Who’s the boss? Contending with competing expectations from customers and management

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Executive Summary

Customer-contact workers routinely face competing expectations from management and customers. While management expects customer-contact workers to follow their rules in order to provide efficient and consistent high-quality service, customers often have needs and requests that require customer-contact workers to bend the rules in order to fulfill them. When customers, through commissions, tips, or other means, directly reward these customer-contact workers, the dilemma becomes even more intense. While this problem is well-established, we know little about how and why customer-contact workers choose between satisfying customer or management expectations. Our study examines the process that customer-contact workers go through to make this choice. By developing psychological contracts with both customers and management, customer-contact workers balance the costs and benefits associated with meeting/not meeting their competing expectations. In order to mitigate the problem of customer-contact workers choosing to satisfy the customer at the expense of management, managers need to develop relational contracts with their employees.

As pharmaceutical sales representatives, we are allowed to give some incentives to the doctors. For example, twice a year we can send a few of them on golf trips. Once in a while I get an offer from a doctor that he’ll prescribe my products continually in exchange for a guarantee that he gets the trip. We are not supposed to pick the same doctors every year, and certainly not in direct exchange for the promise to use our products. But you know, when you are close to quota but not quite there, it is tempting.

When I left my last firm and was hired here, it was with a big promotion. Additionally, I get big money when I bring new clients in. A client at the old firm, a huge money client, expressed interest in following me. I know that the kinds of things I could do to keep them happy before won’t fly here. But if I sign them to a contract, well, I get the bonus, and then I won’t really have to deal with them. The staff accountants will have to face my old challenges.

The above scenarios are examples of how customer-contact workers often experience competing expectations from management and their customers. Management instills rules and controls to promote organizational efficiencies while customers often have needs and requests that require customer-contact workers to make adjustments to the system (i.e., bend the rules). Such competing expectations place customer-contact workers in an awkward situation where they often feel a need to choose between satisfying management rules or satisfying the customer. Our article examines this quandary and suggests how managers can better align their expectations of customer-contact workers with those of customers and encourage customer-contact workers to follow management rules while still satisfying customers.
We begin by describing the important role that customer-contact workers play in satisfying customers. In particular, we focus on customer-contact workers who receive both compensation from management and commissions or tips from customers. Such compensation gives both management and customers some control over the behaviors of customer-contact workers, thereby leading to conflict for workers when the two sets of expectations conflict. We follow this discussion with an overview of psychological contract theory, which we use to frame our study results. Next, we present our findings and offer suggestions for managers.

The Role of Customer-Contact Workers

Delivering consistent high-quality service is essential for success and survival in today’s competitive environment. Companies that offer superior service achieve increased market share and are able to charge premium prices. For service-oriented firms, unlike pure manufacturing organizations, the customer adds an element of uncertainty to the production process, because customers are the ones to decide whether or not they have received high-quality service. Customer-contact workers must try to satisfy customers who bring varied and changing expectations to the production process.

When customers expect little or no adaptation on the part of the service organization, their perception of service quality may be based on getting what they expect with no “surprises.” But when customers expect a great deal of adaptation, their judgment of service quality may be based on the customer-contact worker’s ability and discretion to bend the rules. Therefore, being able to satisfy customers with special needs or wishes can create a dilemma for customer-contact workers. They need to decide, often on the spot, whether to grant or deny customer requests. For customers, this decision affects the degree to which they are satisfied with the service encounter. For customer-contact workers, how they handle customer requests ultimately affects the degree of rewards they receive from the customer. Lastly, the customer-contact worker’s actions affect the organization, because the worker has direct influence over the customer’s buying decision and has the ability to uphold or bend management rules.

Customer-contact employees may experience internal conflict when a gap exists between customer demands and management rules and regulations. This conflict is highest when employees personally agree or identify with customer requests that violate management instructions and often results in dissatisfaction with work, frustration, and perceived low service quality. Having an employee’s compensation depend in part on tips increases the employee’s identification with customers, but it also increases the conflict that the employee experiences between satisfying customers versus obeying management.

