



The Relationship Between Strategic Management, Employee Engagement on Customer Satisfaction and Customer Loyalty (Newest Empirical Approach 2013-2015): A Conceptual Model

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ABSTRACT

Objective – Customer satisfaction is the main goal of every company's strategy for maintaining its global/local business. However, achieving Customer Satisfaction needs strategic management commitment which is related to how the shareholders and executives plan their business investment in employee engagement. The purpose of this study is to reveal the collaboration of the strategic management and employee engagement for achieving customer satisfaction.

Methodology/Technique – The study employs the analytical method (literature study) to analyse data gained from literature review

Findings – The relationship between strategic management, employee engagement and customer satisfaction is revealed. It is also noted that customer dimension, in the newest context, is goods or service value plus value added from positive emotion, expectation, switching cost.

Novelty – This study explores employee engagement and customer satisfaction from the newest literature review combined with four strategic management's newest book literature.

Type of Paper: Review

Keywords: Strategic Management, Employee Engagement, Customer Satisfaction

JEL Classification: M10, M12, M31.

1. Introduction

Customer satisfaction plays an important role in business. It determines the company's success and it is "important because it provides marketers and business owners with a metric that they can be used to manage and improve businesses" (Al-Ghamdi, 2016). In addition, customer satisfaction is required in business because it is the leading indicator of consumers' repurchase intention and loyalty. It is a point of differentiation as it decreases customer churn but increases customer lifetime value. It also reduces negative words of mouth, and it ensures customer retention far more effectively than seeking new customers. The importance of customer satisfaction has been proven in the US where almost 45 percent of the US customers will cancel their transaction if their questions were not responded to well by the company's service staff (Banfield, 2016). Thus,

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in its aim to fulfil customer satisfaction, every company needs to respond quickly to its customers' queries which thereby, creates a customer-focused culture, making the transaction a personal (not only think about business but caring too) business transaction and then using customer loyalty to its advantage (Banfield, 2016). The importance of customer satisfaction has been evidenced by studies (Olsen et al., 2014; Basuroy et al., 2014) which conclude that customer satisfaction depends on the service that employees give to customers. The way employees serve the customers is related to how the employees are serving their company. This means that customer's delight or satisfaction is related to the employees' work engagement (Barnes et al., 2014) or employee engagement (Mackay et al., 2016; Chang, 2016). Even though the relationship between customer satisfaction and employee engagement may be very close, a few research notes that the relationship between them could also be attributed to the psychological conditions occurring between customers and employees which differs from each other independently.

Employee engagement, as the main cause of employee service dedication at the workplace, plays an important role in boosting company performance through customer satisfaction. However, employee engagement itself needs company commitment. In its purpose to achieve employee engagement, the organization needs commitment to achieve customer satisfaction. In other words, employee engagement never stand-alone without organizational support. Gustafsson and Johnson (2003) cited in Barnes et al. (2014) say that work engagement (employee engagement) can be built from service firms design and how the company infrastructure commits to forecasting customer demand. Thus, Andrews and Kacmar (2001) and Barnes et al., (2014) mention that involvement in job is the cause of good employee engagement. It can indicate job involvement if the companies provide good conditions for career development. In other words every company should have the commitment to achieve employee engagement. From the evidence shown, it can be concluded that employee engagement could not happen without organizational commitment which by itself, leads to strategic management.

Strategic Management, as the employee engagement activator, embraces the whole sector in every organization including how an organization manages its human resources. Strategic management manages the whole organization's function such as culture, images, identity, leadership, mission, goals, objectives, and organizational structure, product/market scope, profitability, competitive edge, financial specifications, expenditures, innovation and technology, employee development/productivity, sources, synergy, risk, legitimacy (satisfaction of stakeholders) and ideological leadership (Fenik, 2001). Based on Fenin (2001), it can be concluded that strategic management is the comprehensive tool to manage the entire organization. Employee engagement is the main tool that creates good service which then leads to customer satisfaction. All these are controlled by strategic management. How the company creates employee engagement depends on the organization's commitment on employee development which is contained in its strategic management (Fenik, 2001). Even though they are interconnected, their relationship has not been discussed deeply.

