



# Using Employee and Customer Perspectives to Improve Organizational Performance

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Many organizations focus on employee relations and customer service in order to achieve their business goals. The theory is that treating employees and customers better will lead to stronger financial performance. This might seem like common sense: Happy employees create happy customers, who in turn deliver revenues and profit. But research over the past 20 years has shown a much more complex relationship between employee and customer opinions and financial results. Today, the challenge for businesses is to marry sophisticated measurement and strategic analysis of employee and customer data to practical organizational development efforts. This combination of scientific research and applied management tools offers a potent model for predicting and influencing financial performance.

This chapter distills recent research linking employee and customer opinions to an organization's financial performance. Anchored by a case study, we embellish with a thorough review of the literature and conclude by highlighting the most fruitful avenues of pursuit, for both science and practice.

## **Models of Business Management**

Management theories such as the service-profit chain (Heskett and others, 1994) and the Balanced Scorecard (Lundby and Rasinowich, 2003; Kaplan and Norton, 1996) are performance models that link leadership, employees, customers and financial results.

The service-profit chain is a holistic model of organizational performance. It starts by focusing on the organization's end goals—that is, revenue growth and profitability—and then

traces the chain backward. The underlying concept is that profit and revenue growth are stimulated primarily by customer loyalty, which is a reflection of customer satisfaction. Customer satisfaction in turn is largely influenced by the customer's perception of value, which we argue is created by satisfied, loyal and productive employees.

A culture of employee satisfaction results primarily from proper management practices, such as support services and policies that empower employees to deliver high-quality customer service. Thus, the service-profit chain is defined by a special kind of leadership that acknowledges that financial success is achieved through emphasis on exemplary service.

The Balanced Scorecard is another holistic model of organizational performance that starts with the end in mind. The typical scorecard incorporates four perspectives, each of which has to be successfully managed: (1) financial, (2) customer, (3) internal business process and (4) learning and growth. Kaplan and Norton (1996) explain that the Balanced Scorecard is fundamentally a method for translating management strategy into action. Like the service-profit chain, the scorecard links management practices and beliefs with the interrelated variables that work together to produce financial success. Within a given scorecard, managers distinguish between leading indicators that predict success and lagging indicators that reflect the actual performance achieved. The integrating concept is that every measure selected for the scorecard is part of a system of cause-and-effect relationships, including work environment, business processes and customer value, that culminate in the achievement of financial goals (Lundby and Rasinowich, 2003).

## Linkage Research

Prior to the development of these highly popular management theories, a significant and growing body of literature already had begun to demonstrate the links between employee perceptions of their work environment, customer satisfaction and loyalty, and various measures of business performance and financial success. This body of research, which we describe below, illustrates the power of combining strategic scientific studies with applied management principles, such as the management theories described. Indeed, linkage research offers a road map for creating a high-performance work climate that fosters an enhanced customer experience, which subsequently leads to better business performance.

Wiley (1996) defined linkage research and its purpose as follows: “Linkage research involves integrating and correlating data 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” (p. 330).

Research linking employee descriptions of their work environment and customer satisfaction was introduced by Benjamin Schneider and his colleagues (Schneider, Parkington, and Buxton, 1980) more than two decades ago. Jack Wiley and his colleague Walt Tornow (Wiley, 1991; Tornow and Wiley, 1991) extended the research design to incorporate measures of business performance. Since these original publications, other researchers have contributed dozens of studies that reflect the basic linkage research approach.

The basic design of linkage research involves gathering and correlating employee and customer survey data with other measures of business performance. Typically, employee data are gathered as part of a human resource initiative, and customer data are gathered through marketing research. Business performance data are typically supplied by an organization’s financial reporting function. The key requirement of this research is that the measures within these databases be aggregated to a common business unit level, for example, at the store level of a retail chain or the branch level within a banking system. As a result, sample size will equal the number of units for which common data are available.

Wiley (1996) provided the first review of existing linkage research and introduced what he would subsequently call the High Performance Model. This model (see Figure 1) incorporated all published linkage research studies and tied together the findings of various researchers in a more comprehensive way than any single study. As Wiley explained, the model suggests that where certain organizational and leadership practices are observed in a given work environment, the workforce becomes more

energized and productive. In turn, the energized workforce builds greater satisfaction and loyalty among customers, which over time translates to stronger business performance of the organization.

Figure 1: The High Performance Model



In the second major review of linkage research literature, Wiley and Brooks (2000a) summarized newly published studies that further supported the original conclusions. From the entire body of research, they derived a taxonomy of the high-performance organizational climate. This taxonomy (see Figure 2) describes with greater clarity how higher-performing units differ from lower-performing units within their respective organizations.

Despite growing consensus among researchers and management theorists regarding the employee-customer-performance linkage, however, two problems remain when applying these concepts to organizational development.

