THE SERVICE-PROFIT CHAIN
OF RABOBANK ALKMAAR E.O.
ABSTRACT

Over the years, the relationship banking model shows a stable and strong model. This corresponds to the theory of the service-profit chain. The relationships among the service-profit chain model have been examined many times. This study examines the link between employee engagement and customer loyalty and the link between customer loyalty and the financial performance. The first relationship is investigated in a theoretical way and a descriptive part about the engagement drivers at Rabobank Alkmaar e.o.. Several other studies find that there is a clear relationship between employee engagement and customer loyalty. Besides, it is shown that wage; job characteristics and job development are main drivers for employee engagement. The second link is investigated in an empirical way. From 122 respondents the customer contribution and the Net Promoter Score are measured. A clear link is found between the Net Promoter Score and the customer contribution in the segment of adult enterprises.

Key words: employee engagement, relationship banking, customer loyalty, Net Promoter Score, financial performance, service-profit chain.
FOREWORD

This research is a combination of a thesis and an internship. I follow this internship at Rabobank Alkmaar e.o., at the department Business Advice. This firm gave me the opportunity to see how things are in business, especially in the banking industry. Therefore, first of all I would like to thank Bob van der Hout for giving me this opportunity. For me it was my first thesis and I can guarantee you that such project can be difficult and stressful at times. Even tough, there were times wherein I thought it would be better to quit. But thankfully, I’ve had people around me who gave me advice and support. So in the second place, I would like to thank my supervisors Ruud Sweers and Laura Rosendahl-Huber for their knowledge, time, criticisms and guidance. I would also like to thank the employees from the Business Advice department for their help and for providing me with the data, documents and contacts I needed. Last but not least, I want to thank my family and my girlfriend. Afterwards, I can say the stressful times were worth it. The time of hard work is now over with and I am proud of the result. I hope you enjoy reading my thesis.
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“I yet have to find a company that has earned high levels of customer loyalty without first earning high levels of employee loyalty”

-Reichheld-
I. INTRODUCTION

As a cause of the financial crisis, started in 2007, the entire banking industry had to lower their costs. Due to this a decline in employees couldn’t be avoided. Besides, the improvements on online customer service also have impact on the organization. Moreover, the Basel III agreement provides higher liquidity and capital requirements for banks. These developments require organizational changes. To deal with these changes, the efficient use of resources is crucial. Therefore, the three key factors of banks (employees, customers and profitability) are interesting for research.

The enormous growth of the financial sectors before the crisis was for a large part made possible by a shift in business models chosen by banks (Arnold and Van Ewijk, 2013). The main shift was the shift from the relationship model to the transaction-oriented model. During the years of crisis the relationship model proved the strongest and most stable model. In this model the customer is central and the relation with the customer is the most important (Arnold and Ewijk, 2013). As a result it can be assumed that the customers-employee relation plays an important role in the business of models of banks. This is consistent with the service-profit chain model described by Heskett et al. (1994). This model suggests that there are strong relationships among employee satisfaction and loyalty, customer satisfaction and loyalty and the profitability of a firm.

Given these points, the research question of this research is as follows: “What is the relationship between employee engagement, customer loyalty and financial performance at the Business Advice department at Rabobank Alkmaar e.o.?”

There are many other studies that examine the different positive links inside the service-profit chain in different service settings (Anderson et al. 1994, Koys, 2003, Chi and Gursory, 2009). Brown and Mitchell (1993) find that the main categories of organizational performance for retail banking are financial outputs, employee job satisfaction and customer satisfaction. Besides, Lee (1988) argues that employee satisfaction is one of the best predictors for banks turnover. In contrast to these studies, Loveman (1998) doesn’t find a positive relation between the linkages of the service-profit chain model in the banking sector.

In this study, the research question is operationalized by testing the first relation between employee engagement and customer loyalty through a literature study. The second relation between customer loyalty and the financial performance is tested by an empirical study. In this empirical research, the data of customer loyalty and the financial performance of 122 respondents are gathered.

This thesis contributes to previous literature on the service-profit chain in multiple ways. There are many studies that are comparable with the purpose of this study; the difference between these studies and this thesis is the economical scale on which these studies are conducted. This
research is focused on micro-level, whilst the other studies are more broad focused. Furthermore, instead of employee satisfaction and customer satisfaction, this research utilizes respectively employee engagement and customer loyalty. Because of the little research done on these two factors, this study could be an addition to existing studies.

In this context, the study is structured as follows. Section 2 commences with a literature review concerning the benefits and costs of the relationship model and the transaction-oriented model. Also, which model is preferred to be utilized by banks. Moreover, the service-profit chain is described and the factors employee engagement and customer loyalty will be discussed. Section 3 describes the dataset and outlines the framework used in this research. Section 4 shows an integrative analysis of the results. Section 5 provides the conclusions, limitations and recommendations for future research. Finally, section 6 provides the implication for Rabobank Alkmaar e.o..
2. LITERATURE REVIEW

2.1 The business model of banks

This section contains the different types of business models banks have been using over the years. On one hand, the advantages of the different models will be highlighted. On the other hand, the problems of each model that banks have to deal with will be discussed. The purpose of this section is to show which model corresponds the best with the theory of the service-profit chain which will be discussed in more detail in Section 2.2.

According to Boot and Thakor (2000) there are two types of business models in use by banks. In the 1970s and 1980s the relationship model was popular. The customer is central in this model. The last twenty years the model is more and more transformed to the transaction-model. In contrast to the relationship model, the transaction-oriented banking is focused on a single interaction between bank and a customer or multiple interactions with various customers (Arnold and Van Ewijk, 2011). In this section, the focus is on the details of the shift in business model for a better understanding. First of all, the relationship model will be described in detail. Boot (2000) defines relationship banking as a provision that will be obtained by the service that banks offer. The following criteria have to be met by the customer and bank before it is called a close-customer relationship:

1) The information the banks obtains is not available to everyone at the market, this is private information;
2) Through the multiple interactions between de bank and customer, the bank gathers information over time;
3) The information the bank obtains remains confidential.

According to Boot (2000) the relationship model has benefits for both the customer and the bank. With relationship banking, the bank might have more incentives to invest in obtaining and producing firm-specific information. Because this model gathers lots of information, it has many benefits. First, there are economies of scale: the costs of gathering information decreases by learning through repeated transactions. Second, there is more flexibility in negotiating the contract terms than there is in capital market funding arrangements. An advantage of this is that renegotiations in contract terms can be simplified at banks. Thirdly, the possibility to avoid potential conflicts of interest through the addition of agreements between both parties is a benefit. Conflict of interest arises when a party has multiple interests and may therefore influence the motivation for a contract. Fourthly, relationship lending may involve collateral. Because of this, the monitoring of the lending becomes more confidential (Boot, 2000). The fifth and last benefit can be obtained by economies of
The bank can utilize information obtained by service from a firm and use it to give advice to other firms in the same segment (Petersen and Rajan, 1994).

To those benefits, the duration of the relation between the borrower and the bank is an important dimension. A number of studies have measured the strength of a bank-borrower relationship by duration. Petersen and Rajan (1994) find a positive relation between the duration of the relationship and the availability of credit. According to Diamond (1991) this is due to the effect that the longer the customer borrows from a bank, the more likely the business becomes trustworthy and viable. This also reduces the risk, which affects the monitoring costs in a positive way.

