Impact of HR Practices on Customer Satisfaction

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Abstract:
This research examined organizational commitment as a mediator between HR practices and customer satisfaction of 3 job groups from 13 banking companies. This research by the authors was undertaken to explore the unknown and to introduce an important mediating factor ‘Group Commitment’. Interest in strategic human resource management (SHRM) has heightened as a result of a number of studies that found a relationship between HR systems variously labeled “high performance”, “commitment”, or “involvement” models and firm financial performance. Both commitment level and consensus were predicted to influence customer satisfaction. Results found that commitment level mediated the relationship between HR practices and customer satisfaction.

There is from the research a positive relationship between

- HR practices and organizational commitment
- Commitment and customer satisfaction ratings
- HR practices and customer satisfaction.

Intriguingly the influence of HR practices on customer satisfaction is mediated by organizational commitment. Therefore HR practices can positively enhance customer satisfaction by improving commitment and involvement in the employees.

Although consensus on HR practices should theoretically affect the consensus of commitment that develops, the researchers did not find support for this hypothesis. Similarly, no effect for consensus of commitment was found on consensus of customer satisfaction, a measure of service consistency. Collectively, these results suggest that it is the overall mean level that is most important when considering commitment. There are several possible empirical explanations that could account for why the researchers did not find an effect for consensus. The small sample size could mean that the researchers do not have enough power to detect an effect of consensus. Another possible explanation could be the restricted range of commitment and customer satisfaction measures.

Future research should seek additional performance outcomes at the job level from larger samples and increase statistical power. Use of a one item rating of customer satisfaction is also problematic. Future research should seek to develop fuller measures of customer satisfaction. Another limitation of the current study involves the use of agreement on “existence” of practices as a proxy for “strength” of practices or index of the communication quality.

**Keywords:** HR practices, customer satisfaction
Introduction: The mediating role of Commitment:

Customer Satisfaction is quintessential to business success in a service driven economy as we find today. The quality is surely and significantly influenced by the collective effort of the workforce in an organization. Effort connotes to the collective attitude and overt behaviors exhibited by the organizations internal customers. The impact of these efforts is substantial because of the direct contact that internal customers have with the organizations external customer. Employees are held responsible in managing the boundaries between the customer and the organization. They do play a pivotal role in securing for the organization the competitive edge by shaping customer behavior and enhancing customer loyalty. It becomes quintessential therefore to assess management practices that influence creation of customer interactions and customer satisfaction. Human resource practices have been found to positively relate to firm performance in recent studies. Past research has to a great extent concentrated on the manufacturing sector, without ascertaining the influence of HR practices on customer satisfaction. This research by the authors was undertaken to explore the unknown and to introduce an important mediating factor ‘Group Commitment’. Interest in strategic human resource management (SHRM) has heightened as a result of a number of studies that found a relationship between HR systems variously labeled “high performance”, “commitment”, or “involvement” models and firm financial performance. High performance HR systems are characterized by rigorous selection, investment in training, work designed so that employees have opportunities for participation and decision making, and rewards structures designed to recognize high performers and promote from within. The underlying rationale of this stream research is that these are “best practices” that impact firm performance by enhancing the skill, motivation, and empowerment of the workforce.

An empirical study by Schneider and Bowen concluded that HR Practices had substantial influence on customer service quality. The researchers opine that a positive relationship should also exist between high performance HR practices and customer satisfaction in a sample of business units within a single service firm.

H1: Efficient work practices will be positively associated with customer satisfaction.

However, SHRM research has been criticized by numerous authors for its lack of theoretical and empirical work specifying the mediating processes by which HR practices lead to firm outcomes. One promising potential mediating mechanism through which HR practices may influence firm performance is through fostering organizational commitment in its workforce. Organizational commitment represents an individual’s identification and involvement with an organization.

There is a huge amount of secondary data that reiterates the impact of Work practices on resultant organizational commitment. Open communication, investments on employees in areas of training, decision-making and empowerment, promotion opportunities, and the use of performance contingent rewards do have an impact on organizational commitment.
Research hitherto has analyzed and studied the impact of work practices and commitment perceptions at the individual level. The authors make an attempt through this study to measure work practices and commitment perception at the individual level and then to aggregate it to the job level. Commitment levels are common and shared by employees who are administered under same policies, practices and procedures. Work practices must communicate to the employees that it is supportive, that there is justice, and contributes to their sense of importance by valuing their competence and contribution.

