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Employee satisfaction, customer satisfaction, and financial performance: An empirical examination

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ABSTRACT

The purpose of this study is to examine the relationship between employee satisfaction and customer satisfaction, and to examine the impact of both on a hospitality company's financial performance utilizing service-profit-chain framework as the theoretical base. Specifically, this study explores four major relationships: (1) the direct relationship between customer satisfaction and financial performance; (2) the direct relationship between employee satisfaction and financial performance; (3) the direct relationship between customer satisfaction and employee satisfaction; and (4) the indirect relationship between employee satisfaction and financial performance. Furthermore, this study examines the mediating role of customer satisfaction on the indirect relationship between employee satisfaction and financial performance. Data for this study was collected from employees, customers and managers of three- and four-star hotels. Structural equation modeling (SEM) with a two-step approach was utilized to empirically test the proposed hypotheses and the relationships between the constructs. Findings suggest that while customer satisfaction has positive significant impact on financial performance, employee satisfaction has no direct significant impact on financial performance. Instead, there is an indirect relationship between employee satisfaction and financial performance, which is mediated by customer satisfaction.

1. Introduction

Several studies suggest that there is a positive relationship between employee satisfaction and customer satisfaction (Bernhardt et al., 2000; Harter et al., 2002; Koys, 2003; Tornow and Wiley, 1991; Wangenheim et al., 2007). Because of this assumed positive relationship, employee satisfaction has received significant attention from researchers and became a critical issue within the last two decades (Matzler and Renzl, 2007). There is no doubt that employee satisfaction is critical in the service industry because of the nature of the industry (Lam et al., 2001). As suggested by "the service-profit chain" providing employees with a superior internal working environment is likely to lead to satisfied employees who are both loyal to the organization and able to provide the customer with an excellent service experience. Customers will recognize and value the outstanding service offered to them. Over time, they will exhibit loyalty behaviors, such as continued purchasing and increased referrals. These loyalty behaviors will generate both market share and profitability increases for the service firm (Heskett et al., 1994, 1997).

Because of the assumption that satisfied employees will create satisfied and loyal customers, which will result in higher sales and, therefore, higher financial returns, service companies have been allocating significant resources for employee and customer satisfaction and retention. However, some researchers raise serious concerns about the heavy emphasis placed on both employee satisfaction and customer satisfaction and whether or not they relate to bottom-line performance (Bernhardt et al., 2000; Zeithaml et al., 1990). Gursoy and Swanger (2007) suggest that in hospitality and tourism industry attention to service and customer satisfaction is considered to be a "given" factor, which is an expected and a natural part of day-to-day operations. Hospitality and tourism companies cannot survive without satisfied customers; however, having satisfied customers may not guarantee the success of any hospitality and tourism business. In order to succeed, a company has to do a better job in creating satisfactory experiences for both employees and customers than its competitors. Even though both customer satisfaction and employee satisfaction and their retention have been studied extensively, impacts of employee satisfaction and customer satisfaction on financial performance measures have not received much attention.

The purpose of this study is to examine the relationship between employee satisfaction and customer satisfaction, and to examine the impact of both on hospitality company's financial

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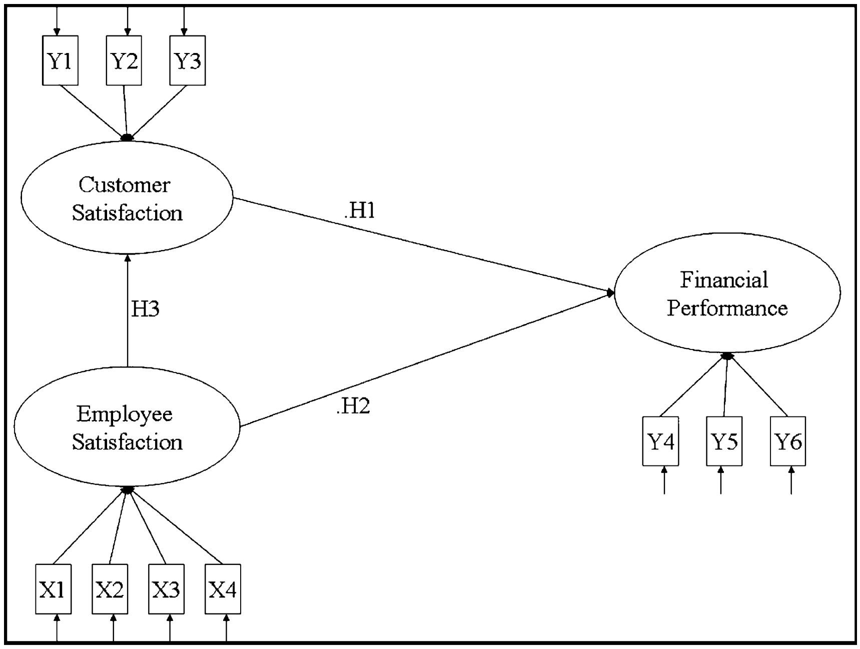

[a] Reverse coded.

