

# How the Achievement of Human-resources Goals Drives Restaurant Performance

Contrary to what some might think, a restaurant's bottom line is boosted by certain human-resources practices, including encouraging employees to go above and beyond the call of duty.

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The issue I address in this article is whether positive employee attitudes and behavior lead to good restaurant performance (or, on the other hand, whether operating a high-performing restaurant leads to positive employee attitudes and behavior). Behavioral-science research gives some support to the proposition that the achievement of human-resources goals influences business performance. Some studies have shown that "high-performance work systems" and "high-commitment work systems" are associated with organizational performance.<sup>1</sup> Other studies have shown that specific human-resources (HR) activities (such as train-

ing and compensation) are associated with organizational effectiveness.<sup>2</sup> These studies, which examined manufacturing firms, collected their data at one point in time and found relationships among their variables. Although useful, those studies make it hard to determine causality. Consequently, I concluded that a study conducted over time would give better evidence of any causal relationships between HR and business success. Furthermore, a study done in a restaurant company would be more useful to *Cornell Quarterly* readers.

<sup>1</sup> See: J.B. Arthur, "Effects of Human Resource Systems on Manufacturing Performance and Turnover," *Academy of Management Journal*, Vol. 37 (1994), pp. 670-687; and M.A. Huselid, "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance," *Academy of Management Journal*, Vol. 38 (1995), pp. 635-672.

<sup>2</sup> See: J.T. Delaney and M.A. Huselid, "The Impact of Human Resource Management Practices on Perceptions of Organizational Performance," *Academy of Management Journal*, Vol. 39 (1997), pp. 949-969; and D. Ulrich, R. Halbrook, D. Meder, M. Stuchlik, and S. Thorpe, "Employee and Customer Attachment: Synergies for Competitive Advantage," *Human Resource Planning*, Vol. 14 (1991), pp. 89-103.

This research builds on the proposition that employee attitudes and behavior influence organizational performance. The attitude that one works at “an employer of choice,” for instance, should produce good organizational performance. In a unionized company, it could decrease the chance of a strike. Organizational-citizenship behavior and lower turnover should also improve a company’s performance.

**Behavioral-science research supports the notion that good HR results have a positive influence on business performance. This study confirms that that finding holds true over time.**

**Employer of choice.** A study produced by the National Restaurant Association concluded that the industry must do a better job of being an employer of choice if it is to do a better job of satisfying customers and producing financial results.<sup>3</sup> This is supported by the “service-profit chain” concept,<sup>4</sup> which suggests that employees’ high functioning and favorable attitudes lead to customer satisfaction, loyalty, and a perception of value. Those customer attitudes, in turn, lead to company profits and growth. The authors of this concept collected data at one point in time and found a relationship between employees’ perceived ability, employees’ satisfaction, and employees’ length of service on the one hand and customer satisfaction on the other.

Sears conducted a study of an “employee-customer-profit” chain at 800 of its stores.<sup>5</sup> The study showed that employees’ attitudes about

Sears and about their jobs led to positive behavior toward customers. An improvement in employees’ attitudes led to an improvement in customer satisfaction that, in turn, led to an improvement in revenue growth.

**Organizational citizenship.** Organizational-citizenship behavior can be thought of as going beyond the call of duty, and being nice about it. Dennis Organ, who developed this concept in 1988, defined it as

“individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization. By discretionary, we mean that the behavior is not an enforceable requirement of the role or the job description. ... [T]he behavior is rather a matter of personal choice, such that its omission is not generally understood as punishable.”<sup>6</sup>

Research has shown that organizational-citizenship behavior is related to organizational performance.<sup>7</sup>

Dennis Organ outlined the following five dimensions of organizational-citizenship behavior. *Conscientiousness* meant that employees performed their tasks well beyond the minimum required levels. *Altruism* implied that employees gave help to others. *Civic virtue* suggested that employees responsibly participated in the political life of the company. *Sportsmanship* indicated that people did not complain; they had positive attitudes. *Courtesy* meant that employees treated each other with respect.

There are many reasons why citizenship behavior should have a positive effect on company performance. Research has shown that conscientiousness is positively related to several measures of performance in professional, managerial, and semi-skilled jobs.<sup>8</sup> Altruistic employees should

<sup>3</sup> Foodservice Research Forum, *Industry of Choice* (Chicago: The Educational Foundation, National Restaurant Association, 1997).

