a correlation between employee satisfaction and customer satisfaction. In an attempt to explain his findings, Harrington gives an example of a situation where a satisfied employee makes one customer happy, whereas another one is less pleased with the service provided:

“Recently I went to a local computer store. The clerk was talking with a customer who was obviously another "techie." They talked about a new printer announced in PC Magazine that would be available in six months. They discussed who would lecture at their next club meeting. They talked about three different Internet sites that had just come up. Eventually, the customer gave the clerk his Web address and, at last, the clerk rang up \$18.37, handed the customer a bag and turned to me, stating, "Sorry to keep you waiting." He seemed to be a very happy employee with a big smile on his face. The store had one very satisfied customer and one very dissatisfied customer.” (Harrington, 1999.)

We acknowledge the importance of employee satisfaction, but we also strongly believe that customer satisfaction is not a destined outcome of satisfied employees. The results of whether employee satisfaction could be converted into customer satisfaction depend on two situations. First, if satisfied employees are not customer-oriented and willing to meet customer expectations, it is challenging to create customer satisfaction in such a service environment. On the other hand, if behaviour of satisfied employees as well as service processes is aligned with the factors to satisfy customers, then companies have a better chance of endorsing customer satisfaction.

Referring to workshops in our case, customers go to workshops for repairing and fixing products used for business purposes. This type of service might not be consumed on an everyday basis. Therefore, customers' impression of the service can largely be influenced by a single experience when they dropped in a workshop before. If employees are satisfied and they offer a well-timed and high quality repair service, and apart from this are capable of meeting the customer expectations, customers are likely to get satisfied. Yet, if satisfied employees' actions do not correspond to customers' requirements, satisfaction may not be achieved. Different situations may result in different outcomes. Therefore it explains why we could not find correlations between employee satisfaction and customer satisfaction in this case.

In addition, there are many variables associated with employee satisfaction. Employees may be satisfied when they are taking high responsibilities or carrying out interesting work, but such activities cannot directly result in customer satisfaction. Similarly, there are many variables associated with happy customers as well. We cannot conclude that satisfied employees will lead to satisfied customers in every instance.

Our results coincide with those of Silvestro and Cross (2000), who have studied the linkages set by service profit chain within a supermarket chain in the UK. Researchers found no correlation between employee satisfaction and customer satisfaction. Based on our findings, supported by the results of Silvestro and Cross's study, we would like to question the reliability of Heskett et al's satisfaction mirror. The premise of the concept implies that employee satisfaction can be translated into customer satisfaction. In these two studies, the mirror effect can not be empirically validated. Unfortunately, due to limited time, we did not have an opportunity to investigate and analyse this matter further.

6.4 Relationship between customer satisfaction and business performance

The relationship between customer satisfaction and business performance was investigated in the hypothesis three. We found a positive correlation between customer satisfaction and profitability. Our findings correspond to several previous studies (e.g. Loveman, 1998; Rust and Zahorik, 1993) which discovered that increased customer satisfaction results in

increased profitability. In addition, a linkage study by Silvestro and Cross (2000) provides related results when it comes to connection customer to business performance. Researchers found that satisfied customers of a supermarket chain tend to spend more. On the other hand, they also discovered a link between customer loyalty and profitability.

Lovelock (2001) has theoretical insights into the findings. Referring to his model on benefits of customer satisfaction, we were able to find some explanations. Lovelock states that customer satisfaction will lower the cost of attracting new customers, since existing customers may already trust the company, consume more and also purchase other products and services of the company. Moreover, the positive word-of-mouth influence of satisfied customers can be a remarkable asset for a service provider. Satisfied customers will convey advantageous information to potential customers. The cumulative value of a satisfied customer would be considerably high. As a consequence, satisfied customers will bring along a steady cash flow and have an impact on company's business performance. (Lovelock, 2001.)

As introduced before, in SAIWONG, service quality, delivery on time and service availability are perceived as motivators in creation of customer satisfaction. The reasons why these three factors contribute to customer satisfaction are determined by the nature of the business. In the case company, customers of the workshops are business customers, either big or small ones. They have their own customers to be served and therefore their interests are business-oriented.

For business customers, it is vital that they have appropriate and working tools to serve the next level of customers in the service chain. Maybe we could have an illustrative example to demonstrate the situation. Say that Customer A is a private entrepreneur having two products that are both utilized to the fullest. If one of these two items gets broken, Customer A is running a risk of losing fifty percent of his income. Hence in a situation like that, it is crucial to get the repair service as soon as possible. If high quality service in the workshop can be delivered on time, then customers are more easily satisfied because their business operations can be guaranteed. Customers may stick to the same workshop for repairs in the future, which will lead to superior business performance of workshops in the end.

Furthermore, referring to the company's official website, we get the impression that customers are encouraged to commit to using the trademark-specific repair and workshop services after purchasing the product. It is reasonable to believe that customer commitment in ancillary services (like workshop services) is enhanced when selling the product. Maybe it is not guaranteed, but at least it is not that sensitive to influences. From a customer perspective, when having a product of a certain trademark, they are more likely to get repairs and maintenance services there where the trademark-specific knowledge is at its highest. Consequently, customers are more likely to choose the same workshop again if they feel satisfied with workshop service. They are more likely to promote workshop service by the word-of-mouth and introduce other new customers to use workshop services.

To speculate further, customer behaviour may also be influenced by the location of a workshop. Customers would rather choose the workshop which is convenient to reach than the one that is far away. Because of the convenient location, customers would drop into some workshops frequently when they need repairs, and maybe they are also not sensitive to price. Generally speaking, the cumulative value of such satisfied customers would be considerably high. In the long term, they will bring steady and considerable turnover to the workshop.

