V. KUMAR and ANITA PANSARI*

The authors highlight the need for and develop a framework for engagement by reviewing the relevant literature and analyzing popular-press articles. They discuss the definitions of the focal constructs—customer engagement (CE) and employee engagement (EE)—in the engagement framework, capture these constructs' multidimensionality, and develop and refine items for measuring CE and EE. They validate the proposed framework with data from 120 companies over two time periods, and they develop strategies to help firms raise their levels of CE and EE to improve performance. They also observe that the influence of EE on CE is moderated by employee empowerment, type of firm (business-to-business [B2B] vs. business-to-consumer [B2C]), and nature of industry (manufacturing vs. service); in particular, this effect is stronger for B2B (vs. B2C) firms and service (vs. manufacturing) firms. The authors find that although both CE and EE positively influence firm performance, the effect of CE on firm performance is stronger. Furthermore, the effect of CE and EE on performance is enhanced for B2B (vs. B2C) and for service (vs. manufacturing) firms.

Keywords: customer engagement, employee engagement, firm performance, business-to-business, service, employee empowerment

Competitive Advantage Through Engagement

In today's market scenario, in which competition is intense and the world has become a unified market due to technological developments and social media, interactions among customers have increased manifold. Therefore, it is important for firms to keep their customers engaged. A recent Gallup study found that "fully engaged" and "engaged" customers accounted for 23% and 7% increases in revenue, respectively, whereas the "not engaged" and "actively disengaged" groups of customers resulted in revenue drops of 1% and 13%, respectively.[1] However, this pattern is not restricted to the customers of the firm. Popular press has indicated that the importance of engagement is trickling to the employees of the firm. The following observations highlight the effects of engaging employees:

- 84% of highly engaged employees believe they can positively affect the quality of their organization's products, compared with only 31% of the disengaged who believe this.[2]
- 72% of highly engaged employees believe they can positively affect customer service, versus 27% of the disengaged.[3]
- 68% of highly engaged employees believe they can positively influence costs in their job or unit, versus just 19% of the disengaged (Crim and Sejits 2006).

These statistics indicate that firms should focus on designing strategies that ensure both the customers and the employees are engaged. In fact, the Gallup study indicates that firms should focus on engaging customers through all possible channels; establish that the customer is heard, serviced, and treated in the

*V. Kumar (VK) is Regents Professor, Richard and Susan Lenny Distinguished Chair Professor, and Executive Director, Centre for Excellence in Brand and Customer Management at the J. Mack Robinson College of Business, Georgia State University; Chang Jiang Scholar, Huazhong University of Science and Technology (HUST); Lee Kong Chian Fellow, Singapore Management University; and ISB Senior Fellow, Indian School of Business (e-mail: vk@gsu.edu). Anita Pansari is a doctoral student in marketing, Centre for Excellence in Brand and Customer Management at the J. Mack Robinson College of Business, Georgia State University (e-mail: apansari1@gsu.edu). The authors' names appear in alphabetical order. The authors thank the *JMR* review team for providing valuable feedback on an earlier version of the study. They thank the audiences who attended the presentations at Tsinghua University, HUST, Skolkovo, Bogazici University, Dartmouth College, and IIM-Ahmedabad. The authors also thank Alok Saboo, Nita Umashankar, Denish Shah, Gayatri Shukla, and Bharath Rajan for their valuable feedback on the earlier versions of this article. They thank Renu for copy editing a previous version of this manuscript. G. Tomas M. Hult served as associate editor for this article.

[1]See http://www.digitalservicecloud.com/resources/blog/customer-engagement-statistics-chart.html.

[2]See http://iveybusinessjournal.com/publication/what-engages-employees-the-most-or-the-ten-cs-of-employee-engagement/.

[3]See http://iveybusinessjournal.com/publication/what-engages-employees-the-most-or-the-ten-cs-of-employee-engagement/.

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best possible manner; and ensure an overall positive customer experience. To achieve this degree of efficiency, an organization must function as a cohesive unit and have a shared vision among all its employees. From the above observations, it appears that engagement needs to be an important part of firm's overall strategy.

DEFINING ENGAGEMENT

In a content analysis of 50 articles that use the term "engage" or "engagement," we observed that these terms were used in discussions about processes, cocreation, solution development and/or utilization, interactions, and relevant marketing-based forms of service exchange (Brodie et al. 2011). Engagement has been studied across fields over the years. For example, in sociology it has been studied as "civic engagement" (Mondak et al. 2010), in psychology as "social engagement" (Achterberg et al. 2003), in organizational behavior/management literature as "employee engagement" (Catteeuw et al. 2007), and in marketing as "customer engagement" (Kumar 2013). Although the topic has been discussed across fields, there is a need to understand the functioning of both marketing and organizational behavior together because their business functions are interrelated.

Therefore, in this study, we focus on understanding engagement of the internal (employees) and external (customers) stakeholders of the organization. Engagement, as mentioned earlier, represents cocreation, interaction, solution development, and so on, all of which depend on the attitude that drives the behavior of customers and employees toward a firm. We define engagement as the attitude, behavior, the level of connectedness (1) among customers, (2) between customers and employees, and (3) of customers and employees within a firm. In other words, the more positive the attitude and behavior and the higher the level of connectedness, the higher the level of engagement. It is important for companies to ensure that both their customers and their employees are well engaged; anecdotal evidence suggests such strategies result in gains in firm performance.[4] To discuss the various ways in which customers and employees can be engaged and the possible outcome of engagement, we develop a conceptual framework that comprises customer engagement (CE), employee engagement (EE), and the firm's performance outcomes. Additionally, we use moderators such as employee empowerment, type of firm (business-to-business [B2B] vs. business-to-consumer [B2C] firms), and nature of industry (manufacturing vs service organization) in testing the various proposed relationships.

To measure engagement, we develop scales for CE and refine the existing scales for EE. Next, we provide strategies with which firms can manage both CE and EE to maximize profits. Subsequently, to understand the effectiveness of an engagement strategy, we measure engagement in 120 large U.S. companies over a two-year period; we find that as the level of engagement increases over time, firm performance also improves. This effect is moderated by the level of employee empowerment, the type of firm (B2B vs. B2C) and the nature of the industry (manufacturing vs. service). The moderating effect of EE on CE is positive for B2B firms, for service firms, and when employees are empowered. Also, the effect of EE and CE on firm performance is enhanced for B2B and service firms. Finally, to bring engagement into every organization, as an organization culture, we define and suggest ways to develop an engagement orientation to reap rewards from engaging all relevant stakeholders. The process of developing and implementing the proposed engagement framework is shown in Figure 1.

The rest of the article is divided into five parts. In the next section, we discuss the motivation of the study, which covers our review of popular press and academic literature of both marketing and management. In the second section, we focus on the conceptual framework, which comprises the components, the moderators, and the consequences of engagement. In the third section, we provide details on the process of data collection, measurements, and scale validation of the components of engagement. In the fourth section, we discuss the measurement and implementation of engagement in 120 companies over a two-year period and the effect of engagement on firm performance. In the final section, we offer strategies to manage engagement, managerial implications, the limitations of the study, and the scope for further research.

LITERATURE REVIEW

In this section, we review the past literature on both marketing and management discipline and analyze to develop the engagement framework. In the field of marketing, customers are the key resource to a firm's profit growth, which is one of the primary objectives of firms. Satisfying customers just by selling the right product/service is not enough because most products/services are homogeneous, and competition is intense. Therefore, a firm must engage customers in various ways other than product purchase, such as encouraging customer referrals, soliciting customer feedback on products/services, and engaging in social media interactions (Kumar 2013). If a customer has an overall positive experience with a firm, then the customer should purchase more, interact more with the firm to provide feedback and references, and spread the firm's message on social media.