<sup>4</sup> J. L. Heskett, W.E. Sasser, and L.A. Schlesinger, *The Service Profit Chain: How Leading Companies Link Profit and Growth to Loyalty, Satisfaction, and Value* (New York: The Free Press, 1997).

<sup>5</sup> A.J. Rucci, S.P. Kirn, and R.T. Quinn, “The Employee-Customer-Profit Chain at Sears,” *Harvard Business Review*, Vol. 76 (January–February 1998), pp. 82–97.

<sup>6</sup> D.W. Organ, *Organizational Citizenship Behavior* (Lexington, MA: Lexington Books, 1988), p. 4.

<sup>7</sup> P.M. Podsakoff, S.B. MacKenzie, J.B. Paine, and D.G. Bachrach, “Organizational Citizenship Behaviors: A Critical Review of the Theoretical and Empirical Literature on Suggestions for Future Research,” *Journal of Management*, Vol. 26 (2000), pp. 513–563.

<sup>8</sup> M.R. Barrick and M.K. Mount, “The Big Five Personality Dimensions and Job Performance: A Meta-Analysis,” *Personnel Psychology*, Vol. 44 (1991), pp. 1–26.

be willing to pitch in and help co-workers and customers. Employees with civic virtue should give suggestions on how to improve operations. Employees who show sportsmanship and courtesy should be easier to work with.<sup>9</sup>

One study of particular interest was done in 1996 in 30 limited-menu restaurants. This study found a negative correlation between the number of customer complaints and managers' perceptions of their employees' civic virtue and sportsmanship. The study also found a positive correlation between altruism (helping behavior) and both revenue per FTE and customer satisfaction.<sup>10</sup>

**Turnover.** Ample evidence shows that employee turnover influences company performance. Turnover increases separation costs, replacement costs, and training costs. Inexperienced employees can make mistakes that can cause customer dissatisfaction. For example, one study found that the cost of turnover for a front-desk employee at a hotel was about 30 percent of salary.<sup>11</sup> Another found that the per-employee cost of turnover was near \$5,000 for a typical employee in a typical hotel (more at a high-end hotel, less at an economy hotel).<sup>12</sup>

Turnover's negative effects are not restricted to the hospitality industry. Research at Sears showed that as voluntary turnover decreased, return on controllable assets increased.<sup>13</sup> A study

of high schools showed that as teacher turnover decreased, student academic achievement and student satisfaction increased, while the student drop-out rate decreased.<sup>14</sup>

Thus, behavioral-science research supports the notion that good HR results have a positive influence on business performance. However, as I indicated above, most of the studies testing this notion have relied on data collected at a single point in time. Such research methods do not show whether one variable caused another. They show only that there is an association between HR results and business performance. The best evidence for causality would come from an experiment where one manipulates HR results to observe their effect on restaurant performance—something that would be hard to do in a functioning restaurant. The next best thing is a time-series observation, in which one collects data on HR results at one point in time and then observes their effect on restaurant performance at a subsequent point in time.<sup>15</sup>

### Providing Causal Evidence

I tested the idea that certain human-resources results recorded in one year (i.e., organizational-citizenship behavior, being an employer of choice, and turnover) would predict business performance in the next year (i.e., customer satisfaction and financial performance). If the relationship of HR's influencing business performance turned out to be stronger than the opposite relationship (that is, that business performance in one year predicts HR results in the next year), the finding would provide evidence that HR drives business performance, rather than the other way around.

**Research methods.** This study was conducted by surveying managers and employees at 28 units of a regional restaurant chain in each of two years. The two or three managers and assistant managers in each restaurant were asked to rate the organizational-citizenship behavior of their employees on a five-item Likert-type scale (one item for each of the five dimensions of organizational

<sup>9</sup> P.M. Podsakoff, M. Ahearne, S.B. MacKenzie, "Organizational Citizenship Behavior and the Quantity and Quality of Work Group Performance," *Journal of Applied Psychology*, Vol. 31 (1997), pp. 262–270.

<sup>10</sup> S.M. Walz and B.P. Niehoff, "Organizational Citizenship Behaviors and Their Effect on Organizational Effectiveness in Limited-menu Restaurants," in *Academy of Management Best Papers Proceedings*, ed. J.B. Keys and N. Dosier (Statesboro, Georgia: College of Business Administration at Georgia Southern University, 1996), pp. 307–311.

