

Knowledge Management and Business Performance of Casual Dining Restaurants in Malaysia

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ABSTRACT

This study examines the relationship between knowledge management and business performance in a restaurant industry. A theoretical model that is based on the resource-based view of the firm is developed and tested empirically. The model includes three main components of knowledge management which are knowledge actualization, knowledge dissemination and responsiveness to knowledge where the performance of the restaurant is measured based on profitability and also customer satisfaction from the perspective of managers. Survey data of 164 casual dining restaurants' managers in the Klang Valley, Malaysia was used to test the relationship between the main constructs in the study. Analysis reveals that only responsiveness to knowledge has a positive relationship with business performance. These findings suggest that profitability and customer satisfaction of the casual dining restaurant in Malaysia depend on how well the restaurant responds to knowledge of its customers, competitors and market conditions.

Keywords: Knowledge management, restaurant, and restaurant business performance

I. INTRODUCTION

The global restaurant sector has performed well in recent years with a reported growth of 4.7% yearly average. The total value of this sector is around USD1627.3 billion and is expected to rise with the rising level of incomes and hectic lifestyle of consumers around the world. Within this sector, full service restaurant and casual dining restaurant are the most lucrative segment with market revenues of about USD698.8 billion in the year 2005.

The Asia-Pacific region is considered the most valuable and the most attractive restaurant market within the global restaurant sector. Its market value is reported to be around USD520.3 billion for the year 2010 and constitutes about 32% of the total global restaurant revenues.

In Malaysia, this sector contributes around USD 9 billion toward the nation's last year GNP. The Malaysian market is also having an influx of foreign restaurant operators which brings more international flavors to the market and intensified competition in the restaurant industry. Currently there are Indian restaurants, Arabic and Iranian restaurants, Thai restaurants, Vietnamese restaurants, Japanese restaurants, and Korean restaurants operating in Malaysian. Most of these restaurants claim that the Malaysian market offers good potential since Malaysia is a multi ethnic country and is also currently targeting more foreign tourists.

The Western type restaurant also continues to expand into the Malaysian market. Besides pizza and fried chicken, Malaysian consumers are starting to find varieties of western dishes such as steak, spaghetti, crème brulee, mushroom soup, foie grass and many more Western menus (Ihsan & Johari, 2007). This new development may signal to the restaurateurs that having a unique menu and good location are not enough to survive in the industry. They must have sound knowledge on their customers, competitors, market trend and other market conditions.

Thus, managing knowledge might be a key to achieving competitive advantage in this crowded market and the one that will ensure the survival of restaurant business.

II. LITERATURE REVIEW

The survival of any organization depends on so many variables such as market environment, organizational structure, resources, and strategies despite capabilities and knowledge management.

Thus it is necessary to review the performance from time to time due to changes in those variables (Najmi, Rigas & Fan, 2005). Business performance is also essential for the management in its planning and controlling process (Chan, Qui, Chan, Lau and Ip, 2003). The business performance measurement or review will

provides important input to the firm so that it can take necessary action and enable the firm to change its strategic orientation in order to ensure its survival in the future (Chan et al., 2003; Najmi et al., 2005). Parker (2000) gave several reasons why organization needs to measure performance. Among them are to identify success, to identify whether it meets the customer requirement or not, to help the organization understand its process, to identify where the problems exist and what necessary actions to be taken, to ensure decision is based on fact and not merely on guessing or emotion, and to show if the improvements planned actually happened.

Despite its importance to the survival of the firm including the restaurant sector, sadly there are not many research conducted to examine factors that contribute to the restaurant business performance. Many researches on restaurant were conducted in order to understand on the factors that contributed to customer choice, customer satisfaction and customer loyalty toward restaurant. For example, Mei Liu and Jung Chen (2000), Kara, Spillan and DeSheild (1995), Auty (1992), Lee and Ulgado (1997), and Josiam and Montiero (2004) studied attributes that are important to customers in choosing a particular restaurant.

Meanwhile, Koo, Tao and Yeung (1999) examined attributes such as restaurant's location, type of food, taste of food, menu variety, restaurant's concept, car park availability, price of food and drinks, restaurant's decoration, and services offered by the restaurant that are considered as main attributes that may attract customers to restaurant. Soriano (2002), Kivela, Inbakaran and Reece (1999, 2000), Clark and Wood (1999), Laurette, Leo and Jane (1994), Iglesias and Guillien (2004), Law, Hui and Zhao (2004), and Gilbert, Veloutsu, Goode and Mutinho (2004) studied factors that affect customer satisfaction in the restaurant sector.

Unfortunately, most of these mentioned researches look at the phenomena from the theory of reasoned action and the theory of planned behavior and not from the resource based view of the firm (RBV). They also did not examine the role of knowledge and knowledge management toward the performance of the restaurant industry.

