Students and practitioners of service management have argued repeatedly that the end-of-the-line benefits of customer satisfaction and loyalty cannot be realized unless an organization also succeeds in building employee satisfaction and commitment (Heskett, et al., 1997; Reichheld, 1996; Rucci, et al., 1998). Among the reasons for this inextricable link between employee and customer satisfaction/loyalty are:

1. It takes time to build solid personal relationships with customers, and front-line service personnel employees are key agents toward this end.
2. As their tenure builds, satisfied and loyal employees also tend to exhibit increased learning, productivity, and efficiency, all of which are associated with improved customer satisfaction and organizational/ market effectiveness.
3. To the extent that management addresses key employee needs and concerns, these employees, in turn, will be better prepared, increasingly motivated, and more apt to do the right things well for customers.
4. The money these employees save their employers in reduced recruiting and training costs can be re-directed toward areas that will deliver the greatest value to customers and other key stakeholders.

In order to identify key employee needs and concerns, and to formulate priorities and strategies for organizational and human resource development, many organizations utilize employee survey measures as a key managerial tool (Masztal, 1991; Ludeman, 1992; Kennedy, 1994). Data from these surveys can be used to identify employee issues and concerns having the greatest impact on overall employee satisfaction and commitment, providing focus and direction for the development and implementation of appropriate action plans. However, simply knowing which issues and concerns drive employee satisfaction and commitment is not enough: The issue of determining where and how high to “set the bar” for relevant organizational performance standards and measurement targets poses an additional challenge which must be addressed if efforts to build employee satisfaction and commitment are to be successful.

This paper describes an “outside-in” approach to defining targets for measures of employee satisfaction and commitment. Founded on the principles of the Malcolm Baldrige National Quality Award, Kaplan and Norton’s (1996) “Balanced Scorecard,” and related models, this approach attempts to set targets or standards by addressing the following questions:

1. What are the business results or other critical outcomes the organization is trying to achieve?
2. What levels of customer satisfaction and/or customer-perceived service must be delivered in order to achieve the preceding results or outcomes?
3. What levels of employee performance, efficiency, and productivity must be achieved in order to achieve the desired levels of customer satisfaction and loyalty?
4. To achieve all of the above “downstream” results, what levels of employee satisfaction and commitment must be achieved and maintained?

After reviewing some of the most common methods of defining performance and measurement targets, the paper attempts to show how an outside-in approach leads to the development of targets which, if met, increase an organization’s probability of successfully building employee satisfaction and commitment, improving customer relationships, and achieving desired business results. Advantages of an outside-in approach relative to other strategies, along with issues and considerations that are key to the successful implementation of this approach, also are discussed.

COMMON APPROACHES TO DEFINING TARGETS FOR EMPLOYEE SURVEY MEASURES

There are a number of ways to define targets for employee survey measures. The most common are: 1) Managerial judgment based on experience; 2) Comparisons made within a single organization (i.e., examination of differences among organizational units and/or changes in employee survey scores over time); and 3) Outside normative comparisons and benchmarking with external organizations. Each of these approaches, along with its strengths and limitations, is described below.

Managerial Judgment

Quite commonly, targets for employee satisfaction and commitment measures are based upon judgment. Management selects what is deemed an acceptable and/or achievable level of employee satisfaction, and this becomes the target. These judgments are typically based on past satisfaction and commitment levels or managers’ experiences in other organizations.

At first glance, this may seem like a reasonable approach. After all, the responsibility for setting and communicating an organization’s performance goals and expectations rests squarely on the shoulders of top management. Toward this end, senior executives and other leaders are expected to exercise their “best judgment” as needed and/or in the absence of a clear alternative for establishing targets and expectations.

Brandt (1998) points out that the judgmental approach to defining targets suffers from at least three key shortcomings:

1) Management often finds it difficult to articulate the rationale or foundation for its choice of target to managers and employees seeking to make sense of it; (2) The target may not be aligned with or realistic in view of the organization’s current climate, resources, and/or capabilities; and (3) There is no guarantee that achieving...
the targeted performance level will lead to expected “downstream” business results.