A meta-analysis has found mixed evidence for the relationship between commitment and performance. Recent studies have found stronger support for positive relationships between organizational commitment and performance. A recent related study suggests that job satisfaction may be a better predictor of performance when the employee has greater control over the nature of his/her work. When an employee has greater control on the outcome of his work, the role of commitment as a mediating factor in his efforts is more. For this reason employees in high performance work systems wherein opportunities to participate is more, commitment is likely to have a stronger relationship to performance.

Organizational commitment has further been shown to have a consistent relationship with organizational citizenship behavior (OCB), or behavior that is above and beyond the call of duty. Such behaviors include altruism, creating goodwill, and volunteering constructive suggestions. These behaviors beyond role expectations have a huge role to play in delivering service to employees and also propel their performances higher than other employees. Additionally, when commitment is high, it means that an employee’s values are aligned with the organization and that she or he wants to do what is best for the organization.

The authors hypothesize that Group commitment has a direct effect on performance through the shaping of employee role and extra-role behavior. Because many employees in service organizations have direct contact with customers and thus have an ability to make an impact based on this proximity, in-role as well as extra-role behaviors stemming from value alignment may have a significant impact on their overall effectiveness. Job Satisfaction is one another attitude that has a bearing on employee perception of service quality. Schmitt and Allscheid found that employees’ climate perceptions of management, supervisor, monetary and service support were related to employee affect. Perceptions of climate are influenced and shaped by HR practices. Further, these researchers found that affect was related to employee service intentions, which was related to customer service. Therefore secondary data and research are complementary in that employee perceptions are linked to customer satisfaction. It also supports the view that HR practices critically influence employee attitude. Hence

**H2**: Organizational commitment influences the relationship between HR practices and customer satisfaction.

High performance HR practices are theorized to impact performance through the creation of a strong organizational context or climate. Arguably, it is the effectiveness of those practices in conveying the organization’s goals and the value it places in its employees that matter rather
than the mere existence of particular practices. Hence the alignment of these practices with the organizational culture, effectiveness in implementation, their interpretation by employees creates high performance work systems and a strong organizational context. The strength of the organizational climate affects employee work attitudes and serves to direct employee behaviors. Organizational climates that are strong create attitudes and behaviors that are functional and alleviate the effects of differences in personality types in employees. Commitment is shared and emerges stronger when HR practices are clear and also emphasize the role and importance of employees to the organization. Communication systems should convey HR practices in such a way so as to promote employee contribution, empowerment and value to the organization.

The level of comprehension of HR practices can be ascertained at the job level by assessing the level of shared commitment. Variation in commitment across members of an organization will affect the similarity of employee behavior and quality of their interpersonal relations with each other and with customers. The commitment levels and the shared component of commitment have an influence on the consistency of service extended to external employees. Thus the successful implementation of HR practices should result in shared perceptions of both HR practices in the organizational unit and shared commitment. The following hypotheses are thus proposed:

**H3**: Common agreement and acceptance on HR practices will be positively related to consistency of customer satisfaction ratings.

**H4**: The relationship between agreement and acceptance on HR practices and consistency of customer satisfaction will be influenced by group commitment.

Also the level of commitment and degree of consensus on commitment are interactive in their effect in organizational context. A combination of low level of consensus and a moderate level of commitment in organizational climate may produce more detrimental group outcomes than a climate with high degree of consensus and moderate level of commitment because of interpersonal friction and process loss. Thus consensus can also be expected to moderate the influence of mean level of commitment on customer satisfaction (Figure 1).

**H5**: The extent to which commitment is shared (consensus) will impact the relationship between level of commitment and customer satisfaction.
Sampling Methodology:
Researchers in Strategic Human Resource Management have strongly recommended the survey at the establishment level moving down from firm level. This approach would in effect predict the performance relationship of HR practices. HR Practices are measured by the researchers for the core group of employees on different jobs to improve reliability and validity of data collected.

Adopted Procedure:
The study is on three cadres of employees from the banks chosen for the study. The researchers in a pilot study found significant mean differences in HR practices across jobs & across banks. Branch Managers were requested to randomly select 20% or more employees from the three levels. Respondents took the survey during the bank time and the response rate was 100%. Only responses that contained at least six respondents per job category were retained in order to ensure inter-rater reliability. To avoid the risk of percept-percept bias, of the responding employees surveyed within each job category per business unit, a random half was used as respondents for the measure of existence of HR practices, and the other half was used to report organizational commitment. Survey responses were matched to customer satisfaction surveys. Customer satisfaction surveys were received for 30 branches and were matched to core job groups having at least six employee respondents, leading to a final sample size of 171 employees in 3 job groups from 13 banks.
Factors Considered:
HR Practices:

Previous studies have employed a wide range of HR practices and include some measure of careful selection, employee involvement, extensive training, internal promotion, and performance based pay. Based on the literature review the researchers in this empirical study employ an additive index of these HR practices\(^1\).