First, many human resource professionals continue to use survey models that primarily measure employee satisfaction, even though such models are less effective in predicting customer satisfaction and business performance. For example, as we discuss later in this chapter, direct tests show that employee observations of an organization’s leadership practices and customer orientation predict customer satisfaction much better than more general measures of employee satisfaction, commitment and engagement. Human resource practitioners and researchers too often focus on predictors of employee attitudes rather than on the service and financial outcomes organizations are trying to achieve.

An overreliance on models that emphasize employee satisfaction thwarts organizations from achieving optimal returns on their survey investments. This is not to argue, of course, that employee satisfaction, commitment and engagement are irrelevant. But using these concepts as the starting point in maximizing the employee-customer-performance linkage is misguided. Schneider and his colleagues (for example,

Figure 2: Characteristics of High-Performance Organizations: The Employee Perspective

Leadership Practices		Employee Results	
<b>Customer Orientation</b>	<b>Quality Emphasis</b>	<b>Information/Knowledge</b>	<b>Teamwork/Cooperations</b>
<p>Employees see a strong emphasis on customer service, and in fact believe their organization does a good job of satisfying customers.</p> <p>Customer needs are attended to quickly, whether in initial delivery of products and services or in the resolution of problems.</p>	<p>Senior management is committed to quality and demonstrates this priority in day-to-day decisions. These values are effectively translated and implemented by lower-level managers.</p> <p>Employees can see that quality is a priority versus cost containment, and especially versus meeting deadlines.</p> <p>Employees believe their work groups do quality work, as judged by clear quality standards, and are able to improve continuously.</p>	<p>Management creates and communicates a compelling vision and direction for the company.</p> <p>Employees understand their role in the organization—how their goals fit into overall company objectives.</p> <p>Employees report having enough information to do their jobs, including company information, advance warning of changes and information from other departments.</p>	<p>Employees both within and across departments cooperate to serve customers and to get the work done.</p> <p>This teamwork is actively supported by management.</p> <p>Workload is managed effectively within a given work group—the load is divided fairly, and short staffing is not a significant barrier.</p>
<b>Involvement/Empowerment</b>	<b>Employee Training</b>	<b>Overall Satisfaction</b>	<b>Employee Retention</b>
<p>Employees have the authority and support they need to serve their customers.</p> <p>Employees are encouraged to participate in decisions affecting their work and, perhaps more important, to innovate.</p> <p>Management solicits and uses opinions of employees in such a way that employees can see the connection.</p>	<p>Employees have written development plans to take advantage of the formal and informal skill-improvement opportunities that exist within the company.</p> <p>Whether on-the-job or formal, employees see they have the training to perform their current jobs well. This can include specific training on products and services or explicitly on customer service.</p> <p>New employees are oriented and able to come up to speed quickly, without undue burden on existing staff.</p>	<p>Employees derive intrinsic satisfaction from their work, see a good match among their jobs, their interests and their skills and abilities.</p> <p>Employees are satisfied with and proud of their organization.</p> <p>There is confidence in the company's ability to succeed, leading to long-term stability for the employee.</p>	<p>Employees value their relationship with the organization and have no short-term interest in leaving.</p> <p>Longer-tenured employees are more efficient and create more value for the organization and its customers.</p>

Schneider, Gunnarson, and Niles-Jolly, 1994) define climate for services as employees’ shared perceptions of the policies, practices and procedures that are rewarded, supported and expected concerning customer service. To understand how to maximize the employee-customer-performance linkage, the proper starting point is climate for service.

Second, organizations continue to show weak understanding, and therefore weak implementation, of Balanced Scorecards, dashboard metrics and other similar integrated measurement systems. Ittner and Larcker (2003) argue that only a few companies realize the benefits of measuring customer loyalty, employee opinions and similar non-financial performance areas. Their research shows that “most companies have made little attempt to identify areas of non-financial performance that might advance their chosen strategy. Nor have they demonstrated a cause and effect link between improvement in those non-financial areas and in cash flow, profit, and stock price” (pp. 88–89). These authors deride the common practice of adopting boilerplate versions of non-financial measurement frameworks and insist that companies need to dig deeper to discover and track the activities that genuinely influence financial performance.

### Moving Forward

Ideally, frameworks such as Balanced Scorecards and other integrated holistic measurement systems are derived from a careful strategy that lays out how employees work through business processes to deliver customer value and achieve the organization’s financial goals. Scorecards achieve their promise when they include the necessary balance of short-term, financial, lagging indicators, as well as long-term, non-financial, leading indicators of performance. Indeed, non-financial predictive measures are inherently vital in any such tool. Despite Ittner and Larcker’s lament that most organizations have failed to assemble scorecards that effectively incorporate non-financial measures, it is not impossible to do it well.

Matching employee and customer data to strategic interests is where organizational science, through the growing body of linkage research, provides information of great value. Properly designed linkage research tells us how the variables in the employee-customer-performance chain interrelate, as well as the strength and direction of those interrelationships. As a result, it can guide the use of stakeholder input by suggesting specific tracking measures that help scorecards fulfill their promise.

