



# Applying Service Profit Chain model to the Korean restaurant industry



Gi-Jin Kim\*

Yeungnam University, 532-278, FS MRI, Jung-dong, Suseong-gu, Daegu 706-050, Republic of Korea

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## ABSTRACT

The purpose of this study is to empirically determine the relationship between employees' constructs such as internal service quality, service ability, employee satisfaction, and organizational commitment, and customers' constructs such as perceived value, customer satisfaction, customer trust, and loyalty. This relationship was studied by applying the Service Profit Chain model to the Korean restaurant industry. Results show that internal service quality has a significant effect on service ability, and teamwork/communication has a significant effect on employee satisfaction. Employees' organizational commitment has a significant direct effect on the value perceived by customers. Ultimately, there is an indirect influential relationship between employees' and customers' constructs. Implications of these results are discussed, and possible limitations of the study are addressed.

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## 1. Introduction

Customers expect their dining experience at restaurants to satisfy their appetite and enrich the quality of their lives. While the quality of food is a critical aspect of these dining experiences, customers' perceptions of courteous service are also important (Kim et al., 2009).

When service quality improves, customers' perceptions of value, satisfaction, and trust also improve, thus increasing their loyalty to specific restaurants. Improving customer satisfaction and loyalty is related to increasing restaurant profits (Chang et al., 2009; Heskett et al., 1997; Rosenberg and Czepiel, 1984). Service quality that meets customer expectations is essential to securing new customers and retaining existing ones (Disney, 1999).

Customers' overall service experience in a restaurant results from the relationship between many different service encounters. Meanwhile, employees that directly encounter customers are influenced by internal service suppliers or departments during the process of making a reservation, helping customers with their parking, guiding them to their seats, taking their order, settling their bill, and seeing them off (Zeithaml and Bitner, 1997; Gummesson, 1994; Rafiq and Ahmed, 1993). Previous studies have shown a close relationship between internal and external services, and employee and customer satisfaction (Bouranta et al., 2009; Chi and Gursoy, 2009; Heskett et al., 1997; Schlesinger and Heskett, 1991). Therefore, restaurants often conduct internal marketing programs to encourage their employees to improve customer service. These programs encourage employees who interact with

customers to achieve pre-determined goals and improve their job performance, thus helping employees meet their basic and secondary needs (Bruhn, 2003).

Employees perceive an internal service quality based on these employer marketing programs, and this perception has a significant effect on employee satisfaction, which in turn has a positive influence on employee retention (Xu and Heijden, 2005). It is crucial for restaurants to create working environments that allow and encourage employees to provide high-quality customer service in order to improve customer satisfaction and profits, while also paying careful attention to the perceived internal service quality for employees, including employee satisfaction and commitment (Chi and Gursoy, 2009; Gelade and Young, 2005).

The Service Profit Chain model, introduced by Schlesinger and Heskett (1991) and later expanded upon by Heskett et al. (1994), illustrates the relationship between employees and customers. At the time of its introduction, this model combined human elements with technique to improve customer service and employee morale and satisfaction. The model has since developed to highlight the connection between employees' and customers' constructs and shows that customer satisfaction improves when employees are satisfied.

Previous empirical studies on the relationship between customers and employees have been diverse, examining the relationship between employee satisfaction, customer satisfaction, and financial performance (Chi and Gursoy, 2009), the relationship between internal and external service qualities (Bouranta et al., 2009), the Service Profit Chain model in the retail banking sector (Gelade and Young, 2005), the links between organizational resources and work engagement with employee performance and customer loyalty (Salanova et al., 2005), the satisfaction mirror of the Service Profit Chain model in the retail environment (Silvestro

\* Tel.: +82 53 762 4336; fax: +82 53 763 9707.  
E-mail address: [carving@ynu.ac.kr](mailto:carving@ynu.ac.kr)

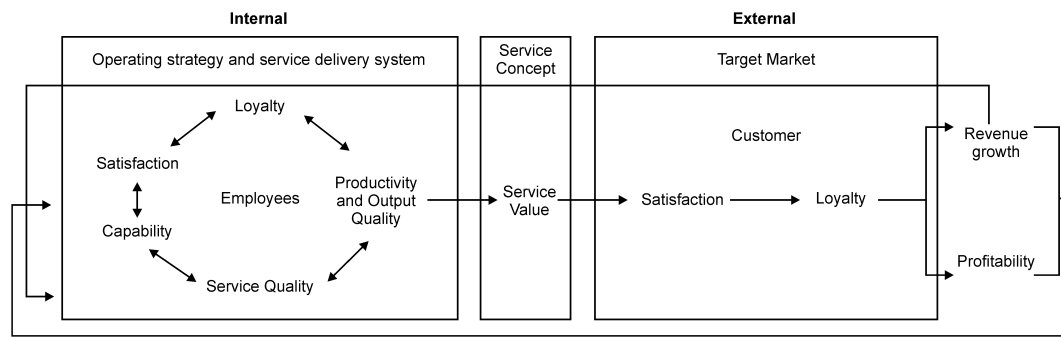


Fig. 1. The Service Profit Chain model.

