



# Incorporating human resource management initiatives into customer services: Empirical evidence from Chinese manufacturing firms



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## ABSTRACT

The existing operations management literature has extensively investigated the associations between customer satisfaction and firm performance. However, how to improve customer satisfaction through employee empowerment, service reward, and service training has rarely been investigated. In this research, we tied human resource and service operations management to each other and examined the relationships among employee empowerment, service reward, service training, employee satisfaction, customer service and customer satisfaction based on empirical study of 214 Chinese manufacturing companies. Using structural equation modeling, we found that both employee empowerment and service training have significant impacts on employee satisfaction and customer service, while service reward only has significant impact on customer service. We also found that both employee satisfaction and customer service have significant impact on customer satisfaction. However, the impact of employee satisfaction on customer service is insignificant. The findings suggest that employee empowerment, service reward and service training are important considerations for operations managers to boost employee satisfaction and customer service, which in turn improve customer satisfaction. We provide empirical evidence that employee empowerment, service reward and service training play significant roles in increasing customer satisfaction in the context of manufacturing businesses.

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## 1. Introduction

Due to the shrinking of product life cycles and increasing global competition, as well as volatile market dynamics, organizations have become more active in seeking ways of improving customer satisfaction to raise performance (Yee, Yeung, & Cheng, 2010). Service operations management (SOM) has emphasized providing excellent customer service as a means to improve customer satisfaction. In recent years, many manufacturing companies have made service transition a priority to maintain a long-term competitive advantage (Gebauer, Gustafsson, & Witell, 2011; Jacob & Ulaga, 2008). Substantial research has also been devoted to such topics as innovating, managing and optimizing service systems, in order to enhance customer service and operational performance (e.g., Kumar & Telang, 2011). However, many firms have enthusiastically applied the operation-centric approach which focuses on the manufacturing process of optimization, sequencing and timing as an effective means for improving organizational performance, while the

impact of human resource management (HRM) practices on operational systems has often been overlooked (Boudreau, Hopp, McClain, & Thomas, 2003). The importance of HRM practices such as employee empowerment, service reward and service training and their impacts on employee satisfaction and customer satisfaction have largely been neglected in the existing SOM literature (Boudreau, 2004).

On the other hand, issues related to HRM have been widely investigated in the fields of organizational behavior (OB) and psychology for many decades. The pervasive interest in HRM among OB researchers and practitioners is grounded on the premise that HRM practices are closely related to the cognitive, attitudinal and behavioral aspects of employees which are crucial to organizational effectiveness, and the ultimate profitability and growth of the firm (Jun, Cai, & Shin, 2006; Yee et al., 2010). Therefore, a great number of researches have been calling for studies to examine HRM practices, particularly to what extent these practices influence customer service, customer satisfaction and organizational performance (e.g., Batt, 2002; Guest, 2011; Rogg, Schmidt, Shull, & Schmitt, 2001).

Yet, for a long time, HRM and SOM remained as separate fields with very few studies looked at the integration of those two areas in the context of service industries (Boudreau et al., 2003). We believe that the impact of HRM practices on service operations cannot be ignored and is particularly essential for the manufacturing industry because

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manufacturing firms are increasingly evaluated not only by their products, but also by the quality of the services provided to their customers (Gebauer, Krempel, & Fleisch, 2008). For example, more and more manufacturing companies are offering various high value-added services, such as preventive maintenance, remote diagnosis and financial leasing to maximum customer value. In the process of service delivery, activities of service employees connect organizations to their customers (Yee, Yeung, & Cheng, 2008). Therefore, how to empower, motivate and train service employees to improve their satisfaction and to increase the service value provided to customers has become an important issue to be addressed.

In this study, we attempt to investigate a fundamental question in SOM: Do employee empowerment, service reward and service training have significant impacts on customer satisfaction in manufacturing companies? If so, what are the possible relationships among employee empowerment, service reward, service training, employee satisfaction, customer service and customer satisfaction? We empirically examined these relationships through a survey of 214 manufacturing companies in China and the development of theory-based structural equations model.

## 2. Hypotheses development

### 2.1. Employee empowerment, employee satisfaction and customer service

Empowerment relates to task discretion and providing more autonomy to employees (Abbasi, Khan, & Rashid, 2011) which aims at generating improved individual and organizational performance through employee participation in the decision-making process (Gerald & Terziowski, 2003). Applying this concept to service workers, Bowen and Lawler (1992, 1995) argued that the empowerment approach encourages frontline employees to exercise initiative and imagination in solving problems relating to customer service, which leads to higher involvement and performance of service providers as compared to the traditional top-down, control-oriented management approach.