In the remainder of this chapter, we focus on aspects of the customer experience that relate to actual financial performance and, in turn, aspects of the work environment that contribute to the customer value proposition. As we will illustrate, and as Schneider's work has emphasized, this approach casts the employee in the role of observer and reporter of organizational effectiveness. Thus, we are less concerned with employee satisfaction or happiness and more concerned with what employees report is working, or not working, within the organization.

### Case Study

A case study will help to illustrate the major points. The setting is a specialty products retailer, for which employee opinions, customer opinions, and various business results were available at several points over a three-year period for each of 373 stores.

### Employee Survey

The organization had been conducting regular employee opinion surveys using relatively stable content for more than a dozen years. The survey's design integrated the topics of the High Performance Model. Sixty-six items measured 16 dimensions areas, including Customer Orientation, Quality, Training and Development, and Overall Satisfaction. Over the three years covered by this study, three paper-and-pencil surveys were administered to all employees.

### Customer Survey

The organization also regularly asked customers for their opinions about service. The customer survey had 14 items. The two customer survey measures used in these illustrations include a single-item measure of Overall Customer Satisfaction and a two-item measure of Sales Associate Ability, which rates the sales associate's ability to (1) serve and (2) communicate. The satisfaction measure is included as a representative indicator of typical customer satisfaction constructs. The Sales Associate Ability measure is included because of the clear sense within the organization that the sales associates were critical to creating a successful customer experience. Over the three years covered by this research, all customers making a purchase were given an opportunity to complete this survey by telephone. Thus, customer data collection was an ongoing process.

### Business Results

After considerable discussion with internal subject matter experts, we chose three primary financial measures to reflect store-level organizational performance: sales (a measure of volume), profit (a measure of success) and profit as a percentage of sales (a measure of financial efficiency—how much profit success per dollar of volume).

### Key Observations

Three key observations emerged from the integration and analysis of these measures. We start with the issues closest to the financial results and work our way back upstream to the employee issues:

#### **A time lag is critical to understand how customer opinions relate to financial performance.**

As referenced by the High Performance Model and described in more detail in previous work (Wiley, 1996; Wiley and Brooks, 2000a), a time lag mediates the correlation between Customer Results and Business Results. We accounted for the time lag by using two features of the organization. First, the repurchase cycle of customers for this retail organization was approximately every two years. Given that customer retention and repeat purchasing were expected to play a significant role in financial growth, we knew we had to cover at least two years in time. Second, the organization's passion with regard to both customer satisfaction and sales was improvement. Thus, we chose to focus on change scores (improvements or declines). Although there are alternative statistical techniques for dealing with longitudinal trends, we determined that staying close to the organizational development needs of this project (that is, improvement scores) held priority over other considerations.

To illustrate the importance of a time lag, we documented the relationships between the three financial measures and a customer survey measure of Sales Associate Ability. Exhibit 3.3 lists partial correlations among these measures, which were chosen as a robust measure of relationships, with the ability to take into account store size, age and type—unit characteristics known to be related to both customer opinions and business results. Concurrent analyses are based on both customer and financial results aggregated within one year. Longitudinal analyses are based upon change scores between year one and year four.

We see a striking contrast in Figure 3 between concurrent and longitudinal analyses. The concurrent analyses are not simply weaker than the longitudinal analyses in the correlation between Sales Associate Ability and unit performance; they are negative. However, both types of analyses are correct, and each supports a piece of the story. The concurrent results illustrate how higher-volume, busier stores (those that are most successful right now) tend to have busier sales associates, who in turn are less able to attend to customers. The longitudinal results illustrate how successful efforts to improve the customer experience (depicted here in terms of customer perceptions of sales associate ability) coincide with improved financial performance.

**Figure 3: Customer Opinions Relate to Financial Performance Positively with Longitudinal Analyses and Negatively Concurrent Analyses**

	Partial Correlations: Sales Associate Ability	
	Concurrent	Longitudinal
Sales	-.18*	.16*
Profit	-.15*	.13*
Profit as Percentage of Sales	-.13*	.12*

Note: N = 373 retail stores. Partial correlations control for size (employees per store), age (months open) and type (mail rating, location type).  
\* Indicates  $p \leq .05$ .

Given the differences between the concurrent and longitudinal analyses, a sense of time lag is essential to understand very important dynamics in this retail environment.

**The most potent customer opinion is not always Overall Customer Satisfaction.**

While it may seem intuitive that Overall Customer Satisfaction would track most closely with business results, this is not always the case, for reasons we discuss in more detail later in this chapter. In this case study, we found evidence to justify the organization’s belief that its sales force played a critical role in creating a successful customer experience.

We contrast here a two-item measure of Sales Associate Ability against the more common customer measure of Overall Customer Satisfaction. Figure 4 presents the partial correlation results for both Overall Customer Satisfaction and Sales Associate Ability with measures of financial performance. These results show that Sales Associate Ability outperforms the general duty Overall Customer Satisfaction measure.