and Cross, 2000), and the relationship between employee satisfaction, customer loyalty, and financial performance in the retail banking sector according to the Service Profit Chain model. The value of the Service Profit Chain model has been acknowledged in many of these studies; however, empirical studies that attempt to explain the causal relationship between customers and employees often fall short because of the difficulty in accurately measuring and analyzing the data. In most cases, only part of the model has been analyzed (Bouranta et al., 2009; Chi and Gursoy, 2009; Gelade and Young, 2005; Salanova et al., 2005). In addition, the effectiveness of the Service Profit Chain model has been verified in many fields in many countries, but has not yet been applied to the restaurant industry in Korea. The Korean restaurant industry has grown very quickly in recent years and has experienced intense competition, necessitating an effective service management paradigm.

The purpose of this study is to examine the structural relationship between employees' constructs such as internal service quality, service ability, employee satisfaction, and organizational commitment, and customers' constructs such as perceived value, trust, satisfaction, and loyalty. In the current study, we examined this relationship by applying the Service Profit Chain model to the fast growing restaurant industry in Korea. More specifically, we examined the following relationships: (1) the effects of internal service quality on service ability and employee satisfaction, (2) the effects of service ability on employee satisfaction and organizational commitment, (3) the effects of employee satisfaction on organizational commitment, (4) the effects of organizational commitment on customer's perceived value, (5) the effects of perceived value on customer satisfaction and trust, (6) the effects of customer satisfaction on trust and brand loyalty, and (7) the effects of customer trust on brand loyalty. Additionally, indirect effects among these concepts are examined.

## 2. Literature review

### 2.1. The Service Profit Chain model

Since the 1990s, many studies have explored the relationship between the concepts that composed the Service Profit Chain model (Heskett et al., 1994, 1997; Reichheld and Sasser, 1990; Schlesinger and Heskett, 1991). Heskett et al. (1994) proposed that the Service Profit Chain model shows a structural relationship among basic concepts such as internal service quality, employee satisfaction, employee retention, employee productivity, and customers' service value, customer satisfaction, customer loyalty, revenue growth, and profitability. In this study, we drew on the Service Profit Chain model in order to argue that internal service quality, including positive working environments and management policies, allows and encourages employees to provide better service to meet their customers' needs and expectations. In a later study, Heskett et al. (1997) presented a revised model that showed how employee

concepts such as capability, internal service quality, satisfaction, loyalty, productivity, and output quality have an effect on service value, and that service value has an effect on customer satisfaction and loyalty (Fig. 1). They emphasized that determining the type of relationship is very important; however, the connection among the constructs in the Service Profit Chain model differs across organizations. Ultimately, they concluded that a leader should manage a company with an understanding of the Service Profit Chain model and its applicability for successful company management, and that it is important for a leader to create practical and specific business rules in order to differentiate his or her own company from competitors.

The Service Profit Chain model has also been studied from the perspectives of different industries and sectors. For example, Gelade and Young (2005) studied the relationships among organizational climate (team climate, job enablers, and support climate), commitment, customer satisfaction, and sales achievement by applying the Service Profit Chain model to the retail banking sector. They found that organizational climate has a significant effect on commitment, which has a significant effect on customer satisfaction, which in turn has a significant effect on sales.

In another study, Salanova et al. (2005) applied the model to the hotel and restaurant industry. They examined the mediating role of service climate for employees and customers at the front desk of hotels and restaurants and determined whether there was an influential relationship between organizational resources, work engagement, employee performance, and customer loyalty. The results showed that organizational resources had an effect on service climate through mediation of work engagement, while service climate had an effect on employee performance, which in turn had an effect on customer loyalty. They further clarified that customer loyalty had a potentially reciprocal influence on service climate.

Chi and Gursoy (2009) also used the Service Profit Chain model to study the influential relationship between employee satisfaction, customer satisfaction, and financial performance in the hotel industry. They found that customer satisfaction had a significant, positive effect on financial performance, and that employee satisfaction had an indirect effect on financial performance through the mediating role of customer satisfaction.

Xu and Heijden (2005) applied the Service Profit Chain model to a sample of employees of a Chinese security firm in order to assess the importance of employee factors. They found a positive relationship between employee factors and corporate profitability, and more importantly, a significant effect of internal service quality on employee satisfaction. High employee satisfaction reduced new employment by lowering the turnover rate, and employee tenure strongly affected profitability.

Maritz and Nieman (2008) evaluated business marketing plans by applying the Service Profit Chain model to examine service quality in the franchise system. The results showed that the

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