A CONTENT ANALYSIS OF CUSTOMER SATISFACTION IN ANNUAL REPORTS

Michael A. Jones, University of Tennessee at Chattanooga

ABSTRACT

Despite research investigating the dissemination of customer satisfaction information within the firm and calls for companies to communicate customer satisfaction information to its stakeholders, the dissemination of customer satisfaction information to external publics has not been investigated. This research addresses this issue by investigating the occurrence of customer satisfaction measurement results in the letter to shareholders section of the corporate annual report using a sample of both product and service industries. The results indicate that quantitative customer satisfaction results are rarely included in the letter to shareholders and many letters fail to even mention customer satisfaction. The results and implications of this research are discussed as well as areas for future research.

INTRODUCTION

One of the most essential goals of all companies is to satisfy its customers (Fornell 1992; Morgan, Anderson, and Mittal 2005; Oliver 1997). As a result, customer satisfaction research is often a firm's largest annual expenditure on market intelligence (Morgan et al. 2005; Wilson 2002). Customer satisfaction can be defined as an overall evaluation of performance based on all prior experiences with a firm (Anderson, Fornell, and Lehmann 1994; Fornell 1992) and has been linked to a firm's overall performance and health (e.g., Anderson et al. 1994; Anderson, Fornell, and Mazvancheryl 2004; Gruca and Rego 2005; Ittner and Larcker 1998).

A critical component of a company's successful usage of customer satisfaction information is the effective dissemination of this information (Maltz and Kohli 1996; Menon and Varadarajan 1992; Morgan et al. 2005). While the dissemination of customer satisfaction information has been empirically addressed, research to date has been limited to the dissemination of customer satisfaction information *within* the firm. For example, the results from a recent study indicate that 86 percent of firms disseminate satisfaction results upward to senior managers, 62 percent disseminate customer satisfaction results downward to frontline employees, and 68 percent disseminate customer satisfaction results horizontally to other departments (Morgan et al. 2005). Researchers in a variety of disciplines, however, have been calling for measures of customer satisfaction and other intangible assets to be disseminated to shareholders and other groups external to the firm (Eccles 1991; Fox 1996; Karlgaard 1997; Lev 2004). In fact, Lev (2004, p. 109) states "companies need to generate better information about their investments in intangibles and the benefits that flow from them—and then disclose at least some of that information to the capital markets. Doing so will both improve managerial decisions and give investors a sharper picture of the company and its performance."

Despite research investigating the dissemination of customer satisfaction information within the firm and calls for companies to communicate customer satisfaction information to shareholders and other stakeholders, the dissemination of customer satisfaction information to external publics has not been systematically investigated. Disseminating customer satisfaction measurement results to shareholders and other stakeholders is important since this information supplements financial results in providing a more complete assessment of a firm's past and future performance. This research addresses this issue by investigating the occurrence of customer satisfaction measurement results (as well as measures of customer loyalty and customer retention) in the letter to shareholders section of the annual report. The findings from this study provide an initial assessment of the role and relative importance customer satisfaction plays in upper management's discussion of a company's past and future performance.

BACKGROUND AND RESEARCH QUESTIONS

While much of the early work on customer satisfaction focused on its measurement, antecedents, and behavioral consequences (see Szymanski and Henard 2001, and Yi 1991 for comprehensive reviews), recent research has investigated the influence of customer satisfaction on broader firm level outcomes. For example, Anderson et al. (1994) found a positive relationship between customer satisfaction and return on investment. In one of the most comprehensive investigations to date, Ittner and Larcker (1998) report the results of three different studies linking satisfaction and financial performance. In this study, they find that customer satisfaction is positively related to customer purchase behavior (including retention, revenue, and revenue growth), growth in the number of customers, and accounting performance (as measured by business-unit revenues, profit margins, and return on sales). Anderson et al. (2004) found a positive relationship between customer satisfaction and shareholder value (as measured by Tobin's q), equity prices, and ratios of price to book value. Similarly, Gruca and Rego (2005) linked customer satisfaction and shareholder value by showing that customer satisfaction increases future cash flows while reducing the variability of these future cash flows. In one final example, Fornell et al. (2006) found that customer satisfaction ratings are significantly related to the market value of a firm's equity. In fact, the results from Fornell et al. (2006) indicate that firms that satisfy their customers better than competitors generate superior returns with lower levels of systematic risk. Overall, this stream of research demonstrates the important role customer satisfaction plays in the overall performance of the firm.

