

# TOWARDS A MANAGERIAL RESEARCH AGENDA FOR CUSTOMER SATISFACTION

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## ABSTRACT

Extant customer satisfaction research has typically focused on studying the processes through which consumers arrive at judgements of satisfaction with products and services, as well as on the measurement of satisfaction. Practicing managers, however, face a number of important questions about CS/D that have not received attention in the literature. It is argued in this paper that the CS/D research agenda should be extended to include these managerial issues. The employee-satisfaction-profit chain at Sears is used to illustrate the managerial research focus for CS/D research. A conceptual framework that positions customer satisfaction clearly within the theory of the firm is also presented.

A casual review of the CS/D literature will indicate that the topics of published papers generally reflect one or more of the following focal points of study:

- How good are our CS/D measures?
- How do consumers determine their extent of satisfaction vs. dissatisfaction?
- What standards do consumers use in evaluating CS/D?
- What do consumers do when satisfied and when dissatisfied?
- What determines whether consumers complain?

In parallel to the choice of topics, it is striking that we customer satisfaction researchers have adopted typical methods of inquiry that may ultimately serve to reinforce this topical focus. First, we have concentrated on consumers as subjects of study, particularly college students, as opposed to business or organizational customers, presumably because the former are much more

readily accessible to researchers. Second, we have generally relied upon rather simple data collection procedures in gathering information for our research endeavors, such as cross-sectional sample surveys and lab experiments, in part because subjects are easily acquired. Third, we have typically been limited in our exploration of consumer satisfaction by extant concepts and measures with which we are already familiar; seldom have we developed or imported from other fields new concepts and measures with which to deepen our exploration of the phenomenon of customer satisfaction. Fourth, the abundance of theory, principally from psychology, has resulted in too much hypothesis testing research, when our understanding of satisfaction might well be better served by more discovery-oriented research. Fifth, our inquiries have been largely limited to straightforward methods of analysis such as linear regression models and ANOVA, rather than the more complex analytical tools needed for probing more complex relationships in customer satisfaction. Finally, our research has been naturally focused in areas in which publication prospects appear the brightest, namely those areas in which there exists a precedent on which to build, rather than in new areas where little is known.

As a different perspective on the research we academics typically conduct on customer satisfaction, it is helpful to consider the questions that practitioners and managers commonly have about customer satisfaction. I am basing my assessment of their questions on my experiences speaking to managers and working with them on applied CS/D problems in industry over the past 10 years. The major questions that recur in my experiences include the following:

- How much should we spend on measuring and improving customer satisfaction?
  - Is measurement of satisfaction really
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necessary in the first place? Can satisfaction be improved without having to measure and re-measure?

- What external actions should we take to better satisfy our customers? What internal actions are required to bring about the external ones?
- What does it cost to raise customer satisfaction?
- By how much do we need to improve our customers' satisfaction? Can we overspend and overachieve when it comes to improving our satisfaction level? What happens if we underspend and underachieve?
- How does increased satisfaction impact our bottom line? Our competitive position?

It is sobering to ask ourselves why the preceding issues are not commonly studied in CS/D inquiries. I believe there are several reasons, complementary to those listed above for why we study what we typically study. For one, researching the managerial questions above requires access to people and information in organizations that is not easy to obtain for academics. Further, the data collection required to answer many of these questions is complex and slow to unfold. It requires cross-functional expertise, i.e. knowledge of organizational behavior, operations, management accounting, strategy, etc. in addition to marketing and customer satisfaction. In contrast to investigations of the satisfaction topics on which we spend most of our time and journal pages, in exploring the areas above there is precious little theory for guidance. Analysis also requires more complex methodologies, since the questions above often require relating concepts that exist at different levels of aggregation. Finally, I think it safe to say that the questions above, however interesting, face somewhat less certain publication prospects, particularly if new methods and concepts have been developed for use in the research.