Consequently, the purpose of this research is to describe the relationship between employee engagement, customer satisfaction, and strategic management simultaneously. This study will analyze the relationship between employee engagement, customer satisfaction and strategic management through a deep analysis of the newest literature reviews published from 2013 to 2015 (for journal). It is important to gain insight into the newest information for this conceptual framework so as to be able to uncover the relationship between employee engagement, customer satisfaction and strategic management in a clear and updated manner.

2. Review of literature

2.1. Definition of Customer Satisfaction

Customer satisfaction is defined as how the company is oriented towards understanding its customers by considering or providing high values to them continuously (Olsen et al., 2014). In their study, Olsen et al., (2014) were concerned about creating customer satisfaction measurement and turning it into action especially in how service firms design, collect, analyze and use data from customer satisfaction to improve service

performance (Olsen et al., 2014). The research conducted on 320 service firms and a multiple case study of 20 organizational units at a large firm in the European telecom industry (Olsen et al., 2014) showed that customer orientation (finally to create customer satisfaction) consist of a process that includes three phases: strategy, measurement and analysis and implementation in turning customer orientation into customer satisfaction (Olsen et al., 2014).

Customer satisfaction is feeling pleased from the customer's point of view. Nonetheless, customer satisfaction can cause products or services obtained to be valued positively and this satisfaction is associated with the CEO's compensation and firm value (Olsen et al., 2014). The study investigated note how CEO compensation or CEO wealth led to non-linear stock price changes and how CEO compensation or wealth create customer satisfaction. Nonetheless, this was weakened by other high product-market competition. The CEO's compensation clearly influences stock price changes and firm values which then leads to customer satisfaction (Basuroy et al., 2014). Gathering data from 200 respondents, the research by Olsen et al. (2014) focused on gathering data from 200 respondents and 165 companies for analysis.

Customer satisfaction is related to emotional labor and job satisfaction (Hur et al., 2015). In their study, Hur et al., (2015) say that customer satisfaction is the manifestation of positive emotions and attitude towards the service worker. It is an assessment of the service worker's emotional state (Hur et al., 2015). Moreover, Hur et al., (2015) relate job satisfaction with psychological conditions such as deep acting and surface acting aswhihc is claimed to be manifestations. Surface acting focuses on "the responses to the customer, which occurs when service employees modify expressions that are visible on the surface without genuinely changing how they actually feel". Deep acting is "modifying their inner emotional state by changing the antecedents (for example the situation or the perception of the situation) so that an authentic emotional display can follow" (Hur et al., 2015). Thus, surface acting and deep acting are related to job satisfaction (mediated variable) and customer satisfaction (Hur et al., 2015). The study by Hur et al. (2015) focused on 282 dyadic survey data taken from the service interactions between customer and service employees from home caregiver firms in South Korea (Hur et al., 2015). The findings note that employee's emotional regulation strategies of deep acting and surface acting differentially affect customer satisfaction and that employee's job satisfaction mediates the relationship between employee's emotional regulation strategies and customer satisfaction. More specifically, the relationship between surface acting and customer satisfaction is fully mediated by the employee's job satisfaction, whereas the relationship between deep acting and customer satisfaction is partially mediated by the employee's job satisfaction" (Hur et al., 2015).

