

IMPACT OF EMPLOYEE SATISFACTION ON FINANCIAL PERFORMANCE THROUGH MEDIATING EFFECT OF CUSTOMER SATISFACTION: A CASE STUDY OF LIFE INSURANCE CORPORATION OF PAKISTAN

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ABSTRACT: By utilizing service-profit-chain framework as the theoretical base, the main purpose of this study is to examine the relationships between employee satisfaction, customer satisfaction and financial performance in leading life Insurance Corporation of Pakistan. Specifically, this study examines two major relationships: (1) the direct relationship between employee satisfaction and customer satisfaction and (2) the indirect relationship between employee satisfaction and financial performance through mediating role of customer satisfaction. A quantitative research design is employed and data is collected by distributing 600 questionnaires to the customers and professional, administrative & support staff working in different branches of life Insurance Corporation. Factor analysis, reliability, correlation, and regression analysis are performed to test the direct and mediating relationship between key variables. Findings suggest that there is significant relationship between employee satisfaction and customer satisfaction. Finally, customer satisfaction partially mediates the relationship between employee satisfaction and financial performance. Moreover, the managerial and theoretical implications of the study along with limitations and suggestions for future research have also been discussed.

Keywords: Employee satisfaction, customer satisfaction, financial performance, Pakistan

1. INTRODUCTION

In response to the driving forces of technological advancements, globalization, increasingly competitive markets, and volatile market dynamics, many firms are dynamically seeking ways to add value to their customer services through taking care of their work force. Companies remain competitive if they respond efficiently and promptly to the changing needs of the customers and give better financial returns to their owners [1]. Therefore, customer satisfaction has been one of the most important and interesting topics in recent years. A number of research studies examined the positive relationship between employee satisfaction and customer satisfaction [2, 3, 4, 5, & 6]. As a consequence of this positive employee-customer relationship, the employee satisfaction has become a decisive subject within the preceding two decades and received significant attention from researchers [1, 7]. Undoubtedly, due to the nature of service industry, employee satisfaction is very critical [8]. Employee satisfaction depends on the different characteristics of the job e.g. age, educational level, gender, working conditions, relationships with co-workers & supervisor, pay, locus of control, self-esteem, training & development, employee involvement & feedback, promotion & advancement, work environment, management politics, organizational policies and the nature of the job itself [9, 10, 11, 12, & 13]. According to the "service-profit chain" satisfied employees will be satisfied if they are provided with the better quality working atmosphere. They are not only satisfied but also turn out to be loyal employees of the company and become capable of providing customers with first-rate service experience. As a result of that, customers will recognize and value the terrific services presented to

them. Over the time, this will lead to the loyal behavior of customers in terms of continued purchases and increased referrals, which ultimately results into increased market share and the profitability of service sector which is playing an increasingly important role in the global economy and the growth and development of countries [14, 15, 16, 17, & 18]. Employee's know-how and skills are the strong intangible assets for every company, but this is more concerned in service companies as in service firms front-line employees are engaged more in direct customer dealings. Service firm's future performance depends heavily upon the skills, abilities and employees perception of quality relations among customers and employees [7]. Hence for service firms to be successful in this global competitive environment, establishing and retaining long-term customer relationship is of principal importance.

In Pakistan, total contribution of service sector in country's GDP is 54% out of which 24% is from insurance sector along with storage, communication, transport and finance. Now the insurance companies are not only focusing to sale more insurances but also trying to retain and build the strong relationship with existing customers to increase the profit. So, it turns out to be more workable for us to study employee satisfaction in the leading life insurance corporation of Pakistan.