<sup>11</sup> T. Hinkin and J.B. Tracey, "The Cost of Turnover: Putting a Price on the Learning Curve," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 41, No. 3 (June 2000), pp. 14–21.

<sup>12</sup> T. Simons and T. Hinkin, "The Effect of Employee Turnover on Hotel Profits," *Cornell Hotel and Restaurant Quarterly*, Vol. 42, No. 4 (August 2001), pp. 65–69.

<sup>13</sup> D. Ulrich, R. Halbrook, D. Meder, M. Stuchlik, and S. Thorpe, "Employee and Customer Attachment: Synergies for Competitive Advantage," *Human Resource Planning*, Vol. 14 (1991), pp. 89–103.

<sup>14</sup> C. Ostroff, "The Relationship between Satisfaction, Attitudes, and Performance: an Organization-level Analysis," *Journal of Applied Psychology*, Vol. 77 (1992), pp. 963–974.

<sup>15</sup> Podsakoff, *et al.*, 2000.

## EXHIBIT 1

## Questionnaire items

**Organizational citizenship**

- The employees work to exceed each guest's expectations.
- I can count on my co-workers when I need help.
- The employee team feels responsible for our success.
- The people I work with have a "can do" attitude.
- The people here treat each other with respect.

**Employer of choice**

- It would be hard to find a better place to work than this company.
- If I were to choose a restaurant career, it would be with this company.
- This is a great company to work for.
- I would recommend this company to my friends as a place to work.

**Customer satisfaction**

- You would recommend [restaurant name] to your friends.
- This is a great place to have a steak.
- This is a great place to have a meal.
- Overall, this is one of the best casual-dining restaurants.

All items were rated on a 1 to 7 scale, where 1 = strongly disagree and 7 = strongly agree.

citizenship; see Exhibit 1). Each unit's score was the average of its managers' ratings. The employees in each unit rated the extent to which the company was an "employer of choice" via a four-item scale (also in Exhibit 1). In this case, the restaurant's score was the average of its employees' ratings. In the first year I received 774 hourly employees' responses and 64 managers' responses. In the second year I received 693 hourly employees' responses (or, about 50 percent) and 70 managers' responses. The respondents' characteristics reflected the total population (as shown by figures on front-of-the-house versus back-of-the-house, full-time versus part-time, and males versus females).

The unit's employee-turnover figures were taken from company records. Turnover was defined as the number of hourly employee separations divided by the total number of employees in the unit in each of the two years.

I conducted customer-satisfaction surveys in 24 of the 28 units using a four-item scale (also shown in Exhibit 1). The unit's score was the average of the unit customers' ratings. In the first year I received 5,565 responses; in the second year, I received 4,338 responses.

Financial performance was measured as "profits after controllable expenses," which the restaurant chain used to evaluate its unit managers. Additionally, the managers themselves used this measurement, since many expenses (for example, fixed costs and depreciation) were beyond their control. This was not a measure of total profits, but was obtained by subtracting controllable expenses (e.g., cost of goods sold) from total revenues.

**Evidence supports the HR theory.** Exhibit 2 shows the means, standard deviations, and correlation coefficients for the variables. As shown by the correlation coefficients, there is a statistically significant relationship between being an employer of choice in year one and enjoying high customer satisfaction in year two ( $r = .61$ ). There is a much smaller relationship between customer satisfaction in year one and being an employer of choice in year two ( $r = .36$ ).

By squaring the correlation coefficients (that is,  $r^2$ , or  $.61 \times .61$  and  $.36 \times .36$ ), one can calculate the extent to which changes in one variable can be used to explain changes in another vari-