Customer satisfaction involves good services which can lead to customer satisfaction and customer loyalty (Kursunluoglu, 2014). Customer satisfaction is defined here as a degree of meeting the needs of the customer at the end of a purchase and making evaluations on how much the retailer could meet or exceed customer expectations. This is a function of pre-sale expectations and post-purchase perceived performance (Kursunluoglu, 2014). Loyalty as the final destination derived from customer satisfaction is defined here as a commitment that is formed profoundly by being a steady customer or purchasing the preferred product or service again in the future (Kursunluoglu, 2014). Services that are related with customer satisfaction and customer loyalty involve: (1) prices tags, (2) short waiting time, (3) clean restrooms, (4) faster transactions, (5) warranty policy, (6) availability of clean shopping center in general, (7) easy product return policy, (8) solving customer complaints quickly, (9) ventilation system, (10) customer complaint units, (11) organized shopping center, (12) shopping possibility in a wide environment, (13) security department, (14) facilities for disabled customer, (15) availability of sales personnel, (16) customer information unit, (17) announcement and notice boards facilities, (18) and lost property unit facilities (Kursunluoglu, 2014).

Research findings from Kursunluoglu (2014) also note that four factors out of eight factors had an effect on customer satisfaction and loyalty. The study indicates that customer service atmosphere (CSA) affected

both satisfaction and loyalty whereas incentive customer services (ICS) and customer service about payment (CSP) affected only loyalty.

Customer satisfaction is perceived to be about product prices compared with sacrifice costs and it takes place when switching costs (Matzler, 2015). Switching cost is “cost perceived, anticipated, and/or experienced by a buyer when changing a relationship from one seller to another” (Matzler, 2015). Thus, switching cost is the moderator between customer satisfaction and customer loyalty. Switching cost can be grouped into three higher levels namely: (1) procedural switching cost (concern about time and effort primarily), (2) financial switching costs (customer concern about loss of financially quantifiable resources) and (3) relationship costs (concern about psychological and emotional discomfort) and perceived quality of a relationship and a company’s offers (Matzler, 2015). The research participants involved in Matzler’s (2015) study were 400 customers from an ICT company with a respond rate of 82% (Matzler, 2015). The research findings revealed that switching cost acts as the moderator variable between customer satisfaction and customer loyalty (Matzler, 2015).

In his study, Raza (2015) defines customer satisfaction as a measure of the performance of an organization’s product or service based on feedback/correspondence to customer needs (Raza, 2015). Additionally, Raza (2015) notes that measuring customer satisfaction involves seven variables namely: assurance, empathy, reliability, responsiveness, tangibility. Data were collected from 400 respondents who were users of Internet Banking of different banks located in the Karachi city of Pakistan (Raza, 2015). The research findings revealed that assurance, tangibility, reliability, and responsiveness as the booster for customer satisfaction (Raza, 2015).

From the many studies noted, it appears that customer satisfaction can be seen as a feeling of being pleased with the value obtained from the company, the positive emotions which were expressed as good attitudes by the employees, a matched degree because the meeting between needs and customer expectation (pre-sale expectation and post-purchase perceived performance is met). Customer satisfaction is well perceived because of conformity about switching cost that the company has given to the customer based on the goods or services transaction.

2.2. Building relationship between customer satisfaction, employee engagement, and strategic management from the combination (customer satisfaction, employee engagement, and strategic management)

Olsen et al. (2014) provide evidence to prove that customer orientation which leads to customer satisfaction needs to involve strategies, measurements and analysis and also implementation. This research by Olsen et al. (2014) explores the relationship between company strategy, measurement (how the company measure accurately the indicator of customer satisfaction) and implementation (how well the company practice the strategy, analysis, and measurement that already planned). It was noted that the strategy, measurement, and implementation should be supported by employee performance although logically, good services cause good performance or positive attitudes (Olsen et al. 2014). Thus, positive attitudes could be taken by employee engagement (Barnes et al., 2014). According to Barnes et al., (2014), positive attitudes is the result of work engagement (employee engagement). Thus, work engagement causes employee’s positive attitudes and employee’s positive attitudes lead to work engagement outcomes and customer delight or satisfaction (Barnes et al., 2014). Meanwhile, work engagement (employee engagement) contains vigor, dedication (work filled with meaningful purpose, enthusiastic about job, inspiring job and workplace) and absorption (Barnes et al., 2014). A job that is filled by an employee who has a purpose, is enthusiastic (dedication part) about his/her job and a good workplace could not happen if the companies do not provide a workplace that suits the organization’s commitment. Moreover, employee engagement, based on theory and research in social, educational, and organizational psychology indicate that elements like enthusiasm for development (openness to experience), hard effort, focus on attention, perception of setbacks and interpersonal interactions should support the organizational, managerial, and individual’s level of initiatives (Keating & Heslin, 2015). Previous statements have proven that organization commitment to employee engagement could happen without strategic