Reflecting on the differences between what we typically study in CS/D research and what one

of our key constituencies – practicing or aspiring managers – typically needs to know, it seems to me that a “great divide” characterizes our respective positions. For instance, while companies need guidance on the satisfaction budget appropriation, we spend our time examining how to measure CS/D or how to evaluate the measures of CS/D. While companies need to know what role measurement plays in the process of managing their customer satisfaction, we academics tend to assume the question and instead seek to understand how satisfaction judgments are made. Where companies need to know what the competitive implications and requirements are for achieving certain levels of customer satisfaction, we are typically studying the mental comparison standards used by consumers in gauging their satisfaction. Where companies need to know what areas of their offerings and operations to improve in order to raise customer satisfaction levels, we study the relationships between satisfaction and subsequent customer behavior. And, while companies need to be able to appraise the market and economic impact of their satisfaction initiatives and investments, we study customer complaint behavior.

This is not to say that the knowledge that we have accumulated about CS/D has little value or application. Quite the contrary; our literature has for years had useful ideas and perspectives for practicing managers. What I am saying, however, is that the time has come for CS/D researchers to overcome the “great divide” and begin studying the managerial questions that also comprise the subject of customer satisfaction.

One can certainly consider the differences termed here “the great divide” and ask, “so what?” In other words, do we really care about the issues raised in applying our CS/D knowledge to practice? I think the answer is a resounding “yes.” First of all, attention to the managerial questions has the potential to illuminate our efforts to develop better CS/D theory at the consumer level. Further, it would likely lead to the development of new theory at both macro and micro organizational levels, something we are sorely

missing at the present time. It would produce far better grounding of our research in real world issues and problems. Third, it would necessitate closer ties to the business community and help to bring these about, to the advantage of the academy. Finally, I believe it is a matter of our responsibility as scholars of management to understand these application-driven issues, in conjunction with our theories to explain these phenomena.

What should we do about overcoming "the great divide," assuming that we are in agreement that the managerial questions are interesting, relevant and appropriate topics of study? A philosophical approach would suggest four possible courses of action. First, we could simply ignore the managerial research questions posed here and continue with our exclusively academic research agenda as in the past. Second, we could abandon the predominantly consumer-level research questions we have been studying and switch over completely to managerial research questions. Third, we might retreat from the challenge and find another research stream that does not pose these existential questions. And fourth we could embrace both customer and managerial research questions as complementary parts of our research programs in customer satisfaction.

Although others may disagree, I am proposing we adopt a more balanced research agenda in CS/D by adding the following managerial topics:

- Why and how organizations pursue the delivery of customer satisfaction
- The behavior of managers and employees in relation to customer satisfaction or dissatisfaction
- The cost and efficacy of functional business strategies and tactics in producing customer satisfaction
- The market, competitive, and financial consequences of increased / decreased customer satisfaction

To pursue these questions, we customer satisfaction researchers will need to expand our

backgrounds and skills. The following perspectives and skills would appear to be most needed if we are to begin addressing the managerial CS/D agenda. First is a better awareness of theory and findings in the literatures of organizational psychology and sociology. A second and related set of skills pertains to expertise in organizational research methods, particularly case-study research. Third, familiarity with management accounting is needed as we attempt to incorporate considerations of customer lifetime value and how it is affected by firm actions taken to increase satisfaction. Fourth, a deeper understanding of corporate strategy would enable CS/D scholars to relate customer satisfaction to the firm's competitive strategy possibilities. Fifth, familiarity with the literature of operations management would be extremely helpful as we investigate what and how organizations actually change as they attempt to improve the satisfaction they deliver to customers.

As might be expected with such an expansive change in focus advocated here, our likely research methods will need to include the methods of these additional fields of study. Chief among these are in-depth case studies, cross-sectional surveys of firms, longitudinal surveys of customers within firms and of firms over time, and field experiments.

### THE SEARS STORY

As an illustration of the shift in perspective I am advocating, it is instructive to consider the case of Sears Roebuck & Company, the large retailer. In 1992 Sears lost almost \$4 billion, but five years later it was able to report a profit of \$1.5 billion. While there are many possible explanations for the turnaround, Sears executives believed that it was largely attributable to a change in the culture of their organization. Management believed that there was a gap between strategy and day-to-day operations that left employees uncertain about how to behave. Sears developed a model of the process that linked employee actions, customer satisfaction,

and profitability, and examined how direct and specific effects of improvements in employee actions would improve customer satisfaction, and, ultimately, profitability. After initial design, data collection, statistical analysis, and a modification of the original model that had been proposed, Sears management was able to conclude how these key variables were causally linked. Specifically, "a 5 point improvement in employee attitudes will drive a 1.3 point improvement in customer satisfaction, which in turn will drive a 0.5% improvement in revenue growth" (Rucci, Kirn and Quinn 1998).