All in all, the above mentioned factors may influence gross profit margin and contribution. However, we need to keep in mind that profitability is influenced by numerous other factors as well. Therefore, it is impossible to clearly define the role of customer satisfaction in an overall business performance. In this study we found that customer satisfaction and profitability are moderately linked, but unfortunately we cannot conclude to what extent customer satisfaction has an impact on profit making.

6.5 Relationship between employee attitudes and business performance

6.5.1 Employee satisfaction and business performance

The employee satisfaction results of this study are unexpected after reviewing linkage research models. The service profit chain in addition to Wiley's linkage research model suggests that employee satisfaction acts as a trigger for overall business performance. However, our findings indicate that in SAIWONG's workshops, there is a negative tendency between employee satisfaction and profitability as well as between employee satisfaction and labour efficiency.

Referring to previous studies, scholars have different opinions in their researches. Silvestro (2002, p. 46) has studied of one of the UK's four large supermarket chains. Also his findings do not completely coincide with the premise of linkage research models. Results of Silvestro's study reveal a negative correlation between employee satisfaction and measures of organizational productivity, efficiency and profitability. The finding implies that the most profitable stores are those in which the employee satisfaction ratio is the lowest. The main reason given by Silvestro is that employees are being over-stretched in the most productive workshops. (Silvestro, 2002, p. 46).

When analysing linkage researches, it should be recognized that the findings must be treated with caution, since financial results are influenced by many factors. Negative correlation between employee satisfaction and labour efficiency may be interpreted the way that business results are being achieved despite, rather than because of, the nurturing of employee satisfaction. On the other hand, in some workshops, we may indeed to find that a higher performer generates higher levels of employee satisfaction than a lower one. Though, it is not the main tendency in this case. Therefore, we would like to speculate on some reasons that might explain the negative correlation between employee satisfaction and labour efficiency.

First, satisfied employees are not necessarily higher performers. No necessary link exists between the higher satisfaction employees pursue and the better productivity the company seeks. There are various drivers for employee satisfaction. For example, employees can

become satisfied because the job is interesting and relaxing, or because they can work with people they like, or because they are well paid, or because they want to do something significant or meaningful. However, above-mentioned reasons do not contribute to creating more profitability and productivity for the company.

Second, as introduced earlier in this paper, labour efficiency is based on corporate Standard Time which measures how long particular activities are standardized to occupy the time of workers. We learned from the company that the Standard Time System is developed and updated by the company on a central level, and therefore the Standard Time is the same for all workshops. The recommendation from central level to workshop level is to use Standard Time as much as possible. However, the application of Standard Time varies within our sample, some countries and workshops have the culture of working with Standard Time, while some do not stick to the standard. In the reality of the daily work of workshops, some countries claim that it is very difficult to work with Standard Time, and they only use it for a very limited amount of work (for instance warranty work). Some criticism is raised from workshops because of some incorrect time and old standard operations, but these are only few to mention.

Referring to our findings, we wonder if the results may be influenced by the indicator, or more accurately, the way it is formulated. In addition, we question if it is appropriate to implement the same Standard Time within the whole service network. The network comprises units with different national cultures and characteristics. Some workshop use Standard Time to a large extent while others cannot adhere to it. Therefore, the usage of Standard Time deviates from workshop to workshop. In this sense, we doubt if it is accurate and reliable to employ the same Standard Time to measure workshop labour efficiency. Does it tell the precise truth about productivity?

The third speculation deals with balancing the employee satisfaction and workload of employees. The relationship between employee satisfaction and business performance could be seen in Figure 15. In general, in an optimal case, employees are satisfied and performance is superior, this trend is portrayed by the dashed line. Unfortunately, this sort of ideal situation is difficult to achieve. It may be easy to reach moderate employee satisfaction and moderate business performance, but achieving the highest employee

satisfaction and the best business performance at the same time provides challenges to organizations. How to motivate and reward employees to strive for business success?

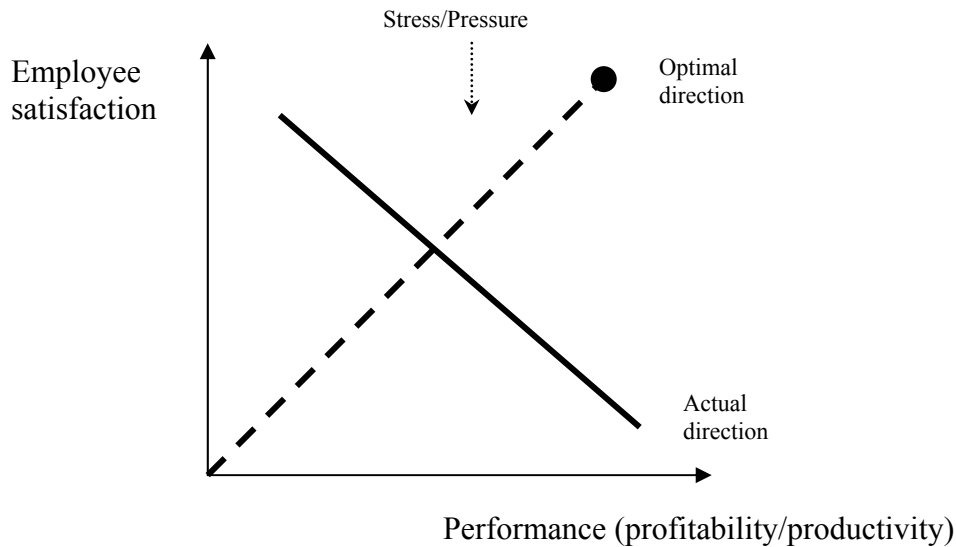


Figure 15: Employee satisfaction-business performance matrix

In SAIWONG, satisfied employees tend to be less efficient. The other way around, productive employees are less satisfied. One explanation could be that in order to maintain the high level of productivity, employees are pushed to work hard and they get stressed. The work load might be too heavy, which results in lower satisfaction. Maybe they have fewer breaks or they are asked to work overtime. When studying the individual questions of employee satisfaction index, we can notice that all of them have a negative, significant correlation with efficiency. Thus, the less efficient employees, the more they like their work; the more they are proud of working for the company; and the better they accept their physical working environment.