In practice, some degree of managerial judgment inevitably factors into the final decision regarding where and how high to set the bar for employee survey measures. However, given the limitations discussed above, some managers are skeptical of and/or hesitant to use judgment alone. These managers seek something to supplement, or even replace judgment.

An alternative strategy involves the use of comparisons as the basis for target-setting. Two major types of organizational comparisons are common, and each is discussed in detail below.

Comparisons Made Within a Single Organization

One major type of comparison centers on employee data from a single organization. Two approaches to this type of comparison are common:

1. Assessment of Differences Among Organizational Units
2. Longitudinal Analysis

Targets sometimes are established by evaluating the difference in employee survey measures between two or more entities within the same organization, such as divisions, markets, branches, or strategic business units. For example, a retail bank might examine variations in employee satisfaction scores across multiple branches. By contrasting branches having relatively high employee satisfaction scores with those having relatively low scores, the bank may be able to identify branch characteristics or practices that either promote or inhibit employee morale, well-being, and commitment. This information then would be used to formulate appropriate developmental and/or corrective action that could be shared and deployed across all branches.

Longitudinal analysis involves examining changes in employee survey scores from one time period to another. This approach is frequently used when a firm wishes to evaluate the impact of improvement efforts or other actions implemented at a previous point in time. For instance, suppose an organization invests heavily in training for all levels and categories of employees in order to facilitate improved performance and/or employee career development. That organization might, over time, monitor the level of employee agreement with the statement, “I receive relevant training that helps me do my job better,” in order to determine if its investment is impacting employee perception and satisfaction in the desired direction.

Comparisons Made Across Multiple Organizations

A second type of comparison involves examining variations in employee survey measurements across two or more organizations. In the case of employee survey data, these comparisons may be accomplished via several mechanisms, including:

1. Participation in a consortium of organizations
2. Use of an external consultant who maintains and offers access to an inter-organizational database

The Mayflower Group provides a good illustration of the consortium approach to inter-organizational comparisons (Johnson, 1996). Founded in 1971 by forty-two companies that agreed to cooperate and collaborate together, the objectives of the Mayflower Group were to: (1) develop “core” items that all members could ask in their surveys; (2) maintain norms against which member companies could compare their organizations; (3) exchange information on survey practices and related topics; and (4) conduct research on attitude measurement.

The efforts of the consortium ultimately produced a database of responses to a common, core set of survey items covering various dimensions of organizational climate and employee opinion. This database enables member organizations to compare survey results from their own employees with results from other organizations, often representing the same industry. For example, each member can compare its own results to “norms” organizations in its own industry, and/or to norms for organizations grouped according to some other common characteristic (e.g., organizations having received the Malcolm Baldrige National Quality Award).

Use of a third-party database and norms generally facilitates comparisons with other organizations in a manner similar to a consortium, except that range of organizations that are included in the comparison may be greater, and the basis for the participation of each organization differs from a consortium.

While the use of benchmarking information and outside normative comparisons are very popular approaches within the employee and organizational survey arena, these methods have some important limitations:

1. The data for each organization may or may not have been collected at the same point in time and in today’s changing market, it is no longer adequate to rely on databases more than 1-2 years old.
2. Data may not be available for the most desired “target” benchmark group; not all organizations conduct employee surveys or are willing to share that information.
3. At times a company may discount an area of poor performance, just because results are comparable in other companies. This can discourage taking action that genuinely is needed.
4. For a tailored survey, it is difficult to get comparison information on the more specific (and often, most critical) questions. Most benchmarking is done with just a few broad-based questions.
5. In the case of a consortium like the Mayflower Group, it is important to note that this is a highly selective group with limited participation, so it is only available to a select number of companies.

For the purpose of defining organizational performance standards and measurement targets, in the case of both single and multi-organizational comparison approaches, the location of an organization’s measurements relative to those of the comparison point (e.g., internal benchmark, external benchmark, norm, etc.) becomes the standard by which employee measurements are evaluated, and ultimately, provides the basis for target-setting. In particular, the bar typically is “raised” if analysis shows that some or all parts of the organization compare unfavorably to the comparison point.