Although, number of studies have been conducted on the relationship between employee satisfaction and customer satisfaction [2, 3, 4, 5, 6, 20, 21, & 22]; however, there are only few empirical studies which by focusing on service-profit chain recommend that satisfied employees and customers are likely to result in better financial performance; hence, empirically testing of this relationship has not received much attention [23]. Moreover, in Pakistan,

numbers of research studies are conducted on the factors of employee satisfaction in terms of leadership, team work, autonomy, intrinsic rewards, extrinsic rewards and work motivation [24, 25]. However, there are very few research studies that investigate direct relationship of employee satisfaction and customer satisfaction [26, 27] and to the best knowledge of the authors of this study; there is no single study in Pakistan which empirically tests these relationships collectively. Therefore, this study aims to answer the following research questions:

- 1) Is there any direct empirical relationship between the employee satisfaction and customer satisfaction?
- 2) Is there any indirect relationship between employee satisfaction and financial performance through customer satisfaction?

Therefore, this paper aims to empirically examine the direct relationship between the employee satisfaction and customer satisfaction and indirect relationship between employee satisfaction and financial performance through mediating effect of customer satisfaction in leading life insurance Corporation of Pakistan. The paper reviews the theoretical background which is immediately followed by research methodology. Thereafter, the empirical results are presented along with the discussion on results. Finally, theoretical and managerial implications have been discussed along with the future limitations of the research.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

The literature review is described in three sections. Section 2.1 briefly examines the literature examining the impact of employee satisfaction in terms of supervision, training & development, teamwork, policy & support and pay on customer satisfaction. Section 2.2 reviews the impact of employee satisfaction directly on financial performance and the brief explanation of mediating role of customer satisfaction between employee satisfaction and financial performance.

2.1 Employee Satisfaction and Customer Satisfaction

Number of research studies examines the different factors of employee satisfaction such as supervision, pay, coworkers, training and development, promotion and advancement, team work, empowerment, policy and support [20, 21, 22, 24, 28, & 29]. These studies suggest that employees will be motivated if they are highly satisfied especially in terms of supervision, training & development, pay, team work and policy & support and as a result they will work more efficiently for the improvement of the organizational systems [13]. This study, therefore, measures the employee satisfaction in terms of five dimensions i.e. 1) satisfaction of

employees with supervision, 2) training & development, 3) pay, 4) team work and 5) policy & support. According to prior research studies and "service profit chain" framework, if employees are satisfied then they provide services to customers more efficiently than those who are dissatisfied [2, 6, & 21]. Several research studies examine the positive correlation between employee satisfaction and customer satisfaction [2, 7, 22, 27, 30, 31, & 32]. Therefore, the following hypothesis is proposed:

Hypothesis 1: There is a positive relationship between customer satisfaction and employee satisfaction.

2.2 Employee Satisfaction and Financial Performance

Studies suggest that in achieving financial objectives, employee satisfaction plays the significant role [5]. The logic behind this statement is that if employees are satisfied then employees will provide the more efficient services to their customers and hence, customers will be satisfied [1, 2, & 33]. Employees who are more satisfied are very hard workers and dedicated more to their work than those that are not satisfied. However, high customer satisfaction can be achieved if employees perform more than expectations, work more efficiently in teams and with their supervisors [5]. However, on the other hand, some studies suggest that regressing financial performance on employee satisfaction yields statistically insignificant results thus suggesting no direct relationship exists between employee satisfaction and financial performance [7, 34, 35, & 36]. According to Wiley [31], the relationship of employee satisfaction and business outcomes is insignificant. Analogous results were suggested by Bernhardt et al. [3] that the correlation between worker satisfaction and financial outcome was "virtually nonexistent". This insignificant direct relationship may be explained by the fact that the relationship between employee satisfaction and financial performance might be indirect. According to the service-profit chain, if employees are satisfied then they will provide good services to the customer and in turn customers will be satisfied and loyal to the company and make purchases repeatedly and show the positive word of mouth behavior that will lead toward the high financial returns [5]. Hence, there is an indirect relationship between employee satisfaction and financial performance and this indirect relationship is likely to be mediated by customer satisfaction. Based on the basis of preceding discussion, finally this study proposes the second hypothesis:

Hypothesis 2: There is significant relationship between employee satisfaction and financial performance which is mediated by customer satisfaction.