Diamond (1984) argues that adverse selection and moral hazard are two problems in contract agreements. Adverse selection occurs when there is asymmetric information before the agreement between borrower and bank. This gives the borrower an advantage prior to the agreement. A borrower has a better understanding about the prospective risk and returns in business than the bank. Asymmetry in behavior and information after the agreement is called moral hazard. This also gives the borrower an advantage, because of the lender’s lack of knowledge about the activities from the borrower. For example, he may take high risks with the borrowed money. The efficient monitoring in combination with obtaining better information reduces these two problems. Without monitoring, borrowers have more freedom with the offered loan due to less control. Besides, the value of the loan plays an important role. Rajan and Winton (1995) argue that long-term debt with agreements give banks greater incentives to monitor. While short term loans give little incentive to monitor the borrower, since the bank has the possibility to abolish the firm at a sign of financial distress. This is due to the fact that when a borrower with much borrowed money takes high risks, it is also risky for the bank to make a loss. Therefore these high loans should be better monitored.

In addition to the benefits, the relationship banking model has disadvantages as well. Behr and Guttler (2007) claim that there are two primary costs of relationship banking: the soft budget constraint problem and the hold-up problem. The soft budget constraint problem occurs when a customer of a bank, has the possibility to raise a new loan while there are difficulties in paying an old outstanding loan. In this case a close relationship with the bank is important. A bank will rather lend a second time to pay off an outstanding loan than lend out money to a new customer. Due to the fact that the bank believes the second loan helps overcome the old outstanding loan from the customer. This might be an advantage for the borrower. Knowing that the bank will do this, the borrower may take higher risks. The other issue is the hold-up problem; the hold-up problem occurs when two ingredients are present. First, two parties have to deal with incomplete contracts before the agreement takes place. Second, the investment made by one party is a specific investment.
These two factors may cause a situation where one party has more bargaining power than the other which results in inefficiency and underinvestment. In a standard situation the hold-up occurs when a buyer and a seller have a contract wherein the seller sells parts to the buyer who needs this for his product. When the business for the buyer is going well, an opportunity for the seller will arise to obtain some of the investments from the buyer, which provides a hold-up for the buyer to invest more, because the buyer has to relinquish a part of his return on investments to the seller (Rogerson, 1992). In the banking industry this problem is rather similar. Assume that the borrower and the bank make profit by working with each other. The first step is that the bank invests in borrower-specific information. Then it becomes difficult to switch from bank for the borrower. Because, at this point the bank have gathered specific information about the borrower. This provides that the borrower is "locked in", which results in an increase of bargaining power for banks (information monopoly). With this information monopoly, the bank can exploit the situation by charge high non-competitive interest rates or through denying interest rate reductions when the borrowers’ performance improves. As a result the borrower is held-up and underinvests (Behr and Gurrler, 2007).

According to Ongena and Smith (2000) contact with multiple banks can reduce the hold-up problem, but could decrease credit availability. The explanation comes from the fact that the value of information to several banks is lower than a relationship with only one bank. Because the specific information about the borrower that banks obtain is lower, the bargaining power to charge high interest rates is lower. Borrowers have an easy possibility to leave the bank. Von Thadden (1995) argues that there exists another solution for the hold-up problem; his solution avoids multiple bank relationships. According to him a long-term line of credit with a termination clause is the solution. The termination clause gives the lender the opportunity to quit the investment when the borrower’s project fails early. But if the lender chooses to continue it has to measure up to specific terms as agreed in the contract terms. The specific terms give the investor a certain amount of wariness.

Advances in information technology have caused a shift to a transaction-oriented model for banks. This transaction-oriented model is less focused on the customer, but more on the frequently recurring transactions, often referred to as ‘finance at arm’s length’. This new model, which is derived from the long-term customer relationships, caused an expansion in bank activities (Boot and Thakor, 2000). This deriving is made possible through long-term customer relations. This gave banks trust in their relationships with customers and therefore banks were able to make an expansion in transaction. This resulted in the transaction-model with a higher scalability. Besides, automated lending services have the possibility to issue products with a high level of standardization. Furthermore, the incentives to screen new customers and monitor existent customer reduces. Because of this, important information about the quality of loans can be lost. This makes the transformation-oriented model especially an advantage in short-term lending (Arnold and Van Ewijk,
According to Arnold and Van Ewijk (2011), the transaction-oriented model is based on cost reduction through advantages in the scale. Besides, through the efficient use of information it is easy to quantify and transmit. Quantifying refers to collecting a quantity of data and the segmentation of the obtained data. Transmitting refers to the analysis of big data of the information gathered and to anticipate with this information to the customer. This kind of information is also called ‘hard data’. This is in contrast to the relation-oriented model, which is focused on the ‘soft data’. This soft data relies on costly investments in customer-specific information. Therefore, it cannot be used or transmitted to other banks (Cotugno et al, 2013).

Berger et al. (2005) claim that the difference in bank size also affects the use of the business model. According to them small banks have a comparative advantage over large banks in providing stronger relationships with their customers. The explanation can be found in the fact that small banks have fewer customers than large banks. In addition to the difference in bank size, Santon (2002) finds that a difference in loan size also matters. He states that it might be more efficient for a large amount of small sized loans to use the transaction-oriented model rather than the relationship-oriented model. For a portfolio with small amounts of large sized loans the opposite is true.

Over the years, the emergence of internet banking has become more important. This is due to the development in information and communication technology. Because of this, the process of transactions and doing business is now faster and cheaper. According to Arnold and van Ewijk (2011) the internet banking model combines features of transaction and relationship banking. The lower overhead expenses can be seen as an advantage compared to the relationship model. In contrast, the screening and monitoring of borrowers to tackle moral hazard problems and adverse selection becomes difficult. This is because it has a more transaction-oriented focus and therefore there are no close customer relationships. This causes that banks cannot control their customers enough. The advantage of this internet banking model, the easy scalability, can therefore also be seen as the main disadvantage (DeYoung, 2005). Arnold and Van Ewijk (2013) observed 16.000 banks in the U.S. from 1992 till 2007 and conclude that most banks shift from relationship banking to transaction oriented banking. Although the transaction-oriented model had higher returns to equity prior the crisis, these earnings were much more variable. During the crisis, they show that the returns on equity from the transaction-oriented banks were zero to negative and the returns on equity from the relationship banks were positive. This suggests that the relationship model was stronger and more stable than the transaction-oriented model during the years of crisis. Besides they argue that the difficulty to monitor, the weakness of the internet banking model, had a significant share in the subprime mortgage crisis. As a result, they state that a renewed focus on the relationship model for banks is an option.
2.2 The service-profit chain

As shown in the previous section, the relationship model was stronger and more stable during the years of crisis and a renewed focus is being considered. The key link in the relationship model is the relationship between the employee and customer. The same important relationship is featured in the service-profit chain. The theory of the service-profit chain assumes that customers and employees are the most important components of the financial performance of an organization. This section will describe all the links in the service-profit chain.

As shown in figure 2, the service-profit chain links relationships between profitability, customer loyalty, and employee satisfaction, loyalty, and productivity. In this chain, the links are as follows: The chain begins with the internal quality service, the feeling of workers about their job. This component consist out of workplace and job design, employee selection and development, employee rewards and recognition and tools for serving customers. A high level of internal services quality will result in a high level of satisfied employees. Hestkett et al. (1994) suggest that 30% of all dissatisfied employees have the intention to leave the firm. Furthermore, the employee turnover rate will be three times higher with satisfied employees. This explains the fact that employee satisfaction is linked to employee retention (loyalty). The link is important because it’s costly when an employee with experience is substituted by an employee without experience. This is due to the production level of a new employee which is much lower. Thus, employee retention is linked to employee production. According to Hestkett et al. (1994) the three components satisfaction, retention and production of employees are the key drivers of employee engagement.