The comparison approach provides a clearer and seemingly less arbitrary basis for defining targets than the judgmental approach. Still, the comparison approach has some key limitations. In addition to the problems with normative comparisons already noted, all methods utilizing comparisons suffer from a common and serious shortcoming: As with the judgmental approach, achieving the comparison-based target may or may not lead to expected business results or benefits. If reaching the target ultimately does not lead to market or financial success, at some point, managers, employees, and other stakeholders are likely to challenge that target, along with the strategy and
management structure upon which it is based.

The preceding criticisms certainly do not render the judgmental and/or comparison approaches useless. However, the problems and limitations discussed above do suggest the need to explore alternative approaches, particularly those that enable managers to define targets in a manner that is more likely to yield desired business results.

**AN “OUTSIDE-IN” APPROACH**

A growing number of management models embrace the principle that organizational leadership, internal processes and activities, employee commitment and productivity, customer value and loyalty, and financial results are inextricably connected, and that no organization or enterprise can thrive unless it successfully manages all the links in this enterprise “value chain.” Relevant examples include the Malcolm Baldrige National Quality Award framework; Service-Profit Chain (Heskett, et al., 1994); Balanced Scorecard (Kaplan and Norton, 1996); and the Linkage Research Model (Wiley, 1996).

Building upon the basic concepts and principles embraced in the models described above, Brandt (1998) describes an outside-in approach to defining performance targets for measures of customer service and satisfaction. An outside-in approach may be extended to furnish an alternative to judgment and comparison-based methods of defining targets for measures of employee satisfaction and commitment. Specifically, an outside-in approach to defining targets or standards for employee satisfaction is based on addressing the following questions:

1. What are the business results or other critical outcomes the organization is trying to achieve?
2. What levels of customer satisfaction and/or customer-perceived service must be delivered in order to achieve the preceding results or outcomes?
3. What levels of employee performance, efficiency, and productivity must be achieved in order to achieve the desired levels of customer satisfaction and loyalty?
4. To achieve all of the above “downstream” results, what levels of employee satisfaction and commitment must be achieved and maintained?

An outside-in approach is particularly useful for two types of employee metrics:

1. An index or core metric of overall employee satisfaction and commitment
2. Items measures that reflect employee issues and concerns that are the “key drivers” of overall satisfaction and commitment

Regardless of which mix of employee and related metrics is involved, in order to utilize an outside-in approach, two conditions must be satisfied:

1. The strength and form of the relationship between “upstream” or predictor measure, and the “downstream” or outcome measure, must be established.
2. Based either upon judgment or empirical results, management must define a target for the outcome measure, so that information on the strength and functional form of the relationship between these predictor and outcome pair can be used to define a target for the former.

The following case provides an illustration of how the outside-in approach works.

**A CASE ILLUSTRATION**

A major shipping company sought to reduce turnover among its part-time employees who sort parcels and packages in the company’s 60 regional distribution centers. Having analyzed the relationship between employee turnover and productivity across these centers, management determined the need to reduce the number of part-time employees leaving the company, and settled on a target of 21% annual turnover as its goal.

Survey data from part-time employees indicated that overall job satisfaction and commitment to staying with the company were keys to retaining these employees. Thus, management sought to leverage employee satisfaction and commitment scores from its various distribution centers as predictors of employee turnover. Toward this end, an outside-in approach was used to determine a target for employee satisfaction/commitment.

An analysis of employee survey and turnover data across the 60 centers, illustrated in Figure 1, revealed that, in centers achieving a 21% or lower turnover rate, average employee satisfaction and commitment scores were about a “65” on a 100-point scale, or higher. Thus, a target score of “65” was set for the purpose of assessing progress in improving and leveraging employee satisfaction and commitment in order to increase employee retention and reduce turnover. Rather than relying on judgment or normative comparisons, management used its understanding of the actual relationship between employee turnover, and employee satisfaction and commitment, to derive a target for the latter. This is the essence of an outside-in approach.