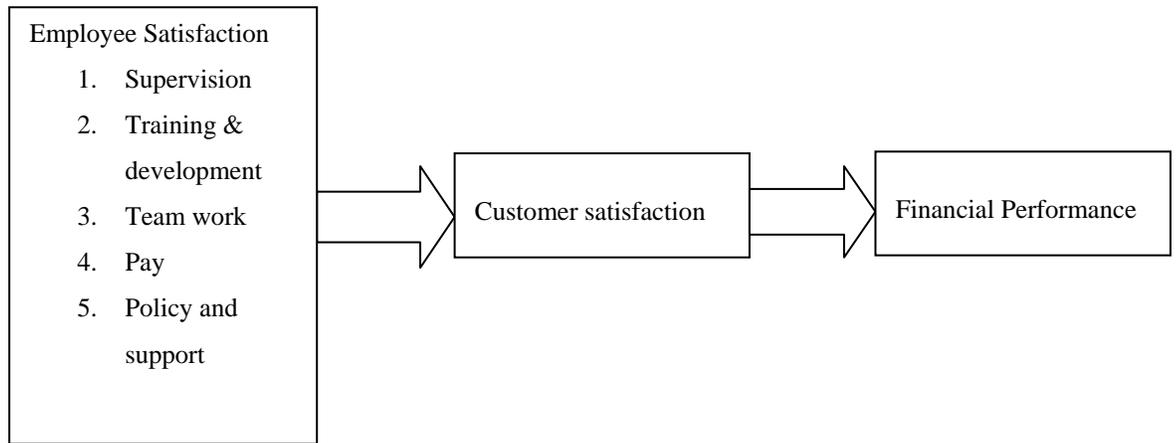


Figure 1. The Research Framework

3. RESEARCH FRAMEWORK

On the bases of above hypotheses, the following research model framework has been provided in Figure 1.

4. RESEARCH METHODOLOGY

To test the purposed hypotheses, data was collected from the customers and employees of the different zones of leading life insurance Corporation of Pakistan which are located in big cities of Pakistan. Total 300 questionnaires were distributed to employees and 300 questionnaires were distributed to customers. 450 out of 600 questionnaires were received back having the response rate of 75 %. 410 questionnaires were used for the purpose of analysis because remaining questionnaires were incomplete. So, the actual response rate was 68 %.

To examine the employee satisfaction, 5 dimensions are used with 17 items i-e-Pay (3 items), supervision (3items), training & development (4 items), policy and support (4

items) and team work (3 items) adopted from prior studies [37, 38]. Similarly, four items were used to measure the perceptual financial performance adopted from prior researches [39, 40].And the items were return on sales (ROS), return on investment (ROI), return on assets (ROA) and overall profitability. To measure the customer satisfaction, 7 items were used by following the study of Menguc et al. [41]. Five point likert scale was used to measure the employees and customers satisfaction where 1 = “strongly disagree” to 5 = “strongly Agree”.

To test the validity and reliability of the measurement scales, with the help of SPSS, factor analysis and reliability analysis were performed. The factor loadings and the values of Cronbach’s alpha are given in Table-1. The Kaiser-Meyer-Olkin (KMO) is 0.796 and the total variance explained is 73.88%. The values of Cronbach’s alpha and KMO are above 0.70 which are sufficient for such kind of study.

Table 1: Factor analysis and Reliability analysis

Items	Factor loadings						
	1	2	3	4	5	6	7
Factor 1: (alpha 0.778)							
Supervision 1	.777						
Supervision 2	.803						
Supervision 3	.789						
Factor 2: (alpha 0.852)							
Training and development 1		.667					
Training and development 2		.829					
Training and development 3		.552					
Training and development 4		.789					
Factor3: (alpha 0.868)							
Teamwork 1			.821				
Teamwork2			.821				
Teamwork3			.794				
Factor 4: (alpha 0.707)							
Pay 1				.792			
Pay 2				.805			