In some situations, for example, in some areas the employment situation is not optimistic and the work itself does not require too many special professional skills, employees have to work hard in order not to be replaced. Another example could be that in order to keep the position or get promotion in the organization, employees have to exhibit an outstanding

performance. Even though they might be not very satisfied, high working stress forces them to display a high productivity.

To speculate further, one reason could be that satisfied employees may be moderate performers instead of outstanding ones. In every organization, there are some employees who have moderate capability, moderate performance and moderate requirements, which imply they are easily satisfied. Consequently, these employees could give a very high satisfaction grade in the survey. However, in order to achieve superior business performance and keep a faster development speed, the organization should have more outstanding manpower to compete with competitors. Therefore, the organization must possess of a considerable amount of employees with higher capabilities and greater ambitions. Normally these types of persons are not easily satisfied with their current performance, salary and job title. They are inclined to be dissatisfied and struggle for more. Reflecting on this assumption in the case company, we may speculate that if there were more ambitious employees in workshops, maybe ESI would be lower. The business performance and productivity of these workshops might consequently be higher. On the contrary, if workshops employ persons who are very easy to get satisfied with current business performance, employees may perceive working climate satisfying, but still productivity would remain lower than expected.

Finally, there might be some “slackers” in the workshops. They may have a low capability or they may have a high capability but do not want to exert their maximum capability. They feel at ease and are easily satisfied, but productivity may stagnate. Reforming and some other actions should be taken in order to make “slackers” with low capability improve, and “slackers” with high capability contribute to a great extent, which in the end will make workplace more productive.

Generally speaking, we believe there are more reasons behind the negative relationship between employee satisfaction and labour efficiency. Finding out the reasons will require long-time observation of daily working processes, in-depth comparison of each workshop and careful consideration of other influences. However, due to limited time and limited understanding on workshop activities, we did not have the opportunity to do this.

Still, we wanted to try our best to be more in-depth. According to our current knowledge, most samples of the previous empirical studies are chosen from the same country. However, in our case, 51 workshops are located in five different countries. Due to an influence of culture, history, economic and other local factors, different countries may present diverse outcomes when it comes to linkages. We were curious to know what the relations would be if linking employee attitudes and business performance in individual country. Therefore, we conducted our second round of data analysis.

We calculated the correlations between ESI and five different financial indicators on a country level. In France and Switzerland, we were not able to find a link between ESI and any of the financial indicators. In Germany, employee satisfaction had a strong and significant, though negative correlation with turnover ($r = -.950^*$, $p = .013$, $n = 5$). In Norway, the situation represents the other end with a strong positive correlation ($r = .815^*$, $p = .048$, $n = 6$). Also Sweden provides an interesting example; there is a strong, negative correlation between employee satisfaction and labour efficiency ($r = -.701^{**}$, $p = .002$, $n = 16$). Even though the country level samples are small, the results demonstrate that the relationship between employee attitudes and business performance is complicated. Relationships vary to a great extent. In some countries, there exist positive links, and in some countries there are negative ones, while in other countries, there is no link at all. Unfortunately, we have no time or chance to investigate this dilemma further. Appendix 3 summarizes the country level findings.

When facing such diverse results in general, the next question for us may be if positive relationships between ESI and financial indicators are better than the negative ones. We may get the intuition that positive linkages are better. Positive linkages seem to indicate that the more employee satisfaction, the better performance. However, we should not neglect the factor of cost. Employees' needs and motivators are changing along the way. In order to meet the requirements of employees, companies have to invest money. At the same time, the company has to control costs in order to have superior performance over competitors. So, the relationship between employee satisfaction and business performance appears in some ways to be a dilemma. Employees could be less satisfied but productive. However, they have their base lines. If they are least satisfied, resistance will emerge in the working place, which will result in low productivity. Therefore it has a very high

requirement for managers. On the one hand, they could motivate employee but not “too comfortably”. On the other, they could have employees generate more productivity.

Combining with the results of the second and third hypotheses, we could learn that higher employee satisfaction will not definitely lead to higher customer satisfaction but higher customer satisfaction will result in higher profitability. These findings further verify the results of our fourth hypotheses, which imply it is far more complex to link employee attitudes with business performance.

6.5.2 Leadership and business performance

The underlying assumption of linkage research models is that leadership practices enhance employee satisfaction, which further drives business performance. In addition, leadership literature to a great extent implies that leadership is the key driver of organizational effectiveness (Andersen, 2005). However, results of our research indicate that employee perceptions on leadership negatively correlate with profitability and labour efficiency of 51 workshops. Interestingly, these workshops are applying participative leadership style that, according to Yukl (1989), aims at improving the awareness and acceptance of decisions, empowerment as well as enrichment of employees' jobs. Based on these theoretical aspects, our common sense persists that there should be a positive correlation between leadership and organizational outcomes. How to explain that the better leadership behaviour, the less efficient employees and the less profitable workshops? We fully agree that participative leadership contributes to employee satisfaction and motivation. However, we want to question whether it will result in a higher business performance.