![Figure 1: Relationship Between Employee Satisfaction and Commitment](image-url)
If an organization wishes to use an outside-in approach to defining targets for measures of employee satisfaction and commitment, how can it do so? Upon what basis or bases can such targets be established?

Each of the paths illustrated in Figure 2 provides a potential basis for an outside-in approach to defining targets for measures of employee satisfaction and commitment. The decision to utilize one or more of these paths normally is driven by the following considerations:

1. Management’s objectives in setting targets for employee survey measures
2. Organizational structure (single versus multiple units or entities)
3. Availability of appropriate data

How and why each of the three preceding considerations comes into play becomes clear when each of the five potential linkages is examined separately.

**Path A — Linking Overall Employee Satisfaction/Commitment to Their Key Drivers**

Considerable research has demonstrated that, to the extent their most important issues and concerns are addressed effectively, employees are more apt to be satisfied with and committed to an organization (Savery, 1989; Cranny, 1992). Therefore, a common practice in analyzing employee survey data is to determine which specific issues and concerns are the “key drivers” of overall employee satisfaction and commitment.

Once management has established a target level of overall employee satisfaction and commitment, it is possible to set targets for measures corresponding to each key driver based upon the strength and form of its relationship with the overall employee satisfaction/commitment metric.

The relationship illustrated by Path A in Figure 2 is most appropriate for defining measurement targets when:

1. The two necessary conditions for an outside-in approach, outlined earlier in the paper, have been satisfied.
2. Management seeks to build employee satisfaction/commitment by setting and achieving targets in relation to “key driver” organizational issues.
3. Sufficient data are available for longitudinal analysis of the relationships among overall employee satisfaction and commitment, and (a) employee retention versus withdrawal, (b) productivity/efficiency, and/or (c) customer satisfaction/loyalty.
4. The core measure of overall employee satisfaction and commitment has been shown to be a valid leading indicator of (a) employee retention/withdrawal, (b) productivity/efficiency, and/or (c) customer satisfaction/loyalty via longitudinal analysis; and
5. The organizational structure does not permit analysis of multiple units or entities.
Path B — Linking Overall Employee Satisfaction/Commitment to Withdrawal Behavior

A number of studies have shown that employee satisfaction and commitment are positively related to employee retention and/or inversely related to employee absenteeism, turnover, and related withdrawal behavior (Mowday, et al., 1982; Cotton and Tuttle, 1986; Jaros, et al., 1993; Cohen, 1993).

Once management has established targets for employee retention, turnover, absenteeism, and or related outcomes, it is possible to set a target for a measure of overall employee satisfaction and commitment based upon the strength and form of its relationship with the retention/withdrawal indicator(s).

This relationship illustrated by Path B in Figure 2 is most appropriate for defining measurement targets when:

1. The two necessary conditions for an outside-in approach, outlined earlier in the paper, have been satisfied.
2. Management seeks to leverage employee satisfaction/commitment in order to improve employee performance, productivity, and/or efficiency; and
3. Sufficient data are available for longitudinal analysis of the relationships among overall employee satisfaction and commitment, and employee performance, productivity, and/or efficiency; or
4. Data for multiple units or entities within the same organization are available for analysis.

Path C — Linking Overall Employee Satisfaction/Commitment to Employee Productivity and Performance

There also is evidence that employee satisfaction and commitment are positively related to employee productivity and performance (Myer, et al., 1989; Becker, et. al., 1996). Thus, if management has established targets for performance, efficiency, productivity and/or related behaviors, it is possible to set a target for a measure of overall employee satisfaction and commitment based upon the strength and form of its relationship with the performance indicator(s).

The relationship illustrated by Path C in Figure 2 is most appropriate for defining measurement targets when:

1. The two necessary conditions for an outside-in approach, outlined earlier in the paper, have been satisfied.
2. Management seeks to leverage employee satisfaction/commitment in order to improve employee performance, productivity, and/or efficiency; and
3. Sufficient data are available for longitudinal analysis of the relationships among overall employee satisfaction and commitment, and employee performance, productivity, and/or efficiency; or
4. Data for multiple units or entities within the same organization are available for analysis.