A number of previous studies found that empowered employees experience positive psychological status towards their jobs and themselves, have a clear sense of contribution, and are able to initiate and regulate behaviors through autonomy (Bowen & Lawler, 1992, 1995; Harris, Wheeler, & Kacmar, 2009; Seibert, Silver, & Randolph, 2004). The rationale behind the positive impact of empowerment on employee satisfaction is the job characteristics theory which specifies that the specific job characteristics (i.e., task identity, task significance, skill variety) are the key predictors for psychological status (Hackman & Oldham, 1976). With more autonomy, employees will perceive job tasks as more interesting and challenging, thereby leading to a higher level of self-achievement and satisfaction accompanying job completion (e.g., Spreitzer, Kizilos, & Nason, 1997). Employee empowerment has not been researched extensively in customer services of manufacturing firms, although a few empirical studies found that empowerment leads to improved employee satisfaction in the banking industry (Akbar, Yousaf, Haq, & Hunjra, 2011). Recently, Jun et al. (2006) indicated that empowerment has a positive impact on employee satisfaction in the total quality management of manufacturing firms. Therefore, our first hypothesis is:

**H1a.** Employee empowerment has a positive impact on employee satisfaction.

Research in the service industry has shown that empowered employees have more service-oriented organizational citizenship behaviors, which is essential to the quality of services delivered to customers (Jiang, Sun, & Law, 2011). Organ (1988) defined organizational citizenship behavior as “individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that the aggregate promotes the effective functioning

of the organization” (p.4). Self-consistency theory can be applied to account for the relationship between empowerment and customer service (Jiang et al., 2011). According to self-consistency theory, individual will be motivated to perform on a task in a manner which is consistent with the self-image with which they approach the task situation (Korman, 1970). Empowered employees will have the self-image of taking control over the situation and being responsible for the service outcomes (Conger & Kanungo, 1988), and the job role also becomes less explicit because any actions that contribute to the final performance might be considered as in-role behaviors (Jiang et al., 2011). Therefore, employees with enlarged authority are willing to make best use of their creativity and initiative to produce service excellence (Subramony, 2009). Hence, we hypothesize that:

**H1b.** Employee empowerment has a positive impact on customer service.

### 2.2. Service reward, employee satisfaction and customer service

Service reward, which involves the financial and non-financial benefits for service quality, has a major impact on the motivation and behaviors of service employees (Manolopoulos, 2008). Generally, rewards are associated with positive psychological feelings (i.e., passion, energy) within individuals (Macey & Schneider, 2008), as recognitions of behaviors or performance that are valued by the organization. Rewarded employees will experience a higher level of self-efficiency and self-esteem, which fulfill the basic human needs of striving for success and being affiliated. Financial rewards will make service employees more satisfied with their payment, while non-financial rewards are positive indications for promotion opportunities and career success within the company (Tymon, Stumpf, & Doh, 2010). With such positive feedback, employees' spirits can be lifted up which leads to improved satisfaction. Therefore, we hypothesize that:

**H2a.** Service reward has a positive impact on employee satisfaction.

Service reward also has a positive impact on the performance of employees, especially in terms of the services they provided to customers (Sun, Hsu, & Wang, 2012). According to reinforcement theory of motivation, behavior is driven by its anticipated or experienced consequences (Skinner, 1953). Rewards are positive consequences that can reinforce the efforts in providing high quality services, which make service employees more energetic and creative in taking extra responsibilities to meet customers' expectations. Furthermore, rewards provide incentives for employees to engage more with their tasks and be more committed towards achieving better outcomes (Bhatnagar, 2007), leading to customer satisfaction and improved service quality perceived by customers (Yee et al., 2010). Consequently, rewarded service employees are usually more self-motivated and flexible in performing in-role and extra-role behaviors to meet customer needs (Subramony, 2009). Thus, we hypothesize that:

**H2b.** Service reward has a positive impact on customer service.

### 2.3. Service training, employee satisfaction and customer service

Training is a vital component of HRM, which provides opportunities for the employees to enhance their knowledge, ability and skill levels (Subramony, 2009). Previous research has reported that service employees who received training performed better than those who did not (Chang, Chiu, & Chen, 2010), and experienced a higher level of satisfaction regarding the nature of the job (Choo & Bowley, 2007). In particular, service training not only upgrades the interpersonal and communication skills of employees while encountering customers, but also increases employees' general professionalism and commitment (Bushardt & Fretwell, 1994). This results in higher levels of satisfaction

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