It might be too challenging to find accurate reasons for the negative tendency in such a short time and without industry specific expertise. However, also Silvestro and Cross (2000) report negative correlations between leadership aspects and financial performance. Researchers carried out a linkage research in an attempt to apply the service profit chain in retail service context. Unfortunately, in Silvestro and Cross's study, employee perceptions on leadership act only as an element of employee satisfaction and therefore, authors do not draw any conclusions on how to interpret the negative association.

Andersen (2005) contributes to the matter with reporting findings of three separate studies on impact of leadership on organizational effectiveness. Referring to a great number of leadership scholars and three types of leadership theories, Andersen criticizes traditional assumptions on leaders' role in organizations. He argues that leaders and leadership are needed, but they do not cause organizational effectiveness in the sense that has been claimed for decades. Finally, Andersen concludes that "there is no effective leader to be found" (Andersen 2005).

Studies above do not provide explicit understanding on a negative tendency between SAIWONG employee perceptions on leadership and business performance, i.e. profitability and labour efficiency. What they do, is to enhance the awareness of other findings in the field of leadership. Maybe they also make it easier to accept the surprising empirical results. In addition, they verify that leadership is a broad concept as such. It becomes even more complicated, when it is approached from a subordinate perspective involving employee attitudes and perceptions on the matter. The point made here is that it is difficult to measure this issue without leaving room for doubts. Besides, also business performance can be influenced by a number a factors. Therefore, interpretations should be done carefully and with a great knowledge on the concrete activities of the business.

When it comes to contradictory findings of labour utilisation and labour efficiency in relation to leadership, we have not had an opportunity to investigate the matter further in order to provide exact explanations. We simply speculate with a possibility that the results are affected by the indicators, or the way the performance measures are calculated within SAIWONG. It is difficult to either include or exclude any possibilities without more accurate examination.

6.5.3 Motivation and business performance

Based on our study, workshop employees of the international service network tend to be less efficient when they feel more motivated. In addition, results indicate that less motivated employees tend to be more profitable. Earlier in this paper we have already discussed about the fact that employee satisfaction, employee perceptions on leadership and motivation are closely related issues. On the other hand, we have been able to observe a

certain degree of consistency in the findings; there is a negative tendency between employee attitudes and business performance, i.e. profitability and efficiency. Could this be explained from the motivation point of view?

Wiley (1997) argues that motivation affects behaviour, rather than performance. She goes on claiming that there should be a strong link between job performance and employee's efforts in order to increase performance by enhancing employee motivation. This implies that employees should be able to concretely understand how their behaviour affects the business success. This raises a question on how this is taken care of in the workshops. Are the employees aware of the overall goals and how those goals can be reached? Do employees see a clear link between their daily routines of work and shared goals?

According to our findings, employees tend to be less efficient when they are motivated. Herzberg, in turn, speaks about motivators and hygiene factors in his theories. He argues that certain policies and administrative practices may promote ineffectiveness within the organization. Is this the case in SAIWONG workshops? If employees have a drive to perform, what are the possible reasons hindering them? Are there any internal matters that have an impact on employee's possibilities to perform the best possible way? Or, on the other hand, are there some external, i.e. customer and market related issues, that affect the working context the way that employees are not able to utilize the full capacity of the knowledge they possess?

To speculate further, we can ask if employee motivation efforts are designed properly within SAIWONG. Is this matter monitored by the company executives? Do the initiatives correspond to the requests of workshop employees? In Wiley's study (1997), wages were mentioned as the best motivator among American employees. Reflecting this result upon our findings among European employees, we can address a question, if monetary issues can explain the negative correlation between employee motivation and profitability? Is the motivation driven by a good salary? We may assume that the salary is not based on the performance, since the efficiency does not go hand-in-hand with the motivation. The other motivating factors, i.e. security, promotion and interesting work, as listed by Wiley, cannot be as easily associated with business performance.

Nevertheless, we have to keep in mind that Wiley's study was carried out almost ten years ago. In rapidly changing environment, employee priorities may have dramatically changed. Maybe employees' priorities and preferences are different from those of a decade ago? Maybe in today's workshops employees are motivated by totally different issues? These are interesting but broad topics, but unfortunately we had no chance to investigate them further due to a limited time.

6.6 Relationships between employee attitudes, customer satisfaction and business performance

Earlier in this chapter we have analyzed the relationships between employee satisfaction, customer satisfaction and business performance. We have been able to notice that employee attitudes cannot be directly linked to either customer perceptions nor profitability. On the other hand, we have discussed about the finding that employee satisfaction, employee perceptions on leadership as well as motivation negatively correlates with labour efficiency. Based on these statistical results, the fifth hypothesis (there are positive correlations between employee attitudes, customer satisfaction and business performance) cannot be accepted as a whole.

Viewing this result, we would like to refer to previous studies to give some reasons. Silvestro (2002) concluded that there are specific requirements for service context facilitating to link employee satisfaction to financial performance. He argues that only in services where employees have a high contact with customers and where the role of employees is crucial in value creation is the linkage possible to observe. Additional requirements, as listed by Silvestro, are that the service should involve high labour costs and have only a limited opportunity for technological substitution. (Silvestro, 2002, p. 46)

Silvestro further argues that the linkage type of services should be professional in nature. In his opinion, professional services can be defined as low volume, high contact and high variety services based on the interaction between people instead of equipment contact. These factors can be expected to link employee satisfaction to profitability. In other types of services, such as service shops and mass services, this linkage requires more investigations and evaluation. (Silvestro, 2002)

Going back to our case, the nature and context of provided services differs from the “ideal” context defined by Silvestro. Compared to high-contact professional services like banking, the interaction between workshop employees and customers is more limited due to the nature of service. The main role of employees is to provide well-timed and reliable technical solutions for various customer needs. They do not need to communicate too much with customers and the main responsibility for them is to repair and fix customer products.