Accompanying this research linking satisfaction to financial performance has been a broader investigation of alternative methods of measuring overall company performance. Increasingly, researchers are acknowledging the deficiencies of traditional measures of financial performance in evaluating overall business performance (cf., Eccles 1991; Kaplan and Norton 1992; Lev 2004). Examples of alternative measures of business performance include intangible assets such as research and development, patents, human resources, and, central to the current study, customer satisfaction. Despite the fact that intangible assets typically drive most of the growth in corporate revenue and shareholder value, these intangible assets are typically poorly communicated to shareholders and other interested parties (Eccles 1991; Fox 1996; Karlgaard 1997; Lev 2004).

This research investigates the dissemination of customer satisfaction results in the corporate annual report, as the annual report is the primary document used by public companies to communicate with shareholders and other interested parties including the media, investment community, and employees (Hawkins and Hawkins 1986; Judd and Tims 1991; U.S. Securities and Exchange Commission 2006). The annual report to shareholders consists of a number of both voluntary and required disclosures (Fraser and Ormiston 2004; Stanko and Zeller 2003). Required disclosures include areas such as management's discussion and analysis (MD&A), statement of income, statement of financial position, and notes to financial statements. The presentation of material in these sections is heavily regulated and subject to audits. Voluntary disclosures typically include areas such as financial highlights, statement of company mission, and the letter to shareholders.

The current study focuses on the information presented in the letter to shareholders section of the annual report. The letter to shareholders contains the Chief Executive Officer's or President's review of the previous year's business, as well as forward looking information on the year(s) to come. Given the critical role customer satisfaction plays in the company's profitability and overall shareholder value (e.g., Anderson et al. 2004; Anderson et al. 1994; Gruca and Rego 2005; Ittner and Larcker 1998), it is expected that information on customer satisfaction would be included in the letter to shareholders to provide shareholders a more complete review of the firm's current and future health. Customer satisfaction information should also be included in the letter to shareholders since the letter represents an important effort by the company's CEO or President to communicate the firm's strategy to shareholders and other interested parties (Diffenbach and Higgins 1987). In fact, the communication of customer satisfaction by the CEO or President is critical since implementing the marketing concept and creating customer-oriented values is ultimately the responsibility of a firm's top management (Levitt 1969; Webster 1988). In summary, one would expect customer satisfaction information to be contained in the letter to shareholders given satisfaction's role in the financial performance of a company and the opportunity for the CEO to communicate the firm's strategic focus on the customer. This issue, however, has not been systematically investigated.

Based on the preceding discussion, the primary question this research addresses is "How prevalent are quantitative customer satisfaction measurement results in the letter to shareholders section of the annual report?" As a means for comparison, this research will compare the frequency of customer satisfaction measurement information in the letter to shareholders with the frequency of three common financial metrics (revenue, net income, and earnings per share). This comparison will help determine the importance upper management places on customer satisfaction relative to common financial measures.

Overall, previous research provides mixed evidence for determining if customer satisfaction is likely to appear more often in annual reports of product industries when compared to service industries. For example, Anderson (1994) found that the influence of customer satisfaction on repurchase intentions was higher for products than for services, suggesting that customer satisfaction is more important to product industries relative to service industries. Conversely, Szymanksi and Henard (2001) found the relationship between satisfaction and repurchase intentions to be weaker for products when compared to services. Therefore, another research question addressed in this research is as follows: "Is there a significant difference in the occurrence of customer satisfaction measurement results in the annual reports of product industries when compared to service industries?"

Another research question this study addresses is as follows: "Is there a significant relationship between the inclusion of customer satisfaction measurement results in the annual report and overall financial performance?" While research has linked increased customer satisfaction scores with higher financial performance (e.g., Gruca and Rego 2005; Anderson et al. 2004; Anderson et al. 1994), this research addresses the issue of whether including customer satisfaction information in the annual report signals information regarding the overall financial performance of the firm. Previous research has found a relationship between the use of customer satisfaction information and the company's strategic priorities (Morgan et al. 2005; Piercy 1996). Therefore, including customer satisfaction information in the letter to shareholders could serve as an indicator that the firm's overall strategy and culture is more customer or market oriented, and previous research supports a positive relationship between market orientation and business performance (Narver and Slater 1990; Slater and Narver 2000).