Employee respondents are asked whether or not fifteen specific HR practices exist for their job category (1=yes, 2=no, 3=I don’t know). The complete listing of the HR practice items used in this study is presented in Annexure I. For the item related to training the coding was modified to suit requirements. If the number of training hours entered is equal to or greater than 15, that response was be coded as “1”=yes. Hours below 15 were coded as “0”=no, as such low levels arguably do not represent significant investment in employee training. Some items were written in Likert scale formats asking about the frequency of communication in various domains (1=Never, 6=Daily). Responses of “quarterly” or more frequently were coded as “1”=yes. Responses of “annually” and “never” were coded as “0”=no as these do not represent significant investments in communication. All HR practice items were summed into an aggregate index and then aggregated by job group (ICC (1) =.39, ICC (2) =.93).

Consensus/Agreement of HR Practices:
The success in communicating and implementing HR practices are measured by the level of consensus got through employee reports on HR practices. For practices that employees have poor agreement on it is inferred that the practice has not been effectively communicated and implemented. Agreement was assessed by calculating the variance on each individual practice item within a job group and then taking the mean of all variances of the HR practices within the job group. Variance has been suggested as an appropriate index of agreement in groups.

Organizational Commitment:
Six items were used from two different organizational commitment scales. Table 1:

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>M</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. HR Practices (level)</td>
<td>34</td>
<td>8.75</td>
<td>2.67</td>
<td>1.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2. HR Practices (consensus)</td>
<td>32</td>
<td>8.88</td>
<td>14.63</td>
<td>.032</td>
<td>1.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3. Commitment (level)</td>
<td>35</td>
<td>22.72</td>
<td>2.34</td>
<td>.37*</td>
<td>.110</td>
<td>1.0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4. Commitment (consensus)</td>
<td>35</td>
<td>17.13</td>
<td>12.8</td>
<td>.23</td>
<td>.05</td>
<td>.41**</td>
<td>1.0</td>
<td>-</td>
</tr>
<tr>
<td>5. Customer Satisfaction (level)</td>
<td>35</td>
<td>4.4</td>
<td>7.1</td>
<td>.44**</td>
<td>.07</td>
<td>.06</td>
<td>.10</td>
<td>1.0</td>
</tr>
<tr>
<td>6. Customer Satisfaction</td>
<td>35</td>
<td>2.56</td>
<td>7.19</td>
<td>.10</td>
<td>.07</td>
<td>.38*</td>
<td>.06</td>
<td>.57**</td>
</tr>
</tbody>
</table>

*p<.05, **p<.01
A sample item employed is, “I feel a strong sense of belonging to this organization.” Items were summed to create one index (a= .86, ICC (1, 1) =.52, ICC (1, k) =.95)).

**Consensus of commitment:**
Individual scales were then aggregated to reflect the job level by using standard deviation aggregation procedures. Standard deviation aggregation was then squared in order to create organizational commitment variance.

Customer Satisfaction was assessed with a single item measure for each job group. This measure asks respondents to rate the service of their representatives of the core job categories (Marketing, Service Representative, or Customer relations) using a Likert scale (1=strong disagree, 5=strongly agree). A sample item includes “How satisfied are you overall with the helpfulness of your (company name) Customer Service Representative?” An average of 74 customers rated each job group in each business unit (ICC (1,1)=.01, ICC(1,k)=.43)

**Consistency of Customer Satisfaction:**
Ratings were then aggregated by job group using standard deviation aggregation procedures. Standard deviation aggregation was then squared in order to create job group customer satisfaction variance. Descriptive statistics and bivariate correlations between HR practices (level and consensus), organizational commitment (level and consensus), and customer satisfaction (level and consensus) are listed in Table 2:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Step 1</th>
<th>Step 2</th>
<th>Step 3</th>
<th>Step 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR Practices (level)</td>
<td>.44**</td>
<td>.31</td>
<td>.21</td>
<td>.21</td>
</tr>
<tr>
<td>Organizational Commitment (level)</td>
<td></td>
<td>.37*</td>
<td>.50*</td>
<td>.42</td>
</tr>
<tr>
<td>Organizational Commitment (consensus)</td>
<td></td>
<td></td>
<td>.22</td>
<td>-.37</td>
</tr>
<tr>
<td>Organizational Commitment (level &amp; consensus)</td>
<td>.20</td>
<td>.32</td>
<td>.35</td>
<td>.35</td>
</tr>
<tr>
<td>R2</td>
<td>.20</td>
<td>.12*</td>
<td>.03</td>
<td>.00</td>
</tr>
<tr>
<td>hR2</td>
<td>7.77**</td>
<td>7.18*</td>
<td>5.35</td>
<td>3.94</td>
</tr>
<tr>
<td>F</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* p &lt; .05</td>
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<td></td>
<td></td>
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<tr>
<td>**p &lt; .01</td>
<td></td>
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</tbody>
</table>

