

# LINKING QUALITY OF WORK LIFE TO EMPLOYEE LIFETIME VALUE IN SERVICE INDUSTRIES – TOWARDS A RESEARCH AGENDA

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ABSTRACT

With a greater level of uncertainty coming from growing competition and increasingly demanding customers, service organisations need to take measures to acquire adequate labour resources and to maintain a sustainable competitive advantage based on these resources. The objective of the paper is to propose a framework that highlights the relationship between quality of work life and employee lifetime value in service industries. It is argued that job quality, which is measured as a misfit between expectations towards work and its perceptions, influences both employee engagement and retention, which are key drivers of employee lifetime value. The strength of this relationship is moderated by individual characteristics and external factors.

## Introduction

There is a general consensus that competitive advantage realised through tangible benefits is no longer sustainable. The only value that cannot be replicated by the competitors and that provides a real, exceptional and sustainable advantage over others is people (Pfeffer, 1994). The role of the service provider in the consumer's evaluation of the service experience is unquestionable. As noted by Berry and Lampo (2004) a service brand can be

only as strong as the people who perform the service. Employees represent the organisation to customers, engage in interpersonal interactions with them, are important sources of information about their requests and complaints, hence they contribute to service delivery excellence (Bettencourt and Brown, 1997; Pugh et al., 2002). This is why service companies must take measures to effectively manage their service providers to ensure that their attitudes and behaviours are commensurate with customer relationship objectives (Brown and Lam, 2008).

A significant impact of employees on the service organisation's performance has been confirmed by the numerous studies (generally referred to as the service profit chain) that have diagnosed causal links between business performance and customer/employee satisfaction (Heskett et al., 2008) as well as customer/employee identification (Homburg et al., 2009). Findings of these studies support service companies' efforts to implement strategies to recruit and retain high-performing, quality oriented, and committed employees who will contribute to the efficient and effective delivery of services and to the market success of the organisation.

Despite strategic importance of human capital in enhancing firm's competitiveness in the marketplace, the issue of employee equity in service context has received relatively little attention from researchers. The present article attempts to address this gap by proposing a framework that highlights the relationship between quality of work life and employee lifetime value in service industries. To reach the objective, the paper is structured as follows. First, after a short presentation of theoretical background, the idea of employee as internal customer is analysed. Second, the notion of employee lifetime value is explained on the basis of existing literature. Finally, research framework linking job quality to employee lifetime value is proposed.

## Theoretical background

Investigations of quality of work life and its consequences are conceptually supported by social exchange theory, which is considered to be one of the most influential conceptual paradigms for understanding workplace attitudes and behaviours. The central proposition of this theory posits that relationships that develop between employees and their employing organisation evolve over time into mutual commitments if the parties follow certain rules of exchange. Exchange rules usually involve reciprocity norms. Reciprocal interdependence highlights bidirectional interpersonal transactions – an action by one party leads to a response by another (Cropanzano and Mitchell, 2005).

Enterprises which nurture a climate of reciprocity are likely to give rise to positive attitudinal and behavioural outcomes from workers. Employees who receive economic and socioemotional resources in the workplace and are satisfied with their work tend to feel obligated to help the organisation that has benefited them reach its objectives. One way for individuals to repay their employer is through devoting cognitive, emotional, and physical resources in the performance of one's work roles (Saks, 2006). In other words, when the organisation offers favourable working conditions, it may be viewed as signalling intent for long-term investment in human capital and make employees feel indebted, and hence exert more effort. When the organisation fails to provide employees with desirable tangible and intangible rewards, they are more likely to withdraw and disengage themselves from their roles, which ultimately influences important organisational outcomes.

## Service employees as internal customers

The notion of employee as a customer is a central idea of internal marketing. In line with this concept employees are most effectively motivated for customer-oriented performance by applying marketing-like approach aiming to

make personnel committed to strategic goals of the firm (Grönroos, 1994). As stated by Rust, Stewart, Miller and Pielack (1996) both employee-organisation and customer-organisation relations are exchange-based. Although the nature of what is exchanged may be different, the pivotal purpose of satisfying needs and wants remains constant.

There is broad consensus that successful application of internal marketing is a prerequisite for effective external marketing. Since the essence of the service company's business is the interaction with the customer, the quality of the interface with the contact employee is the foundation of the perceived quality of the services being offered. Only if internal customers' needs are satisfied, can external customers be provided with services that satisfy their expectations. In other words, by improving the relationship between the company and its employees organisation can positively influence the relationship between the employees and customers and, consequently, enhance organisational performance (Lings, 2004).