Fig. 1. Proposed model: satisfaction and financial performance. *Note*: X1 = Overall, I am satisfied with my job at ____; X2 = I intend to keep working at the ____ long into the future; X3 = I often think about quitting my job (reverse coded); X4 = As soon as I can find another job I am going to leave (reverse coded); Y1 = I am very satisfied with my stay at ____; Y2 = I am delighted with the services that ____ offers; Y3 = Hotel ____ exceeded my expectations; Y4 = Profitability; Y5 = Return on investment; Y6 = Net profit.

performance measures. Specifically, this study explores three direct relationships and an indirect relationship between employee satisfaction and financial performance and the mediating role of customer satisfaction on that indirect relationship. Fig. 1 presents the three direct relationships examined in this study: (1) the relationship between customer satisfaction and financial performance; (2) the relationship between employee satisfaction and financial performance; and (3) the relationship between employee satisfaction and customer satisfaction. In the next section, the theoretical background for this study highlighting past research linking employee satisfaction to customer satisfaction and their impact on financial performance measures are presented. Once an understanding of the appropriate theoretical framework is presented, employee satisfaction, customer satisfaction and their relationships with financial performance are established, appropriate hypotheses are presented, and the methodology and findings of the study are furnished. Finally, in Section 5, the conclusions and limitations are presented along with managerial and research implications of the study finding.

2. Review of the literature

Globalization and free trade continue to change the business environment and increase global competition. In today's business environment, to stay competitive and deliver satisfactory financial returns to the owners and shareholders, managers depend heavily on how effectively they can cope with continuous and unexpected changes. The ability to respond quickly and effectively (time-based competition) and to satisfy customer needs has become a defining characteristic of competitiveness and of success for many companies (Gursoy and Swanger, 2007). Therefore, customer satisfaction has been one of the most frequently examined topics in hospitality tourism literature. Findings of previous studies suggest that employees are likely to play a significant role on customer satisfaction (Spinelli and Canavos, 2000; Wu, 2007). Since most hospitality and tourism products are heterogeneous and inseparable, hospitality and tourism employees tend to be more involved with hospitality service offerings. Their involvement and interaction with customers, therefore, tend to play a significant role in quality perceptions and customer satisfaction due to the fact that hospitality and tourism products are often highly complex and presents a summation of interaction, exchange and performance between employees and customers (Bitner et al., 1990).

Since any service company's intangible assets reside in employees' know-how and skills, and the company's future depends heavily on employees and the perceived quality of interactions between customers and employees, employee satisfaction and retention has become one of the most critical issues facing the hospitality and tourism industry (Matzler and Renzl, 2007). In recent years, service companies have been allocating significant resources for employee retention because most hospitality professionals and research suggest that lowering employee turnover is likely to have significant impact on the bottom-line. Literature further suggests that employee retention and customer retention are closely correlated. Employees who are happy and satisfied with their work environment are more likely to stay with the company. This is likely to result in lower turnover and therefore a better financial performance due to decreasing cost of attracting and training new employees. Furthermore, studies suggest that satisfied employees are likely to provide better services, which is likely to result in a satisfactory service experience for their customers. This satisfactory service experience, in return, is likely to have significant impact on repeat business and customer retention. Studies also suggest that customer retention is likely to increase a company's profitability because retaining an existing customer costs a lot less than attracting a new one.

The service-profit chain (Heskett et al., 1997) was developed from an analysis of service organizations with the aim of linking operational resource investments to marketing, operational, and financial outcomes. The service-profit chain combines three distinct, but closely related streams of research: the cycle of employee capability, the customer quality/value equation, and the cycle of customer loyalty. The cycle of employee capability takes a human resource perspective on the relationships between employee satisfaction, turnover, and productivity. The quality/value equation describes how customers perceive and assess service offerings. The cycle of customer loyalty examines the effect that customer satisfaction has on customer loyalty and how they both play a vital role in determining financial outcomes (Loveman, 1998; Loveman and Heskett, 1999).

As suggested by Heskett et al. (1994), the service-profit chain establishes relationships between profitability, customer loyalty and satisfaction, and employee satisfaction, loyalty and productivity. The model proposes that profit and growth are stimulated primarily by customer loyalty, which is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers, which is created by satisfied, loyal, and productive employees. Heskett et al. (1994) also argues that the service-profit chain can also be defined by a special kind of leadership which emphasizes the importance of each employee and customer. A close examination of the model supports the argument that satisfied employees are likely to provide better services, which is likely to result in a satisfactory service experience for their customers, and better financial performance for the company. Therefore, this study primarily focused on the relationship between employee satisfaction, customer satisfaction, and financial performance because, as the preceding discussion suggest, the basic premise of the service-profit chain is that satisfied employees are likely to create satisfied customers and satisfied customers are likely to create happy shareholders.