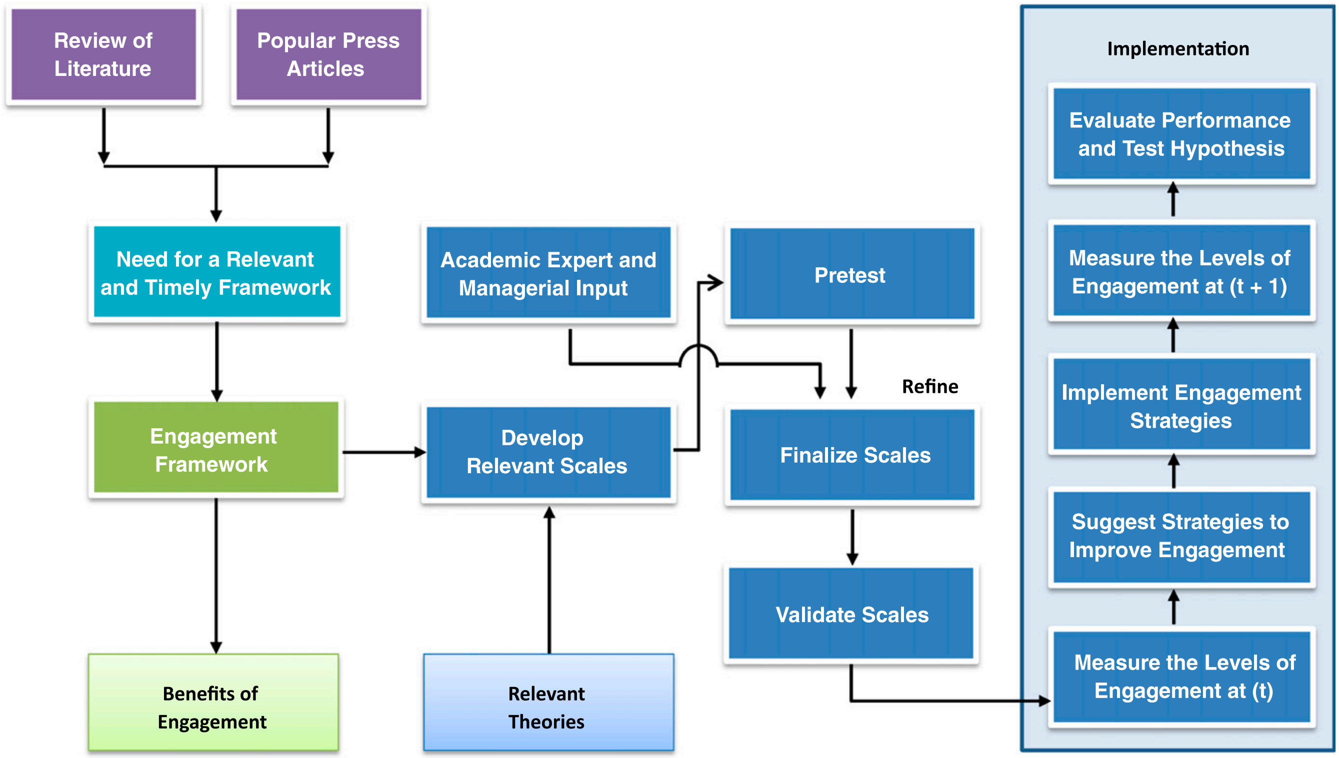
Similarly, in the field of management, the discussion has revolved around the internal stakeholders of the firm: the employees. Employees are committed to their organization only if they understand the organization's goals and their individual responsibilities toward fulfilling these goals (Zyman and Brott 2002). If the employees of a firm are committed to delivering the brand values and perform to the best of their ability, then they can engage their customers in an efficient manner. However, if they are disengaged, they do not focus on the needs of the customers.

From the literature, it is evident that engaging both customers and the employees should be of primary importance to a firm. However, there has been no study that discusses the impact of engaging both customers and employees. Because employees can potentially interact with customers at every touch point, they contribute to creating the brand image through repeated interactions. Therefore, it is important to fill this gap in the literature in order to help firms design profitable strategies that ensure positive experiences for both customers and employees.

The importance of this gap has also been emphasized in the literature. For example, Brodie et al. (2011, p. 11) note,

[4]See http://www.digitalservicecloud.com/resources/blog/customer-engagement-statistics-chart.html.

Figure 1
PROCESS OF DEVELOPING AND IMPLEMENTING THE ENGAGEMENT FRAMEWORK



> While brands/organizations have been the primary engagement objects examined in CE research to date, equally important are the roles of specific products/services, categories, stakeholders, and/or relevant institutions, such as Government and industry governing bodies . . . . Further, the specific dynamics underlying the two-way, interactive engagement with particular objects including organizations, products/services, employees and/or brands, and potential value correction and/or loyalty outcomes, require further theoretical and empirical scrutiny.

Positive relationships between customers and a firm and between employees and a firm are important because they entail the smooth functioning of the organization. In accordance with the literature, our expectation is that if the employees and the customers are engaged efficiently and effectively, then the various stakeholders of the firm will be satisfied, due to the growth in the firm's profits. Customer-level data on various types of engagement are not easily available to all firms and researchers; thus, measuring and managing customer engagement could be a challenge. Similarly, observing the behavior of employees to understand their level of engagement would also be difficult. To resolve this issue, we develop a comprehensive framework for engagement and introduce survey measures to obtain a score on various levels of CE and EE. Figure 2 provides the conceptual framework of engagement, which has been developed from related literature and the popular press and is in line with our definition. In the next section, we discuss each of the attributes of engagement.

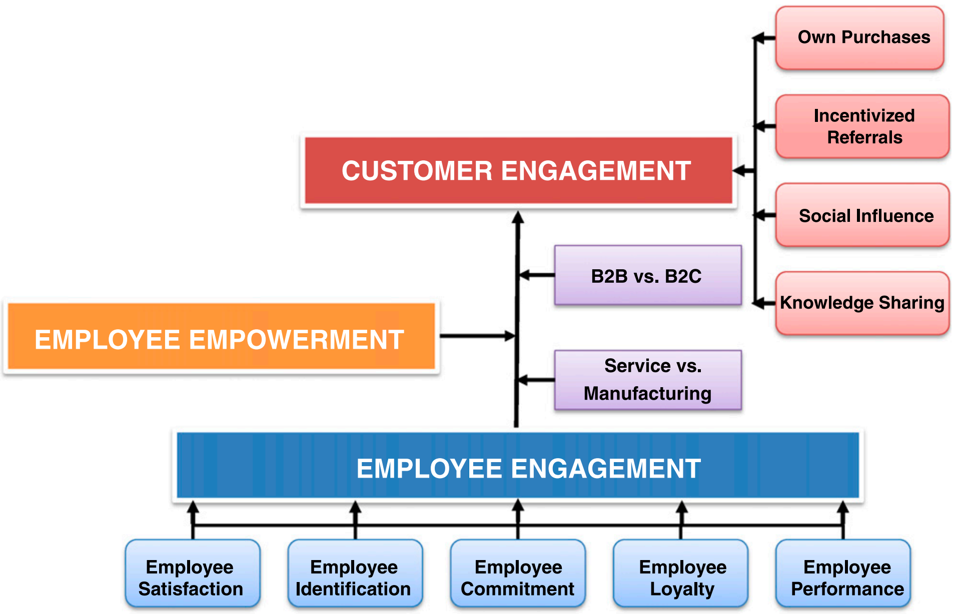
CONCEPTUAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Customer Engagement

The first aspect of engagement pertains to customer attitude, behavior, and level of connectedness among themselves and with the firm. We represent this aspect as customer engagement (CE). Customer engagement has been extensively discussed in marketing academia. Bowden (2009, p. 65) describes CE as "a psychological process" driving customer loyalty, whereas Van Doorn et al. (2010, p. 254) focus on specific CE behaviors by defining the concept primarily with reference to the specific types and/or patterns of focal engagement activities. They define CE as "a customer's behavioral manifestations that have a brand or firm focus, beyond purchase, resulting from motivational drivers." Kumar (2013, p. 6) focuses on the different ways a customer can engage profitably with a firm. In all these discussions, engagement is represented as either a state of mind or an activity beyond purchases.

The definitions of CE in the literature also highlight that CE extends beyond a customer's purchases and is an important aspect for firms. Although various definitions of CE convey similar meanings, researchers have viewed the components of CE differently. Van Doorn et al. (2010) propose valence, form and modality, scope, nature of impact, and customers' purpose as the dimensions of CE. Kumar et al. (2010) emphasize that if

Figure 2
ENGAGEMENT FRAMEWORK WITH MODERATORS



CE is not accounted for, then the firm will undervalue or overvalue its customers. In their conceptualization of CE, Kumar et al. (2010) include customer transactions in the metric, unlike Van Doorn et al. (2010) and Verhoef, Reinartz, and Krafft (2010), who state that CE involves behavior that goes beyond transactions. The definition of CE can vary, but there is agreement in the literature as well as in practice on the various ways a customer contributes to a firm. The conceptualization of CE by Kumar et al. (2010) is used for the purpose of this study because it is comprehensive and comprises customer purchases, customer referrals, customer influence, and customer knowledge.

Customer purchases. When customers purchase products/services from a firm, they directly contribute to the firm value (Gupta, Lehmann, and Stuart 2004). Furthermore, Kumar et al. (2008) find that at IBM, resource reallocation on the basis of customer purchases led to an increase in revenue of about $20 million without any changes in the level of marketing investment.

Customer referrals. Referrals are a form of engaging with customers for both B2C and B2B firms (in the case of B2B, they are denoted as "references"). They help in attracting customers who would not be attracted by the traditional marketing channel (Kumar et al. 2010). Research has shown that referred customers are more profitable than nonreferred customers (Schmitt, Skiera, and Van den Bulte 2011), and customers with the most purchase transactions do not always provide the most referrals (Kumar, Petersen, and Leone 2010). However, customers with the most purchase transactions might influence other customers or provide feedback to firms and therefore contribute to the overall CE.