Employee need satisfaction resulting from workplace experiences is captured by quality of work life (Sirgy et al., 2001). Different academic fields have conceptualized the quality of work life in different ways; therefore there is no agreement upon its designation and determinants. However, researchers have reached the consensus that it is a multi-dimensional construct that embraces both subjective and objective criteria (Martel and Dupuis, 2006; Green, 2006). Its perception originates from the interaction between the employee, job content and job context.

There are two general approaches as to how to measure overall quality of work life. The first relies on subjective assessment of job delivered directly by employees and is commonly operationalized by the degree of job satisfaction. The second evaluates the quality of work along the variety of specific objective job and organisation characteristics (Gallie, 2009). The initial focus of discussions on dimensions of work quality was on the characteristics of the job task itself and the organisational environment in which tasks were carried out. Researchers placed a central emphasis on intrinsic aspects, such as skill utilization, task variety, the degree of autonomy and feedback as well as health and safety. Over time the range of key aspects of job quality has grown to include opportunities for development, the promotion of worker involvement in decision-making, employment security and the extent to which careers are compatible with family lives (Gallie, 2009). In the economic perspective on the quality of employment, pay is a core dimension. Since a level of wages impacts a person's well-being by determining the extent to which a worker is able to satisfy his needs, it obviously constitutes a central dimension of the quality of work life (Green, 2006).

**Table 1.** Implications of quality of work life in service industries

Researchers	Field of activity	Independent variables	Dependent variables
1	2	3	4
Back, Lee and Abbott	gambling industry	internal service quality	job satisfaction organisational commitment
Bouranta, Chitiris and Paravantis	catering industry	internal service quality	external service quality
Karatepe	hospitality industry	high-performance work practices	work engagement job performance extra-role customer service
Kim	travel agencies	job/organisation characteristics	employee turnover intentions
Lings and Greenley	retail industry	internal market orientation	employee motivation market orientated behaviour customer satisfaction financial performance
Little and Dean	telecommunications industry	global service climate	service quality capability employee commitment

1	2	3	4
Scotti, Harmon and Behson	healthcare sector	high-involvement work practices	employee perceived service quality customer perceived service quality customer satisfaction
Yavas, Babakus and Ashill	banking industry	service climate	employee in-role performance customer satisfaction sales level

Source: based on Little and Dean (2006); Bouranta et al. (2009); Lings and Greenley (2009); Scotti et al. (2009); Yavas et al. (2010); Back et al. (2011); Karatepe (2013); Kim (2014).

A growing body of investigations confirm beneficial outcomes, both at the individual and the unit levels, experienced by service organisations that adopt practices fostering quality of work life. Table 1 summarizes findings of selected research projects on diverse facets of job quality and their consequences run in various service industries in the last decade. It should be noted that dimensions of quality of work life are used in the operationalization of other constructs such as internal marketing practices, internal service quality, organisational climate, and high-performance work practices (Bednarska, 2013).

### Drivers of employee lifetime value

The concept of employee lifetime value is adopted from the marketing domain and is analogous to customer lifetime value (Cardy et al., 2007). It is defined as a measure of the total long-term contribution an employee makes to an organisation. Employee lifetime value is a function of both the length and the strength of the employee–employer relationship (Cardy and Lengnick-Hall, 2011). A proxy for the projected length of the above-mentioned relationship is employee willingness to remain with the organisation (retention). The strength of that relationship comes from the value of an employee's contributions to a firm. It is obvious that value generation is not limited to direct, measurable cash inflows (Forum for People..., 2014). There are other activities that clearly contribute to organisation's performance, like referrals, cost savings, citizenship behaviours. Therefore it is proposed in the paper to utilise engagement as a proxy for the strength of the relationship between employee and employer.

Retention of high-performing individuals is of vital importance for organisational success. Making valuable employees committed organisational citizens can be critical to whether operations in the company run smoothly and efficiently (Cardy and Lengnick-Hall, 2011). Enhancing retention can translate into decreasing recruitment, selection, training and development costs, avoiding tacit knowledge leakage and preventing competence base from eroding, increasing labour productivity, raising service delivery excellence and, in consequence, customer satisfaction and loyalty, and reducing managerial and operational employees' stress from being short staffed (Winterton, 2004; Heskett et al., 2008; Self and Dewald, 2011).

Engagement at work reflects a holistic investment of employees' selves into their work. It indicates individuals actively and simultaneously allocating their physical, emotional and cognitive resources to bear on role-related tasks (May et al., 2004; Rich et al., 2010). In other words, engaged employees are characterised by high levels of energy and persistence while working, experience enthusiasm and show dedication to reach their work-related goals, and are often fully absorbed and immersed in their work. Because engaged personnel experiences a strong connectivity with work tasks, implementing engagement-enhancing strategies influences positively in-role and

extra-role behaviours; consequently it results in higher performance at the individual and the organisational levels (Christian et al., 2011; Saks and Gruman, 2014).