Even though the service-profit chain and several studies suggest that satisfied employees and customers are likely to result in better financial performance, testing this relationship empirically has not received much attention. Only a small number of empirical studies have been conducted linking satisfaction and performance (Bernhardt et al., 2000; Zahorik and Rust, 1992). However, those studies that examined the link between satisfaction and performance measures reported contradictory findings (Anderson et al., 1994; Boulding et al., 1993).

2.1. Customer satisfaction and financial performance

As suggested by the service-profit chain, the relationship between customer satisfaction and financial performance should be positive and the higher the customer satisfaction, the more favorable the performance measures should be. However, while some studies suggest that this positive relationship exists (Bernhardt et al., 2000; Nelson et al., 1992), others argue that customer service quality perceptions and satisfaction are sometimes, but not always, reflected in profits (Schneider, 1991). Bernhardt et al. (2000) suggest that a positive and significant relationship exists between changes in customer satisfaction and changes in financial performance of a firm. However, in the short run, this positive and significant relationship may be obscured by many factors but it may be significantly positive in the long run.

Several other researchers suggest that the relationship between customer satisfaction and financial performance may not be positive (Tornow and Wiley, 1991; Wiley, 1991). As suggested by Bernhardt et al. (2000) that while these findings might seem counterintuitive, they may not be that surprising. For example, Gursoy and Swanger (2007) argues that while customer satisfaction is at the very core of hospitality operations, customer satisfaction may not result in higher financial performance because it is considered as a "given" factor, which is an expected and natural part of day-to-day operations. Because consumers expect to be satisfied when they patronize any service businesses, hospitality and tourism businesses cannot survive without satisfied customers. In addition, a multitude of factors could mask the true relationship between these constructs. For example, when a business decides to increase its customer satisfaction, they may end up spending a large sum of money to implement this. Because of the amount of investment on several factors such as training, upgrades of facilities, etc. a business may be able to increase customer satisfaction, but this may result in lower profit. On the other hand, internal cost-cutting measures such as lowering training expenses or postponing facility upgrades may make a firm seem more profitable in any given time period, even if customers are not satisfied. It is true that a multitude of factors could mask the true relationship between customer satisfaction and financial performance if the examination was based on the data received from one business. If the magnitude and the direction of relationship between these two constructs is examined utilizing data obtained from a relatively large number of businesses, the results should reveal the true relationships between these two constructs. Since the data for this study is obtained from 250 properties, the sheer size of the sample should minimize the impact of variables that are beyond the control of this study and reveal the true relationships between customer satisfaction and financial performance. Even though many actions of a company are beyond the scope of customer satisfaction and may have a significant impact on profits, customer satisfaction is still likely to play a significant role in a company's financial success. Therefore, this study hypothesizes a significant positive relationship between customer satisfaction and financial returns.

Hypothesis 1. There is a significant positive relationship between customer satisfaction and financial performance.

2.2. Employee satisfaction and financial performance

Studies suggest that employee satisfaction plays a primary role in helping companies achieve financial goals (Koys, 2003). The logic for this argument is if a company takes care of its employees, the employees will take care of the customers. It is true that customers tend to have a better experience with organizations that have higher levels of employee satisfaction and engagement. Taking care of employees can be defined as providing better pay, ongoing training, and making employees feel secure (Gursoy and Swanger, 2007; Koys, 2003; Schneider, 1991). Satisfied employees are more likely to be motivated and harder working than dissatisfied ones. However, even though company employees who are willing to work together, who are able to work beyond expectations, and who put themselves into the manager's shoes tend to work more efficiently, provide better services and, therefore, create higher customer satisfaction (Koys, 2003), several studies report that examination of the direct relationship between employee satisfaction and financial results tend to yield insignificant results suggesting an insignificant direct relationship between employee satisfaction and financial performance. Some studies even suggest a negative relationship between employee satisfaction and customer satisfaction. For example, Tornow and Wiley (1991) reported a consistent negative relationship between employee satisfaction (with such items as pay and benefits) and financial results. However, most other studies suggest an insignificant direct relation between employee satisfaction and financial performance. For example, Wiley (1991) was unable to find any significant direct relationship between overall employee satisfaction and financial performance. Similar findings were reported by Bernhardt et al. (2000) that the relationship between employee satisfaction and financial performance was "virtually nonexistent." Based on the preceding discussion, the following hypothesis is proposed:

Hypothesis 2. There is no significant direct relationship between employee satisfaction and financial performance.

This insignificant direct relationship may be explained by the fact that the relationship between employee satisfaction and financial performance might be indirect. As suggested by the service-profit chain, if employees feel that the company takes good care of them, they are, in return, likely to take time to provide better service to meet and/or exceed customer's expectations. This is likely to lead to higher satisfaction among those customers, which in return will lead to repeat business, positive word-of-mouth behavior and, therefore, higher sales and better financial performance (Koys, 2003). As suggested by the preceding discussion, the relationship between employee satisfaction and financial performance is likely to be indirect and this indirect relationship is likely to be mediated by customer satisfaction. Based on the preceding discussion, following two hypotheses are proposed:

Hypothesis 3. There is a significant indirect positive relationship between employee satisfaction and financial performance.