Customer retention reflects the percentage of customers that are retained over a given period of time, while customer loyalty represents a customer's deeply held commitment to a specific brand or a particular retailer (Oliver, 1999). Customer satisfaction is considered a critical antecedent to both customer loyalty and customer retention (Oliver 1999; Szymanski and Henard 2001), and customer loyalty and customer retention are considered key drivers of profitability (Loveman 1998; Reichheld 1996). In order to determine if companies are including quantitative measures of the closely related outcomes of customer loyalty and/or retention in addition to or in place of satisfaction, this research also investigates the prevalence of customer loyalty and retention measurement data in the letter to shareholders section of the annual report. In summary, this research addresses the following research questions:

RQ1: How prevalent are quantitative customer satisfaction measurement results in the letter to shareholders section of the annual report?

RQ2: Is there a significant difference in the occurrence of customer satisfaction measurement results in the annual reports of product industries when compared to service industries?

RQ3: Is there a significant relationship between the inclusion of customer satisfaction information in the annual report and overall financial performance?

RQ4: How prevalent are quantitative measures of customer loyalty and customer retention in the letter to shareholders section of the annual report?

METHOD

This study investigated the research questions using content analysis. Content analysis is an observational research method used to systematically evaluate the content of recorded communications (Kassarjian 1977). The 2005 *Fortune* 1000 list by industry was used as a starting point for the selection of companies. Several issues guided the choice of companies and industries to be included in the analysis. Since the focus of the study is customer satisfaction and since previous research linking satisfaction with financial performance has focused primarily on the end consumer (e.g., Anderson et al. 2004; Fornell et al. 2006; Gruca and Rego 2005), only industries focused on end consumers were included. In addition, specific industries were selected since one of the research objectives was to determine if there were differences across product and service industries, and since another research objective was to determine if there is a relationship between including information on customer satisfaction in the annual report and financial performance. Testing the financial performance across firms required investigating the relationship within industries to control for cross-industry differences. Furthermore, industries with less than 10 companies included in the *Fortune* 1000 were not included so that sufficient data could be generated within each industry. Only annual reports were included in the analysis. Some companies choose to send the 10 K report to shareholders instead of a separate annual report. Therefore, if a company used the 10 K only then it was excluded from the analysis since the 10 K follows strict Securities and Exchange Commission guidelines and does not include a letter to shareholders (Stanko and Zeller 2003).

Based on the preceding qualifications, two consumer product industries and two consumer service industries were randomly selected from the 2005 *Fortune*1000 industry list. The two product industries selected were household and personal products, and consumer food products. The household and personal products industry included 13 firms with approximately $120 billion in revenue, and the consumer food products industry included 18 firms with approximately $155 billion in revenue. The two service industries selected were commercial banks, and food service. The commercial bank industry included 34 companies representing approximately $433 billion in revenue and the food service industry included 11 companies with approximately $57 billion in revenue. Therefore, the sample included a total of 31 product firms and 45 service firms. Annual reports were not available for two companies (one company filed for bankruptcy and the other went private) so they were not included in the study. A list of all companies included in the analysis is presented in Table 1. The 76 letters to shareholders reflected a total of 306 pages of text.

Table 1

List of Companies

Products		**Services**	
Household and Personal Products	**Food Consumer Products**	**Commercial Banks**	**Food Service**
Proctor and Gamble	Pepsico	Citigroup	McDonald's
Kimberly-Clark	Sara Lee	Bank of America	Yum Brands
Colgate-Palmolive	Conagra Foods	JPMorgan Chase	Starbucks
Gillette	General Mills	Wells Fargo	Darden Restaurants
Avon Products	Dean Foods	Wachovia	Brinker International
Estee Lauder	Smithfield Foods	U.S. Bancorp	Wendy's International
Clorox	Kellogg	MBNA	Outback Steakhouse
Alberto-Culver	H.J. Heinz	Capital One	CBRL Group
Stanley Works	Land O'Lakes	National City	Jack in the Box
Energizer Holdings	Campbell Soup	SunTrust	CKE Restaurants
Blyth	Hormel Foods	Bank of New York	Domino's Pizza
Church and Dwight	Hershey Foods	BB&T	
Rayovac	Wm. Wrigley Jr.	Fifth Third	
	Del Monte Foods	PNC	
	McCormick	State Street	
	Ralcorp Holdings	KeyCorp	
	Flowers Foods	Mellon Financial	
	J.M. Smucker	Regions	