Pay3				.602			
Factor 5: (alpha 0.917)							
Policy and support 1					.911		
Policy and support 2					.841		
Policy and support 3					.897		
Policy and support 4					.866		
Factor 6: (alpha 0.911)							
Customer satisfaction 1						.727	
Customer satisfaction 2						.785	
Customer satisfaction 3						.793	
Customer satisfaction 4						.840	
Customer satisfaction 5						.706	
Customer satisfaction 6						.871	
Customer satisfaction 7						.768	
Factor 7: (alpha 0.794)							
Financial performance 1							.889
Financial performance 2							.902
Financial performance 3							.577
Financial performance 4							.696
Total variance explained 73.88%	KMO value.796						

5. RESULTS

5.1. Correlation Analysis

As shown in Table-2, the correlation results show that there is significant positive relationship between the employee satisfaction (in terms of satisfaction with supervision, training & development, team work, policy & support and pay) and customer satisfaction and financial performance. Moreover, there is also significant positive relationship of financial performance with customer satisfaction, training and development and pay, however, on the other hand, positive but non-significant relationships exist between financial performance and supervision, team work and policy & support. These results confirm most of our study's hypotheses initially. For testing the impact of employee satisfaction on financial performance and to test the

mediating effect of customer satisfaction between employee satisfaction and financial performance, regression analysis is performed.

5.2. Regression analysis

To check the impact of independent variables on dependent variables and effect of customer satisfaction as a mediating variable, we have carried out the regression analysis. Certain conditions should be fulfilled if we want to check the mediating effect of a variable [42]. First, there must be a significant relationship between Independent and mediating variable. Second, independent variable and dependent variable must have significant relationship. Third, by introducing the mediating variable

Table 2: Correlation matrix

	S	TW	TD	PS	P	CS	FP
S	1	-	-	-	-	-	-
TW	.308** .000	1	-	-	-	-	-
TD	.109 .083	.439** .000	1	-	-	-	-
PS	.187** .003	.028 .653	.262** .000	1	-	-	-
P	.286** .000	.398** .000	.245** .000	.104 .098	1	-	-
CS	.221** .000	.236** .000	.235** .000	.244** .000	.227** .000	1	-
FP	.040 .523	.067 .285	.341** .000	.103 .101	.156* .013	.316** .000	1

** Correlation is significant at 0.01 levels (2 tailed) * Correlation is significant at 0.05 levels (2 tailed).

S=Supervision, TW= Team Work, TD= Training and Development, PS= Policy and Support, P= Pay, CS= Customer Satisfaction, FP=Financial Performance

the impact on dependent variable by independent variable will decrease significantly. To perform the mediation effect we have used the same method of regression analysis as proposed by Baron & Kenny [42]. Results of regression is shown in Table-3. According to first step, the results confirm that employee satisfaction with pay, policy & support, training and development, team work and supervision stimulate the customer satisfaction (Adjusted R²=0.134; F= 8.871; P<0.01). In other words the results shows that total variance in customer satisfaction is explained up to 13.4% through variations in the various determinants of employee satisfaction.

In the second step, all the dimensions of employee satisfaction have positive and significant impact on financial performance. Adjusted R² is .120 indicating that the variation in financial performance is explained up to 12% through variation in various dimensions of employee satisfaction (pay, policy & support, training and development, team work and supervision).

Similarly in third step, we test the impact of employee satisfaction on financial performance in the presence of customer satisfaction as mediator variable. All the dimensions of employee satisfaction become insignificant with financial performance except training and development in the presence of mediator. The relationship of training and development with financial performance has weakened due to customer satisfaction but it is still significant (t=.5.486 and p=0.000 to t=2.808 and p=0.02). Therefore, customer satisfaction fully mediates the relationship between four employee satisfaction dimensions (i.e. supervision, team work, pay, policy & support) and financial performance. On the other hand customer satisfaction partially mediates the relationship between training and development and financial performance.

Hence overall, it supports the H3.

