CUSTOMER-CENTRIC COMPENSATION PLANS: LINKING COMPENSATION PLANS OF EMPLOYEES IN INDIAN RESTAURANTS WITH EXPECTATIONS OF CUSTOMERS

Debtanu Lahiri*

**MBA (Human Resource Management), XLRI, Xavier School of Management, Jamshedpur, Jharkhand, India. Email: h13077@astra.xlri.ac.in*

Abstract *The paper attempts at establishing alignment between compensation plans for employees in restaurants with customer preferences obtained by means of an exploratory research.*

The findings of the research indicate that food & beverage, cleanliness & comfort, assurance, personal attention, and special feeling are the dominant factors shaping customer expectations in India.

Two different categories of customers were identified based on whether they prioritised dining experience or the tangibles associated with service. Ranking of priorities was done on the basis of the mean scores obtained in each of the factors mentioned above. For customers prioritising tangibles, Special Feeling obtained the lowest score and featured at the bottom of the list. Food & Beverage, on the other hand, remained the top priority for customers across both categories.

For the purpose of designing pay-for-performance plans, restaurants were categorised on the basis of their target customer segment. The percentage of variable pay was decided on two factors, (i) degree of control enjoyed by the employee and (ii) strategic importance of the particular function. The kitchen staffs were assumed to have suitable control over the Food & Beverage factor and the front-house staffs over the factors Assurance, Personal Attention and Special Feeling. To ascertain the strategic importance of a particular factor, the score obtained by it as well as its rank in the priority list were taken into consideration. Following this, suitable parameters for assessing the performance of employees were identified and their relevance discussed in some detail.

Keywords: *Restaurant Industry, Exploratory Research, Customer Expectations, Compensation Plans, Performance Management, Performance Parameters*

Introduction

Service sector poses a unique challenge as far as human resource management practices are concerned. Designing performance metrics in the service industry is a far more complex job than in other industries, such as manufacturing. While in the manufacturing sector performance can be easily quantified in terms of productivity, the situation is quite different in the service sector. It is a matter of common knowledge that customer satisfaction in a service industry is dependent not only on tangibles but also on intangibles such as the method of service delivery etc. Since there cannot be an objective measure of the intangibles associated with service delivery, performance metrics of service industries are often subject to much scrutiny and criticism.

Another challenge in designing performance metrics in a service industry is to establish alignment between performance parameters and customer expectations. While it is not always possible to have a fully objective measure of the performance of an employee, it is important to at least measure what really matters even if it does involve some amount of subjectivity. In the absence of an understanding of customer expectations, performance appraisals are often reduced to an annual or semi-annual ritual that in no way contributes to the strategic requirements of the organisation.

Let us take the example of the restaurant industry, which happens to be the subject of this study. Different categories of customers might visit a restaurant for reasons that are entirely different. There are restaurants that offer high value for price in terms of the food offered. There are others which focus on providing superior dining experience. It is obvious that the kind of customers visiting these two restaurants would be very different and, therefore, their expectations would also be quite distinct. A restaurant that provides high value for price might do well with providing only basic hygiene requirements and prompt service. The attire and behaviour of stewards might not play a big role in its success. On the other hand, if a restaurant looks to provide a superior dining experience, it has to ensure that it understands its customer's individual requirements and is able to alter its services to meet their unique demands. What is also important is to appreciate that the performance parameters of the employees of these two restaurants would be totally different because of the customer segment they cater to.

Review of Relevant Literature

Managing Expectations though Performance Management Practices

In a multilevel study of 257 employees, 44 managers, and 1993 customers from 25 restaurants, conducted by Hui Liao and Aichia Chuang (2004), it was established that both individual as well as store level factors were significantly associated with employee service performance. It says that personality factors like extraversion and conscientiousness explain the within store variation in performance while service climate and employee involvement explained the between store variation. Schneider *et al.* (1998) defined service climate as employees' shared perceptions of the policies, practices and procedures that are rewarded, supported and expected concerning customer services.

Fred Herera (2003) talked about the need to be fair when dealing with employees in an organisation. He asserted that when we are rewarding one employee and not the entire group, we are telling the others that they are less valuable to organisation. He goes on to define a four point check list for managing expectations. It says that the any message by the management aimed at the employees should be i) clear, ii) consistent overtime, iii) fit the occasion, and iv) promote productivity.

It is in this context that the HR practices of a service organisation or more specifically, its performance management practices become vital. While it is relatively simple to ensure clarity and consistency, it is not equally simple to ensure that the message fits the occasion and promotes productivity. The assessment parameters must, therefore, be designed with utmost care and they must essentially be under the control of the employee being assessed. In the absence of properly designed performance parameters, the employees are prone to frustration and this would adversely impact both service climate as well as employee involvement – factors whose importance have already been highlighted by Hui Liao and Aichia Chuang (2004). Whether a certain behaviour promotes productivity can be ascertained only if we know what the end user or the customer actually desires. This is most important and is far more difficult to ascertain in case of a service organisation.

Understanding Customer Satisfaction

The Kano model for customer satisfaction (Kano, 1984) talks about quality attributes grouped into three basic categories namely, basic factors, performance factors, and excitement factors. The basic factors are those that might cause dissatisfaction if not fulfilled but do not contribute significantly to customer satisfaction. The performance factors, according to the author, are those that produce satisfaction if fulfilled and dissatisfaction if not fulfilled. And finally, the excitement factors are those that produce high levels of satisfaction if fulfilled but no dissatisfaction if not fulfilled. The Kano model holds good in all types of service industries, including restaurants. What is, therefore, important is to identify the factors that are at the level of basic requirements and those that are responsible for providing a delightful dining experience. However, one has to appreciate that not all restaurants would cater to the excitement factors and thus, the relevance of these factors in the performance management plans in case of such restaurants would be minimal.

Measuring Service Quality

Service quality has been a topic of much debate among academicians and practitioners. The quality of service is difficult to evaluate because the assessments cannot only be made on the service outcome but is also dependent on the process of service delivery. Service quality is defined as the difference between customer's expectations and customer's perception of service experience (Parasuraman *et al.*, 1988; Gronoos, 1990). The SERVQUAL instrument developed by Parasuraman *et al.* (1988) is perhaps the most popular instrument available that measures customer satisfaction in service industries. The instrument comprises 22 items that fall into one of the following dimensions of service quality namely, reliability, assurance, tangibles, empathy, and responsiveness. The SERVQUAL instrument was later modified by Stevens *et al.* (1995) to cater specifically to restaurants. This modified instrument, known as DINESERV, consists of 29 items measured on a 7-point scale.

