

# The Impact of Employee Satisfaction on Profitability of Restaurants And Cafés: A Research in Surabaya, Indonesia

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**Abstract.** Currently the business sector of restaurants and cafés in Surabaya has been developing rapidly. In a relatively short time, many restaurants and cafés appear with unique and various offers. Restaurant and café are businesses that emphasize not only on the food served, but also on the service delivery of the employees. In other words, the business of restaurants and cafés not only sell the product but also sell the service. In this research, the data collection is done by distributing questionnaires to 794 employees and customers in 55 restaurants and cafés in Surabaya which adopt the table service concept. The Partial Least Square for Multivariate Analysis is employed for processing the data.

**Keywords:** Employee satisfaction, Profitability, Partial Least Square

## 1. Introduction

Recently there is a tremendously rapid growth of restaurant dan café businesses in the world as eating out has become part of daily human's life. Surabaya as the second largest metropolitan city of Indonesia has become the center of business and commerce of Indonesia after Jakarta. Trading, hotel and restaurant industries have contributed around 38,96% to the Gross Regional Domestic Product of Surabaya in 2010 (Website of Surabaya City). Whilst the rapid growth of the business is obvious, the competition in restaurant and café businesses have been very tight so far. In response to the high competition pressure and the dynamic market changes, many restaurants and cafés have made efforts to execute continuous improvement and necessary immediate changes in order not to be left behind the competition. Not only are restaurant and café businesses expected to provide 'good' food and beverages but also the service delivery to the customers. In other words, restaurants dan cafés should provide both 'good' food and beverages and at the same time 'good' or 'satisfying' service delivery.

Based on the Balanced Scorecard framework, the fundamental factor of service quality is employee satisfaction. In this case, service quality will influence customer satisfaction and then customer satisfaction will influence the restaurant or café profitability. This is the framework which is developed by Kaplan and Norton in the concept of Balanced Scorecard. Many researches related to Balanced Scorecard has been done recently, such as one research done by Yee, et al (2008) entitled "The Impact of Employee Satisfaction on Quality and Profitability in High-Contact Service Industries". Besides profitability factor, the performance of non-financial perspective (employee, service quality and customer satisfaction) is essential to be analyzed, because this non-financial performance will determine the market value of the business organization (Devie and Tarigan, 2006).

## 2. Employee Satisfaction and Profitability

### 2.1. Profitability

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Profitability is the ability of an organization to generate profit in a certain period of time using capital or asset, either from the creditor or the shareholder himself (Van and Van, 1995). Moreover, Warren et al (2004) states that profitability is the ability of an organization to generate profit in a certain period of time by means of capital or asset. From the statements above and the research done by Yee et al (2008), it can be presumed that there are several indicators which are useful for evaluating profitability of an organization, namely: revenue, asset and profit. In Balanced Scorecard framework, profitability is translated into financial perspective.

## **2.2. Employee Satisfaction**

Job satisfaction (learning and growth) is a fundamental factor which determines profitability performance. Robbins (2001) affirms that job satisfaction refers to the general attitude of an individual employee toward his job. Someone who has high job satisfaction is more likely to demonstrate positive attitude toward his job; whereas, someone who is not satisfied with his job is more likely to exhibit negative attitude toward his job. Moreover, Davis (1997) reveals that job satisfaction refers to a collection of employee feelings on how pleasant or unpleasant his job is. Davis presented the employee satisfaction factor in his method called Job Description Index (JDI). In this research, there are four indicators of job description index, namely: salary, job nature, promotion and opportunity, and coworkers (Yee et al, 2008), which are employed to measure the feeling or attitude on satisfaction which is revealed by employees. In Balanced Scorecard, employee satisfaction measure is translated into learning & growth perspective.

## **2.3. Quality Services**

Job satisfaction of employees will determine the service quality delivered by the restaurants or cafés to the customers. According to Kotler (2007) service is an intangible product because it is produced by providing facilities supported by good skill and knowledge of the service provider so that it will produce quality service. Zeithaml et al (1990) and Blumberg (1991) on Servqual concept clarify that service quality is essential to form the image and perception of the consumers. However, good or bad perceptions are formed in the customers' mind depending on how good or bad the employees deliver the service to the customers. In this case, the researchers use Servqual dimensions developed by Zeithaml dan Parasuraman to measure quality services.