While we know that the inherent tension between customer expectations and management policies often results in negative attitudes and intentions to quit, we know less about what strategies customer-contact workers employ to cope with this conflict. It should be helpful to step back and examine the process by which customer-contact workers interact with customers and management to deal with their conflicting expectations. An understanding of how and why employees identify with their customers and managers will help expand our understanding of this issue. We begin by discussing how customer-contact workers manage expectations by developing psychological contracts with customers and with management.

Psychological Contracts

In any service exchange, three relationships exist: that between customer-contact workers and customers, customer-contact workers and management, and customers and the organization, which is represented by management. Figure 1 shows...
are based on minimal expectations on each side, customer-contact workers play a pivotal role in shaping each of these relationships. How customer-contact workers interact with customers (side A) and how customer-contact workers and management relate (side B) ultimately affect the relationship established between customers and management (side C). For example, the quality of service that a customer-contact worker provides directly influences how successful the customer perceives the service exchange to be. Meanwhile, how management trains its customer-contact workers to serve customers influences how customers feel about management (and ultimately the organization). As such, it is important to manage the relationships between customer-contact workers and both customers and management, to establish successful and long-lasting relationships with customers. After explaining what psychological contracts are, we will focus on the contracts that customer-contact workers have with customers and management (sides A and B in Figure 1). Later, we will discuss how these contracts can be managed to improve customer-management relations (side C).

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Social exchange by means of personal relationships is a deeply rooted behavior in most societies. People form relationships in order to give and receive things—both tangible and intangible—of value. Psychological contracts are formed whenever there is a social exchange between people. When employees develop psychological contracts with their employers, they are in essence creating a mental balance sheet comparing their obligations to the company with the company’s obligations to them (i.e., their rewards). Unlike employment contracts (but similar to a customer’s perception of service quality), psychological contracts are completely personal, and two parties may have different beliefs about their reciprocal obligations.

The research on psychological contracts suggests that they can range from being extremely transactional to extremely relational. The key difference between the two forms involves the presence or absence of trust. Transactional contracts are based on minimal expectations on each side, are motivated purely by self-interest, and usually involve quid pro quo exchanges. Extremely transactional contracts involve no trust and most likely occur in one-time exchange relationships, such as a temporary employment assignment or a one-time visit to a roadside restaurant in another state.

In contrast, relational contracts involve more of a personal relationship between the two parties. Each party tends to have a high level of commitment to the relationship and is more likely to be flexible when evaluating the performance of the other party. The most extreme example of a relational contract occurs in a marriage. The traditional employment relationship, where an employee exchanges commitment and loyalty for long tenure and promotions, also exemplifies a form of relational contract.

Customer-contact workers can develop either a transactional or relational psychological contract with management or something in between, depending on the type of relationship formed between the two parties. In addition, these workers face an array of psychological contracts with customers, ranging from extreme transactional contracts for discrete encounters to strong relational contracts with regular customers.

The form of psychological contract that managers develop with their employees will influence employee attitudes and behaviors. In transactional contracts, employees meet minimum organizational standards and have a low level of expectations regarding management. Relational contracts lead to higher commitment and involvement by employees, as long as employees perceive that their managers reciprocate their trust. Therefore, as we will show, by developing relational contracts with customer-contact employees, managers may be able to minimize the extent to which employees choose to satisfy customers at the expense of management.

Customer-contact workers present an interesting case for the study of psychological contracts. Most research has looked at what leads employees to form transactional versus relational contracts with their employers. We are not aware of any study that has examined the potentially conflicting psychological contracts that customer-contact workers may develop with customers and with management. Workers may have transactional contracts with management and with customers, relational contracts with both, or a combination of the two. The sides of the triangle in Figure 1 represent the psychological contracts that exist in the service industry. Now we will discuss what our study found concerning what customer-contact workers...
face when they develop psychological contracts with customers and management.