Customer influence. Customer influence describes the impact the customer makes on social media. Social media users can affect others' activities within a social networking site; this effect is termed "influence" (Trusov et al. 2009). These influences on social media create a ripple effect and extend beyond the close social network of the customer, through a wide group of customers (Hogan, Lemon, and Libai 2003), affecting the firm's profits (Lee and Grewal 2004). In the recent past, social media platforms have been used extensively by customers to exchange brand- and product-related information for both B2B (Chakravarty et al. 2014) and B2C firms (Kumar 2013). These platforms have a more direct impact on brand communities, and they enjoy higher CE compared with traditional marketing methodologies (Trusov et al. 2009).

Customer knowledge. Customer knowledge is achieved when a current customer is actively involved in improving a company's products/services by providing feedback/suggestions. Customers can also add value to a company by helping the firm understand customer preferences and by participating in the knowledge development process (Joshi and Sharma 2004). Firms can use this knowledge to improve their products and services and/or create new products (Kumar and Bhagwat 2010).

Employee Engagement

The second aspect of the engagement definition is employee engagement (EE), which pertains to the level of connectedness of employees with the customers and the attitude and behavior of the employees toward the firm. Employee engagement has been defined as "a multidimensional construct which comprises of all the different facets of the attitudes and behaviors of employees towards the organization" (Kumar and Pansari 2014, p. 9). The dimensions of EE proposed by Kumar and Pansari (2014) comprise employee satisfaction, employee identification, employee commitment, employee loyalty, and employee performance.

Employee satisfaction. Employee satisfaction is an emotional reaction to the overall job circumstances and different job factors, such as the qualities of the supervisor and coworkers, as well as pay level (Brown and Peterson 1993). The internal quality of the work environment also contributes to employee satisfaction, which is measured by the feelings that employees have toward their job, colleagues, and company (Heskett et al.1994). Employee satisfaction affects employee turnover and absenteeism (Fisher, Locke, and Henne 1992), quality of work (Silvestro and Cross 2000), and how employees identify themselves with the organization.

Employee identification. Employee identification has been defined as "a psychological state wherein an individual perceives himself or herself to be part of a larger whole" (Rousseau 1998, p.217). Employees who identify themselves with their organization are intertwined with the success and failure of the brand (Punjaisri et al. 2009), and thus they are more committed to the organization.

Employee commitment. Employee commitment is defined as "the extent of psychological attachment of employees to the brand, which influences their willingness to exert extra effort towards reaching the brand goal" (Punjaisri et al. 2009, p. 213). Employees with the highest levels of commitment perform 20% better than other employees and are 87% less likely to leave the organization (Lockwood 2007), indicating that committed employees are loyal to their organization.

Employee loyalty. Employee loyalty can motivate an employee to do work for an organization beyond what is expected for their role, and employees who are loyal to their organizations meet customers' needs and deliver high levels of customer service (Schrag 2009). Furthermore, studies have offered that positive employee work attitudes translate into greater loyalty and satisfaction among customers (Allen and Grisaffe 2001).

Employee performance. Employee performance has a significant impact on a firm's customers. Employees work toward customer satisfaction because it is more profitable to retain existing customers than to attract new customers (Reinartz et al. 2005). Employees are service differentiators who are expected to consistently deliver positive service attitude, which makes them a source of competitive advantage for firms (Harris and De Chernatony 2001).

Effect of EE on CE

Companies can leverage CE if they have a great workforce that interacts with the customer. Interactions between customers and employees contribute to perceptions about the firm (Sirianni et al. 2013), which affects repeat-customer purchases. These perceptions lead to attitudinal and behavioral outcomes, which can affect the firm either positively or negatively, by affecting both purchases and the referrals, influence, and knowledge that customers provide to the firm. A positive interaction between customers and employees might motivate how customers talk about the brand and recommend it to their friends and relatives. These ideas indicate that CE is affected by the behavior of the employees toward the customer. Therefore, we make the following hypothesis within the engagement framework:

H_1: EE positively affects CE.

MODERATORS

Employee Empowerment

In changing times, firms focus on employee empowerment to enhance their performance (Spreitzer and Doneson 2005). Empowerment permits employees, rather than waiting for approval from a supervisor, to make decisions on their own regarding service problem recovery and to surprise and delight customers by exceeding their expectations (Bowen and Lawler 1995). Empowerment enhances the relationship between employees and customers because an empowered employee is in a better position to engage and deliver firm value to customers.

The responses of employees who interact with customers heavily influence customer perceptions of service quality (Chebat and Kollias 2000). The interactions between customers and service providers are more positive when the employees are engaged because their performance is at peak (Kumar and Pansari 2014). These interactions should be further enhanced if the employees of the organization are empowered. Empowering employees involves moving decision-making authority down the organizational hierarchy, granting employees the ability to significantly affect organizational outcomes (Menon 2001), increase participation, and provide information and resources (Kanter 1983). Empowered employees not only feel confident and in control of their environment (House 1988) but also provide friendlier customer service (Lawler and Cohen 1992) and take pride in producing superior-quality products. Therefore, we hypothesize the following:

H_2: Employee empowerment enhances the effect of EE on CE.

Service Versus Manufacturing

The relationship between the customer and the service provider is a central feature that distinguishes production-level service activities from manufacturing (Batt 2000). In the manufacturing sector, the work routines of employees are standardized and the options for customers are also standardized. This leaves very little chance for customer–employee interaction in the manufacturing sector. However, an engaged employee ensures smooth functioning of the manufacturing cycle and ensures that the defects are identified immediately, thus reducing costs for the company.

In the service sector, customers interact with the firm at every touch point, and the employees' attitudes and behaviors can significantly affect customers' perceptions of the service (Bitner 1990; Chebat and Kollias 2000). These perceptions are positive only if the employee is engaged and ensures that the customer has the best service experience. Customer perceptions might affect not only customer purchases but also customers' willingness to refer the brand, discuss the brand, or provide feedback to the company. Therefore, we hypothesize the following:

H_3: The effect of EE on CE is stronger in the service sector than in the manufacturing sector.

B2B Versus B2C

In a B2B environment, the nature and circumstances of customers are different than in a B2C environment. In a

B2B environment, an organization is the customer, and it spends large amounts of money in the purchase of products and services, unlike in a B2C environment. The relationships between B2B firms are complex, interpersonal, and interdependent (Webster 1978), wherein the seller can be one or more individuals in the organization, including senior executives (Ames 1970). The focus of all the parties and their communication efforts is toward relationship building between buyers and sellers (at a micro level) and between firms (at a macro level). In a B2B environment, the interaction between customers and employees is the key factor in influencing consumer decisions. Therefore, in a B2B environment, the employee's attitude, behavior, and knowledge can be key differentiating factors for the firm.

In B2C firms, the focus is on volume sales and market share. Therefore, the communication efforts involve advertising, sales promotion, public relations, and so on, to reach a large market (Coviello and Brodie 2001). Although there are one-to-one relationships in the B2C marketplace, in the majority of interactions, the employee is not the key factor in the customer's decision-making process. Therefore, we hypothesize the following:

> H_4: The effect of EE on CE is stronger for B2B than for B2C firms.

CONSEQUENCES OF ENGAGEMENT

CE and Firm Performance

As discussed earlier, engagement comprises CE and EE. If both the customers and employees are engaged with the firm, then the firm's performance is positively affected (Figure 3). For example, if a customer is engaged with the firm, the customer will make purchases from the firm, which directly contributes to firm revenue (Kumar 2008), and will also provide referrals, which impact firm profitability. Customer conversations about a brand on social media can create a ripple effect to a wide group of customers (Hogan, Lemon, and Libai 2003), inducing a larger audience to transact the firm. The feedback/suggestions provided by a customer can indirectly contribute to firm profits, and the resulting improved products/services might be expected to appeal to many more customers than before, thereby bringing more profits to the firm. From these ideas we can conclude that all the components of CE contribute to a firm's profitability.

Engaged customers also contribute to the long-term reputation and recognition of a brand (Verhoef, Reinartz, and Krafft 2010). Creating an environment in which customers are more engaged with the company can require initial investment, but it has the potential to generate higher profits in the long run through the creation of CE (Verhoef, Reinartz, and Krafft 2010). Therefore, we hypothesize the following:

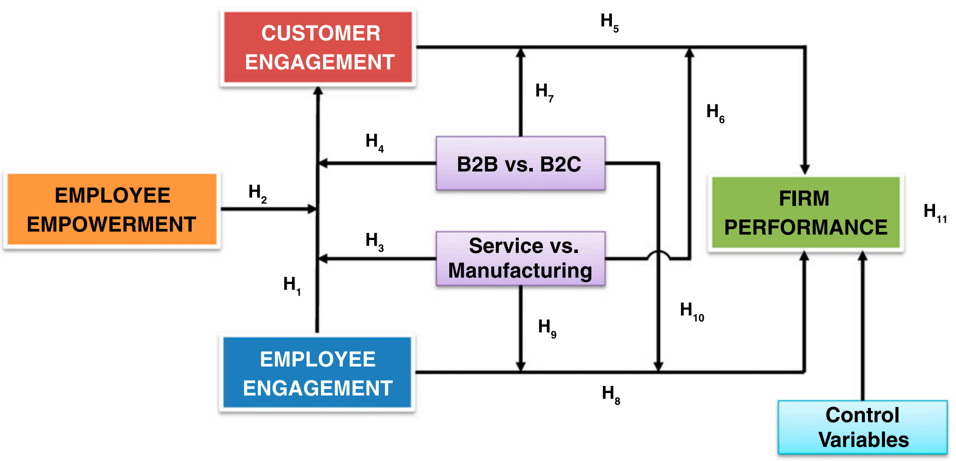
> H_5: CE positively influences firm performance.