M&T Bank Corp
AmSouth
Marshall & Ilsley
Comerica
Northern Trust
Popular
Providian
First Horizon
Synovus
Huntington
Zions
Compass
North Fork
Commerce
TD Banknorth
Hibernia

The original coding scheme was to code each of the concepts into one of the following three categories: "there is no discussion of the concept in the letter," "the concept is discussed but only qualitatively," and "the concept is discussed qualitatively and a quantitative measure is provided." During the practice coding of example annual reports, which were not included in the final sample, the coding scheme for the satisfaction variable was expanded. It became apparent during this pre-coding process that the three categories were sufficient for coding most concepts (i.e., revenue, net income, earnings per share, customer loyalty, and customer retention), but did not capture the richness of the treatment of customer satisfaction in the annual report. Specifically, a number of annual reports did not mention customer satisfaction explicitly, but satisfaction was implied in the discussion of other concepts. For example, some firms mentioned focusing on meeting customer needs, while others stressed the importance of providing a wonderful customer experience. Statements such as these clearly imply a focus on satisfying customers without specifically mentioning it. In addition, another category was created to reflect the fact that some letters provided a reference to customer satisfaction measurement, but did not actually report a quantitative measure. Therefore, satisfaction was coded into one of the following five categories: "satisfaction is not mentioned and it is not implied," "satisfaction is not mentioned but it is implied," "satisfaction is mentioned but only qualitatively and there is no reference to satisfaction measurement," "satisfaction and its measurement is discussed qualitatively but no quantitative measure is provided," and "satisfaction is discussed qualitatively and a quantitative measure is provided." These categories and example excerpts from actual letters to shareholders are provided in Table 2. To provide an additional measure of the prevalence of customer satisfaction discussion in letters to shareholders, the number of times "satisfaction" (including "satisfying" or "satisfied") was mentioned was also coded. References to satisfaction other than consumer satisfaction (i.e., management satisfaction with revenue or growth) were not included.

Table 2
Results for Customer Satisfaction

Satisfaction Categories	% of Annual Reports		Example Excerpts
	Products	Services	
Satisfaction is Not Mentioned and It is Not Implied	25.8	26.7	
Satisfaction is Not Mentioned but Satisfaction is Implied	64.5	40.0	"we intend to continue to surprise and delight our customers with new offerings" (Starbucks) "it also increases our effectiveness at defining and meeting needs and wants of consumers" (Sara Lee)
Satisfaction is Mentioned but Only Qualitatively	6.5	15.6	"We must consistently create a relevant and satisfying customer experience—every customer, every visit" (McDonalds) "All in all, significant progress toward achiev- ing our vision of satisfying all our customers' financial needs and helping them succeed financially" (Wells Fargo)
Satisfaction and its Measurement is Mentioned but No Quantitative Measure is Provided	0.0	6.7	"we use an outside research firm to survey our clients and the clients of our competitors to determine client service satisfaction levels" (BB&T) "In addition, customer satisfaction ratings continue to improve" (Huntington)
Satisfaction is Discussed and a Quantitative Measure of Satisfaction is Provided	3.2	11.1	"In addition to stronger sales, its consistent use pushed up client satisfaction scores to 8.80, on average—ever closer to MFG's goal of a 'perfect 10." (KeyCorp) "Between June and December, customers in the Northeast who rated their experience in the banking centers a 9 or 10 on a 10-point scale increased from 51% to 61%." (Bank of America)

Two coders, neither one being the author of this article, independently coded each of the letters to shareholders. The coders were thoroughly trained in the concepts and practiced on a set of ten letters to shareholders prior to the actual coding of letters included in the analysis. Perreault and Leigh's (1989) reliability index was calculated for each concept to assess the reliability of the judgments. Overall, the reliability indexes were high for all concepts coded, ranging from 93.2 percent to 100 percent. All discrepancies in coding were resolved through discussion so that 100 percent agreement was obtained.