management. This is supported by Fenik (2001) who says that strategic management of generic groups with long-term objectives should pay attention to a number of things such as (1) product/market scope, (2) profitability, (3) competitive edge, (4) financial specifications, (5) innovation and technology, (6) employee development/productivity, (7) source of and deployment of resource, (8) synergy, (9) risk, (10) legitimacy and (11) ideological leadership. Fenik (2001) also adds that strategic management covers marketing, production, finance and accounting, HR, information systems and quality of all transactions. From Fenik's (2001) explanations, it can be summarized that organization commitment can be implemented only by strategic management because organization policy is accomplished through strategic management.

The second evidence drawn to support this customer satisfaction claim is the work of Matzler (2015) who shows how customer satisfaction is perceived. he argues that product price is compared with sacrifice cost or switching cost which is described as "cost perceived, anticipated, and/or experienced by a buyer when changing a relationship from one seller to another" (Matzler, 2015). Thus, Matzler (2015) explains that switching cost is a moderator of customer satisfaction and customer loyalty. Switching cost can be grouped into three higher levels of: (1) procedural switching cost (concern about primarily time and effort) (2) financial switching costs (customer concern about loss of financially quantifiable resources) and (3) relationship costs (concern about psychological and emotional discomfort) and perceived quality of a relationship and company's offers (Matzler, 2015). Thus, switching cost cannot be implemented if the employees do not support that program. Employees supporting the program will only happen if the employees are engaged at their workplace (research about work engagement and customer delight) (Barnes et al., 2014). Organizations should facilitate the employees first before they could get engagement such as safety facilitation (Whiteoak & Mohamed, 2015). Switching cost should therefore, consider how the organizations are committed to their programs about profitability and employee development (productivity) (Fenik, 2001). From the economic theory perspective, strategic management is that which supports organizations through overview research strategies. The *economics theory of the firm*, *evolutionary theory of the firm*, *resource based theory of the firm*, *knowledge based theory of the firm* are all related to the importance of making profits from the knowledge approach (Choo & Bontis, 2002) and how to manage the resources in their organization evolution and strategy (Durand, 2006) (Farndale et al., 2014). Both customer satisfaction and engagement have correlation with each other but it was only mentioned implicitly. Neither it nor strategic management is the important part in this study.

The third evidence noted is traced to the study by Raza (2015) who mentions that customer satisfaction depends on correspondence from customer needs. Thus, customer satisfaction psychology is divided into assurance, empathy, reliability, responsiveness, and tangibility (Raza, 2015). Employee assurance, empathy, reliability, responsiveness, and tangibility can stand-alone but there are other antecedents before they happen. All belong to the positive attitude of trust (ex: OCB, self-determination) and empowerment (willingness to do effort serve other person more than standard) which were both delivered to employee engagement (Ugwu et al., 2014). Empathy is one aspect of customer satisfaction that relates to how the employees pay attention deeply to customer difficulties. Such employee empathies need organization support which then leads to engagement in the organization process. CSR is the practice in the organization to improve employee empathy (relate with social context) thus, CSR also creates engagement (Ferreira & Oliveira, 2014). Ferreira and Oliveira (2014) note that CSR is the factor that expels engagement inside the internal employee naturally. In purpose to achieve psychological conditions that meet customer satisfaction, employee participation is needed. Employee participation needs to be actively developed and this can be achieved by organizations that engage their employees through organization facilities such as organization aligning (Farndale, Kelliher, & Hope-Hailey, 2014). Consequently, organization aligning has a purpose to achieve through employee engagement which needs organization commitment, thereby providing the organization structure (Fenik, 2001) as well as engagement purpose. Organizations based on knowledge sharing needs (Choo & Bontis, 2002) to implement engagement. Choo and Bontis (2002) say that (1) knowledge is the overwhelmingly important and productive resource in terms of market value and primary resource, (2) Different kinds of knowledge is not easy to transfer (3) Knowledge is the subject of economic scale and scope, (4) Knowledge is created by human beings and