We chose to study bartending because it is an occupation whose workers share common characteristics with workers in many other service occupations, such as responsibility for delivering the product to the customer, having their compensation tied to customer satisfaction, and having some level of discretion about providing the service. Bartending provides a good illustration of the conflict between customer and management expectations. Customers pay a portion of a bartender’s compensation, which gives customers some control in the service encounter. Bartenders also have much autonomy in deciding how to deliver the final product to customers. They are in charge of making decisions and directly influence the quality of the product, how the product should be delivered, and often even decide what to charge the customer for the product. Lastly, due to bartenders’ autonomy, management encounters service problems that managers in many other service industries experience, including maintaining consistent product quality, delivery quality (i.e., customer service), controlling costs, and monitoring employee behaviors. Therefore, our study of the competing expectations of managers and customers included observations of bartenders working, interviews with bartenders and their managers, and surveys of customers.  

The Customer-Contact Worker–Customer Exchange

Side A in Figure 1 represents the psychological contract that exists between the employee and the customer. The customer-contact worker–customer relationship is interesting in that both members of this dyad have some degree of power and control over the service encounter. Customer-contact workers have direct control over the production and delivery of the products received by the customer. For example, bartenders control the quality and occasionally the price of the drinks served to the customer. Similarly, individuals in professional service firms, such as accountants or attorneys, control service encounters by providing helpful and timely tax or legal advice and by dictating the amount of hours and services charged to clients. As for customers, they have control over a customer-contact worker’s earnings, in the form of tips and commissions.

In the basic service encounter, customer-contact workers will form transactional contracts with customers. The customer will expect a certain level of performance from the worker, such as polite and friendly service, cleanliness, and a hard work ethic, while the customer-contact worker will expect a routine service request and a customary tip. Frequent customers or “regulars” have different expectations regarding service and also try to control the service encounter through the use of relational contracts. For example, all of the bartenders in our study acknowledged that regular customers expect preferential treatment compared to new or one-time customers. Regular customers expect bartenders to know their names, what they drink, and what they talked about the last time that they were at the bar. Similarly, in many white-collar service occupations clients expect, for example, their lawyer or salesperson to remember their past business dealings and the facts surrounding the history of their business. We also found that regulars expect to be served before other customers at the bar. One bartender remarked, “Regular customers expect preferential treatment upon arrival and get annoyed if not waited on immediately. They want you to drop what you are doing that second and get them their drink.” Another bartender explained, “Regulars expect a good drink and expect a lot of things for free.” Repeatedly, regulars were observed asking bartenders for “one on the house.”

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Regular customers are likely to want a trusting relationship with customer-contact workers, that is, to develop relational contracts. Customers often use psychic rewards to help form relational contracts with employees. Examples include making regular visits to the organization, requesting to do business with a particular employee, or expressing delight at a service encounter. In the bartending milieu, customers may express delight by saying things like, “I only come in when you are here” and “Next week I am bringing ten people in for a birthday party, but I want to make sure that you will be working.” One bartender expressed a “good feeling I get when I develop a good rapport with a customer. I know that person will be back. In fact, I’ve developed long-term friendships with many of my regular customers.”

Although regulars expect a higher level of service than other customers receive, the potential for greater rewards tends to make the increased effort well worth it for customer-contact workers. The bartenders in our study recognized that regulars
contribute the most to their earnings; regulars provide tips on a recurrent basis and often provide the most generous tips. As is true in many service situations, forming relational contracts with customers can lead to greater monetary rewards for bartenders. Additionally, regular customers are those most likely to introduce new clients to the business. A bartender explains, “Customers like it when they bring their friends in and we treat them special.” Having a relational contract with customers thus leads to increased extrinsic monetary benefits for customer-contact workers in addition to appealing to their intrinsic motivational needs.18

The Customer-Contact Worker–Management Exchange

Side B in Figure 1 represents the psychological contract that employees have with their managers. In the customer-contact worker–management exchange, management has control over the customer-contact worker’s employment status and base salary, as well as over rules and procedures developed to produce consistent high-quality service. However, management’s power is not complete; customer-contact workers can exert some control in the relationship. For example, in the case of bartenders, because they control the amount of liquor in each drink and often the pricing of products, they have direct control over an organization’s expenses and profits. In addition, because customer-contact workers interact directly with customers, they have the ability to influence customer perceptions of service quality.