The theoretical framework of this paper is based on a widely-discussed assumption that employee satisfaction drives overall organizational performance. Apart from a limited number of contradictory studies, the service profit chain and Wiley’s model seem to be approved by scholars and, especially, by business practitioners like Johnson et al. (1994). Therefore, our reader might address a question, why our findings contradict so dramatically with the hypotheses. The question is not about being right or wrong. We are willing to identify some reasons that may have influences on the gap.

First of all, the formulation of the service profit chain is built on the researches summarizing more than 20 companies rather than one individual company. It could be questioned if the linkages of the model can be reflected and observed in a comprehensive way within one company. Our findings are closer to studies by Silvestro and Cross (2000) as well as Silvestro (2002) than to the theoretical models introduced in the theoretical framework. This can be explained the fact that Silvestro and Cross have also studied one organization, instead of a multiple number of companies. Some of the findings are astonishingly similar to results of our paper. The table on the next page compares the findings.

Studies by	Hypothesis	Measured link	Finding	Statistical significance
Silvestro & Cross (2000)	No hypothesis, but empirically tested	Employee satisfaction and customer satisfaction	Not significant	NA
	H5a: Employee satisfaction is positively correlated with financial performance	Employee satisfaction and store profit margin	Negative correlation	$r = -.870$ (6 stores; significant at 95 percent level)
Ju & Toropainen (2006)	H2: Employee satisfaction is positively correlated with customer satisfaction	Employee satisfaction and customer satisfaction	Not significant	NA
	H4: Employee satisfaction is positively correlated with business performance	Employee satisfaction and labour efficiency	Negative correlation	$r = -.640$ (51 workshops, significant at 100 percent level)

Table 9: Comparing our findings with Silvestro & Cross's (2000) study

Besides, one more methodological explanation may be that the samples of previous studies are from the same district, at least from the same country. In our study, 51 workshops are located in five different countries, which increased the complexity of the whole linkage process.

Second, so far only certain components of the service profit chain have been tested in the studies. Some revealed relationships include customer loyalty and company growth and profitability, employee satisfaction and customer satisfaction and employee satisfaction and capability. Other linkages of the service profit chain are short of evidence. Therefore, they need further investigation. In this study, we have studied a limited number of elements.

Thus, we fully agree that all the linkages should be provided with empirical evidence in order to treat models as comprehensive ones.

Another reason for unambiguous findings could be explained that previous linkage studies have mostly been carried out in dissimilar service contexts or industries. Especially the service profit chain has, in many cases, been tested in banking or retail services. In such services, employees perform tasks that greatly differ from those of blue-collar workshop employees. It is reasonable to assume that different industry, different nature of work and different environments may result in diverse results. Other factors, like demographic factors, age, gender and ethnicity could also have an influence. But in our simplified study, these factors are out of the research scope.

Moreover, the methodologies vary from research to research. No similar attitude surveys have been applied in previous linkage studies. Researchers have either designed the questions of the attitude survey for the purpose of linkage studies or used ready-made attitude surveys of the companies. Various attitude surveys have different focuses which measure working climate in different ways. Besides this, the question selection also has an influence on the indicators, even though the underlying theories most likely are alike. In addition to surveys and questions, also other methodological aspects, such as used scales in questionnaires or sample selection process may explain dissimilar findings.

Finally, we have come across with only one previous linkage study (i.e. Bowman and Narayandas, 2004) conducted in business-to-business environment. Therefore, we can speculate that the service profit chain model needs further evidence of the applicability in business-to-business services.

The above statements are our ways of speculating the reasons for the different findings in our hypotheses. The key point made here is that nowadays the economic environment is complicated. There are many variables associated with the elements of the service profit chain. Hence it is difficult to draw unambiguous conclusions.

CHAPTER 7: IMPLICATIONS AND CONCLUSIONS

7.1 Implications for academic purposes

During our research we have come up with some ideas that provide interesting topics of further study. First of all, because of our limited knowledge on business in this particular industry and even more limited time schedule, it is out of our scope to give explicit reasons for the findings of our research. We believe that a qualitative study within the same industry could solve some issues that remain without answers in this quantitative research. It would also be interesting to investigate if there are specific elements of working climate that lead to better performance in this type service environment.

We further suggest that in future linkage studies, unit size shall be comprehensively integrated into the research model. Additionally, the knowledge on an optimal unit size may be of interest for many organizations. The future study could address a question: What is the ideal unit size that enables teams to achieve superior overall performance (productivity and profitability) without jeopardizing the working atmosphere?

Furthermore, samples of future studies should comprise units in different countries. Existing studies mainly concentrate on one national area at a time. Therefore, it would be challenging to investigate the role of cultural differences in relation to linkages between employees, customers and business performance. We believe that this type of study would be rewarding and meaningful especially for global companies.

Moreover, we do not cover the survey processes of this organization in our paper, but it would be interesting for someone to conduct a study into how the surveys are designed, implemented, interpreted and communicated in this company. Future studies could investigate if questions of surveys are framed in a customized way, if they measure what they are expected to measure. The outcome of surveys should capture employees' real attitudes about working environment in order to drive overall performance. In addition, other interesting topics could be if surveys are utilized to the greatest possible extent in this company and how improvements could be made in future.