## **2.4. Customer Satisfaction**

In BSC framework, customer satisfaction means performance in customer perspective. According to Kotler (2007) "customer satisfaction is a person's feelings of pleasure or disappointment resulting from comparing a product perceived performance (or outcome) in relation to his or her expectations". Therefore, a company must be able to provide product or service which can fulfill the needs or wishes of customers so that customer satisfaction is accomplished. Based on the definition, there are two measures for measuring customer satisfaction which are the general customer satisfaction feeling and the fulfillment of customer expectation about the restaurant.

# **3. Research Methodology**

## **3.1. Research Model**

Many researchers think that service quality is influenced by employee job satisfaction (Bowen and Schneider, 1985; Hartline and Ferrell, 1996) in Yee et al (2008). They prove that job satisfaction which is felt by employees who are directly in contact with the customers will influence the service quality delivered. Based on these studies, the first hypothesis is proposed:

*H1: Employee satisfaction has a positive and significant influence on service quality.*

Employees with high job satisfaction level will make customers happier so that it will give a positive influence on customer satisfaction level. On the contrary, employees who are not satisfied tend to exhibit their unpleasant emotion to customers as stated by Wansoo (2009) and Brandford (2009). Based on these studies, the second hypothesis is proposed:

*H2 : Employee satisfaction has a positive and significant influence on customer satisfaction.*

The relationship between service quality and customer satisfaction is based on many researches as stated by Wang (2006) dan Brady (2001). The researches describe that if someone's evaluation on an activity shows that he has reached the result as intended, the fulfillment of the intended result is accomplished and then it is followed by a response towards satisfaction. Based on these studies, the third hypothesis is proposed:

*H3: Service quality has a positive and significant influence on customer satisfaction.*

There are several reasons why customer satisfaction has a positive impact on organization profitability. Firstly, customer satisfaction increases customer loyalty, influences customer intention to repurchase in the future as stated by Hallowell (1996) dan Anderson et al (1997). Secondly, Reicheld and Sasser in Hallowell (1996) reveal that very satisfied customers are willing to pay premium and less price-sensitive. It means that customers tend to pay the advantage they get and be tolerant with price increase which then will increase the economic performance of the organization. Based on these studies, the fourth hypothesis is proposed:

*H4: Customer satisfaction has a positive and significant influence on company profitability.*

Employee satisfaction will influence the service quality provided is one of the aspects of internal business process perspective. Good service quality will satisfy customers. Customer satisfaction is part of customer perspective. Customers who are satisfied with service quality provided will be more loyal to the company. This will increase company profitability. Company profitability is one of the aspects of financial perspective. (Kaplan dan Norton, 2004). Based on these studies, the fifth hypothesis is proposed:

*H5: Employee satisfaction has a positive and significant influence on company profitability.*

Findings from a research show that companies that offer quality service will be able to achieve a higher growth than the average companies in the stock market (Anderson et al, 1997). This is because of quality improvement that enables the companies gain higher profit including market share by setting higher price than the competitors. Based on these studies, the sixth hypothesis is proposed:

*H6: Service quality has a positive and significant influence on company profitability.*

### **3.2. Sampling and Statistical Testing**

Population in this research is employees and customers of restaurants and café which are located at several big malls in Surabaya, such as: Galaxy Mall, City of Tomorrow, Plaza Surabaya, Pakuwon Trade Center, Plaza Tunjungan and Surabaya Town Square. The population is indefinite. In multivariate calculation, the number of samples are minimum 10 times more than the number of research variables. Therefore, the minimum samples of this research are 120 for both customers and employees. Moreover, the sampling method is using purposive sampling. This research employs in total 794 employee respondents and customer respondents. Several phases of data analysis and data validation are done such as: validity test, reliability test and other analysis using Partial Least Square (PLS). In this research, respondents were asked to indicate their agreement/disagreement with each item on a five-point Likert scale ranging from 1 for "strongly disagree" to 5 for "strongly agree". The confidence interval degree is 95%.