Managers tend to view the great degree of autonomy and discretion that customer-contact workers have as the most difficult aspect of managing customer-contact workers. A manager in our study explained how it “is difficult because you always have to be on your toes. There is constant money being moved around. You must keep track.” Many managers in our study saw enforcing the adherence to rules and procedures as the best means to ensure consistent, high-quality service.

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Unfortunately, the customer-contact workers in our study did not share management’s enthusiasm for rules and procedures. Seventy-five percent of the bartenders interviewed were able to identify management rules and procedures that they felt hampered their ability to please customers. Examples included “not being allowed to turn the air conditioning on when it is really hot inside” and “requiring that customers pay when they are served” (i.e., not run a tab). The most common rules mentioned by bartenders concerned the giving away of free drinks: they are not allowed, either to regular customers or to compensate customers for poor service. Bartenders believed that many management rules and procedures hampered their ability to provide a high level of service quality.

Most of the bartenders in our study felt that they had a transactional contract with their employers. Overwhelmingly, bartenders believed that they were upholding their transactional contract with management if they attracted customers to the bar and “kept them coming back for more.” In addition, bartenders repeatedly mentioned the amount of money that they made for their respective bars. For example, three bartenders were observed telling customers how much management needs them and that “if I leave this bar, all the customers are coming with me.” Because management’s level of trust in them was low, our study participants felt that their obligations to the company were minimal. They felt that management could develop a more relational contract with them by supporting their individual decision-making and valuing the contributions they make to their organizations.

Choosing Between Meeting the Psychological Contracts of Customers or Employers

In our study, bartenders were repeatedly able to give examples of how they must choose between meeting customer and management expectations, and how they must weigh the rewards and costs of doing so. For example, a bartender commented, “Not being able to serve more than one drink at a time to a person sometimes displeases the customers and can decrease your tips.” Other bartenders explained how management’s rules and expectations decrease customer satisfaction. Specifically, a bartender explained that customers are often displeased by “the fact that only a certain amount of alcohol can be put into a drink—a five-count—this makes it so that I cannot honor the request of making a really strong drink.”

When customer-contact workers decide to uphold the customer’s relational contract with them at the expense of management, they expect to be amply rewarded. Contrary to company policy, one bartender was observed giving a customer a “double”: a drink containing double the prescribed
amount of liquor. However, when the customer did not provide an adequate reward (i.e., give an above average tip), the bartender would not serve the customer a double when asked to do so again. Her reaction was to tell her fellow bartenders, “I can’t believe this is all the guy left me after I just made him a double. Don’t serve him a double if he asks you for one.” Here the benefits provided by the customer were lower than the bartender had expected. Therefore, in the bartender’s eyes the customer had breached his relational contract with her, shifting it to a more transactional one. The customer lost the trust of the bartender, so in order to restore equity in the relationship, the bartender then chose to violate her contract with the customer by not serving him another double, which inadvertently also upheld her psychological contract with management. However, when a customer-contact worker breaks a relational contract with a customer, the likelihood that the customer will do business with the company again is diminished.

Plenty of situations allow customer-contact workers to uphold both management and customer psychological contracts, typically the more routine service encounters. However, workers must also respond to special and unusual customer requests that require workers to violate their psychological contracts with management. How customer-contact workers handle the competing expectations of customers and management affects whether customers form a one-time-purchase transactional contract with the organization or a loyal and repeat-purchase relational one. So, what can managers do to create and maintain relational contracts with their employees while still satisfying customers? And how should customer-contact workers be managed so that stronger relational contracts are formed with customers?