**Figure 4: Customer Satisfaction Not as Potent as Perceptions of Sales Associate Ability**

	Longitudinal Partial Correlations	
	Increases in Overall Customer Satisfaction	Increases in Sales Associate Ability
Sales Growth	.09*	.16*
Profit Growth	.11*	.13*
Profit as Percentage of Sales Growth	.10*	.12*

Note: N = 373 retail stores. Partial correlations control for size (employees per store), age (months open) and type (mail rating, location type).  
\* Indicates  $p \leq .05$ .

**The most potent employee opinion is Climate for Service, not Employee Satisfaction.**

Common measures of employee satisfaction can provide useful organizational data for research. However, if the goal is to seek measures that can be used in predicting business outcomes, it is more productive to measure how employees describe (as observers) the organization’s climate for service. Figure 5 documents clearly that the employee perception of Climate for Service in our case study outperforms Employee Satisfaction in predicting Customer Satisfaction.

**Figure 5: Employee Perceptions of Climate for Service Outperforms Employee Satisfaction in Predicting Customer Reactions**

	Longitudinal Partial Correlations	
	Increases in Employee Satisfaction	Increases in Climate for Service
Increases in Overall Customer Satisfaction	.18*	.37*
Increases in Sales Associate Ability	.17*	.32*

Note: N = 373 retail stores. Partial correlations control for size (employees per store), age (months open) and type (mail rating, location type).  
\* Indicates  $p \leq .05$ .

**Role of Customer Service**

Ultimately the goal of an organization is not simply to provide high levels of customer service. Service is a means to an end, which is usually sustained or improved financial performance. In addition, increased revenues and profit depend not on customer satisfaction, but rather on customer behavior: repurchases, larger or more frequent purchases, marketing to friends and colleagues, and so forth (see Chapter One).

**Customer Satisfaction Versus Customer Behavior**

While less emphasized in the psychology literature, business and marketing research tends to focus on customer loyalty rather than customer satisfaction as more directly related to financial performance (Lundby and Christianson DeMay, 2003). Customer loyalty is defined not as an attitude (like satisfaction), but as behavior or behavioral intent—for example, intentions to repurchase, purchase more than one product or service, or refer an organization’s products or services (for example, Chapter One, this volume; Loveman, 1998). Thus, customer loyalty (and its associated behaviors) is a required intermediate step in the relationship between customer satisfaction and financial performance (Heskett and others, 1994; Chapter One, this

volume; Loveman, 1998; Rust and Zahorik, 1993). Customer loyalty, rather than customer satisfaction, embodies the belief that the organization's goal is behavior, not attitude.

These points reinforce advice to focus customer surveys on behavioral intentions. Reichheld (2003) goes so far as to say that the likelihood customers will recommend an organization's products or services to a friend is the one number that organizations need to increase. While perhaps extreme, the logic is consistent. The behavioral intention to provide enthusiastic referrals for the company can be correlated with actually doing so. Customers acting in an unpaid marketing role contribute to financial growth. Reichheld found that this measure of intent predicted far better than the more diffuse item, "How strongly do you agree that [company X] deserves your loyalty?"

Of course, behavioral intentions represent one angle on better prediction of customer behavior, but not the only one. An understanding of a customer's choices also can be highly informative in predicting how that customer spends money. There is evidence, for example, that customer satisfaction measures relative to the alternatives are more potent predictors than absolute satisfaction measures (Colihan, 2001; Neal, 1998). This is illustrated by the extreme case that dissatisfied customers might still be "loyal" if they have no other choices. Conversely, a satisfied customer in a crowded marketplace might experiment with the competition.

### Time Lag and Causality

The case study presented earlier in this chapter illustrated how longitudinal analyses can be required to fully understand the relationships between customer opinions and financial performance. Other research echoes this assertion. Bernhardt, Donthu, and Kennett (2000) found that while there was no significant relationship between customer satisfaction and organizational performance using cross-sectional analyses, time-series designs did uncover a positive relationship. Rogelberg and Creamer (1994) concluded that "customer satisfaction in the present can only be related to profitability in the future" (p. 9).

There are four primary points to elaborate on when considering the dynamics of the interrelation of customer opinions and financial performance.

First, there often can be a delay between a positive customer experience, the resulting behavior and improved financial results. While a terrific shopping experience can result in a larger purchase that day, the larger financial payoff often comes from customer repurchases or word-of-mouth referrals over the following years. The length of the time lag depends on the repurchase or service decision cycles of the customer, which vary dramatically according to the nature of the business. The frequency of repurchasing a pair of shoes is much different than,

for example, a customer's decision to add new services from her primary financial institution.

Second, when the business performance measure is a raw measure of size (such as gross sales), customer satisfaction and current financial performance can be negatively related (Brooks and Graham, 2000; Lundby, Dobbins, and Kidder, 1995; Wiley and Brooks, 2000b). In the case study, retail stores with higher revenues and profit were more crowded, resulting in a less intimate setting for customers, who therefore sensed a less attentive sales associate staff. Lundby and Fenlason (2003), for example, found that higher-volume bank branches had less satisfied customers than their lower-volume counterparts.