Hypothesis 4. The relationship between employee satisfaction and financial performance is mediated by customer satisfaction.

2.3. Employee satisfaction and customer satisfaction

The relationship between customer satisfaction and employee satisfaction is the one relationship that does not seem to yield conflicting results. Studies suggest that employee and customer satisfaction are positively correlated (Spinelli and Canavos, 2000; Matzler and Renzl, 2007; Tornow and Wiley, 1991; Wiley, 1991; Wu, 2007). As suggested by the service-profit chain, providing employees with a superior internal working environment will lead to satisfied employees who are both loyal to the organization and able to provide the customer with an excellent service experience, which will result in satisfied customers. Therefore, the following hypothesis is proposed:

Hypothesis 5. There is a positive relationship between customer satisfaction and employee satisfaction.

3. Methodology

Data for this study were collected from the employees, customers and managers of three and four star hotels located in five destinations. In each destination, 50 three and four star hotels were recruited to participate in the study using a snowball sampling methodology. A packet of materials were delivered to each hotel by a member of the research team. Each packet contained 10 employee surveys, 20 customer surveys and 1 survey for the manager. Before collecting the data, each property was assigned a code to make sure that responses from the employees and customers of each property were assigned to the right property. Customer satisfaction data were collected through a series of surveys conducted at each property. The financial data were collected from the managers of individual properties.

Employee surveys were distributed to randomly selected 10 employees who had been working for the hotel at least for 6 months. To facilitate accurate responses, anonymity was guaranteed to all employees. Employees were instructed to fill out the surveys, put them in envelopes, seal them to assure confidentiality and, then, return them to the interviewer. In total, 2023 of the 2500 eligible employees returned usable surveys yielding a response rate of 81%. Self-administered customer survey questionnaires were distributed to randomly selected 20 customers staying at each participating hotel. The research team member approached every eighth customer checking out from the hotel and asked them whether they would like to complete a short survey regarding their satisfaction with their stay. Customers were instructed to complete the short survey, place the completed survey in the provided envelope, seal it and return it to the research team member. A total of 3346 usable customer surveys were returned, yielding a response rate of 67%. Since all the hotel managers agreed to participate in the study before data collection started, managers of all 250 hotels completed the financial performance survey.

After collecting customer, employee and financial data from each property, a summated measure for each employee satisfaction and customer satisfaction variable (question) was created for each property. For example, from Property A nine usable employee satisfaction surveys and sixteen usable customer satisfaction surveys were received. First, a summated measure for question one of the employee satisfaction survey questionnaire was created by averaging all nine responses to question one. The same procedure was utilized to calculate the summated score for each employee satisfaction and customer satisfaction items until a summated score was created for every single item (question) on employee satisfaction and customer satisfaction survey questionnaires. Afterwards, summated scores for each employee satisfaction and customer satisfaction variables (questions) and the financial performance data provided by the management of the Property A were entered in a single data file yielding a single line presenting the summated responses for Property A. The same procedure was repeated for each property. Results from each property were added to the data file. Summated scores for employee satisfaction and customer satisfaction were utilized because it enables researchers to minimize to some extent the measurement error inherent in all measured variables.

Since this study summated individual data into firm level data through a cross-level data transformation, it was necessary to ensure that individual ratings are reasonably stable within each firm set (Chen et al., 1993). Therefore, the estimate of within-group interrater reliability for multiple-item scales was assessed by utilizing the interclass correlation coefficient (ICC) in order to make sure that individual ratings are reasonably stable within each firm set and to test whether there is consistency across employee perceptions or customer perceptions. This reliability is interpreted similar to other reliability coefficients. A value of .70 or higher indicates a good level of within-group interrater reliability (George and Bettenhausen, 1990). Findings indicated acceptable interrater reliability coefficients for both customer satisfaction and employee satisfaction constructs; .81 and .68, respectively. Even though the interrater reliability score of the employee satisfaction construct was below .70 (.68), it was determined to be close enough because reliability scores that are between .60 and .70 represent the lower limit of acceptability (Gursoy and McCleary, 2004).

3.1. Measurement variables

Fig. 1 presents the model tested in this study. The model is represented by one exogenous construct (employee satisfaction) and two endogenous constructs (customer satisfaction and financial performance). As presented in Table 1, the employee satisfaction construct was measured by four items, and the customer satisfaction and financial performance were measured by three-item measurement scales. Items that were used to assess both customer satisfaction and employee satisfaction constructs were measured on a five-point Likert-type scale ranging from 1 = *strongly disagree* to 5 = *strongly agree*. Financial performance was assessed by asking managers to rate their company's financial

Table 1
Measurement scale properties based on SEM.