Service versus manufacturing. In the service sector, customers contribute to service quality through their roles as coproducers of the firm's service and consultants to the organization, whereas while buying a product, customers might have little or no interaction with the firm. Thus, customers have higher association with a firm in a service interaction than when buying a product. Customers' cooperation during a service encounter contributes to their own and others' satisfaction with service quality (Martin and Pranter 1989). E-commerce has ensured that most products are available online, and the interaction with the firm during online purchases is minimal. However, customer interaction with service firms remains important when a customer avails a firm's services. This interaction creates impressions that consumers might talk about, online or offline.

Furthermore, in the service sector, because the customer interacts with the service provider, the ability to fix a problem is immediate. For example, if a consumer requests a nonsmoking room in a hotel but is provided a smoking room, the problem can be fixed immediately by interacting with the service provider. Thus, the firm has the opportunity for higher revenue than if it were not able to fix the problem immediately. When a consumer buys a product that turns out to be defective, for

Figure 3

LINKING ENGAGEMENT TO PERFORMANCE



example, the consumer has to contact the manufacturer and perhaps wait a long time before getting a response. These examples highlight the fact that customers are more involved with service firms than manufacturing firms and therefore might talk more about services firms and provide instant feedback. Therefore, we hypothesize the following:

H_6: The effect of CE on firm performance is stronger for service firms than for manufacturing firms.

B2B versus B2C. The logic or rationale behind performance gains varies widely across different organizations and industries (Batt 2000). In the B2B environment, the size of a transaction among firms is considerably larger than those of B2C firms. As stated earlier, in a B2B environment, the organization is a customer and spends large amounts of money to purchase products and services, unlike in a B2C environment. In B2C firms, the focus is on volume sales and market share. Furthermore, in the B2B sector, relationships are driven by the sales force, and each customer has a point person who has in-depth knowledge of the customer's requirements and the potential challenges. This structure ensures that customers' needs are met and problems are addressed quickly. Although the pool of people a firm can impact in a B2B scenario is smaller, the transaction value is much larger, compared with B2C. Therefore, the revenue a firm receives per customer is higher in B2B. Therefore, we hypothesize the following:

H_7: The effect of CE on firm performance is stronger for B2B firms than for B2C firms.

EE and Performance

Employees are sustainable service differentiators who are expected to consistently deliver positive attitude, which makes employees a resource for competitive advantage of firms (Harris and De Chernatony 2001). Engaged employees have a lower level of attrition, thereby reducing turnover costs for the employer. Moreover, engaged employees treat the organization as their own and, therefore, do not require extensive training and orientation on a repeated basis, thereby reducing training expenses for the firm. Engaged employees are also proactive; they work efficiently and effectively, thereby reducing personnel costs to the firm. These cost reductions can contribute to increase a firm's performance measure. Therefore, we hypothesize the following:

H_8: EE positively affects firm performance.

Service versus manufacturing. In service firms, employees are the service differentiators and a source of competitive advantage (Harris and De Chernatony 2001). It is their interaction with the customer that creates brand perceptions for customers. Although employees are important in ensuring a smooth workflow in the manufacturing sector, it is the machines and the technology that are the competitive advantage of manufacturing firms. Having a great product is necessary but might not be a sufficient condition for firm success. Engaged employees focus on ensuring that their customers have positive interactions (especially in service firms) with the firm by addressing customer concerns in the best possible manner. Therefore, we hypothesize the following:

H_9: The effect of EE on firm performance is stronger for service firms than for manufacturing firms.

B2B versus B2C. As stated earlier, the sales force is responsible for the interactions between the service provider and the customer in a B2B firm. The number of customers is limited in a B2B industry, and the service provider's focus is on ensuring a smooth relationship with every customer because each customer has a higher transaction value than in a B2C firm. Furthermore, in a B2B environment, each employee is responsible for taking care of a set of customers. The employees are expected to have complete knowledge of the customers' businesses and ensure that all their business needs (i.e., those addressed by the firm) are met. In a B2C firm, the employee cannot be the reason for the relationship between the firm and the customer; the product or service offered by the firm creates this relationship. The pool of customers is large, and the employee–customer interaction is low, as compared with a B2B firm. Therefore, we hypothesize the following;

H_{10}: The effect of EE on firm performance is stronger for B2B firms than for B2C firms.

CE Versus EE

As discussed, both CE and EE affect firm performance. However, the impact of CE should be stronger than the impact of EE on firm performance because CE is a revenue-generating measure and EE is a cost-saving measure. For example, CE contributes directly to a firm's profits through purchases and customer referrals, whereas EE reduces employee turnover and absenteeism (Fisher, Locke, and Henne 1992) and increases quality of work (Silvestro and Cross 2000), thus reducing costs. The reduction in cost is typically lower than the profits generated through purchases, referrals, influence, and feedback. Therefore, we hypothesize the following:

H_{11}: The effect of CE on firm performance is stronger than that of EE.[5]

Next, we discuss the process of scale development for measuring CE and for refining the scale for measuring EE. We provide details on data collection, scale validation, and reliability.

RESEARCH METHODOLOGY

Measures

In this section, our purpose is to develop a comprehensive measure of engagement. We focus on the domain of the construct, item generation, and item purification. For the purpose of having a comprehensive index for engagement, we develop survey measures for CE (Study 1) and refine existing scales for EE (Study 2). The CE scale measures the levels of connectedness among customers and between customers and the firm. Similarly, the EE scales measure the level of connectedness of employees with customers and of employees with the firm (according to the definition of engagement).

Although there are existing measures for different components of CE, they are all metrics, which require customer

[5]We suggest this because it is a comparative relationship between CE and EE. The same is not shown in Figure 3.

level and customer interaction data (Fader and Hardie 2010). Because there are no readily available survey measures for CE, we develop a new survey-based measure for CE. However, for the EE measure, we review the survey measures from Kumar and Pansari (2014), and we refine them for our context of the study.

Study 1: CE

In Study 1, we develop new measures for each of the four dimensions of CE. Following the framework proposed by Churchill (1979), we generated an item pool for each dimension. We used the literature in CE (e.g., Van Doorn et al. 2010) as guidance to develop the item pool and refine the items. A questionnaire containing 24 items resulted. In April 2013, we administered this 24-item questionnaire through a personal survey, for comprehension, logic, and relevance. The test pool consisted of 135 customers of a mobile service provider in in a large U.S. city. We examined the reliability coefficient, Cronbach's alpha, and used exploratory factor analyses to purify our scales. We discarded eight items because of the low item-to-total correlations and the factor loadings, using a cutoff value of .7 for both. This resulted in choosing a 16-item survey for measuring CE (see Table 1). The items are to be measured on a five-point Likert scale (1 = "strongly disagree," and 5 = "strongly agree").

We presented the modified 16-item survey to a panel of six academic experts at a large international conference, and we obtained their feedback. More than a dozen managers (from a CMO round table discussion) also reviewed the survey for its nomological validity.