Factors Shaping Customer Expectations

Several studies have been conducted in different parts of the world in order to understand the expectations of customers from restaurants. According to Wu and Liang (2009), service encounter in restaurants consists of three main elements namely, environment, such as lighting & music; employees, their professional skills & reliability; and customers that is the interaction with other customers.

A study conducted by Mohsin *et al*. (2005) revealed that value for money, variety & quality of products available, staff related skills, staff presentation & manners, and well-timed service were the five most important expectations of customers from New Zealand cafes and restaurants.

According to Marković *et al*. (2010), there are eight factors that shape customer expectations from restaurants in Croatia. These are – cleanliness, appearance of facilities & staff, assurance, individual attention, satisfaction & loyalty, basic demands, responsiveness, and reliability.

Another study conducted in the business hotel industry in Turkey (Akbaba, 2006) revealed that business travellers had the highest expectations from convenience, followed by assurance and tangibles. Even though this study is not directly relevant to restaurants, nevertheless it is important because few service dimensions of the hotel industry, as identified in this study, is somewhat similar to those identified for restaurants in other studies.

In the studies conducted in fast food restaurants (Pettijohn *et al*., 1997) and Chinese restaurants (Qu, 1997), food quality was ranked as the most important determinant of customer's decision to return. This factor was significantly more important than cleanliness, value for price and convenience.

There are studies which also reveal that consumer purchase behaviour is influenced by customer's demographic characteristics such as Gender, Education, Income and Age (Slama & Tashchian, 1985).

Implementation of Performance Appraisals in Restaurants

As regards performance appraisal in restaurants, very little literature exists. A study conducted by Woods *et al*. (1998) revealed that use of performance appraisal in US restaurants is extremely low. According to the study, 66.7 percent of restaurants reported some use of performance management. Of these, only 29.9 percent indicated that they were required for all employees. On the other hand, 33.3 percent do not use them at all, 12.9 percent seldom use them and 16.3 percent use them at the discretion of their department heads.

Problem Identification

Perhaps it is due to the lack of understanding of customer expectations that the implementation of performance management practices in restaurants is at such a sorry state (Woods *et al*., 1998). Therefore, the problem that this study wishes to address is the possible lack of understanding of customer expectations and hence tries to bring about an objective alignment between performance management practices in restaurants and the expectations of customers visiting these restaurants.

Quite a lot of research has been done as regards measuring customer satisfaction and understanding factors that shape customer expectations using standard instruments such as SERVQUAL or DINESERV. instrument and its other modifications such as DINESERV. However, very little research appears to have been done when it comes to aligning performance metrics in restaurants with customer expectations.

One fact that does come out very clearly from the existing literature is that customer preferences are not universal and vary greatly according to geography. This clearly indicates that it would not be appropriate to proceed without studying the preferences of Indian customers. It is a matter of common knowledge that the preferences of different categories of customers are likely to be different. Some customers expect great food while there are others who are more interested in the ambience of the establishment and intangibles of service delivery. Therefore, it would also be interesting to categorise restaurants depending upon their target customer segment and then see if and how the performance management system would vary.

Methodology

A questionnaire comprising 35 questions was developed for the purpose of studying the preferences of Indian customers. Each question represented a service aspect and was adopted from one among Marković *et al*. (2010), Kim *et al*. (2009), Ladhari *et al*. (2008) and Akbaba (2006). The last publication in the sequence talks about service expectations from hotel industry in Turkey. Nevertheless, it did contain certain parameters which are relevant to restaurants as well. Refer to Appendix A for the questionnaire used for this study.

The respondents were asked to express their opinion about the degree of importance of a particular attribute. Qualtrics platform was used to prepare the questionnaire and the same was distributed through e-mail. The survey was conducted in the month of October – November, 2014. Subsequently, all analyses were performed in IBM SPSS, version 20.

Survey Results

In total, 118 usable responses were obtained. Factor analysis was carried out on these responses, followed by reliability analysis.

Respondent Profile

For profile of the respondents, please refer to table-1.

Table 1: Respondent Profile

Age	Percentage (%)	Visit Frequency	Percentage (%)
Upto 24 yrs.	26.5 %	Once in 4 months or lesser	15.4 %
25 yrs. to 35 yrs.	44.4 %	Once in 3 months	8.5 %
36 yrs. to 50 yrs.	12.8 %	Once in 2 months	12.8 %
Above 50 yrs.	16.3 %	Once or more in a month	63.3 %
Gender	Percentage (%)	Accompanied by	Percentage (%)
Male	76.3 %	Family	47.9 %
Female	23.7 %	Friends/Business colleagues	52.1 %

Factor Analysis

Principle Component Analysis with Varimax rotation was performed on the sample. The cut-off value for factor loading was taken to be 0.5 and only those components with eigen-value greater than 1 were retained for the next iteration. The items with nil-loading were removed in the very first instance and the process repeated. Some more nil-loaded items appeared in the next iteration. These items were removed and the process repeated till there were no nil-loaded items left behind. In the next iteration, all cross-loaded items were also removed. The process was repeated till there were no nil-loaded or cross-loaded items left over. At the end of the process, 7 different components were identified (Appendix B).

The 7 components (Table 2) taken together accounted for 68.308% of the total variance in the data. The KMO measure of sampling accuracy yielded a value of 0.82 signifying that 82% of the variance in the data could be explained by the underlying factors. The Bartlett's test for sphericity was found to be significant at p = 0.000.

The Factor Analysis summary table has been provided in the next page for reference. Only those components with 2 or more items were considered for Reliability Analysis. As a result, component No 7 was dropped from further analysis.

Reliability Analysis

Reliability Analysis was performed on each component. The cut-off for the value of Cronbach's Alpha was taken to be 0.7. Component No 6 (Table 2) failed the reliability test and was thus dropped from further analysis.

Component Labelling

The labelling of the components obtained was done as follows:

Component 1 – Food and Beverage contained questions mostly related to taste, hygiene and overall quality of food & beverage. High factor loadings were obtained in Q23, Q29 & Q34.