Managerial Implications

Customer-contact workers who receive benefits and rewards from customers are not easy to manage. Although customer-contact workers are motivated by customer rewards to provide high-quality service, managers must ensure that the benefits of satisfying the customer outweigh the costs. This is not an easy feat. Managers must learn to build relational contracts with their customer-contact workers while allowing them to meet the expectations of their customers. The following are strategies that managers can use to reduce the conflict felt by customer-contact workers in trying to satisfy both management and customers.

The Importance of Developing Relational Contracts

High-quality service requires high contributions from people, which come from developing relational contracts involving commitment and trust. Developing trust with management was a key issue in the minds of the customer-contact workers in our study. They wanted management to trust that they would make the best decisions for their organizations as well as for themselves. However, as is clear from our study, management often asks customer-contact workers to perform behaviors contrary to the self-interests of workers. Both theory and common sense suggest that, in the absence of complete managerial control over the service encounter, customer-contact workers will most likely choose to honor their relational contracts with customers and violate their psychological contract with management. In addition, by attempting to control the service encounter completely, management risks destroying any trust that the customer-contact workers had in them which, in turn, can lead to poor morale and negative behaviors. Therefore, managers should evaluate their policies in light of how they affect their working relationships with customer-contact workers. If workers feel they are not trusted, they may decide that their relational contract has been violated and shift to a more transactional contract.

Managers hoping to build relational contracts with employees must gain their trust. Trust is a key component in shifting from a transactional to a relational contract. In general, managers can influence customer-contact workers’ perceptions of trust by behaving consistently, displaying integrity, sharing and delegating control, communicating accurately and openly, and demonstrating a true concern for the well-being of employees. In addition, managers can develop and foster trusting relationships with their employees by encouraging open communication and by empowering them to make decisions that affect the quality and delivery of the service encounter. When customer-contact workers are aware of management’s values and commitment to customer service, they are able to make decisions that reflect those values. However, effective employee empowerment comes as a result of a shift in policies and procedures, not just a managerial decision to grant employees carte blanche decision-making authority. Managers must teach employees to make decisions that are reasonable from the perspective of both the organization and the customer. For example, the workers in our sample who felt comfortable making decisions regarding customer service worked for managers who...
had both communicated the expectations of service and granted them the autonomy to meet those expectations. One bartender remarked, "No matter what I do to settle a customer complaint, management always supports me." Therefore, strengthening their relational contracts with employees helps managers build strong relationships with customers (Eddleston, Kidder, and Litzky 2002:91) as evidenced by customer satisfaction and loyalty.

Furthermore, managers can also directly create and strengthen relational contracts with customers. Management is not precluded from interacting with customers on an individual basis simply because customer-contact workers are those most often involved with customers. Managers can foster relational contracts with customers by eliciting their feedback and incorporating their ideas into new products and/or service offerings. Additionally, managers can build customer loyalty through marketing and public relations efforts in which they communicate the value of customers to the organization.

Identify Management Rules That Displease Customers

Management rules and procedures may stifle customer-contact employees' creativity, their ability to grow professionally, and may ultimately cause them to leave their organizations. In addition, long lists of rules have been said to "serve customers no better than employees. They produce regimented, 'by-the-book' service when a flexible, 'by-the-customer' one is needed." What results is the inability of customer-contact employees to satisfy customers with special needs and requests.

Managers need to determine which common customer requests are not allowed due to rules and procedures so that they can improve customer satisfaction and ensure that customer-contact workers act within the bounds of acceptable behavior. Managers can do this in three ways. First, they can focus on the service encounters that they are aware of in which customer expectations conflict with their own. This means identifying past customer requests that they did not allow their employees to satisfy and thinking about their business's service process to determine potential ways in which the rules conflict with customer needs. Second, managers should ask employees to identify common requests made by customers that go against management rules. Because customer-contact workers directly interact with customers, they know which management rules displease customers. To encourage employees to share this information with management, strong relational contracts need to be formed with these employees, and a forum for collecting this information needs to be created, perhaps through meetings or suggestion boxes. Third, managers should ask customers to describe what services or products they would like to purchase that are not currently allowed or available. Again, this step means forming a more relational contract with customers whereby customers care about the success of the organization and are therefore willing to share their unmet needs with management through such methods as customer satisfaction surveys, focus groups, or suggestion boxes.