With an example of the the company Southwest Airlines the link between employee productivity and external value becomes clear. Southwest has 14,000 employees who can perform several jobs if necessary. Moreover, the pilots make 70 flight hours instead of 50 at competitors. Through these things Southwest has the possibility to charge low fares. Furthermore the 14,000 employees are in daily contact with their customers and know the customers’ needs. As a result, Southwest have the lowest fare per seatmile and deliver a higher value through employees than their competitors. The higher the value delivered by the employees the more satisfied the customers are.
When customers stay satisfied for a long time, these customers will turn into loyal customers. This link will be described more in detail in section 2.5.

The last link is between customer loyalty and revenue growth and profitability. (Heskett et al., 1994) argue that the quality of the market share deserves as much attention as the quantity of the market share. This is because loyal customers buy repeated purchases and because they are satisfied with the products, they will recommend friends and family which provides higher revenues for the firm. There also exists a virtuous cycle in this service-profit chain model. First of all, loyal customers provide prouder employees and thus more engaged employees. Secondly, engaged employees provide lower employee turnover, because when employees are satisfied and happy with their job, they will not leave the firm in the near future. As shown before employee turnover is expensive for firms. Therefore, this low employee turnover rate will result in revenue growth. Finally, revenue growth gives opportunities to invest in employees, which also results in more engaged employees (Heskett et al., 1994). In this thesis the focus is on employee engagement, customer loyalty and revenue growth. In the next sections each of these components of the service-profit chain will be featured and described in detail.

**Figure 2** The service-profit chain

Source: *putting the service-profit chain to work* (Heskett et al. 1994, p.166)
2.3 Employee engagement

In this section the importance of employee engagement will be shown. Furthermore, a definition of employee engagement is determined. Moreover, the drivers for engagement will be described.

Employee engagement is a subject that is more examined over the years. Before, most studies were about the relation between employee job satisfaction and customer loyalty. Employee engagement is not clearly defined; therefore there are many definitions in the extended literature. This might be due to the fact that engagement can be seen from numerous perspectives. Kahn (1990) can be seen as the founder who defines the concept of employee engagement. He defines engagement as follows: “the harnessing of organization members’ selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances” (p. 694). The first aspect of engagement is physically, this factor is about energy for employees to accomplish their tasks. Secondly, the cognitive factor relies on the employee’s beliefs about the organization. Thirdly, the emotional factor, which concerns the emotional feeling of employees about co-workers and leaders. After his definition, there were many other researchers with other or comparable definitions. Rothbard (2001) defines engagement in the same way as Kahn, namely as a psychological state of mind for employees. However he makes a difference in attention and absorption. Attention refers to the duration an employee spends thinking on his role in the firm. Absorption refers to the intensity of the focus on a role of an employee. Moreover, Schaufeli et al. (2002) define employee engagement as “a positive, fulfilling, work-related, state of mind that is characterized by vigor, dedication and absorption.” Macey and Schneijder (2008) state that all the definitions based on academic literature have something in common. They all have an organizational purpose that involves enthusiasm, energy and effort.

On the other hand, Maslach et al. (2001) define engagement as the opposite of a burnout. According to them engagement consists out of energy, involvement and efficacy the opposite of the three components of burnouts: exhaustion, cynicism and inefficacy. They find that workload and time pressure are strongly related to absenteeism and burnouts. A mismatch in workload can occur when there are too many tasks for one employee in a time period. A high pressure in workload can also occur when employees do work that does not match with their skills. He also suggests that stress (related to workload) and a lack of recognition can lead to a burnout (Maslach et al., 2001).

Collins (2001) shows that the managers of the best companies of the world do not decide what the direction should be, but first decide which employees are adapted to the organization. This is one main point of the strategy of these high performing firms and indicates the importance of employees. He observed eleven firms in a period of fifteen years who went through an explosive growth compared to firms in the same sector who did not make this growth. According to Bakker and
Schaufeli (2008) the need for organizations to have engaged employees is now more than ever. Their finding is based on the fact that ‘employee engagement’ has more than 2 million hits on World Wide Web, but also the fact that best-selling books describe this topic more and more. Besides, they argue that engaged employees are more productive and tend to work harder than unengaged employees. This is because engaged employees have higher energy levels and feel more absorbed with their work. Therefore engaged employees can make a critical difference in the organizational performance. Also Kumar and Swetha (2011) call employee engagement the key to competitive advantage. They argue that high levels of engagement provide a high rate of employee retention and improve the revenue growth as suggested in the service-profit chain. Furthermore, Bates (2004) argues that almost fifty percent of the Americans are not entirely engaged with their work. This results in a loss of productivity and that causes an estimated loss of 300 billion USD a year for US organizations.

Drivers of employee engagement are important for the determination engaged employees. Literature studies differ in the antecedents of key drivers. First of all, Xu and Thomas (2011) are the first researchers who find a relation between leadership and employee engagement based on empirical research. They argue that integrity and support of their leader is important for employees. Furthermore, a leader has the possibility to enhance engagement through undertaking actions to make jobs more interesting and meaningful. Secondly, employees are more engaged when their wage or other benefits increase. With a higher level of wage or other rewards, employees feel more involved in the organization wherein they work (Saks, 2006). In addition to the findings of Saks, Maslach et al. (2001) find a positive relationship between promotion and pay as factor for employee engagement. Therefore, it can be said that also wage is a crucial driver for engagement. Thirdly, as Maslow (1943) shows in his pyramid ‘the pyramid of Maslow’ that personal development is an important factor for people. On the work floor, this effect doesn’t differ. Personal development is at least as important at work, according to Bakker et al. (2008) contribute trained employees to employee engagement. This is because learning new skills may trigger employees to get interested in their job. Besides, they argue that employees who enhance their abilities and knowledge are more likely to engage with their work, because they become more satisfied through doing new tasks. Finally, the fourth and last factor is job characteristics; this factor includes positive and negative effects on engagement. Motivation belongs to job characteristics and is one of the positive psychological factors. Challenging and meaningful work are key drivers that provide motivation. The extent to which an employee is challenged has to do with the job characteristics. Meaningfulness describes the feeling of appreciation (Kahn, 1990). Kahn (1990) argues that when an employee is challenged, this will lead to more meaningfulness.
In addition to the organizational environment characteristics, there are individual characteristics that influence engagement. The first facet is age. D’Amato and Hertzfeldt (2008) argue that there is a difference in the expectations in old and young workers. Older workers appreciate job security more than younger workers, therefore older workers are more loyal to the organization. James et al. (2011) examined age and engagement levels to see if the difference in age also affects the engagement of employees. They find that older employees are significantly more engaged. Furthermore there is suggested that workers who are older than 60 are the most engaged employees. Besides, Avery et al. (2007) have examined the effect of gender on engagement. Thereby they find that females generally are more engaged than males. Also Kumar and Swetha (2011) suggest that females are more satisfied and engaged with their work. The third facet of individual characteristics is tenure with the organization. The analysis of Avery et al. (2007) shows a negative correlation between tenure and engagement. Harter et al. (2002) explain that new employees score high on engagement due to enthusiasm and new challenges. But after the first year, the level of engagement declines. This is due to the fact that employers show these new employees their weaknesses which leads to a lower employee engagement. While age is positively related to engagement and tenure negatively. This is due to the fact that age and tenure are separately linked to engagement. For example, when an employee starts working at a firm when he is 60 or older he will be more engaged than a younger employee who starts. But as shown by Harter et al. (2002) the longer the employee works for a firm the lower the engagement will be.
2.4 Customer loyalty

This section contains the development of the measurement of loyalty. Further the definition will be provided which also incorporates the changes of the definition over time. Also, the importance of customer loyalty is shown and the relation between customer satisfaction and customer loyalty will be described in detail.