Third, financial and customer measures of growth and improvement can be positively related to one another over time. In fact, in the case study, the negative relationships of the concurrent analyses were not reflected in the longitudinal analyses. Although stores with bigger revenue and profit had worse customer opinions, improvements in employee opinions were positively related to improvements in financial measures (see also Wiley and Brooks, 2000b). In a way, this reflects that success is measured not by the hand one is dealt (for example, a large, less intimate store), but in how one plays it (for example, improving or declining customer opinions).

Fourth, there is a methodological side benefit to working with longitudinal data. For example, change scores in the criteria (for example, sales growth rather than sales) will result in stronger observed relationships (Wiley and Brooks, 2000b). These are frequently measures the organization already uses and values. Change scores also might be better suited to organizational development efforts, particularly where the goals are to grow, not just to achieve a certain level of sales. Finally, the self-referential nature of change scores does a better job than raw measures of controlling for unmeasured variables.

These findings emphasize the notion that providing high levels of customer service is an investment. It costs money in the short run to devote time and energy to enhancing the customer's experience and it could detract from other development efforts. Maximizing the return on this investment requires time and attention to measurement.

### Not All Customers Are Equal

Not all customers behave the same. As a result, some have a larger impact on an organization's financial performance than others. Customer segmentation is an understudied corner of linkage research, but it makes intuitive sense that the opinions of customers who generate more revenues or profit will be more closely linked to business performance (see Wayland and Cole, 1997).

A corollary is that the loyalties (and subsequent behaviors) of these different customer segments might be driven by different factors. For example, one linkage research study found that for higher-volume customers, opinions about service were more related to purchasing behavior, whereas for lower-volume customers, purchasing decisions were more related to perceptions of value (Kendall and Barker Lemay, 1999). Thus it follows that a comprehensive model of organizational effectiveness should identify the most potent customers and determine the drivers of their loyalty and purchasing and recommending behavior.

### **Role of Employee Opinions**

Just as customer opinions can help companies understand how customer relationships drive business performance, employee opinions can help diagnose how organizational climate fosters (or inhibits) strong customer relationships. What is critical, however, is that not all employee opinion constructs are equal in their ability to predict customer satisfaction and, more important, customer behavior.

### **Employee as Participant Versus Employee as Observer**

Since the early and largely unsuccessful efforts to document the impact of individual job satisfaction on performance (see Iaffaldano and Muchinsky, 1985), researchers and practitioners alike have never quite let go of the belief that happy employees should lead to higher performance (Lundby, Fenlason, and Magnan, 2001). However, since Ben Schneider's original work in the early 1980s (for example, Schneider, Parkington, and Buxton, 1980), many linkage research studies have emerged that document more clearly how employee opinions (including both attitudes and observations) are related to organizational outcomes (for reviews, see Lundby and Fenlason, 2004; Wiley, 1996; Wiley and Brooks, 2000a).

Two broad classes of theories underlie these findings. First, emerging from satisfaction research is the theory that satisfied, committed or "engaged" employees drive organizational success. In other words, when the work environment promotes an enriching experience, employees are more likely to devote the time and effort to promote effectiveness (for example, Fulmer, Gerhart, and Scott, 2003; Harter, Schmidt, and Hayes, 2002; Kays, 2001; Rucci, Kirn, and Quinn, 1998).

The second theory views employees as informants, observers and reporters of organizational effectiveness. The concept here is that employees have well-informed perspectives on an organization's efforts to create value, particularly for customers. That insider view can help organizations predict, understand and improve performance (Pugh, Dietz, Wiley, and Brooks, 2002; Schneider, White and Paul, 1998).

Employee opinions included in linkage research often use constructs and survey items that measure both climate for service (where the employee is an observer) and individual attitudes of satisfaction, commitment and engagement (where the employee is a participant). This section covers how these employee opinions relate to customer opinions. While there are certainly cases where employee opinions have a direct impact on financial performance, they are not nearly as potent or consistent as models that include customer satisfaction and behavior.

### **Employee Satisfaction Versus Climate for Service**

There are compelling logical arguments for expecting both employee satisfaction and the organization's climate for service to be related to how the customer views the customer experience. But they offer different uses for organizational development. If one wishes to understand the employee experience and the implications of poor working conditions, employee satisfaction is a fair and valid topic of study. Conversely, if one wishes to understand the customer experience and use the "upstream" input of employees to analyze drivers, then employee perceptions of the climate for service are a potent and promising avenue of inquiry.

There is evidence that both employee satisfaction and climate for service are related to customer satisfaction. Regarding employee satisfaction, Harter, Schmidt, and Hayes (2002) claim that "employee satisfaction and engagement are related to meaningful business outcomes" (p. 276). Climate for service also has been consistently related to customer satisfaction (for example, Dietz, Pugh, and Wiley, 2004; Johnson, 1996; Ryan, Schmit, and Johnson, 1996; Wiley and Brooks, 2000a). As referenced earlier, the climate reflects employees' shared perceptions of the policies and practices that enable employees to deliver results to customers (Schneider, Gunnarson, and Niles-Jolly, 1994).