A large body of empirical research provide convincing evidence that both retention and engagement of employees are influenced by indigenous organisational variables that lead to job satisfaction and organisational commitment (cf. Mitchell et al., 2001; Rich et al., 2010; Christian et al., 2011). These job and organisation attributes constitute various dimensions of the quality of work life.

### Research framework

Based on the discussion the following research propositions are developed:

P1: The quality of work life in service industries influences both the strength and the length of the employee-employer relationship, which determine employee lifetime value.

P2: The strength of the above-mentioned relationship is moderated by individual and external factors.

The aforementioned propositions are summarised in the following conceptual model.

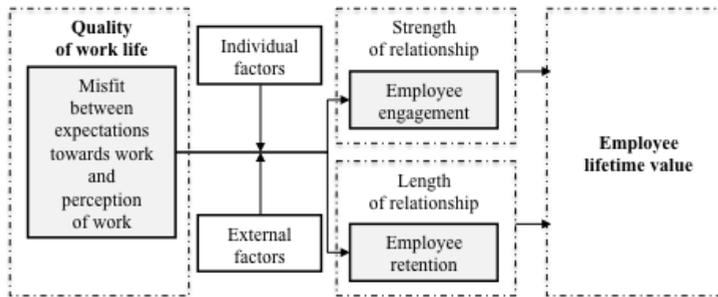


Figure 1. Conceptual framework of relations between quality of work life and employee lifetime value

The measure of the quality of work life is a misfit understood as a discrepancy between employees' expectations and perceptions concerning job content and job context (Bednarska et al., 2013). This is in line with person-environment fit perspective, which posits that employees' attitudes and behaviours are influenced by the perceived compatibility between the needs of the individual and the environmental supplies that serve as rewards for needs (Kristof, 1996; Edwards et al., 2006). The analysis should take into consideration both intrinsic and extrinsic rewards offered by service employers. Specifically, it is recommended to examine job content, economic value, development value, social value, and reputation value connected to employee-employer relationship.

As prior research revealed that workplace attitudes and behaviours are linked not only to indigenous work-related variables (Mitchell et al., 2001), it is suggested that when exploring possible linkages between work quality and employee lifetime value, external and individual moderating factors should be included. Special attention should be paid to alternative labour opportunities in the external market, which have an effect on ease of movement (Winterton, 2004). When employees don't believe that alternative employment opportunities exist and are expected to offer higher returns, they are less likely to exhibit voluntary withdrawal behaviours and disengagement. It is also advisable to consider the role of socio-demographic characteristics of employees.

Employee retention is proposed to be measured by future intention of an individual to stay in their current place of employment within specific periods of time and by present job search activities. Employee engagement can be analysed by exploring emotional, cognitive and behavioural components. More specifically, research instrument should enable to find whether employees are emotionally connected to their work and co-workers; are cognitively vigilant, focused, and attentive; and are physically involved in task performing.

The framework proposed calls for empirical examination. By investigating the research propositions developed in the paper it will be possible to:

- determine the hierarchy of expectations for employment conditions and their diversification;
- diagnose the way in which working conditions in service industries are perceived and create a ranking of service job and organisation attributes;
- measure the discrepancy between expectations concerning working conditions and perceptions of these conditions in service industries;
- explore the relationship between quality of work life dimensions and employee engagement and employee retention, which constitute employee lifetime value drivers;
- recognise which dimensions of work quality display the most significant impact on the strength and the length of the employee–employer relationship in service industries;
- identify factors that moderate the link between the quality of work life and the employee lifetime value.

## Conclusions

Service firms in general and high-contact firms in particular would benefit from attaching greater importance to work environment development as high job satisfaction obtained by employees is the prerequisite for high satisfaction obtained by customers. By adapting to individual consumer requirements and enabling the co-creation of a personalised service experience, staff has the potential to influence the perceived value of offerings. Although it is recognised that human capital is the foundation for raising competitiveness of service companies in the modern economy, there are relatively scarce empirical studies on the quality of work life in service context. The present conceptual framework attempts to address this gap – the realisation of the research and verification of proposed model will contribute to existing knowledge about organisational, individual and external antecedents of the strength and the length of the employee–employer relationship in service industries. The importance of such an investigation is paramount given that retaining engaged employees will always be of primary importance to service organisations in their efforts to sustain the competitive edge in the marketplace.

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