Knowledge has long been identified as among major important assets for small and medium-size

firms (Omerzel & Antoncic, 2008) and it is necessary to have knowledge in order to survive in the global competition. Drucker (1959), Veblen (1904) and Nonaka and Takeuchi (1995) all agreed that knowledge represents one of the sources of sustainable competitive advantages and that knowledge is the basic foundation for economic performance.

Meanwhile, the positive relationship between knowledge management and performance can be traced back to the theory of RBV as argued by Barney (1991) who claimed that resources and capabilities of the firm can be utilized to create competitive advantage and thus performance. Knowledge management will provides the firms with better ability to predict the changes in the market and thus take necessary or appropriate strategic actions. It also will make the firms to be able to understand their customers' needs and wants and thus will lead to better solutions to customers' problems, and better development of marketing strategies (Wiklund & Shepherd, 2003).

Effective application of knowledge management within a firm allows it to differentiate its goods and services from those of its competitors (Collins, Worthington, & Romero, 2010). Other advantages of knowledge management are such as improve efficiency, improve market position by operating more intelligently, enhance the profitability of the firm, provide a better foundation for decision making, improve communications among employees, and make the firm focuses on the core business (Beijerse, 1999). Darroch (2005) also claims that intangible resources such as knowledge management can be used by the firm to create competitive advantage thus enhancing performance.

She examined the relationship between the components of knowledge management such as knowledge actualization, knowledge dissemination, and knowledge responsiveness on growth and profit. She found that knowledge responsiveness has a positive relationship with both growth and profit.

In another situation, Tsai and Shih (2004) examined marketing knowledge management which consists of marketing knowledge generation, knowledge dissemination, and knowledge storage on growth, profitability,

customer satisfaction and adaptability. They however did not find any significant relationship between all of those marketing knowledge management's components and performance.

Since the result of knowledge management on business performance is still mix, thus it is necessary to conduct more research in this area especially in the restaurant sector.

III. RESEARCH MODEL AND CONSTRUCT

The research framework or research model (Figure 1) is developed from the theory of resource based view (RBV) which illustrates the relationship between organizational resources and performance. The main constructs to be investigated are knowledge management and profitability. Figure 1 below provides the details.

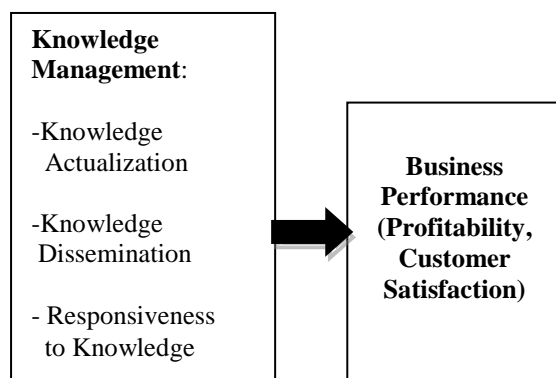


Figure 1 Theoretical Model

The construct and the measurement of knowledge management are adapted from the work of Darroch (2005). Darroch (2005) conceptualized knowledge management as consisting of three components which are knowledge acquisition, knowledge dissemination, and responsiveness to knowledge. This shows that the management of knowledge begins when a restaurant owner acquires knowledge, shared it among the employees, and then finally takes actions to response to the acquired knowledge.

Knowledge acquisition refers to the location, creation or discovery of knowledge. Knowledge will be acquired from a variety of resources and related to a very broad spectrum of issues facing the firm such as knowledge related to financial status of the firm, its competitors, market condition, customers, technological development, industry trend and the like. Knowledge

dissemination refers to dissemination of knowledge or sharing of knowledge among employees in the organization. Knowledge will be disseminated in the organization through four general approaches such as socialization, externalization, combination, and internalization. Meanwhile, responsiveness to knowledge simply mean that the organization takes actions to the various type of knowledge that the organization has access to.

All of the items in the constructs of knowledge management in this study are measured by using a five points Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. Knowledge actualization is measured by seven items which are our restaurant values employees' attitudes and opinion; our restaurant has well developed financial reporting system; our restaurant is sensitive to information about changes in the market place; we encourage customer comments and complaints; we get information on customers and market from surveys; we encourage our employees to sharpen their skills through training; and, we employ and retain large number of employees trained in hospitality management.

Knowledge dissemination is measured by five items which are: market information is freely disseminated in our restaurant; knowledge is disseminated on-the-job in our restaurant; we use specific techniques such as quality circle, coaching, and mentoring to facilitate communication; and our restaurant prefers written communication to disseminate information and knowledge. Finally, responsiveness to knowledge is measured by four items which are: we establish well developed marketing activities; we respond quickly to changing technology; we respond quickly to competitors' actions; and our restaurant is flexible and opportunistic by readily changing our food and beverages, process and strategies.