Given the overall consensus from the experts and the executives, the final set of items was administered through a personal survey in June 2013, with 300 customers of a mobile service provider in a large U.S. city. The questionnaires were provided by the mobile service company at one of its retail outlets. We conducted an exploratory factor analysis of participants' responses; values of Cronbach's alpha were generally

Table 1

RESULTS OF CONFIRMATORY FACTOR ANALYSIS FOR CUSTOMER ENGAGEMENT

							Factor Loadings			
Indicator	*Direction*	*Construct*	*Estimate*	*Standardized Estimate*	*SE*	p	*Customer Purchases*	*Customer Reference*	*Customer Influence*	*Customer Knowledge*
Purchases (CLV)	←	CE	2.192	.91	.165	.00				
Referrals (CRV)	←	CE	1	.757	.123	.00				
Influence (CIV)	←	CE	1.392	.812	.136	.00				
Knowledge (CKV)	←	CE	1.784	.872	.157	.00				
I will continue buying the products/services of this brand in the near future.	←	CLV	1	.968			.86			
My purchases with this brand make me content.	←	CLV	.992	.978	.028	.00	.90			
I do not get my money's worth when I purchase this brand.	←	CLV	.977	.957	.033	.00	.81			
Owning the products/services of this brand makes me happy	←	CLV	1.014	.978	.029	.00	.86			
I promote the brand because of the monetary referral benefits provided by the brand.	←	CRV	1	.882				.78		
In addition to the value derived from the product, the monetary referral incentives also encourage me to refer this brand to my friends and relatives.	←	CRV	1.023	.944	.049	.00		.88		
I enjoy referring this brand to my friends and relatives because of the monetary referral incentives.	←	CRV	.98	.955	.045	.00		.91		
Given that I use this brand, I refer my friends and relatives to this brand because of the monetary referral incentives.	←	CRV	1.16	.979	.049	.00		.95		
I do not actively discuss this brand on any media.	←	CIV	1	.895					.78	
I love talking about my brand experience.	←	CIV	.882	.911	.048	.00			.81	
I discuss the benefits that I get from this brand with others.	←	CIV	1.095	.948	.052	.00			.88	
I am a part of this brand and mention it in my conversations.	←	CIV	1.135	.953	.053	.00			.89	
I provide feedback about my experiences with the brand to the firm.	←	CKV	1	.904						.74
I provide suggestions for improving the performance of the brand.	←	CKV	.99	.942	.047	.00				.84
I provide suggestions/feedbacks about the new product/services of the brand.	←	CKV	1.143	.975	.048	.00				.88
I provide feedback/suggestions for developing new products/services for this brand.	←	CKV	1.237	.953	.056	.00				.80
Cronbach's alpha							.879	.874	.810	.83

in the range of .80–.90 for the four dimensions of CE, as shown in Table 1. We tested the discriminant validity of the items for all the constructs and found the correlations to be less than .3 for all the items; the average variances extracted were between .66 and .77. Thus, these low to moderate values of correlation provide the needed support for the test of discriminant validity (Carless 2004). The refined scales generally have good to high reliability coefficients that exceed the levels recommended by Nunnally (1978). The overall Cronbach's alpha for the CE measure was .786.

Additional questions were asked to gather information on customer demographics, their service provider, and the number of years they have been transacting with the company. We conceptualized CE as a second-order construct consisting of four dimensions: customer purchases, customer references, customer influence, and customer knowledge/feedback. The items in the customer purchases dimension reflect the attitudes and behaviors of the customer toward a customer's current and future purchases of the brand. Customer reference items reflect the reason that customers refer the brand to their friends. The four customer influence items measure whether customers discuss this brand on various platforms. Customer knowledge items record the extent to which a firm facilitates its customers to share feedback on its products and services with the firm and among customers, and to participate actively in designing products and services.

To estimate the measurement model for the proposed CE construct, we collected additional data from multiple populations. We discuss the sample characteristics and the data collection next.

Sample Characteristics and Data Collection for Study 1

The respondents in Study 1 were customers of various organizations who have been transacting with their respective firms for an average of approximately five years. We did not constrain the sample to specific industries in the interest of generalizability of our findings. The study was conducted (1) on Amazon Mechanical Turk (MTurk), from which we collected 475 responses regarding various telecom firms; (2) in person, with 118 customers (who work full-time) at a public function; and (3) at a major urban university, with 169 executive MBA students. All the respondents were rewarded for their participation in the study, with financial incentives for MTurk respondents, entry in a prize drawing for regular households, and extra credit for student participation.

Study 2: EE

The survey items used to measure EE were adapted and refined from Kumar and Pansari (2014). The authors develop an extensive set of survey items with the help of literature review and managerial interviews. The items are measured on a five-point scale ranging from 1 = "strongly disagree" to 5 = "strongly agree." Kumar and Pansari tested the items in both developed and emerging markets. Thus, it is suitable for us to use this set of items for our current study, with a few of the items reworded for clarity and relevance, to avoid any ambiguity (as discussed subsequently). We added two additional questions to elicit information on the company and the managerial position of the employees.

Sample Characteristics and Data Collection for Study 2

To ensure that the survey could be used with our sample, we pretested the EE survey items of Kumar and Pansari (2014) with 180 employees of various managerial levels on MTurk. We reworded the items to make them more personalized, on the basis of our survey results and the feedback provided by the respondents. For example, "The organization is like a family to me" was changed to "My organization is like a family to me." We also changed "Provides an orientation program which inspires me to appropriately deliver the brand promise" to "Provide an induction program which inspires me to appropriately deliver the brand promise," because the word *orientation* was not clear to the respondents.

On the basis of the feedback from our pretest, we modified the final set of items and administered the finalized survey to 750 employees of *Fortune* 500 companies, through a link sent to the human resources (HR) managers of 30 such companies. The Cronbach's alpha for all the EE measures was between .8 and .9, as shown in Table 2. The overall scale reliability was .951.

Employee Empowerment

The measure of employee empowerment was adapted from Menon (2001). It is assessed on a five-point Likert scale that ranges from 1 = "strongly disagree" to 5 = "strongly agree." The items measure the extent to which employees influence the decisions made in their department, as well as the important responsibilities they have in their department. These questions were administered along with the EE survey, for the ease of the respondents. Employee empowerment was measured only for employees whose tasks were relevant. Because it was part of the EE questionnaire, the sample for the pretest and the analysis are the same for empowerment as for EE. The overall reliability of the scale was .701.

ANALYSIS AND RESULTS

We examined all scale items and reverse-coded data when applicable to reflect the proposed directions. We used SAS software, version 9.4, and Amos, version 22, to conduct the analyses.

Study 1: CE

The construct of CE is a second-order construct, and its four dimensions (customer purchases, referrals, influence, and knowledge) are first-order factors measured through their respective indicators. We conducted a confirmatory factor analysis (CFA) of this hierarchical model. The second-order CFA model fit was deemed acceptable on the basis of a battery of fit indices (χ^2) = 539.913, d.f. = 118; goodness-of-fit index (GFI) = .92; Tucker–Lewis index (TLI) = .914. The path coefficients between the indicators and their respective first-order factors were significant at the α = .05 level. In addition, all the path coefficients between the second-order construct and its four dimensions were significant at the α = .05 level.

We also examined the second-order factor structure by conducting a one-factor CFA on the average scores of the four first-order constructs (e.g., Jayachandran et al. 2005). The model fit was χ^2 = 1.238, d.f. = 2; GFI = .99. All the path coefficients were significant at the α = .05 level. Thus,

Table 2

RESULTS OF CONFIRMATORY FACTOR ANALYSIS FOR EMPLOYEE ENGAGEMENT

							Factor Loadings				
Indicator	*Direction*	*Construct*	*Estimate*	*Standardized Estimate*	*SE*	p	*Employee Satisfaction*	*Employee Identification*	*Employee Commitment*	*Employee Loyalty*	*Employee Performance*
Satisfaction	←	EE	.63	.932	.026	.00					
Identification	←	EE	.856	.993	.027	.00					
Commitment	←	EE	.796	.932	.028	.00					
Performance	←	EE	.533	.723	.03	.00					
Loyalty	←	EE	1	.904	.034	.00					
I receive recognition for a job well done.	←	Satisfaction	1	.685			.743				
I feel close to the people at work.	←	Satisfaction	1.137	.745	.05	.00	.812				
I feel good about working at this company.	←	Satisfaction	1.313	.824	.053	.00	.857				
I feel secure about my job.	←	Satisfaction	1.061	.643	.054	.00	.737				
I believe management is concerned about me.	←	Satisfaction	1.137	.653	.057	.00	.717				
I am proud to tell others that I am part of the organization.	←	Identification	1	.8				.816			
I feel a sense of ownership toward this organization.	←	Identification	1.034	.766	.036	.00		.816			
My sense of pride toward the organizational brand is reinforced by its brand-related message.	←	Identification	.961	.747	.035	.00		.781			
I view the success of the brand as my own success.	←	Identification	1.019	.776	.035	.00		.815			
The organization is like a family to me.	←	Identification	1.001	.753	.036	.00		.788			
When I talk about this organization, I usually say “we” rather than “they.”	←	Identification	.935	.712	.036	.00		.764			
When someone praises this brand, it feels like a personal compliment.	←	Identification	1.001	.807	.033	.00		.838			
My commitment to deliver the brand increases along with my knowledge of the brand.	←	Commitment	1	.791					.843		
I am very committed to delivering the brand promise to our customers.	←	Commitment	.922	.811	.032	.00			.883		
This organization has a great deal of personal meaning for me.	←	Commitment	.729	.684	.031	.00			.818		
I will be happy to spend the rest of my career in this organization.	←	Loyalty	1	.786		.00				.862	
I do not have an intention to change to another organization at this moment.	←	Loyalty	.928	.75	.036	.00				.858	

Table 2
CONTINUED

Indicator	Direction	Construct	Estimate	Standardized Estimate	SE	p	*Factor Loadings* Employee Satisfaction	Employee Identification	Employee Commitment	Employee Loyalty	Employee Performance
My intention to stay is driven by the fact that I am competent in delivering the brand promise.	←	Loyalty	.765	.759	.03	.00				.834	
My performance in the last appraisal exceeded expectations.	←	Performance	1	.697							.875
The amount of opportunity for my performance improvement at my organization is high.	←	Performance	.986	.761	.056	.00					.875
Cronbach's alpha							.83	.91	.80	.81	.70

consistent with common practice (e.g., Jayachandran et al. 2005), we used the aggregated scale consisting of the average scores of the four dimensions of CE as indicators of CE for further analyses.