Component 2 – Cleanliness & Comfort contained questions related to cleanliness of the property and presence of comfortable seats in the dining area. High factor loadings were obtained in Q14 & Q17.

Component 3 – Assurance contained questions related to employee behaviour, functioning of equipment and variety in the menu. A high factor loading was obtained in Q26.

Component 4 – Special Feeling contained questions related to handling of special requests and overall feeling of being special etc. Very high factor loading was obtained in Q9.

Component 5 – Personal Attention contained questions related to fulfilment of individual needs and wants etc. A high factor loading was obtained in Q30 & Q32.

Order of Customer Priorities

General Order of Customer Priority

The general order of preference of Indian customers was obtained by computing the mean and median values of the constructs identified earlier. Table 3 lists the constructs in decreasing order of priority.

Table 3 gives some indication about the general order of priority for Indian customers. The 'p' column contains the significance value of the T-test performed with the next ranked priority. The test was performed at a level of significance, α (two tailed) = 0.95.

The mean score for Cleanliness & Comfort was not found to be significantly different from Assurance. The mean score for Assurance was also not found to be significantly different from Personal Attention.

Table 2: Factor Analysis Summary

Comp	Questions	Construct
1	Serves food and beverages that are adequate & hygienic Provides food whose overall quality is good Provides food that is fresh Serves food exactly as ordered Provides food that tastes well Have good value for price	Food & Beverage
2	Thoroughly clean restrooms Visually attractive dining area Thoroughly clean dining area Comfortable seats in the dining area Visually attractive parking area and building exterior	Cleanliness & Comfort
3	Equipment functions without suffering breakdown Employees have in-depth occupational knowledge (professional skills, communication skills etc.) Employees should be able to answer questions completely Provides variety in the menu offered	Assurance
4	Must make me feel special Employees give extra effort to handle special requests Provides food that is appealing to the eye	Special Feeling
5	Restaurant must have my best interests at heart Employees are sensitive to my individual needs & wants rather than always relying on policies and procedures Restaurant must anticipate my individual needs & wants	Personal Attention
6*	Dependability and consistency in service Must make me feel safe	Safe & Reliable
7	Employees able and willing to give information about menu items, their ingredients & method of preparation	-

* Component failed Reliability Test (Cronbach's $\alpha = 0.59$)

Table 3: General Order of Priority for Indian Customers

Rank	Construct	Mean Score	St. Dev.	Median Score	'p'
1	Food & Beverage	6.45	0.613	6.67	0.00
2	Cleanliness & Comfort	5.79	0.827	6.00	0.49
3	Assurance	5.71	0.867	5.88	0.16
4	Personal Attention	5.55	0.932	5.67	0.04
5	Special Feeling	5.28	1.056	5.33	-

The results clearly indicate that Food & Beverage is the highest priority for Indian customers and that Special Feeling occupies the last rank in the order of priorities. For the middle ranks, however, nothing can be said with certainty as to which parameter is perceived as being more important by customers.

Even though the results given above indicate the general order of priority for Indian customers, it is not entirely relevant for restaurants that target customers who are less inclined towards the tangibles (Food & Beverages) and more interested in the experience (Special Feeling). It is equally possible that there would be customers having very high inclination towards tangibles and care very little about the experience. These two categories shall, therefore, be treated separately in the following paragraphs.

Table 4: Priorities for 'Experience' Oriented Customers

Rank	Construct	Mean Score	St. Dev.	'p'
1	Food & Beverage	**6.66**	0.496	0.05
2	Special Feeling	**6.46**	0.371	0.07
3	Personal Attention	**6.22**	0.657	0.87
4	Cleanliness & Comfort	**6.19**	0.633	0.89
5	Assurance	**6.17**	0.846	-

Priorities for Category #1 ('Experience' Oriented) Customers

To study the preference of customers inclined heavily towards experience, the entire response set was split into two halves on the basis of the top quartile score for the factor Special Feeling. Those customers whose scores fell in the top quartile were considered for analysis.

The priority ranking for these customers was done as before. The 'p' column contains the significance value of the T-test performed with the next ranked priority. It tells us whether the mean score of a particular factor is significantly different from that of the next ranked priority. The test was performed at a level of significance, α (two-tailed) = 0.95.

From the analysis it becomes clear that Food & Beverage remains the top-priority even for 'experience' oriented customers. Though Special Feeling climbs up to the second spot, its mean score is not found to be significantly different (though marginally) from the next ranked priority. The mean score for Personal Attention is also not found to be significantly different from Cleanliness & Comfort. Same is the case with Cleanliness & Comfort and Assurance. The mean scores for these constructs are considerably close and their significance value too low to come to any reasonable conclusion about their relative positions. In short, we may summarise that Food & Beverage retains the top spot followed by the experience related factors such as Special Feeling.

Priorities for Category #2 ('Tangibles' Oriented) Customers

Proceeding similarly as Category #1, the entire data set was split into two parts; this time on the basis of the top-quartile scores for Food & Beverage. The priority ranking was done as before. Table 4 lists the order of priority for customers. The 'p' column lists down the significance value of the T-test performed with the next ranked priority. This value tells us whether the mean score for a certain factor is significantly different from the next ranked priority. The test was performed at a level of significance, α (two tailed) = 0.95.

For restaurants targeting customer segments inclined towards tangibles, the results are on expected lines. Food & Beverage is the top priority and its mean score is significantly different from the next ranked priority i.e. Assurance. There is no certainty about the relative positions of Assurance and Cleanliness & Comfort or Cleanliness & Comfort and Personal Attention. The score for Personal Attention is, however, found to be significantly different from Special Feeling, which occupies the last position in the list of priorities.

Discussion of Results

The results of the survey establishes the fact that the dominant factors shaping customer expectations in India are Food & Beverage, Assurance, Cleanliness & Comfort,

Table 5: Priorities for 'Tangibles' Oriented Customers

Rank	Construct	Mean Score	St. Dev.	'p'
1	Food & Beverage	7.00	0.00	0.00
2	Assurance	6.37	0.45	0.67
3	Cleanliness & Comfort	6.32	0.38	0.27
4	Personal Attention	6.14	0.77	0.03
5	Special Feeling	5.59	1.15	

Personal Attention and Special Feeling, not necessarily in that order, while the study performed by Marković *et al.* (2010) revealed that Cleanliness and Appearance of Facilities & Staff, Assurance, Individual Attention, Satisfaction & Loyalty, Basic Demands, Responsiveness and Reliability are the dominant factors shaping customer expectations in Croatian restaurants. If we look carefully at Table 2, the Cleanliness & Comfort factor actually takes into account both the cleanliness as well as the appearance of facilities.