6. DISCUSSION AND CONCLUSION

This study examines the relationship between employee’s satisfaction & customer satisfaction and the impact of employee’s satisfaction on financial performance through customer satisfaction on the basis of “service profit chain” framework. Findings of this study show that the company’s financial performance depends upon the customer satisfaction and employee satisfaction. Employee’s satisfaction in terms of pay, policy & support, training & development, supervision and team work leads to customer satisfaction. Hence, higher the level of customer satisfaction higher will be the financial performance. Basically, this research study suggests that the employee satisfaction is one of the most important determinants of customer satisfaction and it also influences the firm’s financial performance. Customer satisfaction is particularly significant for service businesses because the satisfaction is a prerequisite for winning the customers loyalty [30]. The prior studies [43, 44, & 45] suggest that the cost of retaining the existing customers is less than attracting the new consumers. So, in order to provide the better customer services, employee must be satisfied. Results suggest that there is no direct impact of employee satisfaction on financial performance because the relationship between them is an indirect one, which is mediated by customer satisfaction. On the other hands, findings clearly show that there is direct positive relationship between employee and customer satisfaction. Therefore, these results suggest that employee with high level of satisfaction are highly motivated to offer good customer services. Findings of this research study are consistent with “service profit chain” framework and earlier studies, which show that the employee satisfaction is of prime role in achieving the financial goals of the firm because if a

Table 3: Regression analysis

Step	Dependent Variable	Independent Variable	Standardized regression coefficients	T	F	Sig.	Adjusted R ²	Result
1	CS	1. Supervision 2. Training and development 3. Team work 4. Pay 5. Policy and support	.172 .203 .157 .175 .147	2.674 2.968 2.612 2.670 2.357	8.871	.008 .003 .032 .008 .019	.134	
2	FP	1. Supervision 2. Training & development 3. Team work 4. Pay 5. Policy and support	.012 .378 .021 .165 .019	2.091 5.486 2.067 2.610 2.031	7.876	.043 .000 .040 .030 .045	.120	
	FP	1. Supervision 2. Training and development 3. Team work 4. Pay 5. Policy and support 6. CS	.008 .172 .334 .008 .003 .325	0.127 2.808 1.891 1.223 0.624 4.528	9.539	.899 .020 .072 .223 .533 .001	.170	Partially mediation Fully mediation

CS= Customer Satisfaction, FP= Financial Performance

firm takes great care of its recruits, the recruits will win the hearts of firm's customers [2, 14, 15, 23, 31, 46, & 47].

7. THEORETICAL AND MANAGERIAL IMPLICATIONS

Preceding research studies tested the relationship between the employee satisfaction and customer satisfaction but to the best knowledge of authors, there is no significant research study which examines the mediating effect of customer satisfaction between employee satisfaction and financial performance in Pakistan. Customer's satisfaction and retention is the key source of wealth maximization for every business entity. Hence, service firm's managers must be aware of the employee's perception of quality relations among customers and employee which results from employee satisfaction with their job. Therefore this study provides the managers of service firms with empirical findings that by satisfying their employee in terms of pay, training & development, policy & support, team work and supervision, they can satisfy their customers. This customer satisfaction will result in higher financial outcomes of the organization and will increase profitability accordingly.

8. LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

There are certain limitations of the study. Firstly, this study empirically tests the relationship between employee satisfaction and financial performance through customer satisfaction and uses the service profit chain framework as the theoretical base. Service profit chain has complex framework but this study only includes the interactions between employee satisfaction, customer satisfaction and financial performance. Because SPC also includes the impact of other variables such as customer value, customer loyalty, service employee's productive behaviors, internal service quality, and customer loyalty. These constructs may affect the relationships which are examined in this study; hence, future studies can examine the other factors that affect the relationship of employee satisfaction and financial performance. Secondly, financial performance of the firm can be affected by the numerous factors other than employee & customer satisfaction. But the study did not test the other variables that can affect the financial performance. Thirdly, data is collected at a point in time, thus, the results are limited to a particular time period. Fourth limitation is the choice of sample; study just collected the data from the single leading life insurance Corporation of Pakistan but future studies can extend the sample by taking into account the different service sectors of Pakistan and can also consider the other factors of employee's job satisfaction other than supervision, training and individual development, Policy and support, Pay and teamwork.

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