

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Hospitality industry involves certain businesses that are related to offering services and products such as food and beverage, accommodation, entertainment and travel. In fact, it is considered as a promising and profitable industry which has high contribution towards a country's economic growth. Typically, the hospitality industry has the goal to meet with the needs and wants for the purpose of making the customers feel safe, welcomed and satisfied with the service and products offered.

Cafe is one the hospitality industry business that falls into the category of food and beverage sector. However, this industry has undergone major changes and development in recent years; from just a place to eating and drinking, it has become a place where people sit for hours to chat, take pictures, relax and enjoy the ambience. Moreover, the customers start to demand for reasonable price, better service, quality of the products, cafe atmosphere and even location. In order to run well on this business field, a cafe needs to be more attentive towards customers' expectations in every aspect.

The good quality performance of employees determines the customer loyalty and trust. Rabbanee et al. (2015) stated that “employee performance had significantly positive effects on customer's expected value, trust, and loyalty”. Consequently, customer expectations should be taken into consideration so the

company apply it and result in presenting good employee performance. It has been concluded by a research that employee performance has a positive effect on customer loyalty (Rabbanee et al., 2015).

Employee performance in the hospitality industry points more towards the employees' ability to perform quality services for customers as an effort in achieving company goals by retaining customers which lead to loyal customers. A good service quality is one of the strategies in earning customer loyalty. If customers are happy with the employee performance, the company is a step closer to achieve loyalty from customers. Employee performance is the employee's behavior and job in relation to create good impression on customers. This can be referred to work effectiveness, quality, and efficiency at the task level. According to Tomczak et al. (2018) in Wongleedee (2020), employee performance can be stated as the cooperative actions done by the employees related with the company objectives consisting of their distinguished behaviors in certain circumstances.

Performance can be described as an overview of the realization of an action or strategy in actualizing the aims, objectives, vision, and mission of the company as defined in the strategic planning of a company (Moehariono, 2018 p. 95). Generally, the employees are expected to understand customers' needs and wants to present good images which can fulfill the satisfaction level of customers. When employee performance is poor, companies may not be able to satisfy customers and thus experience negative impacts on profits, company reputation and sales. Rabbanee et al., 2015 stated that "Customers' perception of service quality of a firm largely depends on employee activities and behaviour."

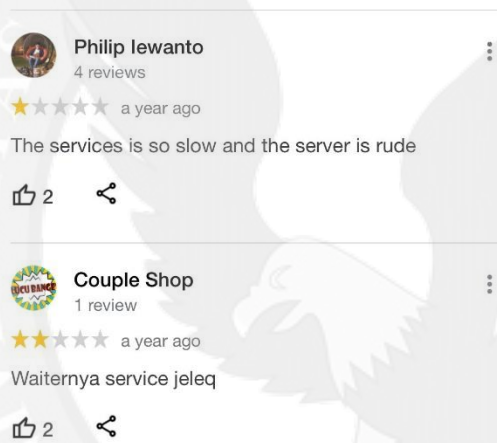
Loyal customers are customers who consistently come back to purchase goods from the brand since they are devotedly connected on it (Guillén and Rubio, 2019). Customer loyalty is interpreted as whether the customers decide to do repeat business with a company. Some customers are loyal because of the difficulty of finding or trusting new patronage, while others are loyal because of the service and products given that meet the expectation of the customers. Satisfied customers often lead to loyal customers which is believed to benefit the company. Loyal customers are the most valuable assets for the company in improving the profitability of the company (Budianto, 2019).

One of the strategies that can support this business is to try to offer high quality service as shown by employee performance. In order to make this happen, companies must apply one of the right strategies by offering high quality service through employee performance. Companies must be able to place employees' position appropriately in order to meet with customers' needs so that they feel satisfied and will create feelings of loyalty. This can make the company stand out more from the competitors.

The research is done at People's Place Cafe Medan, which officially opened its door for public on September 1<sup>st</sup>, 2019. This cafe is a casual-dining establishment with cozy and welcoming atmosphere. It mainly specializes in Western and fusion cuisine, but it serves local Indonesian food as well. The place itself is quite spacious and especially designed to give rustic and simple look at first glance. Besides, there is also an outdoor area provided for customers to enjoy the fresh air and good food altogether. Currently, People's Place Cafe has 35

employees who works within the establishment.

As written from the theories above, employee performance and customer loyalty are related. To support the theories, the writer prepared feedbacks of this restaurant from Google. Based on some feedbacks given by customers, the employee performance is not good. One of the customers complained that the employees were not attentive towards the customers' needs along with slow and rude, others even stated that they do not intend to come back to People's Place Cafe Medan again.



**Figure 1.1 Feedback of People's Place Cafe Medan**  
Source: Google



**Figure 1.2 Feedback of People's Place Cafe Medan**

Source: Google



**Figure 1.3 Feedback of People's Place Cafe Medan**

Source: Google

This research purpose is to figure out if employees of People's Place Cafe are performing well to gain loyal customers. Therefore, the writer is attracted in conducting the research entitled: **“The Influence of Employee Performance towards Customer Loyalty at People's Place Cafe Medan.”**

## **1.2 Problem Limitation**

Problem limitation is crucial in figuring out whether employee performance has an influence towards customer loyalty at People's Place Cafe which is located Jalan. R.A. Kartini No.29, Medan. This research aims to develop a strategically good employee performance to gain more loyal customers for the cafe. It will be limited to employee performance of People's Place Cafe as the independent variable and customer loyalty as the dependent variable. Moeheriono (2018, p.113-114) states that the indicators of employee performance are: knowledge, ability, skills, work attitude, work quality and interaction. On the other hand, the indicators of customer loyalty are making repeat purchases, buying products and services between lines, referring to others, showing immunity to pull out of the competitors (Griffin, 2015:31).

## **1.3 Problem Formulation**

In accordance with the background of study above, here are problems that should be investigated:

1. How is the employee performance at People's Place Cafe Medan?
2. How is the customer loyalty at People's Place Cafe Medan?
3. Does employee performance influence customer loyalty in People's Place Cafe Medan?

## **1.4 Objective of the Research**

In accordance with the background of study and problem limitation, the main purposes of this research are as follow:

1. To understand the employee performance in People's Place Cafe Medan.
2. To understand the customer loyalty in People's Place Cafe Medan.

3. To know whether employee performance influences customer loyalty in People's Place Cafe Medan.

## **1.5 Benefits of the Research**

Below are two types of research benefits regarding the influence of employee performance towards customer loyalty at People's Place Cafe Medan.

### **1.5.1 Theoretical Benefit**

This research result is expected to deliver additional knowledge and enrich insight regarding the importance of understanding employee performance and customer loyalty.

### **1.5.2 Practical Benefit**

This research result is expected to provide benefits as follow:

1. For the writer

This research can assist the writer by enriching the writer's knowledge and understanding on employee performance, customer loyalty and how employee performance influences customer loyalty.

2. For the company

This research can deliver feedback or an input towards People's Place Cafe development in terms of employee performance to gain loyal customers. The result of this research will further provide the company with additional information regarding the plan or tips in enhancing employee performance to be able to develop and compete with others.

### 3. For other researchers

This research can be used as a reference or foundation to support other researchers with similar topics.