Similarly, the factor Personal Attention is similar to Individual Attention as identified by Marković *et al*. (2010). Assurance, as defined in this study, is a little different from the factor Assurance identified by Marković *et al.* (2010).

They defined Assurance as the readiness of employees' to answer questions, making efforts to handle special requests as well as the safety of the customers. On the other hand, the factor Assurance, in this study, deals with the functionality equipments of the restaurants, the employees' knowledge and occupational skills and the variety offered in the menu. The efforts put in by the employees to handle special requests form a part of the factor Special Feeling, as defined in this study. The items in the Basic Demands factor defined by Marković *et al*. (2010) appear in the factors Food & Beverages and Cleanliness & Comfort, defined in this study. Since, the authors did not rank the preferences of customers in Croatian restaurants, it is not possible to compare them with those of the Indian customers revealed in this study.

Let us now focus our attention briefly on the study done on customers in New Zealand cafes and restaurants by Mohsin *et al*. (2005). It reveals that value for money, variety & quality of products available, staff related skills, staff presentation & manners and well-timed service are the major factors shaping customer expectations. It is important to note that all these factors are captured in one or other among the factors identified in this study. While value for price, variety & quality of products available are captured in the Food & Beverages factor, staff related skills, staff presentation & manners have been captured in Assurance, Personal Attention and Special Feeling taken together.

This study seems to agree completely with the results of the studies conducted in fast food restaurants (Pettijohn *et al.*, 1997) and Chinese restaurants (Qu, 1997) according to which food quality was ranked as the most important determinant of customer's decision to return. The general order of customer priorities as well as those of the 'experience' oriented customers and 'tangibles' oriented customers reveal that 'Food and Beverages' is the most important expectation of Indian customers.

The different factors that shape customer expectations can be categorised as Basic Factors, Performance Factors and Excitement Factors, as defined in the Kano model of customer expectation. For example, if we look at the general order of priorities of Indian customers, we at once realise that Food & Beverages are at the level of basic expectations for Indian customers. This fact is further borne out by the order of priorities for 'experience' and 'tangibles' oriented customers, where we find that Food & Beverages continue to remain the top of the priority for these two different customer segments.

It is not possible to clearly identify the Performance Factors and Excitement Factors because the scores of the other factors are not found to be significantly different from those next in the priority list. However, the general order of customer priorities (Table 3) as well as the priorities for 'tangibles' oriented customers (Table 5) indicate that Special Feeling is the lowest priority.

It can, therefore, be assumed that, in general, Special Feeling is an Excitement Factor for Indian customers. This means that customers might not be expecting special treatment from restaurants, all the same if they do get special treatment, the perceived value of the restaurant in their eyes move up several notches.

It is possible that there are other factors in the Excitement Factor category. However, they are not recognizable given the significance value of their scores. In addition, the above conclusion might not be valid in case of 'experience' oriented customers. From the scores and the significance values of the 2^{nd}, 3^{rd}, 4^{th} and 5^{th} ranked priorities of 'experience' oriented customers (Table 4), it is not possible to tell apart the Performance Factors from the Excitement Factors.

We must bear in mind the fact that not all restaurants would have the resources to provide special treatment to its guests. It is, therefore, essential for the restaurant to first identify its target customer segment and then tailor its practices to suit the requirements of its target category. This study has attempted to align the performance management practices of a restaurant with its target customer segment. The following section gives a detailed description of the same.

The survey results further indicate that even for customers inclined heavily towards experience, the importance of the factor Food & Beverage does not at all diminish. Therefore, it is only reasonable to conclude that restaurants looking to provide a unique dining experience to its customers cannot afford to compromise with the tangibles, i.e. Food & Beverages offered.

It is also interesting to note that the difference between the mean scores of the various factors have reduced quite a bit in case of the 'experience' oriented customers. As such, it would be prudent to assume that the importance attached with the other service aspects would also have to be augmented if a restaurant is trying to differentiate by providing superior experience to its customers. The impact of this result on the human resource management practices of an organisation would be looked into in some detail later on. For now it can safely concluded that providing special services to customers would require certain amount of autonomy on the part of stewards. SOPs might have to become less stringent in certain cases. Autonomy might also have an impact on the kind of people who are to be selected for such positions.

Further, the results also indicate that restaurants looking to differentiate themselves on the basis of their product, i.e. food and beverages offered, needs to worry the least about offering personalised treatment or unique experience to its customers. For such restaurants, the kitchen staff would undoubtedly hold the key to success and the front-house management would just have to ensure the basic level of service only. The implications of such a scenario to the human resource management practices of a restaurant has been dealt with in some details in the following section. Another interesting point about the results is that the general preferences of Indian customers seem to be very similar to this case, i.e. the 'tangibles' oriented customer.

Implications of the Study

From the results of the study it becomes apparent that customer preferences are dependent on a wide array of parameters and not just the cultural aspects (captured to some extent by the geographical location of the population) or the age and gender.

The purpose of this section of the study is to explore the implications of this study in the domain of human resource management.

Design of Pay-for-performance Schemes

Compensation plans for employees in two different categories of restaurants have been drawn up in the following section. Category #1 restaurants are those that target customers who prioritise 'dining experience' and Category #2 restaurants are those that target customers who prioritise 'tangibles associated with service'.

The first objective of any compensation plan is to decide on the percentage of variable component in the salary. While deciding on this percentage, it is important to ensure it does not go beyond what the employee being assessed can control. The strategic importance of the particular function also needs to be ascertained. For roles/ functions that are not very important to the organisation, it makes little sense to go for very high variable. In short, there are two points that need to be assessed while deciding on the percentage of variable – (i) the degree of control that the employee enjoys and (ii) the strategic importance of the particular role/function to the organisation.