Jacoby and Chestnut (1978) were the pioneers in the field of loyalty and suggest that loyalty is more than the repeated purchase behavior of the customer. They argue that loyalty consists of behavioral and attitudinal perspectives. Oliver (1999) agrees with their definition of loyalty and describes it as follows: ‘a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand-set purchasing despite situational influences and marketing efforts having the potential to cause switching behavior’ (p.35). Basu and Dick (1994) classified the loyalty perspectives in three phases. Firstly, the cognitive antecedent, this driver of loyalty is a customer’s state wherein it buys a product or service based on historical information and beliefs in a brand. In this phase accessibility, confidence, centrality and clarify are important. Secondly, the affective antecedent, in this phase the customer is more involved by the brand and more satisfied with a product or service. Important drivers are emotions, moods and satisfaction. Thirdly, the conative antecedent, this is related to the behavior of a customer. The customer has a higher intention to repurchase a product of service compared to alternatives at this point. This provides that switching costs, sunk costs and expectations are important components in this phase. Oliver (1999) adds the fourth phase action loyalty, which means that the customer becomes a regular customer. This means that the firm and the customer built up a long term relationship.

According to Gupta and Zeithaml (2006) customers are the most important for an organization. Without customers, the firm doesn’t have revenues and profits. According to Beerli et al. (2004) banks are becoming more customer-oriented, with customer loyalty as a main objective. Their study focused on the antecedents of customer loyalty in retail banking. They find that the customer-bank relationship exists mostly out of satisfaction and quality the bank offers the customers. Besides, they state that improving the public image is another important goal for banks to improve loyalty. As shown in section 2.1, the duration of the relation between the borrower and the bank is important. Mainly due to more trust, viability and the availability of credit for customers and the reduction of monitoring costs for banks. Sheth and Parvatiyar (1995) argue that long-term customers are not always loyal to banks, they do not remain at a bank because of the true preference, but for situational reasons. There are a few reasons why customers don’t leave a bank. Firstly the fact that they know the bank’s employees give a feeling of trust. Secondly, the perception
that closing or transferring a bank account can be complicated. The research of Reichheld and Sasser (1990) shows the importance of the factor loyalty. According to them loyal customers are less price sensitive and pay higher prices than new customers.

In recent years, there has been a growing interest in analyzing drivers for loyalty. In addition to the discussed drivers, customer satisfaction is frequently used as a key driver for customers’ loyalty and retention. According to Manu and Oliver (1993) satisfaction is the emotional condition of a customer after the transaction experience with a firm. Satisfied customers tend to make more use of a product or service than those who aren’t. Besides, these customers have stronger incentives to recommend and repurchase this product or service. Besides, Reichheld (1996) argues that the link between customer satisfaction and profits is negligible without establishing retention or loyalty of the customer. His research gives the car industry as an example. They have shown that at least 45% of the customers return to the car dealer when more than 90% of the respondents said that they were satisfied. This indicates that investing in retention of customers is more valuable than in satisfaction surveys. Furthermore, they argue that satisfaction surveys are mostly influenced by the firms, this is because satisfaction scores become a goal for organizations. Also Kamakura et al. (2002) show that satisfaction alone does not ensure the profitability of an organization. Their analysis is based on 500 branches of banks in Brazil. For their research, they set up a strategic model wherein different metrics about customer satisfaction, retention and probability were measured. With this analysis, they concluded that satisfaction, the behavioral aspect, is important but attention to other aspects as retention and duration of customer relation with the bank is also of importance.

Besides research on the link between satisfaction and profitability, there are many studies which have investigated the relation between satisfaction and loyalty. The results of these studies are presented below. Rust and Zahorik (1993) use the data of the customers 100 retail banks and find that the increase of satisfaction is in line with retention. Also Bolton (1998) finds that satisfaction is positively related to the duration of a relationship. Ittner and Larcker (1998) find that a 10 point increase in satisfaction (0-100 scale) affects the retention with 2% in a positive way and also provides a $195 increase in revenues per customer. Finally, Oliva et al. (1992) show that customer satisfaction is an important driver for loyalty. This is because of the fact that when satisfaction falls below the expected value of the consumer, the loyalty level declines rapidly. In contrast, when satisfaction is above the expectation value of the customer, the customer loyalty increases fast.

With the introduction of the Net Promoter Score, there is a new tool available to measure loyalty. This tool is developed by Reichheld (2003) and measures especially the loyalty between the firm and customer. Originally it is the development of the measuring of the word of mouth. The word of mouth is as loyalty an important measure instrument, because it put the reputation of the respondents at risk. Instead of customer satisfaction and retention, customer loyalty is a metric that
has a relation with the growth of a firm. Keiningham et al. (2007) have shown this in their research with more than 15000 interviews from the Norwegian Customer Satisfaction Barometer (NCSB) and data from 21 firms over a number of years. They find a clear relation between the Net Promoter Score and revenue growth among different industries. The inventor Reichheld (2003) argues that customer loyalty is much more than repeated repurchases. For example ‘someone may regularly take the same airline to a city only because if offers the most flights there’. With this example he shows that someone who uses the same service again and again does not necessarily have to be loyal. He argues that when a firm doesn’t meet their expectations about a service or product, the recommended customer loose face as well as the firm. Because of this, he finds NPS a more important metric than satisfaction measurements.
2.5 Links in the service-profit chain

Relation employee engagement and customer loyalty

One of the purposes of this research is to investigate the link between employee engagement and customer loyalty. This section will highlight the link between employee and customer satisfaction, subsequently the link between employee engagement and customer loyalty via the service-profit chain will be described.

Most studies investigate the relation between employee satisfaction and customer satisfaction. Tornow and Wiley (1991) find a positive relation between employee satisfaction and customer satisfaction. According to them this relationship is stronger in service-oriented firms than in manufacturing-oriented firms. This can be explained by the fact that employees are more involved with their customers in the service environment. This suggests the extent of which there is contact with the customer has influence in this relationship. Also Chi and Gursory (2009) find a positive correlation of .032 between employee satisfaction and customer satisfaction in the hotel branch. Moreover, Bernard (2000) argues that when tenure with the organization increases, the positive relation between the employee and the firm becomes stronger. This could be due to a customer relation built up with a permanent employee.

As suggested by the service-profit chain, satisfied employees are loyal to the organization and to the customers. Therefore they handle the customer in their best way (Chi and Gursory, 2009). Besides, section 2.2 shows that the factors employee satisfaction, retention and production together are called employee engagement. The employee engagement factor provides an external value for the customer. When customers are satisfied with the value added by engaged employees, this will result in loyal customers after a while (Heskett et al., 1994). To sum up, several studies suggest a positive effect between employee satisfaction and customer satisfaction. This also suggests that engaged employees will add value to the firm in the service-profit chain, which results in loyal customers. Therefore my hypothesis is as follows:

Hypothesis 1: There is a significant positive relationship between employee engagement and customer loyalty
Relation customer loyalty and financial performance

Another aim in this study is to examine the link between customer loyalty and the financial performance. Several studies find a positive relation between customer satisfaction and financial performance. For example, Anderson et al. (2004) find that a 1% increase in ASCI (American Customer Satisfaction Index) leads to 275 million in firm value. Besides, Anderson and Sullivan (1993) state that customer satisfaction is positively related to the retention and loyalty rate of customers. These studies also suggest that customer retention (loyalty) is positively related to the revenue of a firm. Because this examined relation, the research of Ladhari et al. (2011) is valuable for this thesis. They find that a 5% increase in customer retention leads to an increase in profits between 25% and 85%.