7.2 Implications for the company

As an implication for the company, we would like to utilize our cultural heritage and approach the task from an untraditional point of view. Let us tell you a story.

In ancient China, thousands of years ago, on the Northern border, lived a wise, old man. He was known by the name of Sai Wong. One day, one of Sai Wong's horses escaped from the stable and ran across into the territory of the hostile Hu people. All Sai Wong's neighbours came to comfort Sai Wong, and hoped he would not be too upset about the news. To everyone's surprise, Sai Wong was not affected by the news at all, and said with a smile: "A horse running off might turn out to be a good blessing in disguise."

Several months later, the runaway horse returned with a fine horse. When the neighbours heard the news, they congratulated Sai Wong. This time, Sai Wong frowned and said to everyone: "Getting a fine horse for nothing is probably a bad omen in disguise."

Sai Wong had a son who enjoyed horseback riding. One day the son accidentally fell off the horse and broke his leg. Sai Wong's neighbours came to comfort him and asked him not to take it too hard. Surprisingly Sai Wong said calmly to everyone: "My son breaking a leg might be a blessing in disguise!" His neighbours were all confused by his response and doubted if Sai Wong had lost his senses because of grief.

However, soon after the incident, Hu people began a large-scale invasion against China. All the young men were summoned to join the army and defend the country. Since the Hu people were very daring and skilful at fighting, most of those young men were killed on the battlefield. Yet, Sai Wong's son survived the war because he did not have to join the army due to his broken leg. It was only then Sai Wong's neighbours discovered the wisdom hidden in man's words

Sai Wong's wisdom inspired us to call our case company SAIWONG. These two, an old Chinese man living thousands of years ago, and an international business enterprise facing

the fierce competition of the 21st century are distant from each other. Still, they have some things in common. They both confront constant challenges and changing situations. In addition, they both have one thing to lean on: their intellectual capital.

SAIWONG assigned us to study linkages between employee attitudes, customer satisfaction and business performance. The premise, set by existing studies, indicated that satisfied employees would eventually result in superior business performance. Results of our research, though, indicate that the linkage is not that obvious. Furthermore, we found some relations that may be surprising and easily discarded. “Sai Wong lost his horse, but maybe it is not a bad thing”. The story teaches us that we cannot just superficially judge whether something is a blessing or a bane. Everything can be converted. There is a huge potential to go in an opposite direction when things go smoothly. Also, there is a huge potential for misfortune to turn into good fortune when you run into greater challenges. Just like in today’s business environment. Sudden difficulties may confuse an entire industry, but can also provide hidden opportunities. In other words, bad news on “losing a horse” can be interpreted as a chance to increase knowledge and thereby get a better competitive edge.

Referring to the findings of this study, we hope that SAIWONG has learned something that can be transferred to future success. We cannot provide exact recommendations on how to proceed, but we believe that the intellectual capital within the organization is adequate in order to take appropriate actions. We suggest that SAIWONG pays attention to these results and further investigates what they mean in practice.

In addition to the above implications of the ancient Chinese story, we would like to share some more concrete observations and ideas. During the process of data collection and data treatment, we realized that a particular SAIWONG workshop is monitored by a number of professionals. Marketing experts run customer satisfaction surveys and human relations (HR) professionals are involved in reviewing employee attitudes, whereas financial department is interested in “hard data” of the unit. Each of these departments has a different code or sometimes even a name for a particular workshop. As a result of non-coordination, we found it complicated to carry out a linkage study. How smoothly does the coding system work in everyday practices? Maybe a unified coding system could be developed in order to compare, monitor and communicate workshop related issues more effectively.

Results of the research indicate that the more efficient the employees, the less satisfied and motivated they are. In an attempt to explain this finding, we speculate that one reason could be the work load, i.e. stress. We looked through the employee attitude survey and found that there is only one question (Question 50) related to the stress issue and it is based on team level. In the future, in order to make such a linkage study, it would be essential to have some questions assessing how employees perceive stress or pressure in their work. It would be good to reflect this upon the employee attitudes and labour efficiency. When it comes to motivation, we believe that SAIWONG would benefit from further investigations on drivers of employee motivation. We suggest that company executives should consider involving motivation issues more comprehensively in the employee attitude survey.

In addition, labour efficiency is measured based on corporate standard working time. However, as we introduced before, there is a large discrepancy of the usage of the Standard Time System in different workshops and different countries. Also, some Standard Time is not accurate and not timely updated. Therefore, it would be advantageous for the company to revise and update the Standard Time System according to current operations. In future it would be meaningful to investigate the percentage of Standard Time usage in all workshops, and hence to make productivity measurements, e.g. labour efficiency more precise and realistic. Maybe these investigations also explain the contradictory findings between labour utilisation and labour efficiency.

Furthermore, one of the important suggestions for the managers could be not to take the ideas from management books or consultants without doubt. Basically this means that executives should carefully investigate the applicability of matters in their own business setting. For example, service profit chain implies that employee satisfaction drives business performance. In this paper, we conclude that this is not the case in this specific company. However, we suggest that decision-makers further investigate the actual drivers of business performance, now and in the future.

7.3 Conclusions

In this paper we have examined the outcome of employee satisfaction in relation to customer satisfaction and business performance, i.e. profitability and productivity. Additionally we have studied the relationship between employee satisfaction, leadership and motivation. An international business-to-business service network has provided an empirical framework for the study. Based on previous studies, such as Heskett et al.'s service profit chain and Wiley's linkage research model, we have formulated five hypotheses that have become statistically tested in the second part of the thesis. Only two of them were validated by the results.

The results of the empirical study indicate that employee satisfaction, leadership and motivation are closely related issues in employee's perceptions. According to the findings, abovementioned factors nourish each other in the case company.