In the context of this study, the five factors emerging out of analysis have been used to answer the question about degree of control. For example, it is clear that the construct Food & Beverages is, to a very large extent, under the control of the kitchen staff. Similarly, Assurance, Personal Attention, and Special Feeling are the ones that are under the control of the front-house staffs (stewards). On the other hand, Cleanliness & Comfort is not under the control of either of these two groups of employees. The question about strategic importance was answered by the weighing the mean score of a construct with its reverse rank in the priority list. A higher score signifies that customers attach more importance to the particular factor and it is hence of greater strategic importance to the restaurant. Obviously, the weights were allocated in opposite order of the ranks. For example, Rank #1 was given a weightage of 5, Rank #2 a weightage of 4 and so on. In addition, these weights (ranks) were modified slightly according to whether or not the particular score was found to be significantly different from that of the next ranked priority. The percentage variable obtained by this process was then adjusted to account only for those items in the particular construct(s) which are actually under the control of the employee. We shall derive the exact percentage of variable in the following sections of this study.

The process described above was followed in order to arrive at the percentage variable for each employee group. Once the percentage of variable salary was determined, the parameters for assessing this variable were finalised bearing in mind the strategic alignment of the parameters with the organisation's interests.

Restaurant Category #1 – Selling 'Experience'

For this category, the results appear to be quite interesting. Although Special feeling did make significant improvements compared to the list of general priorities, food & beverages continued to remain at the top of the priority list even in this case (Table 4). As discussed earlier, this probably signifies that even for customers with superior service expectations, the value for tangibles, like food & beverages, does not reduce at all. It shows that, with Indian customers one cannot compromise with the quality of food & beverages served in the name of superior service. In the following paragraphs, efforts have been made to design pay-for-performance plans in line with the findings of this study.

Kitchen Staff

The question here is to determine the percentage of variable in the total compensation offered to the kitchen staff. We must bear in mind that out of the five factors that emerged out of the analysis, only one factor, namely Food and Beverages, can be suitably controlled by the kitchen staff. It is important to understand that a huge amount of variable can have adverse effects on employee morale if the employee under consideration does not have sufficient control over the different attributes of service.

Thus, mathematically, % variable

$$\frac{6.66\times 5}{6.66\times 5+6.46\times 4+6.22\times 3+6.19\times 1.5\times 6.17\times 1.5}\times 100\%$$

$$\sim 35\% \qquad (1)$$

The numerator comprises the score obtained by the Food & Beverages construct multiplied by its weight (depending on its position on the priority list). The denominator comprises the scores of all constructs multiplied by suitable weights depending upon the position of the particular construct on the priority list. (These weights have been modified slightly in certain cases owing to the low significance value of the scores) In this way, it is possible to determine the importance of the particular construct, in this case *Food & Beverages*, to the overall success of the organisation.

If we now look at the different items in the Food & Beverages construct (Table 2) we would find that not all of these items are considerably under the control of the kitchen staff. For example, 'Serving food exactly as ordered' does not reflect entirely upon the competence of the kitchen staff as it is the front-line staff members who are responsible for conveying the order. 'Value for price' is also not something that is entirely under the control of the kitchen staff because the customers in these restaurants would value service as much as they would value the quality of food offered. Also, we see that even though hygiene is under the control of the kitchen staff, adequacy isn't entirely under their control. Taking all these into consideration we might assume that approximately 4 out of the 6 items under food & beverages construct would be under the real control of the kitchen staff.

Adjusting the value obtained in Eq. (1),

$$\%\text{ variable (adjusted)} = 35\% \times \frac{4}{6} = 23.33\% \sim 25\% \qquad (2)$$

The compensation for the kitchen staff should, therefore, comprise of 75% fixed component and 25% variable component.

Since we now have an idea about the % variable; we shall, proceed to the determination of parameters which would represent this 25% variable component.

Considering 'Average sale' as a performance parameter for Category #1 restaurants might appear a bit counter intuitive, but the results of the survey prove that for such restaurants the quality of food is at least as important as the quality of service. If the restaurant is not selling enough, it won't be able to charge premium just by the virtue of good service. The restaurant must ensure it continues to serve excellent food and compliment it with superior service.

The ability to accept special menu requests would also reflect on the competence of the kitchen staff. It is important to appreciate the fact that the customers in such restaurants are ready to pay premium for feeling special. The problem, however, lies in the objective measurement of such a parameter. Customer feedback about the ability to deliver as per requirement would give some indication. The restaurant manager might also use subjective judgement to assess this parameter.

The other parameters, as usual, would be taste, hygiene etc. 'Grooming' might also be considered as a performance parameter in this particular case. As discussed earlier, in many restaurants the chef is expected to come out of the kitchen and talk to the guests about their level of satisfaction. For restaurants who like their customers to feel special, such a gesture certainly needs to be encouraged.

Table 6 lists down the parameters with the weightage associated with each of them.

'Average Sale' and 'Catering to special menu requests' have been allotted the highest weightage. 'Taste & Hygiene' have been allotted low weightage because these are basic requirements and need not be heavily incentivised. 'Wastage', though very important, has been allotted relatively low

Table 6: Compensation Plan for Kitchen Staff of Category #1 Restaurants

FIXED PAY – 75%		
VARIABLE PAY – 25%		
PARAMETER	**WEIGHT**	**REMARKS**
Average sale	8%	Not to be paid if quota not fulfilled. Proportional rewards for exceeding the quota.
Catering to special menu requests	8%	Customer feedback / subjective judgement of the manager
Taste & Hygiene	3%	Customer feedback/adherence to SOPs
Wastage	4%	Value of wasted food. Benchmark and get into the reasons.
Grooming	2%	Subjective judgement of the restaurant manager.

Table 7: Compensation Plan for Front-house Staffs of Category #1 Restaurants

FIXED PAY – 55%		
VARIABLE PAY – 45%		
PARAMETER	**WEIGHT**	**REMARKS**
Avg. value of items sold	15%	Ability to upsell. Not to be paid unless a threshold limit is fulfilled. Proportional rewards for higher sales
Customer recall	12%	Subjectively determined by the restaurant manager. Amount sold beyond his designated table can act as a suitable proxy.
Ability to handle special requests	3%	Customer satisfaction score/ feedback about whether the customer's requests were fulfilled.
Grooming/Body language	10%	Subjectively determined by the restaurant manager
Adherence to SOPs	5%	Monitored by the manager. Deviation penalised

weightage because such restaurants offer superior service and can hence, easily transfer the cost of wasted food to its customers. 'Grooming' is not a great priority for kitchen staff. Also, it is more a selection issue and candidates lacking can easily be taught certain behaviours by means of simple training sessions. Nevertheless, it has been retained as one of the parameters just to convey its importance so that employees proactively try to improve.