In addition to the fact that customer satisfaction increases the profitability of a firm, there are studies about the relations between loyalty and profitability. Hallowell (1996) argues that loyalty increases the profitability of a firm based on research in the banking industry. He defines a customer as loyal when the relationship between the bank-customer is longer than three years. According to Hallowell (1996) loyalty creates profits through enhanced revenues, reduced costs to acquire customers, lower customer-price sensitivity and through a decrease in costs to make customers feel comfortable with the firm’s service delivery system.

Loyalty can also increase the profitability in other ways. According to Rechheld and Sasser (1990) loyal customers tend to advertise through a positive word of mouth more often. Moreover, through a long-term relationship with loyal customers, banks have the possibility to charge a premium. Furthermore, the title ‘the one number you need to grow’ of Rechheld’s (2003) research demonstrates the importance of loyalty for profitability. In his research, he observed the NPS score of 400 companies and their revenues over a period of three years. The gathered data were divided in customer segments. For all the companies he observed, he correlated the data from the NPS score with the revenues. The main industries are the airlines, internet service providers and car rentals which have shown that revenue growth fit the NPS score.

To sum up, there is evidence that a clear link between loyalty and financial performance exists, this result in the following hypothesis:

Hypothesis 2: There is a significant positive relationship between customer loyalty and financial performance
3. METHODOLOGY

3.1 Method
This chapter contains the method by which the hypotheses will be tested. First, the method will be described. Second, the dataset will be described in an extensive way. Finally, the different variables used will be described in detail.

The first hypothesis will be answered based on the existing literature. As a result of a lack of data, the link between the engagement of the employees and customer loyalty can’t be tested with empirical data. This lack of data is due to sensitive information about the scores of employee engagement surveys. Due to this there are only averages of the surveys available. As a result, the link won’t be examined but the drivers of employee engagement will be described and compared to the theory.

In contrast to the first hypothesis, the second hypothesis will be answered in an empirical way. This hypothesis is about the relationship between the revenues and customer loyalty of department of the Business Advice. The customer dossier of the Business Advice department consists out of starters, young entrepreneurs and adult entrepreneurs. The customers who are classified as starters are companies with a lifetime smaller than one year. The lifetime of the firms in the young entrepreneurs segment exist two to three years a lifetime longer than three year applies to adult enterprises. In total there are 7000 customers from which 1300 customers are segmented as starters and young and about 5700 as adults.

3.2 Dataset and description of variables.
In the previous paragraph the method is described. This paragraph contains the dataset and description of the variables which are used in the analysis.

The dataset of the employee engagement survey from Rabobank Alkmaar e.o. is collected through four measurements in a time span of 2 years; December 2012, May 2013, December 2013 and May 2014. The respondents are segmented into four groups; sales & service, commercial assistant, business advisors and team leaders. For the first group, there are 31 observations in a total of four measure moments, for the second group 45; the business advisors have 38 respondents over the observation period and the team leaders only six.
The drivers for employee engagement are categorized by the organizational environment and individual characteristics. Unfortunately, due to the lack of data, the individual characteristics are not observable. The organizational environment drivers for engagement are in the surveys of Rabobank Alkmaar e.o. and tested by five factors. The factors are shown in figure 3 and consist of: initiative towards work, active learning, energy, pleasure on the work floor and work pressure. These questions will be answered on a scale from 0-10. In the descriptive analysis, I will emphasize the remarkable scores on the questions and the drivers of engagement.

The most important variable in this thesis is the Net Promoter Score. The main question to measure loyalty that will be used in this thesis was introduced by Reichheld (2003) and is defined as follows: “how likely is it that you would recommend a firm to a friend or colleague?” The outcome will result in the Net Promoter Score. This score is based on the responses of customers on a 0 to 10 scale. Respondents were ranked and classified in three segments. Respondents who rate the firm with a 9 or 10 are promoters, ratings 7 and 8 are passives and respondents who answer this question with a rating between 0 and 6 are called detractors. The Net Promoter Score is finally calculated by subtracting the proportion of detractors from the proportion of the promoters. The NPS can be -100 when every respondent is a detractor or 100 when every customer is a promoter. When the NPS is above zero, the firm can be satisfied and when the scores rise above the 50 the firm is doing good business.
In this thesis, the loyalty will be measured in the same way. Besides this rating, there exists an alternative scale. The alternative scale shows the Dutch effect found by Adam (2011), which gives an 8, 9 and 10 rating to promoters, respondents who rate the firm with a 6 or 7 are passives and the detractors are the ratings between 1 and 5. The difference in rating comes from the fact that there is a difference in how enthusiastic people respond among cultures.

Financial performance is measured in many different ways. Examples are: net profit, revenues, margin, stock price, tobin’s q, return on assets, return on equity and return on investment. Hallowell (1996) chose to measure the financial performance of the retail bank in terms of return on assets. The revenues consist out of customer contribution in this study; this amount is divided by interest income and commission income. Interest incomes are profits which are gained after providing loans to customers. These customers have to pay interest on their loan. Provision is a kind of reward that is obtained by the advisor after selling a product. For measuring the loyalty, NPS will be used.

For the second hypothesis there are 122 respondents from which the customer contribution and NPS are known. To see if a high Net Promoter Score results in a high customer contribution this will be tested using a regression analysis. The dependent variable is customer contribution and the independent variables are the NPS scores. After a general regression I will make dummy variables promoters, detractors, promoterNL and detractorNL. PromoterNL and detractorNL are dummy variables which refer to the Dutch scale of NPS. The dummy variables were used as independent variables. These regressions will be performed for each different customer segment.

Before I continue with the results, I will show some descriptive statistics. The mean, standard deviation minimum and maximum are shown for the total sample. Furthermore, these statistics are shown per segment.
### Descriptive statistics

#### All respondents

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<tr>
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<th>Mean</th>
<th>Std. Dev.</th>
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<th>Max</th>
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#### Young entrepreneurs

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#### Adult

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4. RESULTS

4.1 Relation employee engagement and customer loyalty

To answer the first hypothesis I will examine if the relationship between employee engagement and customer loyalty is positive significant. First, I show some descriptive statistics about the organizational environment drivers from employee engagement survey, thereafter I will use the existing literature to give a theoretical answer to the first hypothesis.

As showed in graph 1, the team leaders are in general more engaged than the other three groups. This is equivalent with the theory of Robinson et al. (2007); they find that managers and team leaders are more engaged than their co-workers. This is one component of job characteristics and can be explained by the wage-spread. In general team leaders and managers earn more than the employees who work under one of the managers. Therefore, the fact that wage is a determining factor for the extent to which employees are engaged is explained. Taken into account that there were only three respondents in the survey and this data is only from the last two measurements. The outcome is not strong and may be biased.

Another important fact is that the two factors (graph 1), initiative towards work and active learning, cause the average total engagement rating to increase. This shows, just as described in the literature, that talent development is an important driver. The other two survey topics are energy and pleasure on the work floor; they are almost the same for the 4 groups. The only negative aspect that can be noticed is the question: ‘After 5 years of working, I am bored at this work’. Because for this question the reverse score is also true, the score on this question decreases the total of the two averages and therefore the total average of employee engagement. Besides the following question jumps out in a negative manner: ‘After a day of working, my energy is at a high level.’ The scores on these two questions decrease the average of employee engagement. Thus it can be suggested that energy and pleasure are also important indicators for the level of engagement.
The second part of this subparagraph is about answering hypothesis one theoretically. As suggested in the theoretical review, employees are very valuable for firms. Furthermore, some researchers find a link between employee engagement and customer loyalty. This examination will be described in detail.