RESULTS

The results for satisfaction are included in Table 2. As is indicated, slightly more than one quarter of the annual reports for both types of industries failed to discuss or imply customer satisfaction (products 25.8 percent and services 26.7 percent). A large percentage of both product (64.5 percent) and service industries (40.0 percent) did not discuss customer satisfaction specifically, but did imply a focus on customer satisfaction through a relevant discussion. A relatively small percentage of firms (6.5 percent of product companies and 15.6 percent of service companies) mentioned satisfaction qualitatively but did not discuss measuring it, and an even smaller percentage specifically mentioned satisfaction measurement yet did not include a quantitative measure (0.0 percent of product companies and 6.7 percent of service companies). Finally, only 3.2 percent of annual reports in the product industry and 11.1 percent of annual reports in service industries mentioned customer satisfaction and provided a quantitative measure of it.

Since this research focused on the inclusion of quantitative customer satisfaction results and since the small cell sizes across categories precluded the use of a chi-square analysis, a z test was used to determine if the proportions of firms that included a quantitative measure of satisfaction was significantly different across product and service industries. The results indicated that there was no significant difference in the proportions ($z = 1.26$, $p > 0.05$). Regarding the number of times "satisfaction" (or "satisfied" or "satisfying") was mentioned in the letter to shareholders, the results indicated that service firms included the term significantly more times (mean = 0.56) than product firms (mean = 0.13) ($z = 2.20$, $p < 0.05$).

The results for customer retention, customer loyalty, and financial measures are included in Table 3. As is indicated in Table 3, none of the product firms included a quantitative measure of customer retention or customer loyalty. For service firms, 2.2 percent of firms included a quantitative measure of customer retention, and 2.2 percent of firms included a quantitative measure of customer loyalty. Overall, slightly more annual reports included a qualitative discussion of customer retention (0.0 percent of product firms and 15.6 percent of service firms) and customer loyalty (9.7 percent of product firms and 11.1 percent of service firms). Again a z test was used to determine if the percentage of firms including a quantitative measure of customer retention or customer loyalty differed across industry type and there were no significant differences in these proportions (customer retention $z = -0.83$, $p > 0.05$; customer loyalty $z = -0.83$, $p > 0.05$).

Table 3

Results For Customer Retention, Customer Loyalty, and Financial Measures

	% of Annual Reports	
	Products	**Services**
Customer Retention		
Not Discussed	100.0	82.2
Discussed Qualitatively	0.0	15.6
Discussed Qualitatively and a Quantitative Measure is Provided	0.0	2.2
Customer Loyalty		
Not Discussed	90.3	86.7
Discussed Qualitatively	9.7	11.1
Discussed Qualitatively and a Quantitative Measure is Provided	0.0	2.2
Revenue		
Not Discussed	3.2	4.4
Discussed Qualitatively	3.2	6.7
Discussed Qualitatively and a Quantitative Measure is Provided	93.5	88.9
Net Income		
Not Discussed	12.9	13.3
Discussed Qualitatively	6.5	6.7
Discussed Qualitatively and a Quantitative Measure is Provided	80.6	80.0
Earnings Per Share		
Not Discussed	9.7	28.9
Discussed Qualitatively	3.2	2.2
Discussed Qualitatively and a Quantitative Measure is Provided	87.1	68.9

In terms of financial metrics, a large percentage of firms in both industries included a quantitative measure of revenue (93.5 percent of product firms and 88.9 percent of service firms), net income (80.6 percent of product firms and 80.0 percent of service firms) and earnings per share (87.1 percent of product firms and 68.9 percent of service firms). As is indicated in Table 3, very few firms provided a qualitative discussion only of revenue (products 3.2 percent and services 6.7 percent), net income (products 6.5 percent and services 6.7 percent), and earnings per share (products 3.2 percent and services 2.2 percent). Similarly, relatively few firms failed to mention these financial measures in the letter to shareholders (revenue—products 3.2 percent and services 4.4 percent; net income—products 12.9 percent and services 13.3 percent; earnings per share—products 9.7 percent and services 28.9 percent). There were no significant differences in the proportions of firms providing quantitative measures of revenue, net income, or earnings per share across product and service industries (revenue $z = 0.68$, $p > 0.05$; net income $z = 0.06$, $p > 0.05$; earnings per share $z = 1.83$, $p > 0.05$).