Group incentive scheme would be appropriate for members of the kitchen staff as it would promote co-operation between the members. Promoting competition between the members of the kitchen staff might be detrimental to the strategy of the restaurant. All members should receive the same percentage of total salary as bonus. The actual percentage they receive might be assessed by means of the parameters identified above. However, the maximum percentage they would be eligible for is 25%.

Front House Staff (Stewards)

The role of the front-house staff would be crucial in the case of Category #1 restaurants. The amount of autonomy to be vested in these employees would have to be significantly higher. Among all the factors identified by analysis, special feeling, personal attention, and assurance would be under the direct control of the front-house staff.

The numerator comprises the scores obtained by the factors special feeling, personal attention, and assurance weighted by suitable values depending on their positions on the priority list. The denominator is similar to that of Eq. (1).

Proceeding similarly as Eq. (1), we obtain,

The % of variable pay =

$$\frac{6.46\times 4+6.22\times 3+6.17\times 1.5}{6.66\times 5+6.46\times 4+6.22\times 3+6.19\times 1.5\times 6.17\times 1.5}\times 100\%$$

$$= 55.79\% \sim 56\% \qquad (3)$$

In the three factors making up the numerator, there are a total of 10 items. Out of these 10 items, 'providing food that's appealing to the eye' and 'providing variety in the menu offered' are not entirely under the control of the frontline staff (Table 2).

Therefore, adjusting Eq. (3), we have, % variable (adjusted)

$$= 56\% \times \frac{8}{10} = 45\% \qquad (4)$$

The compensation for the frontline staff in Category #1 restaurants should therefore comprise 55% fixed and 45% variable.

Table 7 lists down the parameters for assessment of performance of the front house staffs in Category #1 restaurants.

'Average value of items sold' remains one of the most important parameters for performance assessment. As indicated in Table 7, it is a proxy for the ability to upsell. A restaurant has to ensure that the more 'productive' staffs are always rewarded.

There are restaurants where the staffs manage to develop such rapport with the guests that that they specially look for the same person to serve them each time they visit the restaurant. It is important for the restaurants targeting experience oriented customers to reward staffs who develop such rapport with the guests. The only issue with such a parameter is its objective measurement. The amount sold by a staff beyond his designated table can give some indication in this direction.

Since such restaurants sell 'experience', it is important for them to incentivise their staffs to fulfil the special requests made by guests. However, since special request would be more or less concerning the menu items, the role of the front-house staffs would be just to suggest new variations and convey the same properly to the kitchen staffs. Due to their limited ability to influence this parameter, the weightage has been kept somewhat low. Adherence to service SOPs is important because the customers visiting such restaurants are more likely to notice any deviation. However, the weightage has been purposely kept low because the stewards in such restaurants require some amount of autonomy.

Restaurant Category #2 – Selling 'Tangibles'

In general, the results of the study indicate a very strong preference for food & beverages and far less preference for the experience parameters, like special feeling or personal attention (Table 3). For restaurants which do not target any particular customer segment, the general order of preferences would be more suitable. But even with customers with a strong inclination for tangibles, the order seems to be almost identical. Therefore, it may be assumed that a general cross-section of the Indian customers is more inclined towards tangibles. The compensation and pay for performance plans drawn up in the following paragraph would, hence, be applicable both for the general case as well as for restaurants targeting those customers who prioritise tangibles more than experience.

Kitchen Staff

From the preceding analysis it becomes amply clear that for restaurants belonging to Category #2, the kitchen staffs undoubtedly hold the key to success. It is important for us to appreciate the fact that even though food & beverages emerged as the No.1 priority, there were other parameters which obtained decent scores, indicating that these factors though relatively less important, are certainly not unimportant. Proceeding mathematically as Eq. (1), we obtain.

The % of variable pay =

$$\frac{7 \times 5}{7 \times 5 + 6.37 \times 3.5 + 6.32 \times 3 + 6.14 \times 2.5 + 5.59 \times 1} \times 100\%$$

$$= 36\% \tag{5}$$

It is interesting to note that the percentage variable comes out to be almost equal to Category #1 restaurants.

Items under the Food and Beverages construct, like 'Value for price' though not under the direct control of the kitchen staff, the kitchen staffs might influence such parameters by reducing wastage which would in turn allow greater value for price by allowing the restaurant to charge more competitive prices. Items like 'serving food exactly as ordered' are also not at all be under the control of the kitchen staff as it is the stewards who are responsible for conveying an order to the kitchen staffs. Same is the case with 'adequacy of food served'.

Proceeding similarly as Eq. (2) and making adjustments to take into account only the items under the real control of the kitchen staff, we obtain,

$$\%\text{ variable (adjusted)} = 36\% \times \frac{4}{6} = 24\% \sim 25\% \tag{6}$$

The breakup of compensation for the kitchen staff can safely be assumed as 75% fixed and 25% variable. The next job for us is to fix the parameters and procedure for deciding upon the variable component of their compensation.

Considering the different items in the Food & Beverages construct, it becomes clear that taste, quality, freshness, hygiene and value for price are the parameters that stand out distinctly.

Value for price is related, though indirectly, to the value of wasted food items as more wastage compromises with the ability of the restaurant to charge competitive prices. It is therefore, important to consider wastage as one of the parameters in the assessment of performance of the kitchen staff.

Hygiene cannot be compromised with. As such, there should be strict SOPs to ensure that hygiene requirements are met. The adherence to these SOPs has to be ensured by the surprise checks. Customer feedback/ complaint can also contribute to the assessment of hygiene.

Taste, quality, and freshness can only be evaluated by the customers. However, some restaurants do have a 'food taster' to ensure that a poorly prepared food does not reach the customer. If the restaurant can ensure such a robust procedure, there's nothing like it. A poorly prepared food that gets detected by the taster pushes up the time to delivery and might also add to the value of wasted food items but reduces complaints.