When it comes to relationships between employee attitudes, customer satisfaction and business performance, linkage research models as such do not apply to our case company. We found that there is no correlation between employee satisfaction and customer satisfaction. Moreover, employee satisfaction cannot be statistically significantly associated with profitability. On the other hand, employee satisfaction as well as employee motivation and perceptions on leadership were found to be negatively related to labour efficiency, which implies that the more productive employees, the less satisfied they are; or the other way around, the more satisfied employees, the less productive they are.

Linkage research models suggest that customer satisfaction can be linked to business performance. This assumption became empirically validated by the results of this study. We found that customer satisfaction has a significant correlation with profitability indicators.

In this study, we have also investigated the impact of unit size on employee attitudes and business performance. Correlation analysis between unit size and performance indicators confirmed only one statistically valid connection, i.e. the one between unit size and workshop turnover. Quite obviously, bigger workshops tend to sell more.

In this paper some findings are striking, but according to SAIWONG professionals, they are not completely surprising. Company executives will strive for seeking possible explanations behind the results. We have speculated some possible reasons for the research results. Some of the reasons are derived from the business-to-business environment of the case company. However, we are neither involved in daily operations of the company nor well aware of the nature of the business within the particular industry. Consequently, we cannot provide explicit explanations for the findings. Further investigations are needed in order to comprehensively understand the driving factors of the findings.

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APPENDICES

Appendix 1: Variables in SPSS file

Actual unit size Mean of the questions other variables

SampleNo	Country	UnitSizeExpResp	ESI	Q28	Q33	Q34	LI	Q10	Q14	Q23	MI	Q29	Q79	Total_Sales	Total_Sales_Per_Employee	
1	1	1	26	3,7	4,1	3,8	3,2	2,7	2,6	2,5	2,9	3,0	3,2	2,7	3393954	130536,7
2	2	1	13	4,2	4,6	4,2	3,8	3,7	3,4	3,7	3,9	3,9	4,2	3,6	1716923	132071,0
3	3	1	22	3,7	4,1	3,8	3,3	2,4	2,5	2,7	2,1	3,0	3,1	2,9	2949386	134063,0
4	4	1	20	4,2	4,5	4,4	3,7	3,2	3,4	2,9	3,4	3,6	3,6	3,6	1908956	95447,8
5	5	1	12	4,0	3,9	3,9	4,1	3,7	3,8	3,6	3,7	3,7	3,7	3,7	2115004	176250,3
6	6	2	9	4,1	4,6	4,2	3,4	4,3	4,3	4,2	4,2	4,2	4,3	4,1	967548	107505,3
7	7	2	23	4,2	4,6	4,4	3,5	4,0	4,1	3,8	4,2	4,1	4,4	3,9	2422046	105306,3
8	8	2	5	3,9	4,6	4,2	3,0	3,9	3,8	4,0	3,8	4,2	4,5	3,9	893676	178735,2
9	9	2	17	3,6	4,3	3,7	2,8	3,4	3,7	3,6	2,8	3,7	4,1	3,3	2299416	135259,8
10	10	2	13	3,8	4,3	4,3	2,8	3,6	3,4	3,8	3,8	3,8	4,2	3,3	1906131	146625,5
11	11	2	11	3,6	4,0	3,8	3,0	3,0	2,9	2,9	3,3	3,5	3,7	3,3	1671899	151990,8
12	12	2	14	3,6	4,3	3,9	2,5	3,9	3,7	3,9	4,0	4,1	4,2	4,0	1450201	103695,8
13	13	2	29	4,1	4,5	4,1	3,8	3,4	3,3	3,6	3,3	3,6	4,0	3,1	4016675	138506,0
14	14	2	5	3,7	4,6	3,8	2,6	4,4	4,2	4,4	4,6	4,3	4,4	4,2	1054355	210871,0
15	15	2	8	3,7	4,1	4,1	2,9	3,6	3,4	4,0	3,3	3,8	4,0	3,6	1214542	151817,8
16	16	2	9	4,3	4,6	4,3	3,9	4,2	4,1	4,3	4,2	4,3	4,2	4,4	1356719	150746,6
17	17	2	9	4,1	4,4	4,3	3,4	3,9	3,8	3,9	4,0	4,1	4,3	3,9	1559270	173252,2
18	18	2	30	3,9	4,2	4,1	3,5	3,4	3,4	3,5	3,4	3,9	4,3	3,4	5702462	190082,1
19	19	2	9	4,5	4,8	4,6	4,2	4,4	4,0	4,7	4,6	4,1	4,6	3,7	1670564	185618,2
20	20	2	27	4,3	4,4	4,4	4,1	4,2	4,2	4,3	4,2	4,0	4,3	3,7	4575598	169466,6
21	21	2	11	3,9	4,0	4,1	3,5	3,7	3,7	3,7	3,5	4,0	4,4	3,7	1776644	161513,1
22	22	2	7	4,0	4,8	4,5	2,8	4,4	4,6	4,1	4,5	4,5	4,6	4,4	1178465	168352,1
23	23	2	22	4,3	4,5	4,4	3,9	4,1	4,1	3,9	4,2	4,1	4,5	3,7	4432876	201494,4
24	24	2	9	4,3	4,3	4,4	4,0	4,1	4,0	4,3	4,1	3,9	4,1	3,8	1464198	162688,7
25	25	3	24	3,9	4,3	3,8	3,6	3,3	3,5	3,1	3,3	3,7	3,9	3,5	4883053	203460,5
26	26	3	21	3,8	4,2	3,7	3,6	3,2	3,2	2,9	3,4	3,7	3,9	3,5	3579262	170441,0
27	27	3	7	3,7	4,1	4,0	2,9	3,1	2,9	3,0	3,6	3,2	3,8	2,7	1644063	234866,1
28	28	3	17	3,9	4,2	3,9	3,6	3,6	3,8	3,6	3,6	3,8	3,9	3,7	3815544	224443,8
29	29	3	23	4,2	4,2	4,4	3,9	3,7	3,8	3,3	4,0	3,9	4,0	3,8	4063691	176682,2
30	30	3	6	3,3	3,4	3,8	2,8	3,2	3,0	3,0	3,5	3,0	3,3	2,8	1425535	237589,2
31	31	4	31	3,7	4,1	3,8	3,3	3,6	3,7	3,4	3,7	3,6	3,8	3,3	5273571	170115,2