The Sears model was based on the company objectives developed to transform the company. The objective was for Sears to be "a compelling place to work, to shop and to invest". The initial model included objectives and measures. Total Performance Indicators (TPI) were developed to test and refine the model, and assumptions about causal linkages between employee attitude, customer satisfaction, and profitability were refined. As a result of this process, a new model emerged, was tested, and became operational across the entire organization (see Figure 1).

Sears management believed that the revised model indicated measurable causal linkages in the relationship between the actions of employees and customer satisfaction that resulted in increased profit. They sought detailed information from individual customers regarding their "shopping experiences," including evidence of measured customer satisfaction and retention, which they believed directly affected profitability. Employee attitudes were reinforced as personnel saw how their actions with customers mattered to the company. They were able to see a relationship between having improved attitudes towards the company, the purchase behavior of their customers, and the overall improved profitability of the company.

The profitability of Sears increased as management accomplished the following over the five-year period of study and change:

- Trained their work force to understand the business,
- Held town-hall meetings to explain competitive reality to employees,
- Built commitment to a new vision "To become a compelling place to work, shop, and invest,"
- Created a measurement and reward system to support vision, and
- Substantially improved customer satisfaction and net margins (3.3% vs. 1.2% previously).

### **CUSTOMER SATISFACTION AND THE THEORY OF THE FIRM**

To illustrate the possibilities of a greater managerial focus in CS/D research, I describe an emerging framework that seeks to better position customer satisfaction within the theory of the firm (Epstein & Westbrook, forthcoming). The framework is termed the Action-Profit-Linkage (APL) Model. It seeks broadly to provide a framework for identifying and measuring the key drivers of business success and profit, developing the causal linkages among them, and estimating the impact of managerial actions designed to bring them about. Although we intend the model to help managers make better decisions leading to superior profit consequences, it is also intended to encourage more integrative study by academics of the factors that drive business success. It is of interest in the present context as an emerging theory of the role of customer satisfaction in the firm. In other words, the model suggests the linkages between customer satisfaction and its antecedents and consequences within the firm.

The APL model is shown schematically in Figure 2. It appears in generic form in the Figure, and is intended to be customized to particular industry and business contexts by substituting the actual performance metrics used by a particular firm for the more general variables described here.

#### **Overview**

As shown in the Figure, the APL model consists of four main groups of variables: Firm