Constructs and indicators	Completely standardized loadings	Construct/indicator reliability	Error variance
Financial success		79[a]	21[b]
Profitability	0.83	0.69	0.31
Return on investment	0.80	0.64	0.36
Net profit	0.58	0.34	0.66
Customer satisfaction		83[a]	17[b]
I am very satisfied with my stay at ____	0.91	0.83	0.17
I am delighted with the services that ____ offers	0.77	0.59	0.41
Hotel ____ exceeded my expectations	0.67	0.45	0.55
Employee satisfaction		71[a]	29[b]
Overall, I am satisfied with my job at ____	0.72	0.52	0.48
I intend to keep working at the ____ long into the future	0.63	0.40	0.60
I often think about quitting my job[c]	0.54	0.29	0.71
As soon as I can find another job I am going to leave[c]	0.58	0.34	0.66

[a] The composite reliability of each construct.
[b] The composite error variance of each construct.
[c] Reverse coded.

performance relative to their three major competitors during the last 12 months using a five-point Likert-type scale ranging from 1 = *much lower* to 5 = *much higher*. Similar measures were utilized by Gursoy and Swanger (2007) to assess the hospitality companies' financial performance.

3.2. Data analysis

The properties of the items of the constructs in the proposed model were tested using the LISREL 8 structural equation analysis package with maximum likelihood (ML) method of estimation (Anderson and Gerbing, 1988), in combination with the two-stage process recommended by Sethi and King (1994) and Anderson and Gerbing (1988).

First, a confirmatory measurement model that specifies the posited relations of the observed variables to the underlying constructs, with the constructs allowed to intercorrelate freely, was tested. The adequacy of the individual items and the composites were assessed by measures of reliability and validity. The composite reliability as calculated with LISREL estimates, is analogous to coefficient alpha and is calculated by the formula provided by Fornell and Larcker (1981). Further, convergent validity and discriminant validity were assessed. Convergent validity was assessed from the measurement model by determining whether each indicator's estimated pattern coefficient on its posited underlying construct factor is significant (greater than twice its standard error). Discriminant validity was assessed for every possible pair of constructs by constraining the estimated correlation parameter between them to 1.0 and then performing a χ^2 difference test on the values obtained for the constrained and unconstrained models (Anderson and Gerbing, 1988; Joreskog, 1993). A significantly lower χ^2 value in an unconstrained model indicates that discriminant validity is achieved.

Afterwards, the structural model was tested. The structural portion of the structural equation modeling (SEM) allows for the testing of multiple equations with multiple dependent variables. This statistical method provides parameter values (i.e., path coefficients) for each of the proposed relationships and determines their respective significance. In addition, the mediation effect of customer satisfaction was assessed using the causal step approach recommended by Baron and Kenny (1986).

As fit indices, the χ^2 statistics (and associated *P*-values) and other fit indices are recommended by numerous researchers from a number of different disciplines. These selected fit indices were the goodness-of-fit index (GFI), the normed-fit index (NFI), the parsimonious normed-fit index (PNFI), the non-normed-fit index (NNFI), the comparative fit index (CFI), and the critical *N* statistic. Values of GFI, NFI, CFI, NNFI, and PNFI range from zero to 1.00 with a value close to 1.00 indicating good fit (Byrne, 1989).

4. Results

Details on the properties of the measurements are provided in Table 1. As shown in Table 1, all of the composite reliabilities are above .70. The overall fit of this final measurement model is $\chi^2_{(32)} = 85.27$ ($P = 0.0$); GFI = .98; NFI = .97; CFI = .98; and IFI = .98. Further, the root mean square residual (RMR) is .028 and the standardized RMR is .038.

Two types of validity measures – discriminant and convergent – were examined. Discriminant validity addresses the concept that the measures (observed indicators) of dissimilar constructs that theoretically should not be related to each other, in fact, are observed to not be related to each other (Zikmund, 1997). This means that observed indicators that measure one construct should not be related to the measures of other constructs in the measurement model if the constructs in the proposed measurement model have discriminant validity.

To ensure that the constructs are not measuring the same concept or ideas, the discriminant validity was assessed for each construct in the measurement model by examining the constructs in sets of two (Joreskog, 1993). For example, the "employee satisfaction" construct was tested against the "customer satisfaction" construct to establish these two constructs have discriminant validity (not measuring the same concept). Then, the "employee satisfaction" construct was tested against "financial performance" construct, and finally the "customer satisfaction" construct was tested against the "financial performance" construct. Two models were thus tested for every possible pair of estimated constructs. The first model was the constrained model where the correlation parameter was constrained between each pair of constructs to 1.00. The second model was the unconstrained model (i.e., free model) where the correlation parameter between two constructs was not manipulated (not fixed at 1.00) (Joreskog, 1971). The χ^2 value was generated for both constrained and unconstrained models with the respective degrees of freedom. Afterwards, a χ^2 difference test was performed on the two models. A significantly lower χ^2 value for the unconstrained (free) model indicated that discriminant validity has been achieved (Anderson and Gerbing, 1988). Table 2 indicates that all of the constructs possess discriminant validity.