Study 2: EE

The construct of EE is also a second-order construct, and its five components (satisfaction, identification, commitment, loyalty, and performance) are first-order factors measured by their respective indicators. We conducted a CFA of this hierarchical model. The second-order CFA model fit was deemed acceptable on the basis of a battery of fit indices (χ^2) = 962.186, d.f. = 166; GFI = .912; TLI = .932. These fit indices are consistent with Hu and Bentler's (1999) recommendation. The path coefficients between the items and their respective first-order factors were significant at the $\alpha = .05$ level. In addition, all the path coefficients between the second-order construct and its five dimensions were significant at the $\alpha = .05$ level.

As in Study 1, we examined the second-order factor structure by conducting a one-factor CFA on the average scores of the five first-order constructs (e.g., Jayachandran et al. 2005). The model fit was $\chi^2 = 59.534$, d.f. = 5; GFI = .978. All the path coefficients were significant at the $\alpha = .05$ level. Thus, consistent with common practice (e.g., Jayachandran et al. 2005), we used the aggregated scale consisting of the average scores of the five dimensions of EE as indicators of EE for further analyses. Next, we discuss the implementation of the engagement framework to test our hypotheses.

Study 3: Implementing the Engagement Framework

We chose large companies with more than 5,000 employees that had operations in the United States (because our study is restricted to the U.S. market). We obtained a list of 2,000 randomly selected large public firms listed in the U.S. stock exchange and the organizations' contacts from a trading firm. We reached out to the contacts by e-mails and a follow-up call, attempting to obtain further contacts in the HR and marketing departments and also to be introduced by the main contact as academics conducting a research study. After making the initial calls to the 2,000 companies, we identified 432 companies that had the required resources to implement our suggested strategies in order to test our hypothesis. From these 432 companies, only 120 companies were willing to measure their level of engagement and to implement the suggested strategies for improving it. The 120 firms were grouped as 62 B2B and 58 B2C firms and as 52 manufacturing firms and 68 service firms. We measured the levels of both CE and EE at two different times (August 2013 and August 2014) for all the 120 companies in our sample. We did this to relate the difference in the components of the engagement scores to differences in performance measures and test our hypothesis.

To obtain measurements of engagement, we contacted the HR mangers of the 120 companies first in August 2013. The analysis for the survey was automated, and the companies received the final scores for each of their employees. The employees who participated in the survey were selected from all the major departments to create a representative sample. The average employee response rate across all companies in our sample was 67%, indicating that representativeness is not an issue. Each company sent a link for the customer survey to its customers, and the average customer response rate across all companies was 32%. Although this response rate is lower than that of the EE survey, we find it acceptable because it is higher than the normal response rate (e.g., 10%–20%; Aaker et al. 2012; Deutskens et al. 2004) for customer surveys. The average number of employees and the average number of customers across the four settings (B2B vs. B2C; manufacturing vs. service) exceeded 1,000. Furthermore, the comparison of descriptive statistics between nonrespondents and respondents among employees and customers provided confidence in our sample-based inferences. No significant deviations were observed between the nonrespondents and the respondents.

Most of the firms in the B2B category were multinational companies belonging to industries such as lightweight metals, technology, engineering, manufacturing parts, and chemicals. The B2B service companies included technology consulting services, computer hardware and software, maintenance services, data/call centers, marketing research and analytics firms, advertising agencies and media services, and others. In the B2C product scenario, the firms included mail-order retail companies and manufacturers of consumer products, electronics, furniture, and toys. The B2C service firms included mass media companies providing cable television, Internet, and/or telephone services; retail outlets; airlines; and rental businesses.

Table 3 provides the descriptive statistics on the average number of employees and customers surveyed, along with information on employee work experience and customer transaction duration. Because the engagement framework is a multidimensional framework, we do not create a single score for engagement, but, rather, we use the aggregate score of CE and EE to represent engagement in a firm. These scores are based on the number of questions in the questionnaire and the scale range of the items. The CE survey has 16 questions measured on a five-point Likert scale, so the score can range from 16 (16×1) to 80 (16×5). Similarly, the EE score ranges from 20 to 100 because its survey contains 20 questions measured on a five-point Likert scale. Although engagement is a continuous measure, in line with the preferences of the companies participating in the study, we present the scores as quartile classifications for ease of interpretation.

A score of 16–31 on CE and a score of 20–39 on EE indicate the lowest levels of engagement (which we call "disengaged") and imply that a firm needs to focus on enhancing every measure of CE and EE. Scores of 32–47 on CE scale and 40–59 on EE (which we call "somewhat engaged") indicate that customers and employees are relatively less engaged with a firm and that some of the factors of CE and EE require immediate attention. Scores of 48–63 on CE and 60–79 on EE (which we call "moderately engaged") represent a moderate level of CE and EE and indicate that although a firm's overall engagement is sufficient for smooth functioning of the organization, there is room for improvement in all aspects. Scores of 64–80 on CE and 80–100 on EE (which we call "superengaged") are the highest scores, which every firm should strive to achieve. They indicate that a firm has followed all the best practices, and its performance on EE and CE is at its peak. We sort scores into four categories on the basis of levels of CE and EE (the average scores are provided in Table 3): High–High (high on both CE and EE), High–Low (high on CE and low on EE), Low–High (low on CE and high on EE), and Low–Low (low on both CE and EE).

Given the various theoretical discussions on customer and employee engagement in our literature review and conceptual framework sections, we suggest specific strategies to help the companies in our study improve their levels of CE and EE and thus realize gains in performance.

High–High (High CE and EE) Segment

A firm should, ideally, strive to be in the High–High segment. This type of firm always works toward the best interests of its customers and employees. The employees of these firms perform to the best of their ability to deliver the organizational values to customers. The profits of such firms are expected to be higher than the profits of other firms in the industry that do not engage both customers and employees. As stated earlier, a firm benefits from being engaged with both its customers and its employees because employees contribute to firm profits through reduced cost and increased efficiencies (Kumar and Pansari 2015), and customers contribute through purchases, incentivized referrals, social media influence, and customer feedback and knowledge (Kumar 2013). Furthermore, if employees are engaged, it contributes to firm performance directly, as well as indirectly, through influencing customer engagement. Thus, firms that are high on both CE and EE have the opportunity to realize the highest level of performance. Such firms should focus on retaining their existing employees and customers, to reap the long-term benefits of engagement (Bersin 2015).

High–Low (High CE, Low EE) Segment

Firms in the High–Low segment utilize all their resources to maximize customer engagement by increasing their customer purchases, capitalizing on their referrals, optimizing their customer influence, and implementing

Table 3

IMPLEMENTING ENGAGEMENT: DESCRIPTIVE MEASURES FOR THE SURVEY DATA (AVERAGES OVER TWO TIME PERIODS)

Type of Firm and Time Period	*CE per Firm*	*EE per Firm*	*Employee Empowerment per Firm*	*Number of Employees per Firm*	*Years of Work Experience per Firm*	*Number of Customers per Firm*	*Number of Years Customers Transacted with the Company*	*Revenue Change per Firm*	*Profit Change per Firm*
B2B Manufacturing				1,122	8.1	596	6.1	+8.2%	+23.8%
T1	36	32	6.4						
T2	48	44	9.1						
B2B Service				1,304	7.7	722	7.2	–5.2%	–8.1%
T1	50	60	7.2						
T2	43	52	7.1						
B2C Manufacturing				1,286	4.9	1,816	5.4	+3.4%	+9.2%
T1	55	60	6.6						
T2	62	67	6.9						
B2C Service				1,461	5.6	1,604	3.2	+5.6%	+5.4%
T1	35	36	5.5						
T2	41	40	5.7						

their customer feedback and suggestions. The customers of these firms are completely engaged with the firm. Although these firms can be profit-making units, their profit potential might not be fully realized, in that they would have to incur expenses to regularly train their employees (partly due to attrition) to keep them motivated to perform their roles and responsibilities. Such firms should aim to move toward higher levels of EE by focusing on their employees. The managers should identify focal areas of employee development that require their immediate attention. The EE scale can help managers understand which aspects of EE are low, and they can then take appropriate actions for improvement. For example, if its employees are not satisfied, a firm could either assign work duties and responsibilities that correspond better with the skill sets of employees or provide continuous feedback to mentor its employees. Similarly, if employees do not identify with the company, the organization could provide mentorships and idea development programs in addition to reinforcing the organizational culture and values (Kumar and Pansari 2014). Such activities would help the firm improve their EE score.