Figure 1  
The Sears Model  
The Employee-Customer-Profit Chain

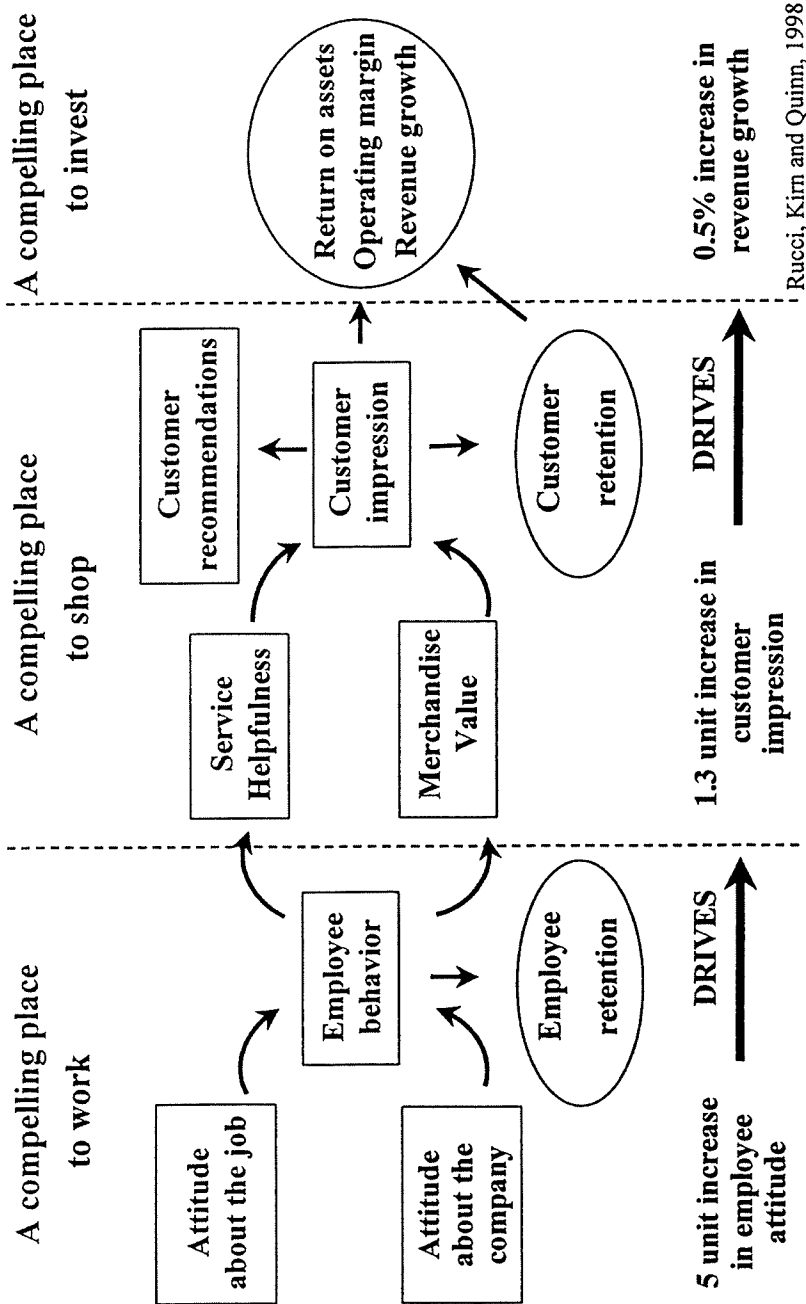
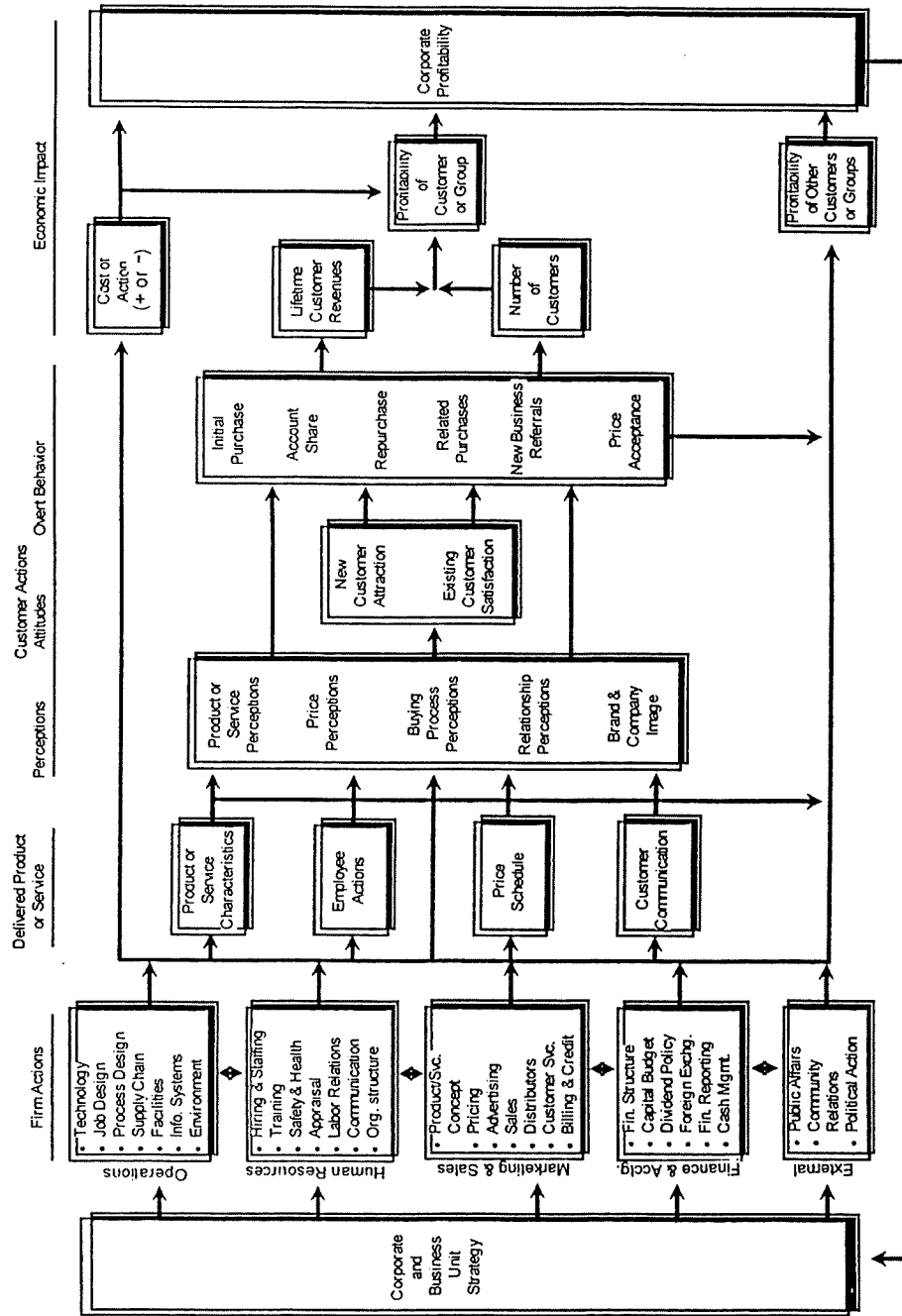