Meanwhile, the restaurant business performance is based on profitability and customer satisfaction which are measured by comparing them to the closest competitor in term of size and strengths. This study employs performance measures adopted from the work of Haber and Reichel (2005), and this measurement is most appropriate for small ventures in the tourism and hospitality industry. The measurement utilizes Likert scale range from 1 = lowest to 5 = highest.

(RM1million
-RM5million)

IV. POPULATION AND SAMPLE

The population of the study comprises of casual dining restaurants that are operating in Malaysia. The population frame is as listed in the www.yellowpages.com.my, which reveals a total of 2629 restaurants.

The sample companies that were approached were subjected to a set of criteria as follows:

1. The restaurant has been in business for at least one year.
2. The restaurant does not fall into a franchise category.
3. The restaurant is not a fast food or full service/fine dining category.
4. The restaurant is located in the Kuala Lumpur and the Klang Valley.

The total number of restaurants that were approached was about 200, and out of this the researcher managed to collect 164 responses. The response rate was about 82% which is considered very encouraging. The profile of the casual dining restaurant is presented in Table 1.

Table 1 Profile of Casual Dining Restaurant

Variables	Descriptions	Frequencies	%
Theme/Type	Western	29	17.7
	Malay	61	37.1
	Indian/Nasi Kandar	16	9.8
	Others	40	24.4
Location	Housing Area	20	12.3
	Shopping Complex	43	26.4
	Along Main Street	53	32.5
	Shopping Row in Business Area	47	28.8
Investment	<RM50000	34	21.1
	RM50001		
	-RM100000	58	36.0
	RM100001		
	-RM300000	39	24.2
	RM300001		
	-RM500000	21	13.0
	>RM500000	9	5
Local Staffs Status	<10%	12	7.3
	10%-30%	17	10.4
	31%-50%	16	9.8
	>50%	119	72.5
Floor Space	<1000 sq. ft.	64	39.5
	1001-3000 sq. ft.	87	53.7
	3001-5000 sq. ft.	7	4.3
	>5000 sq. ft.	4	2.5
Years in Business	<10 years	108	74
	10-20 years	31	21
	>20 years	7	5
SME category	Micro(<RM200000)	32	19.5%
	Small(RM200000-<RM1million)	105	64.0%
	Medium	27	16.5%

The above table indicates that all of the casual dining restaurants which participated in the survey belong to SMEs category. Most of the restaurants in the survey can be grouped into five main themes which are: Western Restaurant, Malay Restaurant, Chinese Restaurant, Malaysian-Indian- Muslim (Nasi Kandar Restaurant) and Others. Most of the casual dining restaurants in the survey are located along the main streets and in the shopping rows within the business district. The above table also indicates that most of casual dining restaurants which participated in the survey spend about RM50000 to RM100000 to operate a restaurant and they occupy the floor space of between 1000 to 3000 square feet. On average each casual dining restaurant employs about ten (10) employees and most of the employees are local. The casual dining restaurants surveyed are still young with the average age about 8.3 years although some of them have been in the business for more than twenty (20) years.

V. RESULTS

The principal component factor analysis was employed on knowledge actualization, knowledge dissemination and responsiveness to knowledge to validate whether the items in each variable loaded into the expected categories.

The dependent variable which is the performance is not suitable for factor analysis since the profitability components consist only one item. Reliability analysis was also performed in order to validate the construct. Table 2 shows the result of factor and reliability analysis.

Table 2 Factor and Reliability Analysis on Knowledge Actualization, Knowledge Dissemination and Responsiveness to Knowledge.

Name	Items	Factor Loading
Knowledge	Our restaurant values employees' actualization attitudes and opinion.	.53
	Our restaurant is sensitive to information about changes in the market	.64
	We get information on customer and market from surveys.	.68
	We encourage our employees to improve and sharpen their skills through training.	.81
	We employ and retain large number of employees trained in hospitality management.	.80
Eigen-value	% variance	Cronbach's alpha

2.47 49.45 .74

Table 2 (continue.....)
Factor and Reliability Analysis on Knowledge Actualization, Knowledge Dissemination, and Responsiveness to Knowledge (Continue).