Once the rules that displease customers are identified, management can evaluate its existing service practices and make any necessary changes. Making changes based on customer and employee input demonstrates management's concern for their needs and communicates management's dedication to each of these relationships. Appropriate changes will better align customer expectations with those of management and will reinforce the development of relational contracts with customer-contact workers and customers. Such changes will also lead to more customer needs being met.

Honoring a common customer request may simply mean charging more for the special service. However, other requests may not be feasible—they may be too expensive to provide, beyond the capability of the business, or illegal. In such circumstances managers should fully inform their customer-contact employees why a special request cannot be granted.

Research on organizational justice has demonstrated that if employees feel that they are trusted and taken seriously, they are more likely to behave in a manner consistent with management expectations. One of the key ways in which management can demonstrate this respect is by explaining the reasons behind an action. Customer-contact workers can then, in turn, explain to customers why they are not able to satisfy their requests and can perhaps offer customers a substitute service or product to compensate. For example, at the bar where no doubles were allowed, bartenders could kindly inform customers of the no-doubles rule and then offer customers a single drink with an extra shot of liquor on the side, thereby serving customers a product similar to the one requested, but in a different form. As another example, if customers request extended grace periods on their payments, customer-contact workers could explain management rules against changing credit terms, then offer instead a lower minimum payment for that period or a mutually agreed upon installment plan.
By determining the rules and procedures that displease customers, managers can anticipate the requests that they will be unable to fulfill and then create alternatives that may satisfy customer needs. Here, the focus of managers should be on lowering customer defection rates, which has been shown to be a more profitable business strategy than gaining market share or reducing costs.30

Control Rewards and Compensation for Customers

Customers who have strong relational contracts with a company signal their loyalty in several ways. When customers recommend the company to others, praise the company, express preference for the company over others, buy more from the company, or agreeably pay a premium price for a product or service, they are demonstrating their strong bond with the company.31 In response, these loyal customers often feel that the amount of time, effort, or money that they have invested in doing business with the company should be proportionately rewarded.32 Such customers want to be recognized for their business, and as our study and opening example show, some will even ask to be rewarded for their patronage. In such situations, customer-contact workers often feel compelled to reward customers despite management rules against doing so. Furthermore, because of the customer-contact worker’s autonomy, the enforcement of such rules is quite difficult. Thus, the best way to align management and customer expectations and minimize the conflict felt by customer-contact workers in these situations is for management to control the rewards given to customers. Depending on the type of business, this may mean setting customer rewards based on frequency of visits, amount of spending, or success of business referrals. Customers should also be informed of such policies so that they understand when rewards are available, thereby decreasing the degree of pressure placed on customer-contact workers to grant rewards arbitrarily. When standards for rewards are set, customers will feel that they are being treated equitably,33 and customer-contact workers will experience less conflict regarding how and when to reward customers.

By controlling the rewards given to customers, managers make customers less reliant on employees for rewards, thereby weakening the relational contract between customer-contact employees and customers. This makes it more likely that the contract between customers and management will become more relational because the customers are loyal to the organization in order to receive rewards from management. A simple example would be a customer who receives an occasional free cup of coffee from a friendly employee. Here the customer could eventually develop a strong relational contract with that employee. If the employee were to leave the organization, the customer may also leave. If the customer did return to the establishment, that person may develop resentment toward the organization because patronage was no longer rewarded with that occasional free cup of coffee. Ultimately, the customer may stop doing business with the organization.

In contrast, if customers were given an organizationally promoted card to receive a free cup of coffee after every nine purchased cups, they would not lose any rewards if an employee left the establishment. The customers would be committed to the organization rather than to the individual employee. Controlling the rewards given to customers can greatly benefit management by making customers less reliant on specific customer-contact workers for rewards and making customers more loyal to the organization.