## **4. Research Findings**

### **4.1. PLS Analysis**

In analyzing the influence of job satisfaction of employees on restaurant and café profitability in Surabaya, several analysis tools are employed in PLS, such as: the outer model which comprises of convergent validity, discriminant validity, composite reliability and also inner model. From the *convergent validity*, the result of the analysis shows that the validity and reliability levels are good in which all the questionnaire items have loading value above 0,5. Moreover, from the *composite reliability*, the value is above 0,70. The result of the research and the outer loading value of each variable are shown in figure 1. below.

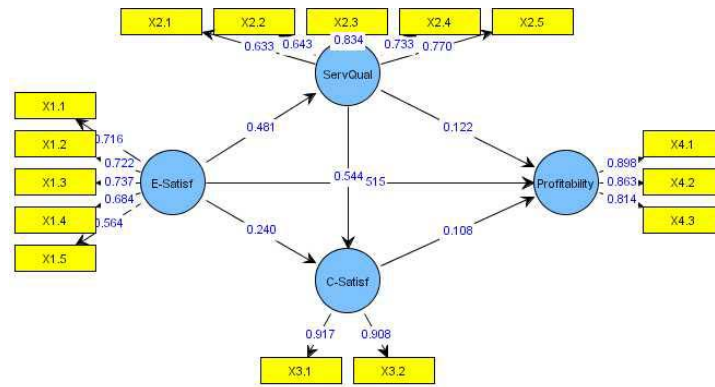


Fig 1: Path Diagram Model

However, the result of R-square Model can be seen in table 1 as follows. *Goodness of fit* in PLS can be seen from the  $Q^2$  value. The value of  $Q^2$  has the same meaning with the determination coefficient (*R-square / R<sup>2</sup>*) in regression analysis. The higher the  $R^2$ , the more fit the model with the data. From the table above, it is known that the  $Q^2$  value is:  $Q^2 = 1 - [(1-0,231^2) \times (1-0,478^2) \times (1-0,426^2)] = 0,597 = 59,7\%$

Table 1: R-Square Model

	R-square
ServQual	0.231
E-Satisf	
C-Satisf	0.478
Profitability	0.426

The last analysis is the result from the *inner weight*, which shows that the relationship among the variables is positive (original sample estimate). From the six kinds of relationship among the variables, it can be seen that there are two kinds of relationships which are not significant in which the t-statistic values are lower than 1,96. This applies for the relationship between ServQual and profitability (0.659) and customer satisfaction with profitability (0.685).

Table 2: Inner Weight Result

	original sample estimate	mean of subsamples	Standard deviation	T-Statistic
E-Satisf -> ServQual	0.481	0.523	0.133	3.614
ServQual -> C-Satisf	0.544	0.541	0.105	5.174
E-Satisf -> C-Satisf	0.240	0.236	0.110	2.179
ServQual -> Profitability	0.122	0.161	0.186	0.659
E-Satisf -> Profitability	0.515	0.472	0.137	3.748
C-Satisf -> Profitability	0.108	0.112	0.158	0.685

## 4.2. Research Conclusions

Based on the data analysis, it can be concluded that out of six hypotheses, there are two hypotheses which are not proven (H5 and H6) because the relationship is not significant eventhough it is positive. Conceptually in BSC, it is proven that the relationship among variables or perspectives are positive. However, the level of significance between Servqual and Profitability, and Customer Satisfaction and Profitability are proven to be not significant. This is because some of the restaurants and cafés in the research are still building the quality to satisfy the customers. Nevertheless, the effort in building the quality give an impact to the cost increase that lessen the profitability.

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Devie and Josua Tarigan are Associate Professors in Business Accounting Program, Accounting Department, Petra Christian University. Devie is a Senior Associate Professor who has more than 20 years of experience. Both Devie and Josua are freelance business consultant in Strategic and Accounting Management. Both of them hold the Certified Management Accountant (CMA) as well as other certification in Finance. While Deborah Christine Widjaja is an Assistant Professor in Hospitality Management Program, Management Department, Petra Christian University. She holds the Certified Professional Human Resource (CPHR).

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