Note. Standardized coefficients are shown

Bivariate correlations showed that the level of HR practices are positively related to the level of customer satisfaction, supporting Hypothesis 1 (r= .44, p<.01). The researchers then hypothesized a mediation relationship of organizational commitment between HR practices and customer satisfaction (Hypothesis 2.). Using hierarchical regression, organizational commitment was then added to the model to test its mediating role. Organizational commitment explained additional variance in customer satisfaction (DR =.32, p<.05) and was positively related as
expected (b=.37, p<.05). HR Practices became insignificant when level of organizational commitment was included in the model suggesting that their relation with customer satisfaction is mediated by commitment. Organizational commitment explained significant variance in customer satisfaction (DR $= .12$, p<.05). To validate further the researchers examined whether consensus predicted any incremental variance above mean level of commitment.

Examination of the bivariate correlation between consensus of HR practices and consensus of customer satisfaction did not show a significant relationship, failing to support Hypothesis 3. Further, as Table 2 indicates the association between the degree to which commitment was shared within a job group and the consensus of customer satisfaction ratings was not significant. Commitment consensus also was not significantly associated with customer satisfaction consensus. Thus the necessary precondition correlations to test mediation were absent, failing to support Hypothesis 4. Additionally, the degree to which commitment is shared did not moderate the relationship between the level of commitment and level of customer satisfaction enunciated in Hypothesis 5.

**Results:**

Results from the research gave new insights into Strategic Human Resource Management area. Analysis was done taking core jobs into consideration and ratings of customer satisfaction resulting from these jobs. Also HR Practices were assessed taking a number of employees from a job group. Using multiple respondents instead of a single rater (HR Manager) as employed in previous studies renders the assessment more accurate. The mediating role of HR Practices on performance was assessed through this study.

There is from the research a positive relationship between

- HR practices and organizational commitment
- Commitment and customer satisfaction ratings
- HR practices and customer satisfaction

Intriguingly the influence of HR practices on customer satisfaction is mediated by organizational commitment. Therefore HR practices can positively enhance customer satisfaction by improving commitment and involvement in the employees.

Although consensus on HR practices should theoretically affect the consensus of commitment that develops, the researchers did not find support for this hypothesis. Similarly, no effect for consensus of commitment was found on consensus of customer satisfaction, a measure of service consistency. Collectively, these results suggest that it is the overall mean level that is most important when considering commitment. There are several possible empirical explanations that could account for why the researchers did not find an effect for consensus. The small sample size could mean that the researchers do not have enough power to detect an effect of consensus. Another possible explanation could be the restricted range of commitment and customer satisfaction measures.
Limitations & Future Research:

Future research should seek additional performance outcomes at the job level from larger samples and increase statistical power. Use of a one item rating of customer satisfaction is also problematic. Single item measures are more prone to unreliability than summated measures. Future research should seek to develop fuller measures of customer satisfaction. Another limitation of the current study involves the use of agreement on “existence” of practices as a proxy for “strength” of practices or index of the communication quality.

References

Annexure 1:

Selection and Staffing
1. Structured Interviews are in place (comprising of job related questions, common to all applicants, rating scales) for all applicants before selection decision.
2. Future job incumbents take formal tests (paper and pencil or work sample) before being hired.
3. There are ample promotion and growth opportunities for those who are qualified and performing within the company.

Training
1. What is the average number of hours of training that employees in their current job receive?
2. Supervisors in charge of employees in this job receive at least 2 days of training in supervisory skills each year.

Pay for Performance
1. Job incumbents receive a formal evaluation of their performance in their current employment (at least once a year).
2. Pay is related to performance here.
3. The current employment presents ample opportunities for employees to earn incentives and bonuses based on their individual performances.

Participation
1. Employees here have a fair mechanism to report grievances.
2. Job incumbents here have enough opportunities to participate in various improvement groups, problem solving groups, roundtable discussions, or suggestion systems.
3. Communication channels here are active and enable coordination with other departments in problem-solving.
4. How often do employees in this job receive formal company communication regarding company goals, operating performance, financial Performance, competitive performance?