To investigate the research question regarding differences in the financial performance of companies relative to the discussion of customer satisfaction, the following financial measures were coded from data presented in the *Fortune* 1000 list: return on sales, return on assets, return on stockholders' equity, and the total return to shareholders for the previous ten years. Each of these financial measures was used as a dependent variable in ANOVA with the satisfaction categories serving as the independent variable. Due to the small cell sizes across the five categories of satisfaction, the five categories were collapsed into following three categories: no discussion of satisfaction and satisfaction is not implied, no discussion of satisfaction and satisfaction is implied, and satisfaction is discussed either qualitatively or quantitatively. Despite collapsing the categories, the cell sizes were extremely small for three of the four industries (household and personal products, food consumer products, and food service). Therefore, the investigation of customer satisfaction information and financial performance was conducted on the commercial bank sample only. These three categories resulted in approximately equal cell sizes across the categories for the commercial bank sample. As indicated in Table 4, there were no significant differences in any of the financial measures across the three satisfaction categories for commercial banks ($p > 0.05$).

Table 4
Financial Performance by Level of Satisfaction Discussion in the Annual Report for Commercial Banks

Dependent Variable	No Discussion of Satisfaction and Satisfaction is Not Implied (n = 11)	No Discussion of Satisfaction but Satisfaction is Implied (n = 12)	Satisfaction is Discussed Either Qualitatively and/or Quantitatively (n = 11)	F
Return on Sales	19.36	18.58	20.73	0.79
Return on Assets	1.38	1.41	1.73	0.79
Return on Equity	14.82	14.42	16.09	0.49
10 Yr. Return to Stockholders	22.36	20.27	19.18	1.18

DISCUSSION AND IMPLICATIONS

The dissemination of customer satisfaction information is an important factor in the effective usage of customer satisfaction data (Maltz and Kohli 1996; Menon and Varadarajan 1992; Morgan et al. 2005). To date, however, research on the dissemination of customer satisfaction data has been limited to dissemination within the firm (Morgan et al. 2005), despite numerous calls for the communication of customer satisfaction results to external publics (Eccles 1991; Fox 1996; Karlgaard 1997; Lev 2004). This study represents an initial investigation into the prevalence of customer satisfaction data targeted to groups external to the firm via the letter to shareholders section of the annual report. The following sections discuss the results and contributions of this study, implications for research and practice, and areas for future research.

Contributions and Implications for Research

Before discussing the contributions and implications of this research, certain limitations of this research should be mentioned. First, the results of this study are based on a sample of 76 annual reports in four industries included in the 2005 *Fortune* 1000. To increase the generalizability of the findings from this study, future research should investigate the research questions using a larger sample of annual reports and using industries not included in this study. Furthermore, the annual reports investigated in this study were from the annual reports of one specific year. While there is no reason to believe that the coverage of customer satisfaction was more or less than other years, future research should investigate the research questions across different years to identify any trends that may exist.

Overall, the results from this study indicate that customer satisfaction measurement results are not being communicated by management in the letter to shareholder section of the annual report, despite the prevalence of research in both marketing and accounting emphasizing the important role customer satisfaction plays in the overall health and performance of companies (e.g., Anderson et al. 2004; Anderson et al. 1994; Gruca and Rego 2005; Ittner and Larcker 1998). While the number of times customer satisfaction was mentioned was significantly higher for service industries when compared to product industries, both means were below one, indicating that customer satisfaction is not being mentioned in either type of industry. An informal perusal of the entire annual report reveals that customer satisfaction is not being discussed anywhere in the annual report. In addition, other metrics related to satisfaction such as customer loyalty and customer retention are also not being discussed. Conversely, the inclusion of financial results such as sales, net income, and earnings per share is widespread across the sample of annual reports investigated in this study. While some researchers in the area of satisfaction may have predicted this lack of coverage of customer satisfaction in the annual report based on previous anecdotal evidence, this research extends previous research by providing an objective, empirical analysis of customer satisfaction in annual reports using content analysis.

The results from this study also indicated that there were no differences in the financial performance of firms that included customer satisfaction measurement information when compared to firms that did not include this information. It does not seem likely that these results suggest measuring and tracking customer satisfaction does not have a positive influence of the financial performance of the firm. Instead, the results most likely reflect that the inclusion or absence of customer satisfaction metrics in the annual report does not necessarily reflect the level of focus customer satisfaction measurement receives in the firm.

This study highlights the need to expand marketing's approach to the dissemination of information to external groups. Current models of information dissemination in the marketing literature, however, have tended to focus on the dissemination of information horizontally and vertically within the firm (e.g. Maltz and Kohli 1996; Menon and Varadarajan 1992; Moorman 1995). Shareholders and investors are increasingly being considered external stakeholders of marketing activities (Srivastava, Shervani, and Fahey 1998) and must be accounted for in models of information dissemination.

