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Executive Summaries

This section provides a concise, nontechnical summary of each article in the current issue of JR focusing on its strategic implications for management.

A Meta-Analysis of Relationships Linking Employee Satisfaction to Customer Responses

STEVEN P. BROWN, SON K. LAM

Interaction with front-line service providers is a critical factor in customers' experience with retail and other service businesses. Their satisfaction, perceptions of service quality, and decisions regarding repurchasing depend significantly on the tone and quality of these interactions. Pleasant interactions with service providers often result in customer satisfaction despite problems with other aspects of service delivery, whereas unpleasant interactions can ruin otherwise satisfactory encounters and put at risk important customer relationships. The financial significance of these interactions may not be appreciated by front-line employees, or even by management.

Research has suggested that employee job satisfaction is an important influence on customer responses to service experiences. The purpose of this research is to provide a quantitative review of research that links employee job satisfaction (ES) to customer satisfaction (CS) and perceived service quality (SQ). These linkages are central to the service–profit chain conceptual framework, and figure importantly also in organizational research grounded on service climate and emotional contagion frameworks. As such, they have been studied in diverse industries and using different conceptual perspectives and research designs. They have also produced results that vary in strength, significance, and sign.

Our research uses the research synthesis tool of meta-analysis to (1) estimate weighted-mean effect sizes for the ES–CS and ES–SQ relationships across all extant studies, (2) assess whether studies converge on a population value representative of all studies, and (3) account for between-study variance in effect sizes using substantive and methodological characteristics of studies as moderator variables. Thus, we aim to provide precise estimates of the ES–CS and ES–SQ relationships, calibrated according to the industry contexts in which they were studied and the research methods that were used to estimate them. As a result, we indicate contexts in which customer responses are more or less sensitive to employee satisfaction and methodological characteristics that are systematically associated with stronger and weaker employee–customer linkages.

Our results indicate that both ES–CS and ES–SQ relationships are positive in sign and statistically and substantively significant. Overall, ES accounts for between four and six percent of total variance in CS and between six and 10 percent in SQ (based on confidence intervals around the attenuation-corrected means). While these are relatively modest proportions of total variance, we believe it is important to consider them to be substantively significant because a modest lift in CS and SQ based on dealings with employees is likely to result in meaningful increases in customer retention, loyalty, and equity, and in profitability and competitive advantage in turn.

The results also indicated the presence of significant between-study variance for both relationships, which we attempted to account for using service industry and method characteristics as moderator variables. In these analyses, we found that CS and SQ were more sensitive to ES in personal services (i.e., in which services are performed on people) than they are in services performed on possessions. This finding suggests the need for special care in fostering ES in industries providing personal services. To our surprise, we also found that SQ (but not CS) was more strongly related to ES in encounter business (in which customers deal with a different service provider on each encounter) than in relationship business (in which customers deal with the same service provider on each occasion). This counter-intuitive finding suggests that the ES–SQ relationship is based on simple affect transfer mechanisms, and that ES has the greatest effect when there is little or no prior acquaintance or other considerations beside the affective tone and quality of the immediate transaction. We found no significant difference in effect sizes between B2B and B2C industry contexts.

In terms of methodological characteristics, we found larger effect sizes in studies in which organizational units (e.g., retail stores) rather than individuals was the unit of analysis. This finding suggests that positive employee attitudes are mutually reinforcing and produce synergistic effects that translate into favorable customer reactions. We also found stronger relationships in studies that used simple global measures of job satisfaction than in those that used multi-dimensional by-facet measures. We found no significant effects of single-firm versus multi-firm sampling frames or of predictive versus concurrent timing of measuring ES and customer responses.

Finally, we conducted a path analysis based on the aggregated data to assess whether SQ mediates the ES–CS relationship. In a manner consistent with the service–profit chain, this analysis indicated complete mediation of the ES–CS relationship by SQ. Overall, the results show employee satisfaction to be a consistently important driver of customer responses and indicate service and research contexts in which these effects are heightened. Even so, further carefully designed research is needed to provide a more precise conceptual account of these important relationships.

Understanding the Determinants of Retail Strategy: An Empirical Analysis

DINESH KUMAR GAURI, MINAKSHI TRIVEDI, DHRUV GREWAL

One of the most powerful and effective strategic tools in retailing is pricing (Levy et al. 2004), for which the options available to retailers range from EDLP to promotional or HiLo strategies. An EDLP retailer tends to offer lower average prices, whereas a HiLo retailer offers frequent discounts. In addition, a few retailers may offer some combination (i.e., hybrid pricing).