Path D — Linking Overall Employee Satisfaction/Commitment to Overall Customer Satisfaction and Loyalty

Several studies have shown that employee satisfaction and commitment are positively related to customer satisfaction and loyalty (Wiley, 1996; Kilpatrick, 2000; Tofani, 2000). Thus, if management has established targets for overall customer satisfaction and loyalty, it is possible to set a target for a measure of overall employee satisfaction and commitment based upon the strength and form of its relationship with the customer satisfaction/loyalty metric.

The relationship illustrated by Path D in Figure 2 is most appropriate for defining measurement targets when:

1. The two necessary conditions for an outside-in approach, outlined earlier in the paper, have been satisfied.
2. Management seeks to build customer satisfaction/loyalty by setting and achieving targets in areas that facilitate employees' ability to do the "right things well" for customers; and
3. Sufficient data are available for longitudinal analysis of the relationships among key drivers of overall employee satisfaction and commitment, and key drivers of overall customer satisfaction and loyalty; or
4. Data for multiple units or entities within the same organization are available for analysis.

Path E — Linking Drivers of Overall Employee Satisfaction/Commitment to Drivers of Overall Customer Satisfaction and Loyalty

There is evidence that key drivers of employee satisfaction and commitment, if addressed effectively, may in turn facilitate the ability of employees to perform more effectively in relation to service and quality issues that are key drivers of customer satisfaction and loyalty. For example, in the case of a financial services organization, we have seen that, to the extent that branches effectively address the issue of “employee empowerment,” those branches are more apt to score favorably in the eyes of customers with respect to the issue of “prompt response to problems or requests” (Brandt, 2000; Kilpatrick, 2000). Thus, if management has established targets for key drivers of overall customer satisfaction and loyalty, it is possible to set targets for relevant key drivers of overall employee satisfaction and commitment based upon the strength and form of the relationship between each relevant pair of employee-customer issues.
SUMMARY AND CONCLUSION

To the extent that customer loyalty leads to financial success and/or other desired outcomes, and if, as Reichheld (1996) asserts, it is “impossible to maintain a loyal customer base without a base of loyal employees,” then organizations must invest in effectively measuring and managing employee satisfaction and commitment. An outside-in approach enables an organization to align and manage employee satisfaction/commitment in connection with its efforts to manage customer relationships and business results.

As a basis for defining performance targets, an outside-in approach offers organizations an alternative to judgment and/or performance comparisons, and the various problems associated the latter methods. It leads to performance targets that facilitate achievement of desired organizational outcomes.

FOOTNOTES

1 Employee surveys typically focus on a variety of issues and concerns, including (but not necessarily limited to) employee attitudes and perceptions regarding organizational culture and values, organizational structure and communication, work environment and resources, job satisfaction, leadership and supervision, reward and recognition, training and development, and overall employee satisfaction and commitment. For a concise overview of the basic goals and benefits of employee surveys, see Higgs and Ashworth (1996).

2 Brandt’s (1998) paper demonstrates that, starting with financial or market performance targets, an organization can use an outside-in approach to define targets for (a) overall customer satisfaction and loyalty, (b) key drivers of overall satisfaction and loyalty, and (c) internal operational performance measures that are aligned with the key drivers, in order to create and manage a chain of effects that maximize the probability of achieving desired financial/market end results.

3 Because of their confidential nature, the actual performance targets established by the organization described in this case illustration cannot be revealed. However, every effort as been made to preserve the authenticity of this case illustration.

4 Each point in the graph presented in Figure 1 represents average employee satisfaction/commitment scores and turnover rates among clusters of distribution centers grouped on the basis of the former. Again, because of their confidential nature, the actual performance targets established by the organization described in this case illustration cannot be revealed. However, every effort as been made to preserve the authenticity of this case illustration.

REFERENCES