## EXHIBIT 2

## Descriptive statistics and correlation matrix

	N	Mean	S.D.	1	2	3	4	5	6	7	8	9
1 Employer of choice, year 1	28	5.51	.52	–								
2 Employer of choice, year 2	28	5.41	.43	.30	–							
3 Organizational-citizenship behavior, year 1	28	5.75	.62	.47**	.32*	–						
4 Organizational-citizenship behavior, year 2	28	5.67	.60	.19	.61**	.43**	–					
5 Employee turnover, year 1	28	105	54.2	-.14	-.17	.05	-.04	–				
6 Employee turnover, year 2	28	86	38.3	-.18	.13	-.14	-.02	.27	–			
7 Financial performance, year 1	28	190k	92k	.10	-.05	.21	.08	.10	-.30	–		
8 Financial performance, year 2	28	259k	9k	.27	.22	.44**	.39*	-.22	-.24	.70**	–	
9 Customer satisfaction, year 1	24	6.30	.11	.49**	.36*	.06	.29	-.10	-.02	.21	.33	–
10 Customer satisfaction, year 2	24	6.28	.13	.61**	.09	.11	-.21	-.32	.08	.02	.10	.35

1-tailed tests: \*  $p < .05$ , \*\*  $p < .01$

able. The difference from restaurant to restaurant on “employer of choice” in year one explains 37 percent of the unit-to-unit differences in customer satisfaction in year two ( $.61 \times .61 = .3721$ , or 37.21 percent). However, unit-to-unit differences on customer satisfaction in year one explain only 13 percent of the store differences in “employer of choice” in year two ( $.36 \times .36 = .1296$ , or 12.96 percent). Thus, one can conclude that changes in year one’s “employer of choice” score will produce almost three times the change in customer satisfaction than will occur the other way around (that is, customer satisfaction producing “employer of choice”).

There is also a statistically significant relationship between organizational-citizenship behavior in year one and financial performance in year two ( $r = .44$ ). Citizenship behavior in year one explains 19 percent of the variance in financial performance in year two ( $r^2 = .19$ ), while there is no significant relationship in the other direction.

Multiple-regression analysis is a statistical procedure that looks at the relationship between a set of predictor variables and an outcome variable. Exhibit 3 shows multiple-regression analy-

## EXHIBIT 3

## HR results predicting business performance

	Financial performance, year 2 <sup>a</sup>	Customer satisfaction, year 2 <sup>b</sup>
Employer of choice, year 1 (beta weight)	.06	.62**
Citizenship behavior, year 1 (beta weight)	.41*	-.14
Employee turnover, year 1 (beta weight)	-.19	-.13
R <sup>2</sup> (percent of variance explained)	.24	.40

<sup>a</sup>  $n = 28$ <sup>b</sup>  $n = 24$ \*  $p < .05$ \*\*  $p < .01$ 

ses investigating the extent to which the three HR results in the first year predict each of the business outcomes in the second year. Employer of choice, organizational-citizenship behavior, and employee turnover together explain 24 percent of the variance in financial performance ( $R^2 = .24$ ). However, only organizational-citizenship behavior is statistically significant in this regard. Those same three HR results together explain 40 percent of the variance in customer satisfaction ( $R^2 = .40$ ). However, only "employer of choice" is statistically significant in that analysis.

**Turning tables.** Exhibit 4 shows multiple-regression analyses that examine whether the two business results from the first year predict each of the HR outcomes in the second year. Financial performance and customer satisfaction explain only 15 percent of the variance in "employer of choice" ( $R^2 = .15$ ). Moreover, those two business results explain only 9 percent of the variance in organizational-citizenship behavior ( $R^2 = .09$ ) and only 6 percent of the variance in employee turnover ( $R^2 = .06$ ). None of the supposed predictor variables is statistically significant in these analyses.

The average of the multiple-regression analyses for HR results' predicting restaurant performance is .32. The average of the multiple-regression analyses for restaurant performance's predicting HR results is .10. In a finding similar to the one regarding the simple correlations (Exhibit 2), the multiple-regression analyses indicate that changes in HR results will produce three times the change in restaurant performance than will occur the other way around.

Together, the correlation and the multiple-regression analyses show more support for the idea that HR results influence business performance than for the idea that business performance makes it possible to get good HR results.

### Using These Results

Restaurant managers should be able to use these results to help improve the performance of their units. The focus must be on HR results, however, and not just on HR activities. (Of course, one must engage in HR activities to obtain HR results, but running activities by themselves misses the point.) This article encourages managers to focus their HR activities on organizational-

citizenship behavior, on being an employer of choice, and on controlling turnover.