Low–High (Low CE, High EE) Segment

Firms in this segment typically focus on their employees but not on their customers. If a firm keeps investing in its employees without focusing on its customers, it might not be able to sustain its performance. One would not expect many firms in today's marketplace to fall into this category; however, for the few firms that do, managers should identify the focal areas of CE that require their immediate attention. This can be done by using the insights from our CE measurement, which can help firms understand which of the CE components they are lacking in. For example, if a firm is lacking in customer purchases due to lower cross-buy, it should ensure that it identifies and targets its customers who exhibit a potential to buy across more categories through evaluating past buying behavior, customer, and product characteristics. This would help the firm ensure that its overall CE also improves. Alternatively, if CE is low due to customers not referring the firm, appropriate incentive structure should be developed in the referral program. If the company does not have a referral program, it should think about starting one.

Low–Low (Low CE and EE) Segment

For firms in this segment, strategies are not geared toward profit improvement because both CE and EE are low. Given the typical resource constraints of firms, these firms should strive to improve contribution from customers first because it would help to improve profits, which then could be invested in the firms' employees. Firms should use the CE and EE measurements to obtain insights on the aspects in which they are lacking. For example, if a firm's customers are not talking about the firm on social media or offline (word of mouth), then the firm should invest in providing excellent service, offer referral incentives, and foster a relationship with customers, such that customers would discuss and/or recommend the firm among their friends and relatives. However, if the customers are not providing feedback to the firm on its products or services, then the firm should give its customers a choice of various feedback mechanisms (phone, e-mail, social media), acknowledge feedbacks, and provide rewards for the feedbacks implemented (Kumar et al. 2010). These activities would help improve CE.

Similarly, if a firm identifies that its employees are not committed or loyal to the organization, it could review employees' work environment and performance incentives/rewards/benefits structure to ensure that those factors do a good job of assuring employees that both their presence and their contributions are duly valued by the firm. In addition, the firm can undertake initiatives to convey the organizational goal, mission, and vision effectively to employees in a way that they begin to feel a sense of commitment to the organization's cause and purpose (Kumar and Pansari 2014).

For employees who score low on loyalty, the firm can assist them in updating their knowledge and skills and present them with avenues for their individual growth. Organizations can also attempt to extend their relationships with employees beyond the work sphere by sponsoring initiatives and extracurricular activities that foster inclusion and participation of employees' families (Kumar and Pansari 2015). These actions can help improve the level of engagement among a firm's employees.

In our study, after these suggested strategies were implemented for one year by the participating firms, we conducted another survey to measure and compare the levels of engagement. The same procedure of data collection from the first study was used for the second study. The average scores on CE and EE over the two time periods, along with the incremental performance in revenues and net income over this two-year period, are provided in Table 3. The data show that as engagement scores improve, firm performance also improves, indicating the usefulness of the recommended strategies.

We conduct a formal analysis to test the all of the proposed hypotheses. We test $H_{1–4}$ using the models specified in Equations 1–4 and the remaining hypotheses with models specified in Equations 5–8. We use a hierarchical linear regression model specification wherein the top level model relates mainly to EE, employee empowerment, and the interaction of EE and employee empowerment with CE. In the second level, the response coefficients for EE and the interaction effect are specified as a function of whether the firm is a B2B or B2C firm and whether it is a manufacturing or service firm. The data for firm performance (revenue and net income) were collected from the annual reports of the companies, thereby serving as objective measures of performance.

An expansion of the economy (higher GDP) would be equivalent with a higher average income (Blanchard 2006) and thus a higher average consumer budget (Frank and Enkawa 2008), which would lead to higher consumer purchases and better firm performance. Therefore, we control for the growth in the economy over the period of our study using the GDP values for the two time periods. In order to account for unobserved fixed effects, we specify a difference model. Thus, the difference model captures the effect of changes in the input measures to the changes in the output measures. The model specifications are as follows:

(1) $$\Delta CE_i = \alpha_0 + \alpha_{1i}\Delta EE_i + \alpha_2\Delta EEmp_i + \alpha_{3i}\Delta EE_i \times \Delta EEmp_i + \alpha_4\Delta GDP + \epsilon_{0i};$$

(2a) $$\alpha_{1i} = \beta_0 + \beta_1 B2B_i + \beta_2 Service_i + \epsilon_1;$$

(2b) $$\alpha_{3i} = \gamma_o + \gamma_1 B2B_i + \gamma_2 Service_i + \epsilon_2;$$

(3) $$\Delta CE_i = \alpha_0 + (\beta_0 + \beta_1 B2B_i + \beta_2 Service_i)\Delta EE_i + \alpha_2\Delta EEmp_i + (\gamma_o + \gamma_1 B2B_i + \gamma_2 Service_i)\Delta EE_i \times \Delta EEmp_i + \alpha_4\Delta GDP + \varepsilon_i; \text{ and}$$

(4) $$\Delta CE_i = \alpha_0 + \beta_0\Delta EE_i + \beta_1 B2B_i \times \Delta EE_i + \beta_2 Service_i \times \Delta EE_i + \alpha_2\Delta EEmp_i + \gamma_o\Delta EE_i \times \Delta EEmp_i + \gamma_1 B2B_i \times \Delta EE_i \times \Delta EEmp_i + \gamma_2 Service_i \times \Delta EE_i \times \Delta EEmp_i + \alpha_4\Delta GDP + \epsilon_i.$$

Similar to the CE model, we specify a hierarchical linear model and then estimate a difference model for measuring the effect of engagement on performance. The model specifications are as follows:

(5) $$\Delta Performance_i = \delta_1 + \delta_{2i}\Delta CE_i + \delta_{3i}\Delta EE_i + \delta_4\Delta GDP + \mu_{0i};$$

(6a) $$\delta_{2i} = \tau_0 + \tau_1 B2B_i + \tau_2 Service_i + \vartheta_2;$$

(6b) $$\delta_{3i} = \rho_0 + \rho_1 B2B_i + \rho_2 Service_i + \vartheta_3;$$

(7) $$\Delta Performance_i = \delta_1 + (\tau_0 + \tau_1 B2B_i + \tau_2 Service_i)\Delta CE_i + (\rho_0 + \rho_1 B2B_i + \rho_2 Service_i)\Delta EE_i + \delta_4\Delta GDP + \mu_i; \text{ and}$$

(8) $$\Delta Performance_i = \delta_1 + \tau_0\Delta CE_i + \tau_1 B2B_i \times \Delta CE_i + \tau_2 Service_i \times \Delta CE_i + \rho_0 \times \Delta EE_i + \rho_1 B2B_i \times \Delta EE_i + \rho_2 Service_i \times \Delta EE_i + \delta_4\Delta GDP + \mu_i,$$

where

- $Performance_{t-1}$ = performance of the firm in the previous year, reflecting measures of both net income and revenue;
- ΔEE_i = change in EE between time t − 1 and time t for firm i;
- ΔCE_i = change in CE between time t − 1 and time t for firm i;
- $\Delta EEmp_i$ = change in employee empowerment between time t − 1 and time t for firm i;
- ΔGDP = change in GDP between time t − 1 and time t;
- $B2B_i$ = 1 if firm i is a B2B firm and 0 if it is a B2C firm;
- $Service_i$ = 1 if firm i is a service firm and 0 if it is a manufacturing firm; and
- ϵ_i and μ_i = error terms in the respective models.

The models were estimated in SAS version 9.4. The residuals were checked for heteroskedasticity and corrected using the appropriate weights (Proc GLM) to obtain the relevant parameter estimates. As expected, the coefficients for all the proposed relationships were positive and significant. Table 4 displays the coefficient values along with their standard errors and levels of significance.

In the CE model (in which we analyze the effect of EE and employee empowerment on CE), after we control for economic growth, B2B vs. B2C, and manufacturing vs. service, the effect of EE on CE is significant (β_0 = .510; $p < .001$), and the effect of the interaction between EE and employee empowerment on CE is also significant (γ_0 = .401; $p < .001$). Furthermore, the effects of both EE and employee empowerment on CE vary depending on whether the firm is B2B or B2C and whether it is a manufacturing or service firm. In other words, the interaction of EE with employee empowerment is stronger for B2B (vs. B2C; β_1 = .162; $p < .005$) and service (vs. manufacturing; β_2 = .194; $p < .001$) firms. These results support H_{1-4}.