Table 2
Results of discriminant validity tests.

	Correlation value	χ^2 with correlation fixed	d.f.	χ^2 with correlation free	d.f.	Change in χ^2	Change in d.f.	Significance level
1–2	0.29[a]	71.45	14	35.75	13	1	35.70	0.00
1–3	0.17[a]	59.22	14	47.28	13	1	11.94	0.00
2–3	0.32[a]	63.80	9	11.58	8	1	52.22	0.00

d.f.: degrees of freedom; 1: employee satisfaction; 2: customer satisfaction; 3: financial performance.
[a] Significant at 0.05 significance level.

Convergent validity is the overlap between alternative measures that are intended to measure the same construct but have different sources of undesired variation (Judd et al., 1991). In other words, if several observed indicators are utilized to measure a theoretical construct (i.e., latent variable), those observed indicators should share a good deal of variance (converge together). In estimating convergent validity for structural equation modeling studies, examining the standardized confirmatory factor analysis (CFA) parameters' estimated pattern coefficient is one method often used (Marsh and Grayson, 1995). Convergent validity can be assessed from the measurement model by determining whether each indicator's estimated pattern coefficient on its posited underlying construct factor is significant (Anderson and Gerbing, 1988). That is, if the values in the off diagonal are large, convergent validity is achieved. Statistically significant large factor loadings indicate convergent validity.

Table 3 presents the standardized parameter estimates for the proposed three-factor measurement model produced by LISREL. There are three lines of information for each observed indicator. The first line represents the estimate, the value in parenthesis on the second line represents the standard error, and the third line represents the *t*-value. An examination of the standardized parameter estimates in Table 3 reveals all estimates exhibit the correct sign and size and be consistent with the underlying theory. Table 3 also presents that all of the estimated pattern coefficients on their posited underlying construct factors are significant at the .05 significance level (i.e., each had a *t*-value $> \pm 1.96$). Therefore, the convergent validity is achieved.

Fig. 2 shows the estimated path coefficients and significant links between the exogenous construct and endogenous constructs. As presented in Fig. 2, this study examined three major direct relationships: (1) the relationship between customer satisfaction and financial performance; (2) the relationship between employee satisfaction and financial performance; and (3) the relationship between customer satisfaction and employee satisfaction in addition to indirect influence of employee satisfaction on financial performance and the mediating role of customer satisfaction on that relationship. The theoretical model's χ^2 value

Table 3
Parameter estimates for the proposed three-factor measurement model.

LAMDA X		Financial success	Customer satisfaction	Employee satisfaction
Profitability	Estimate	0.83		
	S.E.	(0.04)		
	t-Value	22.78		
Return on investment	Estimate	0.80		
	S.E.	(0.03)		
	t-Value	21.68		
Net profit	Estimate	0.58		
	S.E.	(0.03)		
	t-Value	15.67		
I am very satisfied with my stay at ____	Estimate		0.91	
	S.D.		(0.03)	
	t-Value		27.19	
I am delighted with the services that ____ offers	Estimate		0.77	
	S.D.		(0.03)	
	t-Value		22.19	
Hotel ____ exceeded my expectations	Estimate		0.67	
	S.D.		(0.03)	
	t-Value		19.10	
Overall, I am satisfied with my job at ____	Estimate			0.72
	S.D.			(0.04)
	t-Value			17.88
I intend to keep working at the ____ long into the future	Estimate			0.63
	S.D.			(0.04)
	t-Value			15.80
I often think about quitting my job[a]	Estimate			0.54
	S.D.			(0.03)
	t-Value			13.36
As soon as I can find another job I am going to leave[a]	Estimate			0.58
	S.D.			(0.04)
	t-Value			14.32

[a] Reverse coded.