Harter et al. (2002) have used data from The Gallup Organization to examine the link between employee engagement and customer loyalty. This organization observed 12 perceptions of work characteristics of 36 firms (from which three are banks) between 1992 and 1999. There are five main industry types: financial, manufacturing, retail, services and transportation and public utilities. In total there are 7,939 business units observed and they have 198,541 respondents. One of their research purposes was to find out how employee engagement and customer satisfaction-loyalty are related. They define engagement as enthusiastic employees who are involved and satisfied with their job. Customer satisfaction-loyalty’s data is correlated to the data about employee engagement. They find a correlation of 0.33 between customer satisfaction-loyalty and employee engagement and a correlation of 0.32 between customer satisfaction-loyalty and employee satisfaction. This corresponds with the existing literature about the relationship between employee engagement and customer loyalty, but at the same time this examination shows that employee engagement and employee satisfaction are comparable. This is because they find a correlation between employee engagement and employee satisfaction of 0.77. Strong points of this research are the many respondents observed in a timespan of seven years. This increases the validity. Besides, their study
concludes that correlations between employee satisfaction and engagement are generalizable across companies, which gives this study more support. Moreover, there is evidence from this and other studies to suggest direction of causality. In contrast to the positive aspects, the fact that the measurement of engagement differs among industries can be seen as a negative aspect. Due to the distortion in measurement the external validity will decrease. Moreover, some of the 12 elements of engagement are less actionable than others. This is because there are questions in one of the elements which can be influenced by supervisors by selecting conscientious employees.

Another study about this topic is from Salanova et al. (2008). In their research they show that employee engagement is a key driver for customer loyalty. They have observed the relationship between employee engagement and service climate and the relationship between the service climate and the loyalty of customers. Their sample consists out of 58 hotels and 56 restaurants, the total of contacted employee respondents was 342 and there were 1140 customers which participated in the survey. The questions about engagement are composed by three components; vigor, dedication and absorption. The questionnaire about service climate is composed by a global list of seven questions. The customers’ loyalty has been measured by the likelihood that customers would return to the restaurant or hotel and the focus was about a positive word of mouth. As a result they find a positive relation of 0.61 between employee engagement and service climate. Furthermore, they show that the component vigor is a main factor for employee performance. Another finding is that service climate is positively related to customer loyalty with a correlation of 0.32. This research contains some strong aspects and limitations. The first strong point is that this research can be compared to Rabobank. Hotels and restaurants are service firms as well as banks. Another strong point is that the data of customers and employees are used simultaneously. A weak point is that this research is cross-sectional, which provides that causality can’t be found. Moreover, to increase the strength of the research other factors that influence engagement should be measured.

Another study focuses more on the same industry as in this thesis. Reichheld and Markey (2011) believe that the NPS score for customers is also a great value for employees. They set up the Employee Net Promoter Score (eNPS). The question changes in “on a scale of zero to ten, how likely is it you would recommend this company as a place to work?” or “How likely would you be to recommend this company’s products or services to a friend or colleague?” The advantages of these new questions are that the questionnaires are much smaller than the employee satisfaction surveys nowadays. Therefore the number of respondents will increase and the analysis is much simpler. Moreover, this eNPS score is easy to compare with the NPS and therefore a good measure tool to use for improving the results of the scores. Furthermore, they conclude that engaged employees give more feedback and ideas for improvements like loyal customers do. This provides that enthusiastic
employees influence the customer with enthusiasm, creativity and trust. As result, customers will also become loyal and excited about the company.

The following indentation describes the extent to which elements of the discussed studies are comparable with the Rabobank Alkmaar e.o.

According to the surveys of Rabobank, some of the key drivers for employee engagement are the same as stated in the literature. Moreover, the literature about the relationship between employee engagement and customer loyalty is unanimously. On the basis of their research there is a clear link between both. The study from Harter et al (2002) is in some ways representative for Rabobank. The antecedents of how employee engagement is measured are comparable with the questions in the surveys of Rabobank. For example subjects as talent development, pleasure, future insights were measured in this study. Due to the large size of this study wherein different industries are compared, the outcomes are generalized which makes it difficult to compare with Rabobank.

Also Salanova et al (2008) find a clear relationship between employee engagement and customer loyalty. The measure engagement factors in this study are absorption, vigor and dedication. These factor are less aligned with the factor of Rabobank than the factor from the study of Harter et al. (2002). Vigor is a factor which isn’t measured often, but is comparable with the factor energy used in Rabobank’s surveys. In their research vigor was proved as an important vector of engagement. Besides, the factors dedication and absorption are comparable to the factor pleasure on the work floor at Rabobank. Furthermore, this research is representative for Rabobank. Because hotels and restaurants as well as banks can be seen as service firms. Furthermore the size of this study is much smaller than the study in Harter et al. (2002) which makes the comparability with Rabobank bigger.

The first study has found causality, but the study of Salanova (2008) did not. Causality occurs when the change in one variable affects the change in the other variable. These two variables are in that case correlated. This link could be causal, because more researches find a positive relation between engagement and customer loyalty. Moreover, they find that engagement of employees increases customer loyalty. Because the second study is measured cross-sectional, causality could not be proved.

The study of Reichheld and Markey (2011) is the only one which uses the Net Promoter Score to measure customer loyalty. Besides, this study suggests that employee engagement is really important for loyal customers. This study is only comparable with Rabobank due to the Net Promoter Score. This study is however more like an innovative study by measuring employee engagement in the same way as customer loyalty.

Based on these three studies I accept hypothesis 1.
4.2 Relation customer loyalty and financial performance

This section contains the investigation of hypothesis 2. This hypothesis states that customer loyalty is positively related to the revenues. As shown in section 3.2 the Net Promoter Score is used to measure customer loyalty. The revenues are measured as customer contribution consisting out of interest income and commission income. From each customer these two components are measured and compared. Thereafter the customers are segmented in one of the three groups as described in the methodology. The outcome of the all groups together is shown in table 1 in the appendix. Below in graph 1 the outcomes are divided in promoters, detractors and passives.

Graph 2  

\[ \text{NPS: } \%\text{promoters} (9,10) - \%\text{detractors}(0-6) = (36,9) - (36,1) = 0.8\% \]

Source: Department Business Advise, Rabobank Alkmaar e.o. (2014)

Table 1  
Regression results for the normal scale

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<tr>
<th>Dependent variable: Customer contribution</th>
<th>Total Sample</th>
<th>Starters</th>
<th>Young</th>
<th>Adults</th>
</tr>
</thead>
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<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
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<td>NPS</td>
<td>1.43</td>
<td>-65.79*</td>
<td>-299.71*</td>
<td>426.37**</td>
</tr>
<tr>
<td>Detractor</td>
<td>-179.19**</td>
<td>312.94**</td>
<td>-655.06**</td>
<td>2439.47**</td>
</tr>
<tr>
<td>Constant</td>
<td>2162.4</td>
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<td>3124.35</td>
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</table>

Two asterisks (**) represents a p-value <0.05 and one asterisk (*) a p-value<0.1
As shown in table 1 in the first regression the independent variable is the rating customers gave on the question: “how likely is it that you would recommend a firm to a friend or colleague?” and the dependent variable is the customer contribution. The customer groups are not divided in the first regression. The outcome is that the chosen model fits the data very poorly. Besides the P value is high (0.993), this suggest that there is absolutely no signification. If promoter is used as independent variable the model fits a little bit better, but even then it’s very insignificant (p=0.313). The same effect has the adding of dummy variable detractor (p=0.852). Furthermore, the first two regressions show a positive effect on the customer contribution. The variable detractor has a negative coefficient what suggest that the detractors have a negative effect on the customer contribution. One of the reasons that the relationship between de NPS and customer contribution is so weak is that it is different only for who customers are positive or negative about the firm. Therefore, I will split the sample accordingly for the following analyses.