In addition, customers expect to be fairly compensated when dissatisfied with a service encounter. They hold this expectation despite the fact that many managers do not encourage explanations or compensation to dissatisfied customers.34 However, because customer-contact workers are often the employees to whom customers complain, they are the ones often faced with the dilemma of how and when to compensate a customer for poor service. Being able to restore customer satisfaction is especially critical for customer-contact employees who directly receive benefits from customers because they know that by not compensating the customer, they may ultimately earn less from the customer. Therefore, managers must understand that customer-contact employees are strongly motivated to compensate customers who are not satisfied.

Managers must also recognize that compensating customers for poor service positively affects a customer’s perception of service fairness35 and may even enhance customer loyalty36 and the development of a relational contract. Customers consider the handling of complaints one of the most important factors when making purchase decisions.37 Compensation can restore a positive attitude about a company and enhance the likelihood of future purchases.38 Accordingly, the compensation of customers for poor service should be formalized so that customer-contact employees are consistent and fair in compensating customers. This may mean giving all dissatisfied customers the same form of compensation or categorizing the severity of complaints and match-
ing them with forms of compensation. For example, all passengers who are bumped from one airline may receive a free round-trip ticket to any destination within the United States. Another airline may choose to issue a coupon worth the price of the bumped airline flight or to give passengers who are able to take the next flight a free first-class upgrade. No matter how managers decide to administer compensation for service failures, the focus should be on compensating the customer quickly and effectively so that the customer feels better off than before the service error.

By controlling rewards and compensation for customers, managers will be better able to monitor costs and create consistency concerning how and when customers will be rewarded and compensated. This approach should foster customer loyalty and commitment to the organization and thus should strengthen their relational contract with management. Customers who have been with an organization for years are more likely than short-term customers to buy additional services and spread favorable word-of-mouth. Therefore, although costs are involved in administering rewards and compensation to customers, the long-term gains should be well worth it.

Understand the Effects of Compensation Structure on Employees

The nature of the compensation system for customer-contact workers (i.e., the customer pays the bulk of the employee’s earnings) fosters a relational contract between customer-contact workers and customers but may actually impede the development of a relational contract between management and employees. Furthermore, the compensation structure of customer-contact workers may accentuate the gap between customer expectations and management expectations because customer-contact workers often perceive that they cannot satisfy the demands of all the parties that they must serve. From an organizational perspective, the conflict created by the competing expectations of customers and management often results in a gap between what the customer wants and what the customer gets, which can lead to a serious deficiency in perceived service quality. For these reasons, management must understand how directly earning rewards from customers affects employee behaviors.

When customers directly control a portion of an employee’s earnings, high-quality service can result. Employees who are directly rewarded by customers display more favorable attitudes toward customers than employees not rewarded directly. Therefore, allowing employees to receive earnings from customers can result in friendlier and more attentive service. Customer-contact workers are quite aware of how their behavior can affect their earnings from customers. For example, in our study, one bartender explains, “Socializing helps to increase tips. The longer you can hold a conversation, the higher your tip gets.” Customer-contact workers, recognizing that establishing a relationship with customers can increase their earnings, are thus motivated to provide good service.

On the other hand, this form of compensation can also lead to the employee putting the customer’s interests ahead of those of the organization. Customer-contact employees may give preferential treatment to certain customers, giving them an unfair advantage over other customers. Favoured customers may get faster service and frequent discounts at the expense of others. Customer-contact employees may “cherry pick” certain customers because they know they are easy to please or are big spenders. Some customer-contact workers seek to please their customers at virtually any expense. When earnings of customer-contact workers are tied to customer satisfaction, some employees will use incentives to create a sale regardless of the cost of the incentives and irrespective of management’s position on such issues. Therefore, management must recognize that because of the compensation structure, customer-contact workers are often highly motivated to satisfy the customer. While customer service and satisfaction are important goals of service organizations, the means that customer-contact workers use to satisfy customers must be reasonable and not too costly to the organization.