Discussions of employee satisfaction and climate for service models have tended to favor climate for service as a predictor of customer satisfaction, for both the theoretical reasons implied above and empirical reasons (Schneider, White, and Paul, 1998; Wiley and Brooks, 2000a, 2000b). Direct comparisons of both models also have begun to emerge. While some cases suggest a strong role for employee satisfaction (Colihan, 2003), the clear growing weight of evidence suggests not only that climate for service is a more potent predictor of customer satisfaction (Lezotte and McLinden, 2003; Pugh, Dietz, Brooks, and Wiley, 2003; Thompson, 1996), but that employee satisfaction makes no statistical contribution when climate for service is already taken into consideration (Lundby and Fenlason, 2003).

Beyond their individual impacts on customer satisfaction, there is also evidence that employee satisfaction and climate for service can interact, such that employee satisfaction is related to customer satisfaction only when a climate for service already exists (Dietz and Wiley, 1999).

### **Time Lag and Causality**

Which comes first: the happy employee or the happy customer? This chicken-or-egg question merits exploration. Within human resource circles, it is believed intuitively that employee attitudes directly influence the customer experience. (This belief also might be associated with an underlying pressure to create a “business case” that documents the financial return of investments made into the human capital of an organization.) But existing research leads to opposite conclusions, depending on whether the employee attitudes in question reflect perceptions of the organization’s climate for service or employee satisfaction.

#### *Climate for Service*

Generally, it appears that changes in employee opinions about service climate precede changes in customer opinions (Dietz, 2000; Schneider, Ashworth, Higgs, and Carr, 1996). In other words, employees see improvements or declines in service delivery before customers do. However, Schneider, White, and Paul (1998) suggested that tighter feedback loops between employees and customers could also be a sign of more effective work groups. Tight feedback loops tend to blur the differentiation between cause and effect, promoting a circle where enhanced climate for service would improve the customer experience and effective service teams would learn from customer feedback at the same time and continue to calibrate their service climate.

It is important to note that while there is additional, important research work to do to fully understand these causal dynamics, the organizational development implication is clear. In both cases above, the research indicates that efforts to improve an organization’s climate for service are likely to result in an improved customer experience.

#### *Employee Satisfaction*

Research dealing with employee satisfaction suggests that improving employee satisfaction sometimes can improve customer satisfaction. There is emerging evidence, though, that a more appropriate view is that employee satisfaction is a side effect of things going well.

On the one hand, satisfied employees are more likely to be good organizational citizens, engaging in citizenship behaviors—the extra things employees do, perhaps outside their formal job duties, to help the organization succeed (for example, Koys, 2001; Organ and Ryan, 1995). This kind of citizenship behavior

might promote customer satisfaction (Adcock, 2000); however, Koys (2001) did not replicate this finding.

On the other hand, the reverse relationship—that customer satisfaction actually leads to employee satisfaction—also can occur and might often be more potent. Specifically, customer opinions will lead to employee opinions when satisfied customers enrich an employee’s experience (or perhaps, more powerfully, when dissatisfied customers create more work or frustrations for employees). This is a plausible interpretation of Ryan, Schmit, and Johnson (1996), who constructed a longitudinal, covariance structure model that suggested customer satisfaction at time 1 led to morale at time 2. This reverse causality is rarely considered in the literature, yet it can be keenly felt by any employee whose customer’s opinions can make or break his or her day faster than that employee can influence the customer’s own satisfaction.

### **Not All Employees are Equal**

When considering employees as observers and reporters of service climate and organizational effectiveness, it is plausible to conclude that not all employees are equal in diagnostic ability. In fact, there is ample and growing evidence for this idea.

Employees who are close to the customers and know more about them appear to have workplace perceptions more calibrated to the service delivery process and therefore more correlated with customer satisfaction. For example, opinions of employees with higher tenure (a proxy for more experience; Kendall and Barker Lemay, 1999) or more direct customer contact (for example, Brooks and Kam, 1999; Dietz, Pugh, and Wiley, 2004; Lundby and Fenlason, 2001; Vance, Brooks, Tesluk, and Howard, 1999) are more significantly related to customer satisfaction.

In addition, employees in different jobs can have different perspectives on the same overall value chain. For example, Pugh, Dietz, Brooks, and Wiley (2002) found differences in how opinions of back office production employees and front office service employees related to customer satisfaction. While climate for service perceptions of both groups related to customer satisfaction, the product-related opinions of the production employees also were significantly related to customer perceptions.

It is also important to consider cases where no employees are close to the customer. Self-service environments, for example, have weaker employee-customer linkages. It is logical to assume that with less direct employee-customer contact, employee and customer opinions will be less correlated. Suggestive findings emerge from research within a retail organization, where mall stores had stronger linkages than stand-alone stores (recognized within this organization as more transactional and less service oriented than mall environments; Brooks and Guth, 1999).