In the performance model, we analyze the effect of CE and EE on firm performance, after controlling for economic growth, B2B vs. B2C, and manufacturing vs. service. The effects of CE and EE are significant in both the models (revenue and net income) of performance (adjusted R^2 = .61 and .60 for CE and EE, respectively). In this model, the

Table 4

STANDARDIZED PARAMETER ESTIMATES FOR LINKING EMPLOYEE ENGAGEMENT TO CUSTOMER ENGAGEMENT AND ENGAGEMENT TO PERFORMANCE

	Effect of EE on CE			*Effect of Engagement on Performance*			
Variable	*Increase in Customer Engagement*[a]	*Hypothesis*	*Supported?*	*Increase in Revenue*	*Increase in Net Income*	*Hypothesis*	*Supported?*
ΔEE	.510***	H_1	Yes	.377***	.352***	H_8	Yes
ΔCE	N.A.			.631***	.622***	H_5	Yes
ΔEEmp	.198***			N.A.	N.A.		
ΔGDP	.203**			.217**	.196**		
ΔEE × B2B	.162**	H_4	Yes	.108**	.136**	H_{10}	Yes
ΔCE × B2B	N.A.			.241***	.262***	H_7	Yes
ΔEE × Service	.194**	H_3	Yes	.142**	.149**	H_9	Yes
ΔCE × Service	N.A.			.281***	.302***	H_6	Yes
ΔEEmp × ΔEE	.401***	H_2	Yes	N.A.	N.A.		
ΔEEmp × ΔEE × B2B	.138**			N.A.	N.A.		
ΔEEmp × ΔEE × Service	.171**			N.A.	N.A.		
Adjusted R^2	.52			.61	.60		

[a]H_{11} is also supported when tested using the constrained F-test.
**$p < .05$.
***$p < .001$.
Notes: N.A. = not applicable.

effect of CE on revenue and net income ($\tau_0 = 0.631$ and .622, respectively; both $p < .001$) is stronger than the respective effect of EE ($\rho_0 = 0.377$ and .352, respectively; both $p < .001$). This result is expected because customer purchases and actual referrals are two of the major contributors toward firms' revenue and net income. Furthermore, the interaction variables of CE and EE with B2B and service firms are also significant, as can be seen in Table 4. In addition, CE and EE positively affect firm performance, and the magnitude of the effect of CE is greater than the magnitude of the effect of EE. These results support H_{5-11}. In response to a suggestion of the review team, we also tested the interaction of EE and CE with performance measures; we found the effects to be positive but not significant in this study.

DISCUSSION

In this study, we offer a framework that firms can use to evaluate the engagement of their customers and employees. Our study also provides a strong theoretical rationale and empirical evidence for the positive impact of high engagement scores on firm performance. Although we argue specifically for the effect of engagement on firm performance, the process should be continuous to include the feedback loop of firm performance affecting branding activities and employee training interventions to make the implementation of engagement sustainable. Our study highlights the fact that a firm's levels of engagement can be improved by identifying implementing relevant strategies. The scales measuring CE and EE help firms to allocate their resources only to those components that need immediate attention, according to their scores.

The engagement framework is effective even in a recessional economy. Firms can ensure sustained profits if both their customers and employees are engaged. In a recessional period, firms face budgetary challenges that significantly affect their marketing plans, which affect their levels of brand awareness and adoption. During this period, firms can mitigate the risks posed by the dents in their marketing budgets if they have a highly engaged employee base that promotes the firm's brand and its products/services to its customers. This strategy would ensure delivery of a superior customer experience, thereby increasing customer purchases, influence, and referrals—all without any additional marketing investments.

To make the implementation of the engagement framework sustainable, we need to understand a firm's perspective of engaging both the customers and the employees. The engagement framework can help firms understand what the customers and employees think of the firm. This can help a firm design its orientation in the long run. Orientation of a firm reflects the organizational culture and determines the firm-level interactions with customers and competitors (Noble, Sinha, and Kumar 2002). We conducted interviews in 2013 with middle-level and top-level managers who had decision-making power in their organizations, to investigate whether there is an expectation of a new orientation in the field of marketing (details in the Appendix). The managerial interviews focused on answering the following questions:

1. Is the firm following a specific strategic orientation?
2. If so, what orientation is it following?
3. How long has it been following this orientation?
4. What are the expected benefits of the orientation?
5. What are the realized benefits of the orientation?
6. Is the firm considering a different orientation to get ahead in building a sustainable competitive advantage?

Our discussions with the managers highlighted the need for a new strategic orientation that would focus not only on customers but also on employees. They further helped us understand that the marketplace is ready to embrace the next orientation, which could embed the engagement framework. There have been many orientations in the field of marketing, which have evolved according to the needs of the market, ranging from selling orientation to interaction orientation. The most recent popular orientation, market orientation (Kohli and Jaworski 1990), emphasizes a need for customer focus by the complete organization and how knowledge is gained and disseminated throughout the organization to deliver superior customer value. It has been more than two decades since market orientation was conceptualized. Markets and organizational goals have changed a great deal since then, and the effects of market orientation on performance have faded over time (Kumar et al. 2011).

Although the previous orientations in marketing, such as market orientation (Kohli and Jaworski 1990) and interaction orientation (Ramani and Kumar 2008), have focused on the customers of the firm and the internal process of the organization, they have not focused on the different sustainable strategies of engaging both customers and employees. Therefore, we think the strategy of engagement could be a useful orientation for further research in that it would reflect customers' and employees' levels of connectedness with the firm and with one another. We suggest this new orientation could be termed "engagement orientation," and we define it as the process of embedding engagement in the organization as a policy decision and ensuring that all strategies of the organization focus on engaging the customers and the employees, along with value maximization for all stakeholders.

SCOPE FOR FURTHER RESEARCH

Using data from longer time periods, further research should focus on the time-varying effect of engagement on firm performance because it could provide additional insights into the effect of the engagement framework on performance after implementation of the recommended strategies. Furthermore, it would be useful to see how the items used to measure the proposed construct in our study apply to different countries and continents; the culture of a country could play a prominent role in the way customers and employees engage with a firm. Depending on the nature of the industry and the type of the firm, the relative impact of the components of CE and EE on performance could vary. Therefore, further research can focus on understanding the relative impacts of the individual components of CE and EE on firm performance. This would require a larger sample of companies across industries and types of firm. The results from this study would help firms reallocate their resources efficiently among the components of CE and EE.[6]

[6]We thank the participants at the 2015 research camp at Dartmouth College for these suggestions.

It would be worthwhile to investigate the impact of the engagement framework in nonprofit organizations (e.g., employee and donor engagement), which could help to increase volunteer participation and also ensure that employees stay enthused and committed to an organization's cause of raising funds. Finally, understanding the consequences of the engagement orientation on the different facets of firm operations such as innovation and new product development would also add to the knowledge base of marketing academics and practitioners.

APPENDIX

We conducted interviews in 2013 with middle-level and top-level managers who had decision-making power in their organizations, to investigate whether there was an expectation of a new orientation in the field of marketing as a next possible step. These managers were from both B2B and B2C firms across the globe. We obtained a list of possible interview contacts through the executive development programs conducted by various universities. We attempted to contact each manager at least three times before pursuing the next contact. In all, we interviewed 26 managers in North America, 8 in South America, 14 in Europe, 10 in Asia, and 6 in South Africa. This total comprised 34 B2B managers and 30 B2C managers. We conducted open-ended, unstructured interviews, each lasting for 30–40 minutes. Almost 50% of the interviews were conducted over the phone; for the rest, the authors traveled to conduct them in person.

Because we had interviewed managers across different industries, the nature of the industry played an important role in the responses we received. In industries in which firms collected customer-level data, the focus was on customer-level strategies. In our sample, about 40% of firms focused on market orientation, 40% focused on customer orientation or interaction orientation, and the remaining 20% focused on innovation orientation because the industries they belonged to focused on mass markets. However, in the past five years, with the advent of virtual markets and social media, about 80% of interviewed firms wanted to incorporate social media and virtual markets into their existing strategies. It is surprising to note, however, that 50% of the firms had not changed their strategic orientation over the past 10 years, and only 30% of the firms were moving with the trend of the market and had been following their existing orientation for five or fewer years. Nevertheless, more than 75% of the firms were looking for a new orientation that would help them not only with sustained profitability but also with gaining a competitive advantage.

When we asked managers about the changes they wanted in their organizations, about 60% noted that they would like their employees to be better trained and more motivated. They also wanted to ensure higher employee retention because trained employees ensure that customers receive the best service experience, and hiring and training new employees is time consuming. They advocated empowering employees with authority to make critical decisions to ensure a consistent, efficient, and smooth product quality/service environment throughout the company. One manager from a leading multinational company commented, "Just like customers, retaining productive employees is more beneficial than hiring new employees." More than 70% of the managers also observed that employees of the firm are the key resources for the smooth functioning of the firm and for achieving its goal of maximizing profitability. Many also observed that engaging customers and employees has been the point of discussion in recent press reports and that their potential benefits to firms have been highlighted extensively. Thus, they would also like to formulate strategies that could help them adapt the culture of engaging both customers and employees.

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