A second critical and long-term strategic decision for retailers pertains to store format, which competing categories of retailers use to match varying customer needs and shopping situations. The multiple available formats include the popular supermarket format, which offers a wide variety of food and household merchandise; larger supercenters that carry an enormous range of products under one roof, including full lines of groceries and general merchandise; and limited assortment formats that offer little variety within limited categories.

Considerable research centers on how pricing and format strategies affect consumers' store choice behavior, as well as which consumer profiles tend to be drawn to each strategy (e.g., Bell and Lattin 1998; Bhatnagar and Ratchford 2004; Lal and Rao 1997; Messinger and Narasimhan 1997; Popkowski Leszczyc, Sinha, and Timmermans 2000). However, far less research explores the strategic selection of price and format policies from the retailer's perspective. In theory, a retailer may choose any combination of pricing and format strategies, and many large retailers use a variety of combinations to occupy several niches and serve different segments in the marketplace. For example, Supervalu, one of the largest U.S. food retailers, operates in diverse markets under fifteen different brand names and follows different format/pricing strategy combinations, such as adopting an EDLP strategy for both its limited assortment Save-A-lot stores and its Shop' n Save and Cub Foods supermarkets.

Only by considering both pricing and format strategies does the distinction become clear between, for example, the EDLP strategies of Wal-Mart (supercenter) and Wegman's (supermarket). Whereas Wal-Mart delivers everyday low prices on a wide selection of items to appeal to price-conscious consumers, Wegman's provides consistently lower prices on a smaller selection of frequently purchased goods. In addition, the supermarket offers more in-store service features, such as cooking classes, freshly prepared foods, and gourmet food cafés, to appeal to a higher-income segment of consumers. That is, despite their similar pricing strategies, these very different overall strategies target unique consumer segments.

Prior research (e.g., Bhatnagar and Ratchford 2004; Fox, Montgomery, and Lodish 2004; Gonzalez-Benito, Gallego, and Kopalle 2005; Popkowski Leszczyc, Sinha, and Timmermans 2000) demonstrates that both pricing and store format depend on consumer demographics (e.g., income), store factors (e.g., service), and competition. Thus, the variables that affect pricing and store format preferences overlap. Because both decisions are specific to consumers to which the stores hope to cater, as well as the environment within which they operate, this overlap seems unsurprising. Yet prior academic research does not address these strategic decisions in a single framework. Does this gap imply that retailers focus only on one strategy, rather than jointly considering both? How might the impact of these variables change in a joint framework in contrast with a pure pricing or pure format strategy framework? These questions constitute the first issue we address.

We also consider whether retailers, privy to the findings from prior research regarding consumer choices and consumer's pricing and store format preferences, take such information into account when making their strategic choices. Although we can observe only variables that a retailer implements, in this descriptive research, we also determine if the retailer, in choosing a policy, complies with existing knowledge about consumer preferences. For example, if retailers that adopt a HiLo pricing strategy locate in a high-income demographic region, they may be drawing on prior store choice literature that indicates high-income shoppers prefer stores with this pricing strategy. We offer empirical evidence from the retailer's perspective to complement existing consumer-based models of pricing and format strategy.

To obtain the data for our model, we combine two databases: the Spectra Marketing database (2003) and U.S. Census Bureau data (2000). Spectra maintains an exhaustive database of store features, such as weekly sales, pricing strategies, and various store-specific internal features, such as banking facilities or an in-store bakery. The Census data provide a list of various sociodemographic characteristics for census block groups. We therefore obtain store strategy and competitive data, as well as demographic data. From Spectra, we gather data pertaining to all grocery retailers in three states – New York, Pennsylvania, and Ohio – that account for approximately 9.3 percent of total national grocery sales. Of the 6,918 grocery stores in the three states, we select chains that own more than ten stores, which leaves us with 3,315 stores of 67 chains. Spectra also provides pricing (EDLP, HiLo, hybrid) and format (limited assortment, supermarket, supercenter) strategy information about each store. Using latitude and longitude information derived from the addresses of the stores, we geocode them according to specific census block groups and use this information to obtain relevant demographic data from the U.S. Census Bureau. We identify the stores and census blocks within a three-mile radius of each store.