Even though time to deliver does not feature in the items covered under Food & Beverages construct most restaurant managers consider it is to be an important predictor of customer satisfaction. As such some weightage should also be assigned to timely delivery of food items. There are restaurants which have the necessary infrastructure to accurately monitor the time required by the kitchen staffs to deliver an order. For others, it is subjectively assessed by the manager and through customer feedbacks/complaints.

Apart from these parameters, the restaurant must also assign some weightage to the kind of menu items ordered by the guests. The restaurant should ensure that out of a basket of menu items sold, a certain percentage belongs to the 'premium' category. These items are a source of competitive advantage for the restaurants as these cannot be easily copied by other smaller restaurants in the locality.

Table 8: Compensation Plan for Kitchen Staffs of Category #2 Restaurants

FIXED PAY – 75%		
VARIABLE PAY – 25%		
PARAMETER	**WEIGHT**	**REMARKS**
Wastage	5%	Negative points for every fixed % deviation from normal
Hygiene	3%	Negative incentives for deviation from SOPs
Taste	4%	Negative incentives for adverse customer feedback
Time to deliver	3%	Negative incentives for exceeding time limit
Sale of premium items	10%	Not to be paid if the quota not fulfilled. Proportional payment for exceeding quota.

A group-incentive plan is apt for members of the kitchen staff. Every member, irrespective of his position in the hierarchy, gets paid the same percentage as bonus. The parameters listed in the next page could be considered while deciding on the exact percentage to be paid, subject to a maximum of 25% as determined earlier.

'Sale of premium items' has been allotted the highest weightage because, as explained briefly earlier, it is a source of competitive advantage for restaurants that aims at differentiating itself on the basis of food and beverages offered. Wastage has been allotted some weightage because it is difficult for these restaurants to pass on the value of wasted amount to the customers. Time to deliver did not explicitly feature in any of the factors identified, hence the low weightage. Taste and Hygiene has been allotted low weightage because of these are basic requirements and need not be incentivised. Negative incentives have been proposed for these parameters.

Front House Staff-stewards

The importance of the front-house staff would be comparatively lower in case of Category #2 restaurants. Among the factors identified from the analysis, assurance, personal attention, and special feeling are under the direct control of the stewards.

Proceeding similarly as Eq. (3), we obtain,

% variable for Stewards =

$$\frac{7.37\times 3.5+6.14\times 2.5+5.59\times 1}{7\times 5+6.37\times 3.5+6.32\times 3+6.14\times 2.5\times 5.59\times 1}\times 100\%$$

$$= 44.48\% \sim 45\% \qquad (7)$$

In the three factors mentioned above, there are a total of 10 items (Table 2). Out of these, not all are under the control of the front-line staffs, for example, 'equipment functions without suffering breakdown' or 'variety in the menu'. The percentage variable obtained above has to be adjusted to account only for those items that can be suitably controlled by the front-house staff.

Making adjustments similar to Eq. (4), we have, $45\% \times \frac{8}{10}$

$$= 36\% \sim 35\% \qquad (8)$$

The breakup of compensation for the kitchen staff can safely be assumed as 65% fixed and 35% variable. Table 9 lists down the parameters for performance assessment.

'Sale of premium items' has been allotted the highest weightage. It is even higher compared to that for the kitchen staff. The ability of the front-line staff to promote a premium menu item is even greater than of the kitchen staffs. And, as discussed earlier, it is a source of sustainable competitive advantage.

Table 9: Compensation Plan for Front House Staffs of Category #2 Restaurants

FIXED PAY – 65%		
VARIABLE PAY – 35%		
PARAMETER	**WEIGHT**	**REMARKS**
Avg. value of items sold	3%	This amount not to be paid unless a minimum value is attained. Proportional reward for higher sales.
Grooming	2%	Subjective assessment by restaurant manager
Adherence to service SOPs	10%	Subjective assessment by restaurant manager
Customer feedback	5%	Negative incentives for adverse customer feedback
Sale of premium items	15%	Not to be paid if the quota not fulfilled

Most restaurants allot a certain number of tables to each steward at the beginning of each day. 'Average value of items sold' is a proxy for the ability to upsell. This ensures that every steward makes an effort to increase turnover and there is no tendency to free-ride. Aggressive attitude for selling is, however, not desired and is assessed through customer feedback.

Since the focus of a restaurant is to differentiate on the basis of superior quality of food, the performance parameters should incentivise selling and worry less about offering personalised service. Strict 'adherence to service SOPs' should be implemented so that stewards do not compromise on providing the basic level of service. Additionally, since personalised treatment is not a priority, autonomy would be less and strict adherence to SOPs can easily be ensured. Similar is the case with 'Grooming' which, as discussed earlier, is more of a selection or training issue and less a performance parameter. These parameters have been given the lowest weightage because they are basic expectations out of a service steward and not something that needs to be incentivised to a large extent.

Unlike that of the kitchen staff, the front-house staff of the restaurant would have to be assessed on an individual basis as one steward does not have any affect the performance of the other.

For all bonus related matters, the turnover of the establishment in the financial year has to be taken into consideration. The threshold turnover level should be fixed keeping in mind the external factors such as competitive pressure, location etc. Only if it crosses a certain threshold limit, would the employees be eligible for bonus. In no case, the amount would exceed 35% of total for the front-house staff & 25% for the kitchen staff.

Limitations and Directions for Future Research

The inherent assumption in the study was that segmentation of the population could only be done with respect to the priorities of customers. However, segmentation is possible on many other parameters as well, such as the age of customers. There are many restaurants which specifically target college goers while there are others which target more senior members of the society like middle aged family persons. It is also possible that priorities of customers are linked to their age or status in society. It would be a rather interesting proposition to take a more holistic view of the ways in which the restaurant going population can be segmented and then work out the interlinkages between the preferences and priorities of all these categories. This would give us a better understanding of the factors that shape customer expectations in India.

Further, the results of this study have been derived from a survey of 118 restaurant goers from all over India. Given the cultural diversity of the Indian population, it might be interesting to focus on different regions within the country and then verify if the results still hold good.

In addition, considering the fact that the many of the scores in the priority list of customers were not found to be significantly different from those next in the list, it might be a worthwhile exercise to repeat the study with a larger sample size. In this particular study, the top quartile for both the customer segments was represented by just around 35 respondents. Additionally, the problem of bias might also have affected the results as 75% of the respondents in the study belonged to a particular gender.