### **Closing the Loop**

Most discussion of linkage research describes a flow starting with employee opinions, moving through customer satisfaction and ending with business performance. But such discussions are incomplete. Anyone working for organizations engaging in layoffs knows all too well that employee opinions are often intimately tied to the financial fate of an organization. This is referenced by the High Performance Model, which highlights how Business Results “complete the circle” and change the way an organization is led.

### **Employee Satisfaction Caused by Business Performance**

The dynamics of the relationship between employee satisfaction and financial performance might parallel that of employee satisfaction and customer satisfaction. Research highlights two broad ways business performance will influence employee opinions, each acting in opposition. Despite their contrasting natures, each casts employee satisfaction in the role of a result of or side effect of performance, not a driver.

#### *Successful Firms More Easily Satisfy Employees*

Recent work by Schneider, Hanges, Smith, and Salvaggio (2003) found that overall job satisfaction (in addition to satisfaction with pay and security) was related to organization-level measures of return on assets and earnings per share. The strongest directional flow was from financial performance to employee satisfaction. Schneider, Hanges, Smith, and Salvaggio found “good support for the causal priority of organizational financial and market performance appearing to cause employee attitudes (Overall Job Satisfaction and Satisfaction with Security)” (p. 846).

In other words, working for a company that is succeeding is more fun (and generally more rewarding) than working for one on the decline. Thus, morale or overall satisfaction will be greater with greater financial performance.

Some of the dynamics underlying this finding might include:

- Organizational rewards (for example, pay, career opportunities, recognition) are often a direct result of reaping the benefits of success.
- Discretionary budgets are more available for “optional” activities, such as training, when profits are up.
- Senior managers have more difficult, controversial, and painful messages to convey in tough times (which can reduce credibility and instill doubt among employees regarding leadership).
- Employees might derive their opinions in part from business performance results. That is, they have more confidence in leadership and the business overall when things are going well.
- Leadership can act less rigid and more supportive or empowering when not preoccupied with financial strain.

The point here is not that employee satisfaction is always caused by an organization’s financial fate, but rather that we must consider that the strongest causal flow might be from success to satisfaction.

#### *High Productivity Levels are Stressful*

While company success would seem to foster employee satisfaction, the cost of success might at times undermine this relationship. Wiley (1998) cited an example of a finding that productivity levels (in this case, open customer accounts per employee) were negatively associated with employee morale. Thus, when success depends on a greater load per employee, there can be a cost in terms of lower employee satisfaction and higher stress.

### **Employee Opinions Leading to Business Performance**

Even if the most potent flow is from business performance to employee opinions, it is not inconceivable for employee opinions to have a direct, causal impact on financial results that is not mediated and explained by customer opinions and behavior.

There are two conditions under which this could happen in association with increasing revenue or decreasing costs. First, employees can have a direct impact on increasing revenue (that is, not mediated by customer service) when creating value existing customers are not aware of (for example, developing new products, attracting new customers). Logically, this is a way to improve revenue without changing the opinions or behavior of existing customers. Second, employees can have dramatic roles in reducing costs. Employee opinions regarding adherence to standards or protocols can reflect increasing efficiencies. For example, in a retail setting, keeping a cleaner store can help reduce theft or damage to merchandise (Brooks and Guth, 1999). Accidents, union relations, employee turnover and other important outcomes with demonstrated relationships to employee opinions often have significant cost implications.

Outside these two forces, however, most efforts of employees can be expected to flow through customer perceptions and behavior before influencing financial performance.

### **Not All Employees Experience Success in the Same Way**

Success can alternately promote a more satisfied workforce and, depending on the strain it takes to get there, come with a cost of dissatisfaction. If strain and productivity demands are not evenly distributed through organizations, then it is reasonable to find different reactions to success based on an individual’s job.

In fact, this appears to be true. Volume or processing job types (for example, tellers and retail associates) have been found to have opinions negatively related to overall financial performance

or productivity (Brooks and Guth, 1999; Lundby, Dobbins, and Kidder, 1995; Wiley, 1998; Wiley and Brooks, 2000b). However, even within the same organization where employees in processing jobs have opinions negatively related to success, jobs that focus on quality or relationships (for example, loan officers) can have opinions positively related to performance (Lundby, Dobbins, and Kidder, 1995).

Similarly, employees who are more invested in the business (for example, managers or those with compensation packages tied to financial success) likely will have opinions more strongly related to business performance. There is also a tentative yet intriguing suggestion in one organization that retail managers associate a busier pace with success (and thus have stronger, positive relationships between opinions and sales), and lower-level employees associate a busier pace with chaos (thus, showing weaker or even negative relationships; Brooks, 1999).

**Conclusion**

The research paints a picture of a value chain where employee opinions, particularly their observations with regard to an organization’s climate for service, are a potent predictor of how customers react to the delivery of products and services. In turn, customer loyalty and behaviors are leading indicators of financial performance over time. Figure 6 summarizes the core findings reviewed above, with special attention to the survey topics for employees and customers that reveal the most about the value chain, as well as those employee and customer segments whose opinions have the strongest impact.