made efficient, (5) Produce goods and services needed for the application of knowledge. Based on the explanation, it can be concluded that customer satisfaction is created from good services which belongs to good employee engagement and engagement itself is based on strategic management as the final tool to make all those mentioned above happen.

3. Result

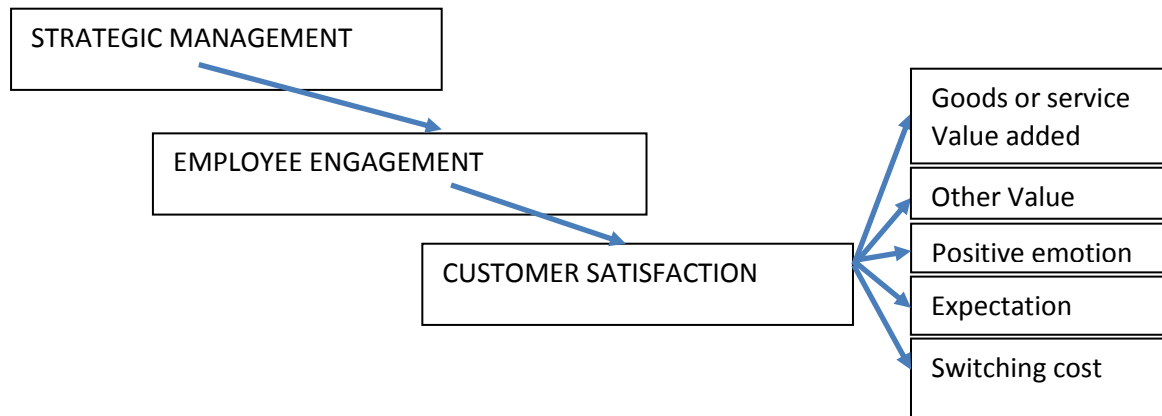


Figure 3. The Relationship between Strategic Management, Employee Engagement, and Customer Satisfaction

The conclusion of this paper is that first, strategic management is the representation of organization commitment to deploy employee engagement. Second, employee engagement is the representation of good quality service (as an outcome) that will lead to customer satisfaction. Third, the dimension from customer satisfaction that should be concerned by companies is the good/service value added, other value added (ex: deep or surface service represent as reliability, assurance etc.), positive emotions, expectation, and switching cost.

4. Discussion

Finally, it is necessary to think comprehensively in achieving customer satisfaction because by itself, customer satisfaction can only be gained through employee engagement and strategic management. Organizations can only be successful if they could align their strategic management with employee engagement as the sustainable process for achieving customer satisfaction. In addition, this study compiled from the many literatures around the world as data for analysis. In that regard, it would be suitable for some companies if not all, to implement the concept on small medium enterprises which are not professional based on their human resource. Also, since it is not supported by a professional system, the concept could not be implemented properly. Investigating the specific manner will probably show how this concept develops more complex for example, future research should pay attention to variables like gender, leadership style, marital status and so on.

Even though this study has used the latest literature, it is not possible to open new dimension yet. Remembering that the development of technology is rapidly growing, global conditions need to be considered as reality has forced many multinational companies to think comprehensively on how to play their roles globally and act locally. This means that every organizations, especially profit oriented organizations, should be globally oriented. However, when they have established or built their factory in some countries, they should adapt local culture and market intentions to their businesses.

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