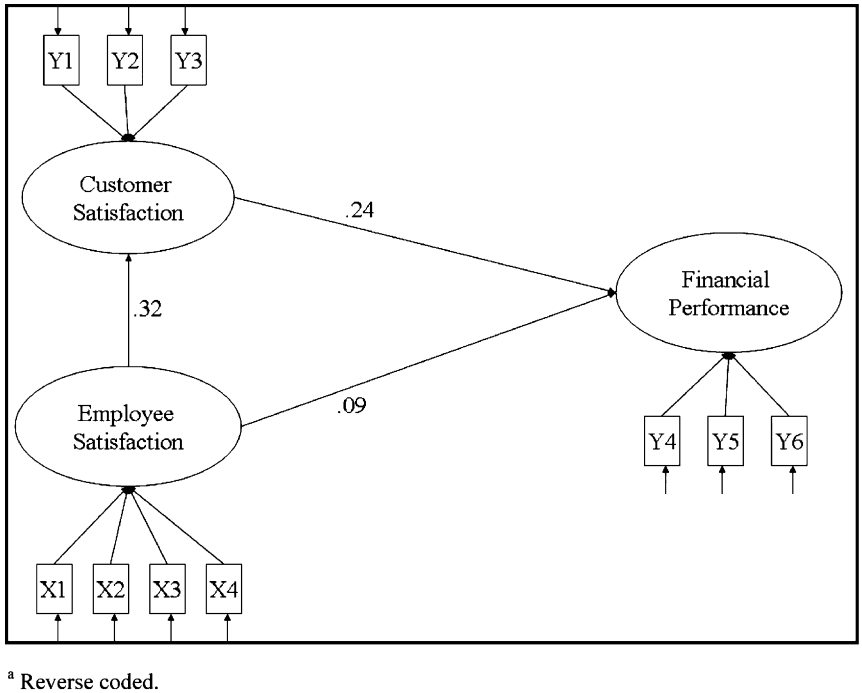

Fig. 2. Employee satisfaction, customer satisfaction and financial performance. *Note*: X1 = Overall, I am satisfied with my job at ____; X2 = I intend to keep working at the ____ long into the future; X3 = I often think about quitting my job (reverse coded); X4 = As soon as I can find another job I am going to leave (reverse coded); Y1 = I am very satisfied with my stay at ____; Y2 = I am delighted with the services that ____ offers; Y3 = Hotel ____ exceeded my expectations; Y4 = Profitability; Y5 = Return on investment; Y6 = Net profit.

with 32 degrees of freedom is 85.27. All of the other fit indices examined in this study indicated that the proposed theoretical model is acceptable (GFI = .98; NFI = .97; CFI = .98; IFI = .98). Further, the RMR is .028 and the standardized RMR is .038.

Five hypotheses were proposed to examine the direct and indirect impact of customer satisfaction and employee satisfaction on financial performance, the direct relationships between employee satisfaction and customer satisfaction and the mediating effect of customer satisfaction on the indirect relationship between employee satisfaction and financial performance. The first hypothesis proposed a significant direct relationship between customer satisfaction and financial performance. This hypothesis was supported (completely standardized $b = .24$; t-value = 6.30). The second hypothesis, which proposed that there is no significant direct relationship between employee satisfaction and financial performance, was also supported (completely standardized $b = .09$; t-value = 1.80). The third hypothesis that proposed a significant indirect positive relationship between employee satisfaction and financial performance was also supported (completely standardized indirect $b = .08$; t-value = 4.40). The fifth hypothesis that proposed a direct positive relationship between customer satisfaction and employee satisfaction (completely standardized $b = .34$; t-value = 5.93) was also supported.

The mediation effect of customer satisfaction on the indirect relationship between employee satisfaction and financial performance was assessed using the causal step approach recommended by Baron and Kenny (1986). The overall purpose of the causal step method is to establish the conditions for mediation rather than a statistical test of the indirect effect (MacKinnon et al., 2007). Kenny et al. (1998) suggest four criteria for complete mediation. First, the independent variable should have a significant influence on the dependent variable. Second, the independent variable must be significantly related to the potential mediator. Third, the mediator must have a significant relationship with the dependent variable. Finally, the initially significant relationship between the independent and dependent variable must become insignificant once the role of the mediator is accounted for in the process to establish complete mediation. If only steps one through three are met, then partial mediation is established.

In order to test the mediation effect, zero-order correlations between variables were calculated. Zero-order correlation assesses the relationship between two variables, while ignoring the influence of other variables in prediction. First the zero-order correlation between employee satisfaction and financial performance was calculated (completely standardized $b = .17$; t-value = 3.50). Second, the zero-order correlation between employee satisfaction and customer satisfaction (potential mediator) was calculated (completely standardized $b = .29$; t-value = 5.96). Third, the zero-order correlation between customer satisfaction and financial performance was calculated (completely standardized $b = .32$; t-value = 7.19). Findings suggested that all three zero-order correlations were significant at .05 significance level. Finally, the full model presented in Fig. 1 was tested. As presented in Fig. 2, the initially significant relationship between the employee satisfaction and financial performance became insignificant once the role of the mediator (customer satisfaction) is accounted for in the process. This finding provides support for the fourth hypothesis by clearly indicating that the relationship between employee satisfaction and financial performance is mediated by customer satisfaction.

5. Discussion and implications

Within the last few decades, customer satisfaction has emerged as one of the most important factors for the financial success of hospitality and tourism industry (Iacobucci et al., 1994). As suggested by others, this study found that level of customer satisfaction plays a significant role in a company's financial performance. Basically, this study suggests that the higher the level of customer satisfaction the better the financial performance.

Findings of this study also suggest that employee satisfaction is one of the significant determinants of customer satisfaction and employee satisfaction indirectly influences financial performance.

