The Impact of Employee Satisfaction on Profitability in Fashion Retail Business in Indonesia

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Abstract: This research is done to investigate the impact of employee satisfaction on profitability in fashion retail business in Indonesia. As the fourth most-populated country (over 230 million) in the world, Indonesia has recently experienced a tremendously rapid market development in retail industry. Fashion retail business is one of the fastest-growing retail industries in Indonesia. There are several factors which will contribute to the profitability of a fashion retail business; one of which is employee satisfaction. In this research, the data collection is done by distributing questionnaires to 1120 employees and customers in 160 fashion retailers in Jakarta & Surabaya. The Partial Least Square for Multivariate Analysis is employed for processing the data.

Key words: Employee Satisfaction · Service Quality · Customer Satisfaction · Profitability

INTRODUCTION

As the fourth most-populated country (over 230 million) in the world, Indonesia has recently experienced a tremendously rapid market development in retail industry. In terms of market size, Indonesia's retail market is around one-tenth the size of China's and one-third of India. However, Indonesia's retail market is the largest among ASEAN countries which will continue to grow more prospectively in the future. In terms of the retail sales, Indonesia is number two surpassing the other Asian countries such as Thailand, the Philippines, Malaysia, Vietnam and Singapore as seen in Figure 1.

Fashion retailer is one of the fastest-growing retail industries in Indonesia. Based on the data from the Ministry of Industry, it is shown that the contribution of Indonesian fashion industry in the last five years against Indonesia's gross domestic product stood at the average of 5.9% or 71.9 trillion rupiahs. Foreign exchange from this sector reached 50.3 trillion rupiahs. The same data source mentions, fashion products is the largest contributor to the value of the creative industries sector in exports from Indonesia during 2010, reaching around U.S. 72 billion dollars. Fashion export value is about 55% of the total value of exports of creative industries in 2010 to reach U.S. 131 billion dollars. It means that the growth of the fashion of industry itself has shown a significant boost in the last five years either for supplying domestic market or for exports.
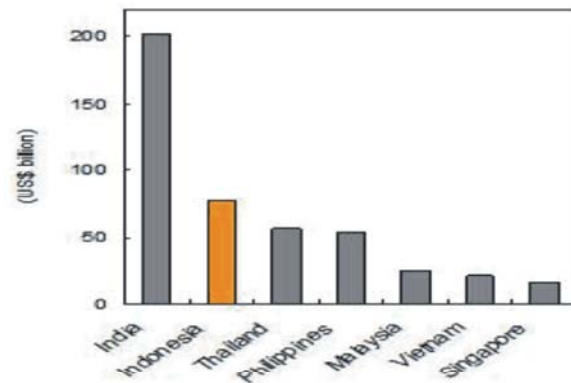

Fig 1: Retail Sales in Various Countries

Moreover, the growth of fashion retail business can be seen from the increasingly aggressive world of fashion label stormed the major cities in Indonesia with super luxury boutiques. Fashion brands that are commonly present world-class in the world's fashion cities Milan, London, Paris and New York could easily be found in the shopping centers of the top major cities in Indonesia, especially in Surabaya; ranging from fashion brands like Louis Vuitton, Guess, Marks & Spencer, Zara, Mango, Gap and many other leading fashion brands.

In order to continue to survive and even grow rapidly, fashion retail businesses are also required to be able to create added value. In addition to good quality product, fashion stores must find ways to create value for consumer satisfaction and ultimately make the company

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earn economic profits. Fashion business performance is not only determined by the financial aspect (financial value), but also through non-financial aspects (non-financial value).

Balanced Scorecard, as a performance measurement tool most commonly used business created by Kaplan and Norton [9], states that in the performance measurement firm, known for 4 (four) perspectives should be balanced so that the company can create value, the financial perspective (financial), customers (customer), internal business processes (internal business process) and learning and growth perspectives (learning and growth). The most fundamental perspectives in the balanced scorecard, as the authors mentioned above, is the learning and growth perspective, one of which translates to how companies can manage assets and investments, especially human assets or employees of the company. One of the points in this aspect is how the company can give job satisfaction to the employees.

One of the essential non-financial values to be created in fashion business, of course, is through the quality of service of the employees of the consumer. Employees play a very important role for companies, especially companies in the fashion industry implementing business processes. Employees are a company's valuable intangible assets, where if the employee fails to create value for the company, the creation of value in other aspects will be disturbed and in the end it will also affect the company's profitability. The service-profit chain introduced by Heskett *et al.* [8] clearly outlined the relationship between internal service quality, employee satisfaction, customer satisfaction and business profitability as shown in Figure 2.

Employees are ambassadors of the company's image in the eyes of customers and society. Therefore they hold the roles and responsibilities that are vital to the creation of the value in fashion retail business. Because the employee's performance is very powerful, so the company needs to maintain employee satisfaction.

In line with the concept of Service Profit Chain, Balanced Scorecard describes a company's performance in four perspectives and their causal linkages. Based on the Balanced Scorecard (BSC) framework, the fundamental factor of service quality is employee satisfaction or learning-growth performance. In this case, service quality will influence customer satisfaction and then customer satisfaction will influence the fashion retail business profitability. Some researches related to Balanced Scorecard have been done recently, such as one research done by Yee [16] 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 as shown in Figure 3.