For the following regression I will split the sample and analyze the segment of starters. First the effect of NPS on customer contribution is measured through a regression in the starters segment. This segment counts 17 respondents what makes the significance level unconfident. The effect of the NPS in the fourth regression is a negative one at a significance level of (P=0.072). The promoters coefficient is negative (regression 5) in this starters segment and have a p-value of 0.231. The reverse is true for the detractors, this coefficient is positive and have a p-value of 0.114. The relative low p-values are a meaningful addition to this model because changes in the independent value are related to changes in the dependent variable. Further applies here that the evidence is weak and that there is more consistency between detractors and customer contribution than between customer contribution and promoters. This effect is remarkable, because the coefficients are the reverse of what is expected. The positive coefficient for detractors, suggest that customers with the lower NPS scores contribute more to the bank.

For the group young companies the same regressions are performed. This segment contains the same amount of respondents. The seventh regression takes all the responses of the recommending question. This regression shows that when the Net Promoter Score rise the customer contribution will decline. This is because the negative coefficient, besides the associated p-value is 0.072. Furthermore, regression eight (promoter) and nine (detractor) show the same unexpected outcome as in the starters segment. The coefficient for promoters is negative (p=0.321) and the coefficient is positive (p=0.037). Just as in the starters segment also in the young segment much more consistency is found between detractor and customer contribution than promoter and customer contribution. This is the same remarkable effect as in the starters segment.

The group of adults has with 72 respondents the most respondents by far. The tenth regression with as dependent variable customer contribution and the NPS scores as independent
variable. In this regression, the positive coefficient of the independent variable has a p-value of 0.047. For the eleventh regression the dummy variable promoter is used. This independent variable is positive and has a p-value of 0.038. For the variable detractors (regression 12) are the values a bit lower, the negative coefficient has a p-value of 0.129. The regression with the group adults shows that there is strong evidence for hypothesis 2 and that there is more consistency between promoters and customer contribution than between customer contribution and detractors. The positive estimated coefficients in regression 10 and 11 suggest that the when the Net Promoter score increase also the customer contribution increase. The same is true for the amount of promoters, when this group increase the customer contribution will be positively influenced. This effect is expected and the effects in contrast to the effect in the segments starters and young. This can be explained by the fact that the segments starters and young only have 17 observations. As a cause when in these segments one or two respondents with a high customer contribution recommend the firm with a rating below 7, the entire segment is biased. The same effect occurs when customers with a low contribution recommend the firm with a high rating.
4.2.1 Dutch effect

In this sub paragraph the Dutch scale will be examined. The promoters are rated with 8, 9 or 10 and the detractors are rated with 0 to 5 and the passives are assigned with the ratings 6 and 7. As shown in graph 3, the number of promoters is now much higher with respect to the normal scale. As a result, the Net Promoter Score increase with almost 26%. To show the effects of the new dummy variables promoterNL and detractorNL is in the model. This two dummy’s will be tested for each customer segment.

**Graph 3**  
* Dutch NPS: \( \% \text{promoters (8-10)} - \% \text{detractors (0-5)} = (54.9) - (27.9) = 27\% \)

![Graph 3](image)

Source: Department Business Advice, Rabobank Alkmaar e.o. (2014)

**Table 2**  
*Regression results for the Dutch scale*

<table>
<thead>
<tr>
<th>Dependent variable: Customer contribution</th>
<th>Total sample</th>
<th>Starters</th>
<th>Young</th>
<th>Adults</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regression</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(13)</td>
<td>(14)</td>
<td>(15)</td>
<td>(16)</td>
<td>(17)</td>
</tr>
<tr>
<td>PromoterNL</td>
<td>714.92</td>
<td>-312.94</td>
<td>-621.64</td>
<td>2180.99*</td>
</tr>
<tr>
<td>(920.75)</td>
<td>(186.62)</td>
<td>(640.28)</td>
<td>(1153.04)</td>
<td></td>
</tr>
<tr>
<td>DetractorNL</td>
<td>197.94</td>
<td>425.77*</td>
<td>2369.83**</td>
<td>-1882.93</td>
</tr>
<tr>
<td>(1024.23)</td>
<td>(190.17)</td>
<td>(801.43)</td>
<td>(1281.57)</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>1779.69</td>
<td>2117.21</td>
<td>101.83</td>
<td>1291.3</td>
</tr>
<tr>
<td>(682.34)</td>
<td>(540.70)</td>
<td>(143.13)</td>
<td>(880.65)</td>
<td>(675.45)</td>
</tr>
<tr>
<td>Observations</td>
<td>122</td>
<td>122</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.005</td>
<td>0</td>
<td>0.158</td>
<td>0.251</td>
</tr>
</tbody>
</table>

Two asterisks (***) represents a p-value <0.05 and one asterisk (*) a p-value<0.1
At the first place, the entire sample is used for the regression. As shown in table 2, the variable promoterNL is positively related to customer contribution and has a p-value of 0.439. This is evident from the fact that the estimated coefficient is positive. For regression 14 applies that also the estimated coefficient detractorNL (p=0.837) is positive related to the customer contribution.

At the second place, the regression from the segment starters will be analyzed. As shown in table 2, the variable promoterNL in regression 15 is negative related to the dependent variable (p=0.114). For dummy variable detractorNL with a p-value of 0.041 applies that this coefficient is positive related to the customer contribution. This suggest that compared with the normal scale, the promoters are now more consistent with the customer contribution. The same is true for the detractors. This effect can be explained by the fact that in the Dutch scale more respondents are covered by promoters and detractors

The regressions 17 and 18 in table 2 show the young segment. In this segment the p-value of the negative coefficient promoterNL is 0.347. For dummy variable detractorNL applies that this estimated coefficient is positive and has a p-value of 0.010. Just as with the normal scale these two segments show a remarkable effect. Namely, the detractors are positive related to customer contribution and promoters negative. The same explanation as at the normal scale applies here.

With the introduction of the two new dummy variables the group adults differ some. Regression 19 shows that the estimated coefficient is related to the customer contribution with a significance of 0.063. The estimated coefficient in regression is less significant; the variable detractorNL has a p-value of 0.146 and is negative related to the dependent variable.

The performed regression analyses show that the outcome differs for each segment. Besides, the significance levels and the direction of the coefficients differ per regression. For the segments starters and young, the regression with NPS scores as independent variable and customer contribution as dependent variable show weak evidence with exactly the same p-values (p=0.072). But as shown before, these two groups have remarkable outcomes and may be biased. This can be explained by the fact that these two groups have few respondents; this makes it difficult to draw a conclusion. Therefore in the discussion of the results the focus will be on the group of adult enterprises. For this group, the regression with NPS scores as independent variable and customer contribution as dependent variable show strong evidence with a (p=0.047) the variance of customer contribution is explained by 5.5% in the extent to which people recommend the Rabobank. Furthermore, in the regressions with promoter and promoterNL as independent variables there is also a strong effect. Both estimated coefficients are positive, but the p-value of the promoter is lower. This suggests that the recommend ratings 9 and 10 are more consistent with customer contribution than ratings 8, 9 and 10. In other words, when I use the normal scale there is more
consistency between NPS and customer contribution than in the Dutch scale. As result, it can be concluded that there is a significant positive relationship between customer loyalty and financial performance for adult enterprises at significance level of 5%.

There are some limitations about these regressions. In the first place, due to the missing of important other independent variables in these models omitted variable bias occur. Therefore, the independent variables in all the tested models are over estimated. Moreover, the segmented groups; starters, young and adults are distributed by the lifetime of the business. As a cause of this distribution there is no data available about the lifetime of the customer-bank relationship. While this is important for analyze customer loyalty. In general loyal customers have long-term relationships with their suppliers. Furthermore there is a possibility that the data is influenced. As a cause of this, only respondents with high revenues were asked to participate with the survey. In contrast to the weak points, the fact that there is no correlation between the customer contribution and the NPS scores for each respondent can be seen as a strong point in the analysis.
5. CONCLUSION

This section contains the main results, an answer on the research question and some limitations of this study. Furthermore, the contribution of this study and what should be done in the future will be shown.