Figure 2  
Action-Profit Link Model



Actions, Delivered Product/Service, Customer Actions and Economic Impact. The model proposes that these four groups of variables are connected through an identifiable set of causal linkages, shown in the figure as arrows, that involve numerous specific and intervening variables. The intent is to allow the profitability of any firm action to be evaluated by examining the causal linkages between the action, intervening variables, and the resulting changes to the customer revenue stream, after allowing for the costs of the action. Customer satisfaction and its counterpart for prospective customers, customer attraction, are critical intervening variables in the framework.

### Model Structure

The model begins with the portfolio of actions that firms choose to or choose not to perform, i.e. corporate strategy (Porter 1996). Firm Actions are simply the decisions or choices made by management that alter the activities of the firm. They are grouped into six broad domains corresponding to the firm's functional areas: operations, human resources, marketing, finance & accounting, information technology and external relations. Within each of these domains there is, in turn, a wide range of potential activity, as indicated in the Figure, each of which comprises many specific possible actions. For example, the sales area in marketing might include actions such as sales force size, structure, sales messages delivered, call frequency, etc. Each action undertaken by the firm will have an impact either on the firm's product/service offering ("Delivered Product or Service"), on the costs of the firm, or on both.

The Delivered Product/Service is the sum total of what the business actually offers to and provides to customers for purchase. Beyond the product or service itself, as defined by its various attributes, it also comprises brand and/or vendor name, physical facilities, and equipment for serving customers, for actions of customer-contact employees, and for other communications to customers, and price.

As shown in Figure 2, the variables within Delivered Product/Service may trigger several key forms of customer action in response. Most immediate is an impact upon Customer Perceptions, which are customers' beliefs about the delivered product/service, which play a vital role linking firm actions to profit consequences. They are based on direct experience with the product and/or the firm's communications, and are grouped into five categories, as shown in the box on the Figure.

In turn, the variables within Customer Perceptions drive Customer Attitudes, i.e. they dispose customers to feel either inclined or disinclined to buy the product. Attitudes take two different forms depending on whether they are held by the existing customers of the firm or by prospective customers who have yet to make a purchase. Both groups of customers are involved in the generation of revenue, but in different manners. Existing customers making another purchase comprise the bulk of most firms' sales. Prospective customers represent the pool of future buyers, some of whom will make an initial purchase following their receipt of targeted communications, successful sales calls, acceptable pricing, etc. For existing customers of the firm, Attitude takes the form of Customer Satisfaction. For prospective customers who have yet to make a purchase, Attitude would simply be Customer Attraction to the offering. The Customer Satisfaction and Customer Attraction variables are essential for establishing causal linkages between actions and profits.

As attitudinal variables, both Customer Satisfaction and Customer Attraction, in turn, drive the purchasing responses of existing and prospective customers, respectively, which we label collectively as Overt Customer Behavior. A variety of different forms of Overt Behavior are possible, e.g. whether a (re)purchase is made, (re)purchase frequency, etc., some of which will be apply to existing customers, while others apply to prospective customers.