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Employee Satisfaction and Profitability
Profitability: It 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
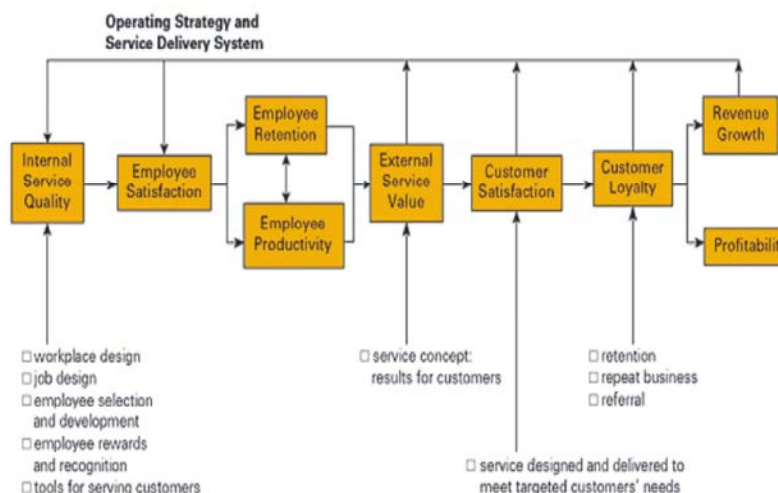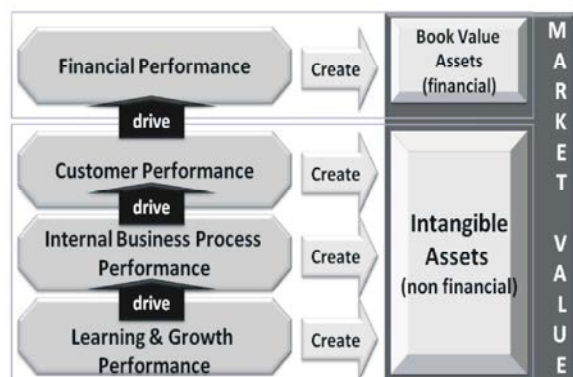

Fig 2: The Service Profit Chain

Fig 3: The Balanced Scorecard Model

[12]. Moreover, Warren *et al.* [13] 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.* [16], 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.

Employee Satisfaction: Job satisfaction (learning and growth) is a fundamental factor which determines profitability performance. Robbins [11] 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 and Newstrom [5] reveals that job satisfaction refers to a collection of employee feelings on how pleasant or unpleasant his job is. Davis and Newstrom presented the employee satisfaction factor in the 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 [16], 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.

Quality Services: Job satisfaction of employees will determine the service quality delivered by the restaurants or cafés to the customers. According to Kotler [10] 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.* [17] and Blumberg [2] 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.

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.

MATERIALS AND METHODS

Research Model: Many researchers such as Bowen and Schneider and Hartline and Ferrell think that service quality is influenced by employee job satisfaction [16]. They prove that job satisfaction which is perceived 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 [14] and Brandford [3]. 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 [15] dan Brady [4]. 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 [7] dan Anderson *et al.* [1]. Secondly, Reicheld and Sasser in Hallowell [7] 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 [9]. 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 [1]. 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.

Sampling and Statistical Testing: Population in this research is employees and customers of fashion retailers which are located at several big malls in Surabaya and Jakarta, such as: Tunjungan Plaza (Surabaya), Grand City (Surabaya), Pasar Atom Mall (Surabaya), Galaxy Mall (Surabaya) and Grand Indonesia (Jakarta). 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 80 for both customers and employees. Moreover, the sampling method is using purposive sampling. This research employs in total 1120 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%.

RESULTS AND DISCUSSION

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 4. below.

However, the result of R-square Model can be seen in Table 2 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^2) 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: $Q^2 = 1 - [(1-0,141^2) \times (1-0,379^2) \times (1-0,352^2)] = 0,265 = 26,5\%$

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 (1.257) and customer satisfaction with profitability (1.523).
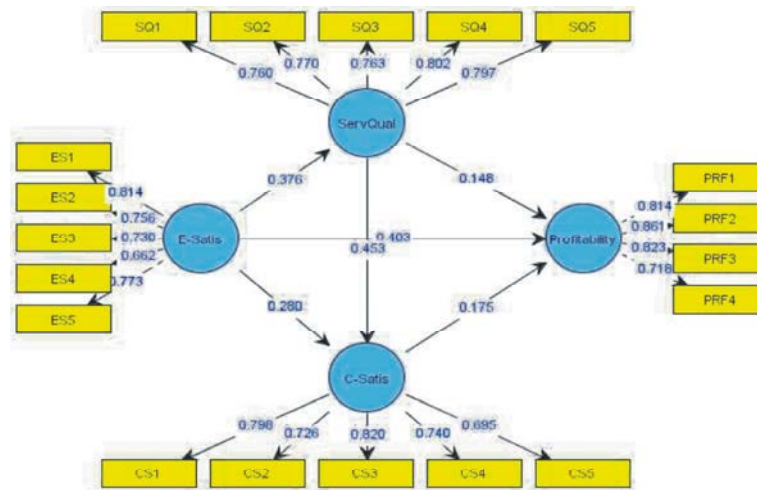
Fig. 4: Path Diagram Model

Table 1: R-Square Model

E-Satis	R-Square
Profitability	0.352
ServQual	0.141
C-Satis	0.379

Table 2: Inner Weight Result

	Original Sample Estimate	mean of sub samples	Standard Deviation	T-Statistic
E-Satis-> Profitability	0.403	0.428	0.115	3.507
ServQua->l Profitability	0.148	0.180	0.118	1.257
C-Satis-> Proifitability	0.175	0.144	0.115	1.523
E-Satis-> ServQual	0.376	0.394	0.089	4.215
E-Satis-> C-Satis	0.280	0.295	0.114	2.464
ServQual-> C-Satis	0.453	0.479	0.130	3.477

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 fashion retailers in the research are still building the quality to satisfy the customers. Nevertheless, the effort in building the quality gives an impact to the cost increase that lessen the profitability.

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