The literature shows that the relationship model is stable and strong in the years during the crisis. Therefore, a renewed focus on this model should be considered. The relationship model corresponds with the service-profit chain, because both theories suggest that employees and customers are the main drivers of an organization. This research investigates two relationships among the service-profit chain. The first relationship is between employee engagement and customer loyalty. The second relationship is between customer loyalty and the financial performance. Customer loyalty is measured by the Net Promoter Score. The financial performance is measured by customer contribution which is a combination of income interest and provision interest. The engagement surveys from Rabobank Alkmaar e.o. have shown that wage; job characteristics and talent development are main drivers for engagement. The first relationship is demonstrated on the basis of literature research. Studies from Harter et al (2002) and Salanova et al (2008) find a clear relationship between employee engagement and customer loyalty. Unfortunately, this couldn’t be examined with Rabobank’s data due to the sensibility of the employee surveys. So, relying on the existing literature, it can be established that there is a positive relationship between employee engagement and customer loyalty.

The second hypothesis is operationalized by an empirical analysis. This second relationship is between customer loyalty and financial performance. Customer loyalty is measured by the Net Promoter Score. The financial performance is measured by customer contribution which is a combination of income interest and provision interest. The main result is that there is a significant positive relationship between customer loyalty and financial performance for adult enterprises at a significant level of 5%. This relationship applies for both the normal scale and the Dutch scale. Moreover, adjusting the Dutch scale, significantly increases the Net Promoter Score. This other scale also had major influence on the distribution of the promoters, passives and detractors. As a result, it can be concluded that the second hypothesis is also accepted.

“What is the relationship between employee engagement, customer loyalty and financial performance at the Business Advice department at Rabobank Alkmaar e.o.?”

According the two tested hypotheses, the answer on the research question can be given. Several studies show that there is a clear link between employee engagement and customer loyalty. Assuming that this also is true for Rabobank Alkmaar e.o. there can be concluded that there is a clear link between employee engagement and customer loyalty. In contrast, the other link is empirically
tested and therefore a significant relationship is proven. Thus, between employee engagement, customer loyalty and financial performance at the Business Advice department at Rabobank Alkmaar e.o. there exist a relationship.

This thesis contributes to previous literature about the service-profit chain in multiple ways. The biggest difference is that this thesis examines the link between employee engagement and customer loyalty, where other researches are mainly focused on employee and customer satisfaction. According to several researches, employee engagement becomes more and more important. Besides, the NPS Score is a relative upcoming measurement tool, which provides that this thesis is innovative. Furthermore, this research is based on a small scale which makes it less generalizable.

In future research, the employee surveys should be replaced by the Employee Net Promoter Score as argued by Reichheld and Markey (2011). The introduction of this tool provides an easier way to measure and it becomes easier to compare with the customers’ NPS. Moreover, a possibility arises to measure every month instead of twice a year. The eNPS should also be linked to the NPS score. By linking the eNPS per employee and the NPS score of the customer from the portfolio of that same employee, the link between employee engagement and customer loyalty gives a good impression. The same thing applies for the link between customer loyalty and financial performance. By linking the Net Promoter Score of each customer to the revenues of that customer the measuring of the relationship between these both factors will improve. The NPS score of each customer can display how they recommend the business advisor and how they recommend the Bank. By making a difference between the both scores, the difference between the business advisor’s effect on the customer contribution and that from the bank could be considered.
6. IMPLICATION

This section contains the recommendations for the Business Advice department Rabobank Alkmaar e.o. especially in a practical view.

As showed in the literature review, the relationship model was stronger and more stable in times of crisis. Besides, the researchers argue that a renewed focus on the relationship model should be considered. Moreover, other studies suggest that especially in service firms as banks, the employee-customer contact plays an important role. These findings suggest that customer contact is very important. Further, it is shown that the drivers of employee engagement from Rabobank Alkmaar e.o. are comparable with the drivers in existing literature. The intern employee engagement surveys of Rabobank Alkmaar show that initiative towards work and talent development are main drivers of the engagement average score. Besides, work load and pleasure drive the average score down. From this prospect there can be concluded that when the work load decreases and the pleasure increase, the engagement level will be higher. This will lead engaged employees to loyal customers as described in the previous sections.

As the theory described, there is a significant relationship between customer loyalty and the financial performance in firms. As proved this applies also for the Business Advice department of Rabobank Alkmaar e.o. the most confident evidence is found in the adult entrepreneurs segment. This segment shows that loyal customers really contribute more to Rabobank.

With a forward view as vision 2016 suggested, there will be a decline in employees but the customer loyalty has to stay high. I will recommend Rabobank Alkmaar e.o. to be careful with firing employees. As suggested by the service-profit chain, employees play a major role in the organization. Moreover, customers’ experience with a permanent employee relation feel as safe pleasurable. So when there is a decline in employees, the customer loyalty will be declined which will result in a decline in customer contribution. What the business advice department from Rabobank Alkmaar e.o. should do better in the future is customer segmentation. This will result in economies of scope: The Rabobank can utilize information obtained by services from a firm and use it to give advice to other firms in the same segment. Besides, when an advisor has much experience in one segment, the faster he can monitor his customers. In that case, an employee has the possibility to hold a larger customer portfolio which provides that firing employees doesn’t have to be a problem. Another aspect what deserves some attention is the investment in employees through development training; this will lead to more engaged employees and thus more loyal customers.

Furthermore I think that Rabobank, which is characterized by cooperation, will be an advantage when it appears that relationship banking becomes more important. Because of the fact that word of mouth will become more and more popular through developments like online business.
7. REFERENCES


Institute for Employment Studies 447.


8. APPENDIX

I. General graphs and analysis

*Engagement between different departments (detailed version)*

<table>
<thead>
<tr>
<th>Initiative Towards Work</th>
<th>Active Learning</th>
<th>Energy</th>
<th>Pleasure on the Work Floor</th>
<th>Work Pressure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales and services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Business advisors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Team Leaders</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Commercial assistant</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Score from 0 to 10
Distribution of customers by NPS

Distribution of customers by Dutch NPS
**Table 1**  
“How likely is it that you would recommend a firm to a friend or colleague?” (NPS Scores)

<table>
<thead>
<tr>
<th>Score</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>11</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>22</td>
<td>30</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Department Business Advise, Rabobank Alkmaar e.o. (2014)

**Table 2**  
NPS score per each segment using the normal scale

<table>
<thead>
<tr>
<th></th>
<th>Starters</th>
<th>Young</th>
<th>Unknown</th>
<th>Adults</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promoters</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detractors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passives</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>17</td>
<td>16</td>
<td>72</td>
</tr>
<tr>
<td>NPS</td>
<td>-5.9</td>
<td>23.6</td>
<td>-37.5</td>
<td>5.6</td>
</tr>
</tbody>
</table>

**Table 3**  
NPS score per each segment using the Dutch scale

<table>
<thead>
<tr>
<th></th>
<th>Starters</th>
<th>Young</th>
<th>Unknown</th>
<th>Adults</th>
</tr>
</thead>
<tbody>
<tr>
<td>PromoterNL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DetractorNL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PassivesNL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>17</td>
<td>16</td>
<td>72</td>
</tr>
<tr>
<td>NPS</td>
<td>29.4</td>
<td>47.1</td>
<td>-12.5</td>
<td>30.6</td>
</tr>
</tbody>
</table>