The results from this study provide some evidence to support the perceived disconnect between marketing scholarship and marketing practice (Brown 2005; Westbrook 2000). While the relationship between customer satisfaction and a firm's financial performance has been documented and stressed numerous times recently in the marketing literature, the results from this study indicate that satisfaction is rarely discussed by top management in the letter to shareholders section of the annual report. There are many proposed causes for the gap between marketing scholarship and practice (Baker 2001, Brown 2005, Carson and Gilmore 2001; Staelin 2005); however, a lack of dissemination of recent marketing research to the broader business and investment communities is likely the primary cause of the failure to include satisfaction information in annual reports. If academic research on marketing and satisfaction is expected to have a positive influence on business practice, the discipline must focus not only on the creation of knowledge, but also on the dissemination of knowledge to the broader business community.

Implications for Practice

Although the results from this research indicate that firms are not currently including satisfaction or related information in the letter to shareholders section of the annual report, firms should begin including this information in future annual reports. Improved dissemination of customer satisfaction ratings can benefit firms in a number of ways. Previous research suggests that improved disclosure of intangible assets is associated with a number of benefits to the firm including reduced stock price volatility, narrower bid-ask spreads (implying lower cost of capital), and higher stock prices (Lev 2004). Reporting customer satisfaction results and other intangible assets to investors and shareholders serves to provide a more accurate reflection of a company and its performance which will lead to more accurate valuations and lower the cost of capital (Lev 2004).

There are, however, a number of reasons why firms may not choose to include customer satisfaction data in the letter to shareholder section of the annual report and some of these reasons could reflect the lack of satisfaction data found in this study. One potential reason is that the firm or upper management is not truly committed to customer satisfaction and, therefore, does not feel that it is necessary to report satisfaction results to shareholders. While this explanation would be somewhat surprising given the level of attention customer satisfaction has received in the past two decades, a recent study classified 6 of the 39 firms studied as "limited" in terms of their customer satisfaction information usage (Morgan et al. 2005). In another study of 233 executives, 55 percent of executives agreed that "their companies are not truly committed to customers but rather treat customers as a means to a goal" (Fielding 2006, p. 4). These results clearly indicate that some firms still do not place a significant emphasis on customer satisfaction and its measurement.

Another potential reason for the lack of customer satisfaction data in the annual report is the fact that there is no standardized method for measuring customer satisfaction. This is perhaps one of the most critical factors influencing the lack of dissemination of customer satisfaction data (Lambert 1998). Many firms may feel that since there is no standardized approach to measuring satisfaction that it should not be included in the annual report since firms would be able to report satisfaction scores using any method they see fit. While many smaller firms could possibly use this argument, many of the companies included in this study are included in the American Customer Satisfaction Index (Fornell et al. 1996). This index addresses the standardization argument by collecting customer satisfaction data for many firms using a standardized method. In addition, J.D. Power routinely measures firms within industries using a standardized method. Companies included in such standardized satisfaction studies should be expected to comment on these findings in the letter to shareholders. As the measurement of customer satisfaction across multiple firms by independent organizations continues to grow the standardization defense will become less valid.

Related to the issue of standardization is the difficulty for companies with multiple brands (which reflects most companies) to report the results of customer satisfaction measurement. For example, if a company has 25 or 100 brands, how should the customer satisfaction results be presented? Presenting results for each brand would not only be an arduous task for the company, but would take a substantial amount of space to report in the annual report. In addition, shareholders would be unlikely to read such a detailed presentation. Companies could, however, report an average satisfaction score across brands or include the brands that received the highest or lowest ratings.

Firms may also choose not to include customer satisfaction results in the annual report since it is not required by any regulatory authority. Thus, these firms are providing the minimum level of information as required by current accounting standards. It is important to note that just because the reporting of customer satisfaction information is not required in the annual report does not mean that it cannot be included. Companies have great flexibility in the information contained in the voluntary section of the annual report, including the letter to shareholders. While much research has been conducted in an attempt to find ways to treat intangible assets such as satisfaction in traditional accounting systems, there is still no commonly accepted method. Given the standardization issue discussed previously, especially for smaller companies, it seems unlikely that regulators will require customer satisfaction results in the near future. Research in the field of accounting continues to investigate innovative ways to report intangible assets in the financial documents (e.g., Lev 2003; Lev 2004). In the meantime, however, upper management should comment on any available satisfaction measures.