Appendix 2: Table of central findings

Correlations between the most central variables

n = 51	Employee perspective			Customer perspective	Profitability			Productivity	
	Empl. Satisfact	Leadership	Motivation	Customer Satisfaction	Total Worksh. Turnov.	Gross Profit Margin	Contribut. in % of Sales	Labour Utilisation	Labour Efficiency
Employee Satisfaction	1	r = .598** p = ,000	r = .682** p = ,000	r = -.036 p = .802	r = .123 p = .389	r = -.112 p = .433	r = -.211 p = .138	r = .019 p = .894	r = -.640** p = .000
Leadership		1	r = .767** p = .000	r = -.128 p = .371	r = -.069 p = .632	r = -.326* p = .020	r = -.237 p = .094	r = .323* p = .021	r = -.195 p = .170
Motivation			1	r = -.137 p = .339	r = -.081 p = .571	r = -.383** p = .006	r = -.279* p = .047	r = .281* p = .046	r = -.368** p = .008
Customer Satisfaction				1	r = .035 p = .806	r = .464** p = .001	r = .364** p = .009	r = .037 p = .797	r = -.069 p = .632

Appendix 3: Table of country level findings

(Correlation between employee satisfaction index and business performance indicators)

ESI in Country	Workshop N (total n = 51)	Total Workshop Turnover	Gross Profit Margin	Contribution in % of Sales	Labour Utilisation	Labour Efficiency
Germany	5	r = -.950* p = .013	r = .395 p = .511	r = .500 p = .391	r = -.061 p = .923	r = -.600 p = .285
France	19	r = .273 p = .258	r = -.104 p = .673	r = -.309 p = .198	r = -.348 p = .144	r = -.104 p = .671
Norway	6	r = .815* p = .048	r = -.549 p = .260	r = -.706 p = .117	r = -.519 p = .292	r = -.636 p = .175
Sweden	16	r = .154 p = .569	r = -.263 p = .325	r = .130 p = .631	r = .387 p = .138	r = -.701** p = .002
Switzerland	5	r = .080 p = .898	r = .586 p = .300	r = -.547 p = .341	r = -.713 p = .176	r = -.498 p = .393

Appendix 4: **Personal reflections – What did we learn?**

Our thesis work started in May 2005. At that time, we first discussed about possible thesis topics with our supervisor, Stefan Tengblad. Now, eight months later, we can look back with diverse feelings. During these months, we have faced difficulties, frustration, accomplishment and delight. We can proudly say that we have exceeded our personal learning objectives and increased our interest in management studies. In the following part, we would like to reflect some learning experiences along the thesis journey.

First, we must admit that this thesis work has turned out to be a huge project. It has brought along challenges and surprises. The main contents of the paper cover the majority of the themes we have studied in the MIM (Master of Science in International Management) programme. For example, when searching for suitable references and writing the paper, we have digested theories on employee perceptions, leadership, motivation, customer satisfaction, business performance, performance measurement... And still, we feel that we have managed to balance this broad area of interest. In addition, our knowledge in quantitative study methods was very limited in the beginning. It was funny to see Chinese, English and Finnish versions of statistical books on our tables. For these reasons, our thesis work has been more challenging than any of our previous work.

Second, we are happy to have been able to get first hand data from the company. It has been interesting and rewarding to investigate real life phenomena in such a big and global organization. The whole process has been full of unexpected moments. In the beginning we were positive that our empirical findings would correspond to the theoretical framework. We were completely shocked when we realized that the reality was different from the theories. First we questioned our statistical understanding, then the data and finally ourselves. After careful double-checks and reanalyses, we had only one choice: to abandon the premise of what we had learned from journals and management books. That moment took us back to brain storming. We made full use of our brains to think of the possible and imaginary reasons for the results.

Third, this project has been an educating experience on time management. We started a preliminary research during summer holidays. We set up our time schedules and

deadlines of each part and adjusted them to continuous changes. Even the orientation of the study was changed due to increased interests. In fact, it was quite late when we finally got the comparable data. However, with a hard work and voluntary efforts, we are able to report the outcomes of the data in this paper. Therefore, we can say that we managed to manage the limited time effectively. Naturally, there is always space for improvements.

Fourth, it is a good experience for two international students to work together for such a long time. In spite of different cultural, professional and linguistic backgrounds, we have shared the same interest and ambition in the thesis research. We are pleased to notice that we have been able to utilize our different strengths in a natural way. A constructive atmosphere was created in the very beginning of the work, which has enabled us to encourage and constructively criticize each other as well as recognize each other's efforts.

It is difficult to briefly summarize all the learning experiences that we have obtained during the thesis studies. Therefore, we simply conclude that it has been extremely rewarding to take this journey. We are confident that we will benefit from these experiences.

In search of new challenges,

Linlin and Milla