Managers must motivate employees to be more involved and interested in their organization’s profitability to preempt the temptation by customer-contact workers to satisfy customers at the expense of the organization. It is important for customer-contact workers to value the organization itself and to become more focused on the organization’s profitability, not solely on their own compensation. This is a challenge for managers; ultimately, they must provide an organizational environment that fosters a better balance between what customer-contact employees receive from customers versus what they receive from management. By developing relational contracts with both employees and customers, managers are more likely to be able to achieve this balance. Managers have the opportunity to design employee compensation systems that can foster relational contracts with both customer-contact workers and customers, since reciprocal relationships between management and both of these parties exist.
When customer-contact workers have a stake in the long-term profitability of the organization, feelings of loyalty to that organization can develop. Bonuses, in the form of cash or trips, are often used to reward customer-contact workers who generate high sales. These practices can be extended to those customer-contact employees who keep their costs under control or meet budgetary restrictions. In this manner, customer-contact employees are aware of their direct impact on the organization’s profitability. Awarding high-volume sales territories or favored clients may be used to reward customer-contact employees who have consistently met organizational goals. Customer-contact employees can be rewarded for their tenure in the organization. An individual in our sample described a reward system at a neighboring establishment where the customer-contact employees were given expensive cars on their twenty-year anniversaries. Rewarding employees in this manner will also positively impact customers. When employees feel valued and part of a “good-faith relationship” with their employer, they are likely to set high standards of customer service.  

Customer perceptions of service quality are often influenced by the lack of understanding that managers have of customer expectations. Managers can evaluate customer needs and perceptions of service and design compensation systems for customer-contact workers to include components of customer satisfaction and service which are aligned with the needs and perceptions of the customers. Management can reward customer-contact workers who meet customer expectations of service through bonuses or incentives. Therefore, in addition to the compensation received from the customer, customer-contact workers have the potential to gain rewards by meeting management expectations.

Furthermore, since customer-contact employees are likely to know what high-quality service means to their customers, managers must encourage them to provide that level of service. Providing excellent service may be rewarded intrinsically, by allowing the customer-contact employees the autonomy to determine how to reward their customers within limits. For example, some of the employees in our study were allotted a certain dollar amount which they could “give away” per shift, in the form of free drinks or food, to reward their customers for their continued patronage. Sales representatives are often encouraged to treat clients to sporting events or the theater as a way of thanking them for their business.

Managers may be able to mitigate damaging effects of the conflict experienced by customer-contact workers by understanding what rewards their employees value, by developing a system to offer those types of rewards, and by developing trust between employees and management. By aligning the employee reward system to reflect the realistic needs and perceptions of the customers, managers can create strong relational contracts among the three parties of the service encounter.

Relational Contracts for All

Service industries have supplanted manufacturing as the most important sector of the U.S. economy. Customer-contact workers face unique demands not faced in other occupations that do not involve direct customer contact. When the expectations of customers directly conflict with the expectations of management, customer-contact workers are placed in a position of choosing between satisfying one at the expense of the other. Given their focus on customers first, it is not surprising that the customer-contact workers in our study often chose the customer’s preferences over management’s. Social exchange theory helps predict this outcome, as well as offering strategies for dealing with competing expectations, by having managers develop relational contracts with their service employees and customers.

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Endnotes

3 Ibid.
Chang


32 Rousseau & Wade-Benzoni, op. cit.


34 Robinson, et al., op. cit.


36 A complete description of the study details are available from the authors.


39 McLean Parks & Kidder, op. cit.


41 McLean Parks & Kidder, op. cit.


43 Kidder & Buchholtz, op. cit.

44 Ibid.


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53 Schneider & Bowen, op. cit.

54 Ibid.


56 Ibid.

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58 Marketing News, Consumers eager to know values that guide business decisions, 6 November 1995: 5.


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