References

Akbaba, A. (2006). Measuring service quality in the hotel industry: A study in a business hotel in Turkey. *International Journal of Hospitality Management*, 25(2), 170-192.

Herrera, F. (2003). Demystifying and managing expectations. *Employment Relations Today*, 30(2), 21-28.

Kano, N. (1984). Attractive quality and must be quality. *Hinshitsu (Quality)*, 14(2), 147-156

Kim, W. G. K., Ng, C. Y. N., & Kim, Y. (2009). Influence of institutional DINESERV on customer satisfaction, return intention, and word-of-mouth. *International Journal of Hospitality Management*, 28(1), 10-17.

Ladhari, R., Brun, I., & Morales, M. (2008). Determinants of dining satisfaction and post-dining behavioral intentions. *International Journal of Hospitality Management*, 27(4), 563-573.

Liao, H., & Chuang, A. (2004). A multilevel investigation of factors influencing employee service performance and customer outcomes. *Academy of Management Journal*, 47(1), 41-58.

Marković, S., Raspor, S., & Segaric, K. (2010). Does Restaurant Performance meet customer's expectations? An assessment of restaurant service quality using a modified DINESERV approach. *Tourism and Hospitality Management*, 16(2), 181-195.

Mohsin, A., McIntosh, A., & Cave, J. (2005). Expectations of the service experience offered by restaurants and cafes in Hamilton. *Journal of Hospitality and Tourism Management*, 12(2), 108-116.

Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1988). SERVQUAL: A multiple-item scale for measuring consumer perceptions of service quality. *Journal of Retailing*, 64(1), 14-40.

Pettijohn, L. S., Pettijohn, C. E., & Luke, R. H. (1997). An evaluation of fast food restaurant satisfaction:

Determinants, competitive comparisons, and impact on future patronage. *Journal of Restaurant and Food-service Marketing*, 2(3), 3-20.

Qu, H. (1997). Determinant factors and choice intention for Chinese restaurant dining: A multivariate approach. *Journal of Restaurant and Foodservice Marketing*, 2(2), 35-49.

Schneider, B., White, S. S., & Paul, M. C.. (1998). Linking service climate and customer perceptions of service quality: Test of a causal model. *Journal of Applied Psychology.* 83(2), 150-163.

Slama, M. E., & Tashchian, A. (1985). Selected socio-economic and demographic characteristics associated with purchasing involvement. *Journal of Marketing*, 49(1), 72-83.

Stevens, P., Knutson, B., & Patton, M. (1995). DINESERV: A tool for measuring service quality in restaurants. *The Cornell Hotel and Restaurant Administration Quarterly*, 36(2), 56-60.

Woods, R. H. (1998). The use of performance appraisal systems in restaurants. *Hospitality Review*, 16(2), 2.

Wu, C. H., & Liang, R. (2009). Effect of experiential value on customer satisfaction with service encounters in luxury-hotels restaurants. *International Journal of Hospitality Management*, 28, 586-593.

Appendix A

While evaluating the service quality of a restaurant, how important are the following attributes to you? Indicate on a scale of 1 to 7. (1-Not at all important; 7-Very important)

Q1. Visually attractive parking area and building exterior
Q2. Staff members are clean, neat and properly dressed
Q3. Dependability and consistency in service
Q4. Must make me feel safe
Q5. Dining area is comfortable and easy to move around
Q6. Thoroughly clean restrooms
Q7. Service at the time promised
Q8. Employees give extra effort to handle special requests
Q9. Must make me feel special
Q10. Provides food that is appealing to the eye
Q11. Provides accurate services the first time
Q12. Employees reassuring and sympathetic in-case something goes wrong
Q13. Feel comfortable and confident in my dealings with the restaurant
Q14. Visually attractive dining area
Q15. Quickly corrects any mistake that has been committed
Q16. Thoroughly clean dining area
Q17. Comfortable seats in the dining area
Q18. Employees able and willing to give information about menu items, their ingredients method of preparation etc.
Q19. Serves food exactly as ordered
Q20. Well-trained, experienced and competent employees
Q21. Have good value for price
Q22. Provides variety in the menu offered
Q23. Serves food and beverages that are adequate and hygienic
Q24. Provides flexibility in the service provided according to my specific needs
Q25. Equipment functions without suffering breakdown
Q26. Employees have in-depth occupational knowledge (professional skills, communication skills etc.)
Q27. Provides food whose overall quality is good
Q28. Restaurant must have my best interests at heart
Q29. Provides food that is fresh
Q30. Employees are sensitive to my individual needs & wants rather than always relying on policies and procedures
Q31. Materials associated with service are adequate (soap, towel etc.)
Q32. Restaurant must anticipate my individual needs & wants
Q33. Easy access to the restaurant (transportation, parking area etc.)
Q34. Provides food that tastes well
Q35. Employees should be able to answer questions completely.

**The demographic and other details sought from the respondents have been excluded from this Appendix.*

Appendix B

Table A1: Rotated Component Matrix

	Component						
	1	2	3	4	5	6	7
Dependability and consistency in service						.506	
Must make me feel safe						.798	
Thoroughly clean restrooms		.642					
Employees give extra effort to handle special requests				.590			
Must make me feel special				.806			
Provides food that is appealing to the eye				.691			
Visually attractive dining area		.750					
Thoroughly clean dining area		.645					
Comfortable seats in the dining area		.732					
Employees able and willing to give information about menu items, their ingredients & method of preparation							.827
Have good value for price	.687						
Provides variety in the menu offered			.627				
Serves food and beverages that are adequate and hygienic	.724						
Equipment functions without suffering breakdown			.661				
Employees have in-depth occupational knowledge (professional skills, communication skills etc.)			.738				
Provides food whose overall quality is good	.634						
Restaurant must have my best interests at heart					.538		
Provides food that is fresh	.751						
Employees are sensitive to my individual needs & wants rather than always relying on policies and procedures					.777		
Restaurant must anticipate my individual needs & wants					.723		
Visually attractive parking area and building exterior		.566					
Serves food exactly as ordered	.547						
Employees should be able to answer questions completely			.605				
Provides food that tastes well	.740						
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalisation.							

a. Rotation converged in 9 iterations.