The variables comprising Economic Impact bring together the revenue effects of Overt Customer Behavior with the expenditure effects

of Costs of Firm Actions to obtain a resulting profit contribution. Certain forms of Overt Customer Behavior determine the total Number of Customers the firm will receive, while others determine the Annual Revenues generated by each customer. Number of Customers multiplied by Average Customer Revenues yields the total revenues generated by all customers.

The costs of Firm Action are either directly attributable to individual customers, e.g. improving the seat width and pitch on an airline, or indirect and therefore not attributable to individual customers, e.g. issuing common stock. As shown in the Figure, after deducting each type of cost, the profitability of each customer group is obtained. Finally, all customer group profitability results are combined into Overall Corporate Profitability. For firms with few customers and or customer groups (i.e. segments), individual customers are instead the focus of analysis.

The model also allows for 'network effects,' which occur when a particular Firm Action intended for a specific customer group also causes a change in the profitability of a different customer group. For example, the launch of the Palm Pilot personal digital assistant to its business customers also reaches its consumer customers and contributes to their purchasing the consumer version of the product. 3Com's total profitability is thus a function of the intended effect of its business-to-business advertising, as well as its unintended effect on consumers. Network effects are often created by such "action leakage" across customer segments.

### **Model Linkages**

The linkages in the APL model are intended to be established by analyzing the relationships between specific metrics that the firm chooses to represent the components of the model. The general model in Figure 2 is to be customized to individual firms so that existing metrics may be used or new ones devised as needed to complete the linkages. Although the linkages in Figure 2 are shown only between broad model components rather than between specific variables, the latter

are the proper focus in APL modeling. For example, the arrow from "Product Characteristics" to "Customer Perceptions" might be operationalized by an automobile manufacturer as establishing a relationship between assembly quality, measured by defects per 100 cars from the J. D. Power study, to customer perception, measured as ratings of vehicle reliability from syndicated research studies.

Although Figure 2 shows adjacent groups of variables linked together in simple, direct chains, the causal linkages between individual variables in the APL model need not be limited in this manner. Instead, any of the variables in the model may be linked to any others, as observed from empirical research.

In establishing linkages, it is essential to consider the time required for the effects of firm actions on customer actions and, from thence, to profitability, to materialize. Many firm actions may be expected to have immediate consequences for customer action and thereby relatively short-term effects on revenues. Others, in contrast, may require extended times to yield an effect, with resulting delays in the generation of revenue.

### **Application**

The APL model described above is intended to provide scholars and managers with a simple yet integrative conceptual framework for examining the drivers of business success. Use of the model focuses on the relationships among the various performance metrics of the business, with customer satisfaction at the center of the model. Customer satisfaction is the linchpin that allows integration of the actions of the firm to their ultimate economic consequences for the firm.

One important result of applying the model is that management attention will shift from a current preoccupation with individual performance metrics within the firm to an awareness of how the metrics work together as a system leading to increased corporate profitability. Also, the model takes a broader and more integrative perspective than available in any of the management disciplines of human



resources, operations, marketing or finance. As a consequence, the model encourages managers to conceive their actions not only in terms of local consequences but also of overall corporate profitability. It thus fosters an investment-based approach to managing the tradeoffs in decision making by directing managers to evaluate the financial returns on their actions.

### CONCLUSION

The extensions I propose in our collective CS/D research agenda are not offered lightly, since changes of this magnitude are never accomplished easily. The extent of redirection is substantial and will involve considerable personal 're-tooling' in order to be successful in producing new knowledge. However, there is little question that our understanding of customer satisfaction will be richly rewarded for the effort.

I can offer that my own personal experiences working with several large organizations to measure and manage their levels of customer satisfaction over the past decade have provided me an invaluable perspective on the utility of our extant theories and the need for greater study of the application of customer satisfaction within the firm. Although I continue to have an active consumer research agenda in CS/D, my scholarly interests have become much more eclectic, applied and cross-functional. I find I can no longer ignore the question of how our knowledge can be used for the management of organizations. On a personal level, my journey of discovery has been as enlightening and enjoyable as graduate school.

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