A resonant finding is that satisfaction—both employee satisfaction and customer satisfaction—is not as central to holistic models of organizational effectiveness as popularly thought. Employee satisfaction is best viewed as a side effect of success. Customer satisfaction is best viewed as subordinate to customer behavior. This is definitely not to say that satisfaction constructs are unimportant. Employee satisfaction can be

important in working with employee relations issues such as voluntary turnover. Customer satisfaction is often a useful and predictive construct in understanding the value chain. It is, however, not a goal unto itself, and service efforts should ultimately be judged by the behaviors they produce.

**Implications**

Linkage research deals with organizational effectiveness models anchored in a practical measurement reality. As such, it can be counted among the most scientifically interesting and practical avenues of research. Both the science and practice are also growing increasingly sophisticated. We no longer depend on the simple intuition that happy employees create happy customers, who in turn create a happy financial state of affairs. We no longer need to start with employee satisfaction and cross our fingers that it is related to positive outcomes.

Instead, researchers are increasingly building models starting with the end in mind: financial performance or other measures of business results. To predict performance, we enlist employees and customers as allies in diagnosing the value chain. We ask employees to tell us about the effectiveness of customer-directed efforts and then study how those efforts promote customer loyalty, purchasing and recommendations.

To fulfill its potential, however, linkage research needs to be more than a measurement exercise and must be integrated with organizational development (OD) efforts. Statistical validity and a sound scientific foundation are required for both measurement and OD objectives, yet OD efforts also need greater executive buy-in and clearer, more compelling stories told from the data. Clearly, the data that convince a researcher are not what convince leadership. Too often, linkage research has stopped at the analytical phase, without crafting a compelling story that can influence an organization’s leadership to alter or refine its strategy.

This might arise from differing standards of cause and effect. Causality implies a different question to scientists than it does to leaders. Outside a laboratory, causality is notoriously hard to defend to scientific standards. But without a defined assertion of cause and effect, management teams could be more inclined to disregard the potential of linkage research to shape core OD plans and instead file it alongside the soft data of employee satisfaction surveys. Scientific causality aspires to truth—demanding generalizable and replicable findings. The leadership causality question is different. It asks whether money and effort expended in one area (such as climate for service) will result in greater organization success than money and effort spent elsewhere.

**Figure 6: Summary of Customer and Employee Opinions and Segments that Most Affect Financial Performance**

	Topics	Segments
Customers	<ul style="list-style-type: none"> <li>Behaviors that affect performance</li> <li>Evaluations versus alternatives</li> <li>Features core to value</li> </ul>	<ul style="list-style-type: none"> <li>High volume</li> <li>High profit</li> <li>Frequent</li> </ul>
Employees	<ul style="list-style-type: none"> <li>Customer orientation</li> <li>Quality</li> <li>Training</li> <li>Involvement</li> </ul>	<ul style="list-style-type: none"> <li>Experienced</li> <li>Customer contact</li> <li>Those who affect costs</li> </ul>

Figure 7 highlights some of the differences between traditional measurement approaches to linkage research and the view proposed here to consider linkage research as an OD activity, not strictly a model-building exercise. Linkage research is a rare intersection of scientific measurement and practical management concerns. It is this partnership of scientists and practitioners that makes this topic both fruitful and exciting. Science will continue to drill into the dynamics of the relationships between employee opinions, customer opinions and business performance. However, we now believe that the science has matured to the point where the biggest questions and challenges are related not to data but to the application of this management tool to the climate of service, delivery of customer value and bottom line performance of organizations everywhere. ■

**Figure 7: Criteria for Linkage Research Success: Measurement Versus Organizational Development Intervention**

Customer Orientation	Quality Emphasis
Valid methods, sound analyses	Valid methods, sound analyses
80 percent of time spent on analyses	30 percent of time spent on analyses—more on discovery, storytelling, implementation
Ultimate complete covariance structure model	“Control” through better variables
Statistical control	Employee satisfaction is side effect/ supporting construct
Satisfaction is central, driving force	Customer satisfaction subordinate to customer behavior
All employees, customers made equal	Diagnosing value chain not a democracy
Accuracy is required	Usefulness is required
Causality important	Confidence in return on effort is critical, guided by local findings, judgment
Sophisticated statistical models are convincing	Compelling stories with clear examples are convincing
Success is a valid model	Success is leadership influence and insight (validity necessary, but not sufficient)
Models tend toward the complex	Models need to be easy to communicate

**Note**

1. Note that although this research invokes the concept of engagement, Harter and others’ definition of this term is essentially employee satisfaction: “The term employee engagement refers to the individual’s involvement and satisfaction with as well as enthusiasm for work” (p. 269). In fact, results of different operationalizations were virtually identical. A measure of employee satisfaction had a meta-analytic validity coefficient of .28 with customer satisfaction, whereas employee engagement had a coefficient of .29.

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