Customer satisfaction is especially important for service businesses because satisfaction is a prerequisite for loyalty and word-of-mouth behavior (Spinelli and Canavos, 2000). It has been suggested that retaining an existing customer costs a lot less than attracting a new one (TARP, 1986; Gursoy et al., 2007) and that repeat customers are considerably more profitable than single transaction customers (Reichheld and Sasser, 1990). Since the findings suggest that customer satisfaction is crucial for a better financial performance, providing exceptional customer service by exceeding customers' expectations is likely to offer opportunities for growth. Clifford and Cavanagh (1985) suggest that high growth companies exist even in declining industries as long as they identify and pay attention to key success factors. How is it that a company like Southwest Airlines can survive, and even thrive, when the rest of the industry is in financial turmoil—many of their competitors on the verge of bankruptcy? Conversely, how can a company like Krispy Kreme go from being the ''darling of Wall Street'' just a short time ago to being in financial chaos and under investigation by the Securities and Exchange Commission? As suggested by the Steroid Theory, the answer to these questions is that some companies do a better job in identifying and utilizing internal strategic success factors, taking advantage of external opportunities while minimizing the threats—they focus on performance-enhancing factors or otherwise called core competencies (Gursoy and Swanger, 2007). Findings of this study suggest that customer satisfaction is a key internal performance-enhancing success factor for any service company.

While the findings suggest that customer satisfaction has a significant impact on financial performance, findings also suggest that employee satisfaction has no direct impact on financial performance because the relationship between employee satisfaction and financial performance is an indirect one, which is mediated by customer satisfaction. Results clearly indicates that there is a direct relationship between employee satisfaction and customer satisfaction and between customer satisfaction and financial performance. This finding suggests that satisfied employees are highly motivated to provide good service to customers. Results reported in this study are consistent with previous studies, which suggest that employee satisfaction plays a primary role in helping companies achieve financial goals because if a company takes care of its employees, the employees will take care of the customers (Loveman, 1998). Findings of this study suggest that the relationship between employee satisfaction and financial performance is likely to be mediated by customer satisfaction. Satisfied employees are likely to be more motivated and work harder to provide a satisfactory service to customers than dissatisfied ones (Paradise-Tornow, 1991). As suggested by the service-profit chain, if employees feel their company takes good care of them, they are, in return, likely to take time to provide better service to meet and/or exceed customer's expectations. This is likely to lead to higher satisfaction among those customers, which in return will lead to higher profits (Koys, 2003). This finding suggest that even though it is hard to observe direct impact of employee satisfaction on financial performance, service companies cannot survive without satisfied employees because satisfied employees are the ones who provide satisfactory service experience to customers. Therefore, companies need to make sure that their employees are happy and satisfied with what they do.

5.1. Limitations and recommendations for future research

Like any other study, this study is not free of limitations. This study examined the relationship between employee satisfaction and customer satisfaction, and the impact of both on a hospitality company's financial performance utilizing service-profit-chain framework as the theoretical base. As discussed earlier, the service-profit-chain framework provides an integrative framework for understanding how a firm's operational investments into service operations are related to customer perceptions and behaviors, and how these translate into profits. Due to the complexity of the framework and the purpose of this study, only the links between employee satisfaction, customer satisfaction, and financial performance were examined. In other words, this study did not examine the impacts of other constructs/variables included in the framework such as internal service quality, productive behaviors of service employees, customer value and customer loyalty. It is possible that those constructs may significantly influence the relationships among the variables examined in this study, and therefore, change the direction and magnitude of the relationships examined. Therefore, future studies should examine the factors that are likely to influence the relationships examined in this study.

One of the main limitations of this study is that both customer satisfaction and employee satisfaction were examined as a unidimensional constructs. However, other studies suggest that both customer satisfaction and employee satisfaction are multidimensional constructs. Measuring them as unidimensional construct is likely to limit the generalizability of the findings. Future studies should utilize multi-dimensional constructs to capture the true essence of both employee and customer satisfaction. Furthermore, a company's financial performance may be influenced by several factors including satisfaction. However, this study did not examine other factors that may influence the financial performance of a company.

6. Conclusion

This study examined the relationship between employee satisfaction and customer satisfaction, and the impact of both on hospitality companies' financial performance utilizing the service-profit-chain framework as the theoretical base, which links service operations, employee satisfaction, and customer satisfaction to a firm's financial performance (Heskett et al., 1994). The service-profit chain provides an integrative framework for understanding how a firm's operational investments into service operations are related to customer perceptions and behaviors, and how these translate into better financial performance. This study explored three major direct relationships and an indirect relationship between customer satisfaction and financial performance. In addition, this study examined the mediating role of customer satisfaction on the indirect relationship between employee satisfaction and financial performance. Findings suggested a direct relationship between customer satisfaction and financial performance, and between customer satisfaction and employee satisfaction. Findings also indicated that the relationship between employee satisfaction and financial performance may not be easily identifiable due to the fact that it is mediated by customer satisfaction.

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