**Encouraging organizational citizenship.** This study provides evidence that organizational citizenship has a positive effect on a unit's financial performance. Here are some things that managers can do to encourage such behavior:<sup>16</sup>

- *Hire conscientious employees* by determining whether applicants have performed beyond minimum standards in the past.
- *Keep morale up*, since many studies show that high morale goes along with high organizational citizenship. One way to do that is to treat all employees fairly, regardless of race, sex, color, creed, or national origin.
- *Give pay increases* partially based on conscientious performance, helping behavior, and responsible participation in decision making.
- *Foster a sense of identity* among the employees, because studies show that group cohesiveness encourages organizational citizenship. For example, encourage people to interact with each other at work.
- *Be a good leader* by stating a vision for the unit, encouraging the acceptance of group goals, setting high performance expectations, and being supportive of employees.

**Being an employer of choice.** This study provides evidence that being an employer of choice influences customer satisfaction. Here are some activities that research shows are related to being an employer of choice:<sup>17</sup>

- *Foster employment security* by assuring that people will be fired only for just cause (poor performance or rule infractions) and by making layoffs the last resort.
- *Be selective in hiring.* Even with low-skill jobs, it is better for managers to really know what they are looking for than to just hire someone on a gut feel.
- *Use self-managed work teams* that have the resources to do their jobs and are accountable for results.
- *Train extensively.* This is a prerequisite for using self-managed work teams. Moreover, most people like to improve themselves.

<sup>16</sup> Based on a review of research by: Podsakoff, *et al.*, 2000.

<sup>17</sup> J. Pfeffer, *Competitive Advantage through People* (Boston: Harvard Business School Press, 1994).

#### EXHIBIT 4

#### Business performance predicting HR results

	Employer of choice, year 2 <sup>a</sup>	Citizenship behavior, year 2 <sup>a</sup>	Employee turnover, year 2 <sup>a</sup>
Financial performance, year 1 (beta weight)	-.13	.04	-.25
Customer satisfaction, year 2 (beta weight)	.39	.29	.03
R <sup>2</sup> (percent of variance explained)	.15	.09	.06

<sup>a</sup> n = 24

- *Pay well.* This is a challenge for the hospitality industry, since it generally pays less than other industries for comparable jobs.<sup>18</sup> Restaurant managers can at least show employees that they pay better than do competing restaurants.
- *Reduce status barriers* between employees and management.
- *Share financial information* with employees (again, training is a prerequisite).

Exhibits 2 and 3 show that there is a strong relationship between being an employer of choice in year one and customer satisfaction in year two. However, Exhibit 2 also shows a small relationship between customer satisfaction in year one and being an employer of choice in year two. So being an employer of choice may lead to customer satisfaction that, in turn, leads to more perceptions of being an employer of choice. There may be a reciprocal relationship here.<sup>19</sup> More research is needed on this.

**Controlling turnover.** Exhibit 2 shows small, negative relationships between hourly employee turnover in year one and both financial performance and customer satisfaction in year two. However, the correlations are not statistically significant. That is probably because the restaurant chain measured overall turnover, without dis-

<sup>18</sup> M.C. Sturman, "The Compensation Conundrum: Does the Hospitality Industry Shortchange Its Employees and Itself?," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 42, No. 4 (August 2001), pp. 70-76.

<sup>19</sup> This is similar to findings reported in B. Schneider, S.S. White, and M.C. Paul, "Linking Service Climate and Customer Perception of Service Quality: Test of a Causal Model," *Journal of Applied Psychology*, Vol. 83 (1998), pp. 150-163.

criminating between employees who left because they did not like their jobs and those who were fired for cause. If the chain were able to separate voluntary turnover from involuntary turnover, we would probably see a stronger relationship between voluntary turnover and financial performance and between voluntary turnover and customer satisfaction. An alternative explanation for the weak relationship is that hourly turnover is not important in this restaurant chain. It may be so easy to replace hourly restaurant employees that turnover really does not affect restaurant performance.

As an additional matter, management turnover may be more important than hourly turnover. When I looked at the data for year two,

I saw that only 38 percent of the hourly employees were on the job for more than 12 months, while 75 percent of the managers and assistant managers were on the job for more than 12 months. Voluntary turnover among the managers would be harmful since managers can encourage organizational-citizenship behavior and foster the perception that the company is an employer of choice.

In summary, this study showed that there is stronger evidence that HR results influence business performance than that business performance influences HR results. Specifically, it showed that organizational-citizenship behavior influences financial performance and being an employer of choice influences customer satisfaction. ■

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