Name	Items	Factor Loading
Knowledge dissemination	Knowledge is disseminated on-the-job in our restaurant.	.51
	We use specific techniques such as quality circle, coaching and mentoring to disseminate knowledge.	.57
	Our restaurant uses technology such as video conferencing and teleconferencing to facilitate communication.	.77
	Our restaurant prefers written communication to disseminate information and knowledge.	.59
Eigen-Value	% variance	Cronbach's alpha
1.53	38.46	.45

Name	Items	Factor Loading
Responsiveness to knowledge technology.	We establish well developed marketing activities.	.80
	We respond quickly to changing	.72
	We respond quickly to competitors actions.	.77
	Our restaurant is flexible and opportunistic by readily changing our food and beverages, process and strategies.	.70
Eigen-Value	% variance	Cronbach's alpha
2.25	56.39	.74

The above table indicates that only knowledge actualization and responsiveness to knowledge can be used for further analysis. Knowledge dissemination would not be considered for further analysis since the value of Cronbach's alpha is well below 0.6. Thus, the new hypotheses to be tested are:

H1. Knowledge actualization is positively related to profitability.

H2. Responsiveness to knowledge is positively related to profitability.

H3. Knowledge actualization is positively related to customer satisfaction.

H4. Responsiveness to knowledge is positively related to customer satisfaction.

Relationship between Knowledge Actualization, Responsiveness to Knowledge

and Profitability and between Knowledge Actualization, Responsiveness to Knowledge and Customer Satisfaction

Table 3 and 4 below show the summary of the regression results.

Table 3
Summary of the results of regression analysis between knowledge actualization, responsiveness to knowledge and profitability

Dependent Variable	Independent Variable	Standard Beta
Profitability	Knowledge Actualization	-0.3
	Responsiveness to knowledge	0.33**
	R ²	0.12
	Adj. R ²	0.08
	F.Value	3.69*

Note: ** p < .01, *p<.05

Table 4
Summary of the results of regression analysis between knowledge actualization, responsiveness to knowledge and customer satisfaction

Dependent Variable	Independent Variable	Standard Beta
Customer Satisfaction	Knowledge Actualization	0.18
	Responsiveness to knowledge	0.43**
	R ²	0.16
	Adj. R ²	0.13
	F.Value	5.90**

Note: ** p < .01, *p<.05

The tables above indicated that only Hypothesis H2 and H4 are supported.

VI. DISCUSSION

In this study only one component of knowledge management which is responsiveness to knowledge is significantly and positively related to both profitability and customer satisfaction. The casual dining restaurants in Malaysia need to respond to knowledge on their customers' needs and wants, and competition in the market place. They also need to be ready to change their food and beverages and develop suitable marketing activities in order to grasp the opportunities in the market. These will enhance their performance later on.

Nasi Kandar restaurants are again could be the best example that explains this relationship. The

restaurants respond well to the knowledge that “tom yam” and “nasi lemak” are the two most popular foods in Malaysia. They are flexible enough to add these foods in their menu although these two dishes are not their traditional menu. The restaurants also know that Malaysians are very fond of English League Soccer and thus adding big screen television sets in their restaurants to cater to this trend.

As a result, their restaurants are always full during week end where the game can be watched live at the restaurants. Some of the Nasi Kandar restaurants are venturing into other related business such as hotel and food supply. For example, Nashmir Nasi Kandar set up Nashmir Golden Hotel to provide lodging to their customers. This could be the result of their responses to the knowledge that they acquire about their customers’ need and wants.

Casual dining restaurants also need to respond to their competitors in order to improve profitability. The casual dining restaurants must respond to pricing tactics, promotional tactics and menu variety of their competitors. Casual dining restaurants are keeping their prices at market level in order to stay competitive. They must have the knowledge on costs of their operations and must respond to this knowledge by keeping the cost at manageable level. Otherwise, they will not be able to price their foods at competitive level. They are also responding to promotional campaigns of their competitors. This can be seen during special occasions such as Valentine’s Day, month of Ramadan, and Chinese New Year where most of casual dining restaurants prepare special dishes in order to attract customers to their restaurants.

Malaysian consumers are starting to become healthy conscious nowadays and they are particular about their health and cholesterol levels. Some of the casual dining restaurants are responding to this new trend by offering more vegetarian dishes and less meat in their restaurants. In fact, there are casual dining restaurants which serve only vegetarian foods, thus known as vegetarian restaurant. Japanese restaurant such as Sushi King which serves Japanese seafood also opening up more branches in response to this new knowledge. All of these indicate that casual dining restaurants are responding well to the knowledge that they have regarding their customers’ need and wants,

competitors’ actions and other developments in the market.

VII. FUTURE RESEARCH AND CONCLUSION

The result of this study shows that of all the three components of knowledge management only responsiveness to knowledge is significantly and positively related to business performance. Thus, more researches need to be conducted on small and medium enterprise (SME) in the area of knowledge management and business performance before we can conclude whether knowledge management has an effect on business performance. Other SME sectors such as retailing, other service sector, and manufacturing should be considered. Performance dimension should also include other dimensions such as sales growth, adaptability, and other nonfinancial measures.

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