Another possible reason for not including customer satisfaction results is that management does not feel that shareholders and investors think that this information is a determinant of overall company performance. Thus, these managers are simply giving the shareholder and potential investor the information they think shareholders want to see in the annual report. Managers are not upholding the expectations of their position if they simply provide shareholders the information they desire. If their job in the annual report is to communicate the current and future health of the company, then customer satisfaction results should be included. Perhaps if this information were included in the annual report shareholders would come to realize the importance of customer satisfaction.

One final reason for the lack of customer satisfaction information in the annual report is that companies do not want to reveal this information to competitors (Lev 2004; Eccles 1991). Given the fact that many of the companies included in this study are included in the American Customer Satisfaction Index study and the results from this study are often published in the popular press and available to competitors, this argument does not hold. In addition, the overall results of a customer satisfaction study do not reveal any detail regarding a firm's marketing strategy, only an overall evaluation by consumers.

Regardless of the reason for not including customer satisfaction information in the annual report to shareholders, management should be expected to comment on the satisfaction of its customers in the letter to shareholders. Continued research linking customer satisfaction to overall firm performance will increase the likelihood that companies will recognize the importance of customer satisfaction and feel compelled to include this information in the annual report. Increased coverage of customer satisfaction in business schools should also result in a greater emphasis on customer satisfaction. As more students across the business disciplines become exposed to the critical role satisfaction plays to a firm, the greater the focus on customer satisfaction will be as these students progress in their career. Continued coverage of the topic in the popular press will also aid in educating executives in the role of customer satisfaction in company performance.

Perhaps the most effective way to increase coverage of customer satisfaction in the annual report is for shareholders to demand it. While this method may seem difficult at first given the scope of the number of investors, a large majority of shares purchased today are by institutional investors, a much smaller number overall when compared to the number of individual investors. As scholars continue linking customer satisfaction and financial performance, it is likely that institutional investors, who are more likely to follow academic research on company performance, will expect this type of information in the annual report. Institutional investors could facilitate this process, though, by requesting (or demanding) that customer satisfaction information be included in the annual report and holding upper management accountable for communicating this type of information. It is likely that investors, both individual and institutional, will be more likely to demand information regarding a firm's customer satisfaction rating as research continues to link higher levels of customer satisfaction with higher stock returns (Fornell et al. 2006).

Future Research

The results of this study suggest numerous areas for future research. Future research should investigate the dissemination of marketing information to individuals and groups outside of the firm. This future research should focus on determining the types of information that should be communicated, and the best format and vehicle to communicate this information to external groups. The results from this initial study can serve as a benchmark for future research on communication of satisfaction and other market-based assets to external groups.

While this study provides indirect evidence that suggests that satisfaction measurement results have a lower level of importance with upper management, future research should investigate this issue by surveying CEOs and other members of upper management to determine the importance they place on customer satisfaction information, especially relative to both short-term and long-term financial measures. Future research should also survey shareholders and investors (both individuals and institutional) to determine their perceptions and understanding of customer satisfaction and its influence on performance.

As previously discussed, reporting customer satisfaction results for companies with multiple products is an issue that may limit the dissemination of this information. Therefore, future research should investigate alternative methods of measuring and reporting satisfaction results for firms with multiple products. Future research should also determine if there is a relationship between the dissemination of customer satisfaction information and customer satisfaction scores. It seems possible that companies receiving high levels of satisfaction would be more likely to disseminate these scores to outside publics compared to companies receiving less favorable results. Related to this issue, companies may feel motivated to disseminate only positive customer satisfaction results and may resort to using questionable methods to product these positive results. Indeed, Ittner and Larcker (2003) support this contention as they found most companies' customer satisfaction methodologies misleading and too primitive to be useful. These issues highlight the need for future research to develop a standardized method for collecting and reporting satisfaction results across industries. The need for a standardized reporting method is especially desirable in order to facilitate the communication of customer satisfaction data in the annual report.

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Send Correspondence Regarding This Article To:

Michael A. Jones
Alan S. Lorberbaum Associate Professor of Marketing
Department of Marketing (Dept. 6156)
University of Tennessee at Chattanooga
615 McCallie Ave.
Chattanooga, TN 37403
Michael-Jones@utc.edu
(423) 425-1723