

MASTER THESIS



How can catering businesses achieve competitive advantages in Chinese market

Using service differentiation strategy as marketing strategy

Yuanjia Bao & Yanqing Li

School of Business, Engineering and Science

Halmstad University, May 2016

ABSTRACT

Title: How can catering businesses achieve competitive advantages in Chinese market —using service differentiation strategy as marketing strategy

Authors: Yuanjia Bao & Yanqing Li.

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Background: With the improving living standards of Chinese people, catering businesses in China have entered into a mature stage. Moreover, young generations are more willing to pay for the high quality services they experienced. Therefore, in today's fierce competition environment, the traditional services are not enough to differ a business from its competitors. It is recognized that customers' overall experience during consumption can be improved by service differentiation strategy. This makes it important to utilize the service differentiation in an optimal way, which can improve the chances for competitive advantage.

Research Question: How can catering businesses work with service differentiation strategy in order to achieve competitive advantage in the Chinese market?

Purpose: The purpose of this study is to explore how a catering business can achieve competitive advantages through service differentiation strategy in the Chinese market. The thesis investigate the interaction of service differentiation strategy with other factors, such as customer relationship management and human resource management, instead of studying service differentiation alone.

Method: A qualitative research method with a case study design was used, by interviews with the respondents from the case company. Primary data is based on semi-structured interviews of employees and executives from different branches located in different cities of the case company.

Theoretical Framework: Theories about the service differentiation as

a marketing strategy is presented. Then the definition of human capital resource from a resource-based view is introduced, it continues with the theories of human resource management. From customers' point of view, we also discussed customer relationship management.

Findings: The competitive success ultimately depends on customers' perception of services, which can be categorized into two perspectives. The first is calculative perceptions. The second is emotional perceptions. Catering businesses earn more differentiation by strategically managing human resources to offer quality interactive services and to meet customers' emotional perceptions. Overall, to implement a service differentiation strategy in a catering business requires positive interactions across customers, employees and company itself.

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INTRODUCTION

In this chapter, we introduce the reasons of market changes happened in China over past three decades as well as the significance of this thesis. Afterwards, a research problem is raised, which guides the research question and the purpose. Finally, the chapter ends with the key concepts and disposition.

1.1 PROBLEM BACKGROUND

With the improving living standards of Chinese people, catering businesses in China are entering into a mature stage. Therefore, in today's fierce competition environment, the traditional services is not enough to differ a marketer from its competitors. However, big opportunities always come with high competition and food market conditions move from being simple to complex, from stable to dynamic, and from tame to hostile[80]. There is a growing concern over the area of customer services.

Moreover, younger generations in China are more willing to pay premiums for high quality services. Thus, some restaurant businesses in China are becoming more customer-centric[64]. It is recognized that customers' overall experience during consumption can be improved by service differentiation strategy. Restaurant business are adding more services which can better fit customer needs to their total offerings as part of a differentiation strategy[45]. Companies with greater reliance on the service part of their business reportedly achieve better return on sales and improve their value[37]. Based on high-quality products, companies incline to invest more in service differentiation to achieve competitive advantages. Services are not only being add-ons to products but also becoming the center of a company's total offering. Therefore, this thesis focuses on how catering businesses achieve competitive advantages through service differentiation strategy in Chinese market.

1.2 PROBLEM DISCUSSION

Previous related research in this area have mainly been focusing on exploring the relationship between differentiation strategy and company performance (I); evaluating the differentiation strategy and cost leadership strategy by comparison (II). Some studies also focus on devising a differentiation strategy (III). And some studies proved flaws of sticking on one strategy (IV).

Many studies found significant association between differentiation strategy and organizational performance. The strategy literature reveals contradictory results on the link between singular generic strategy and performance. Empirical studies confirm that there are some relationships between strategy and performance measures in various dimensions[71, 93, 89]. To achieve sustained competitive advantage, firms can choose and implement a generic strategy[90]. One of generic strategies is the differentiation strategy which facilitate organization to concentrate more on customers' effectively and secure better performance[56]. Parthasarthy describes strategy as a set of decisions and actions that managers make and take to attain superior company performance relative to rivals[95]. Company performance comprises six items as measures: return on investment, sales growth rate, cash flow from operation, customer satisfaction, product quality and market development. These items adapted from previous studies of Abu-Khadra and Rawabdeh[3]. Spencer and Salmon found empirical support for an indirect effect between differentiation strategic priorities and organization performance through the use of performance measurement systems, combining with the work of Hoque[62]. Hoque found an indirect effect between differentiation strategic priorities and organizational performance through the use of performance measurement systems. He also finds a significant and positive association between management's strategic choice and performance through management's high use of non-financial measures for performance evaluation. The business strategy choices are found to be significant in explaining firm profitability and its long-term performance[12]. A profit impact of marketing strategy (PIMS) study by Phillips, Chang, and Buzzell finds a significant and positive relationship between differentiation and market share[88]. Allen and Helms indicated a positive and significant relationship between differentiation strategy and organizational performance[4].

Prior studies also evaluated the advantages and disadvantages of differentiation strategy and cost leadership strategy comparatively. As Michael Porter who developed the generic strategies theory discussed the importance of choosing and focusing on one of the strategies. He stated that any attempt to combine or reconcile strategies would result in firms becoming stuck in the middle. The evaluation related to the manner of manifestation dealing with the preference for the two generic strategies engenders a base of information, which can substantiate a coherent approach for the competition systems in various industries. In this manner, a strategic option of a certain organization has a greater probability to come into fact, in order to gain a certain advantage and the needed economic performance. The cost advantages strategies are based on the use of economies of scale, economies of scope, learning effects, low labor cost, low labor content and low input costs[7]. However, the differentiation strategy is based

Author(s)	Key Concepts
Darrow et al. (2001)	Training employees with in-depth product and service knowledge.
Chakravarthy (2000)	Being creative when composing the company's portfolio.
Darrow et al. (2001)	Selecting products and services for which there is a strong local need.
Tuminello (2002)	Being creative when composing the company's portfolio.
Hlavacka et al. (2001) Bright (2002)	Emphasising the company's state-of-the-art technology, quality service, and unique products/services.
McCracken (2002)	<ol style="list-style-type: none"> 1. Speaking about the product to select panels. 2. Writing on key topics affecting the company in the association's magazine or newsletter. 3. Becoming involved in the community. 4. Using photos and renderings in brochures.
Byrne (2005) Gilmore (2005)	Product design.

Table 1: Key concepts for achieving a differentiation strategy

on the theory of the industrial economy. This strategy includes both horizontal differentiation and vertical differentiation of products. Hotelling enounced in 1929 that the horizontal differentiation is based on the spatial distribution of providers[113]. And Schmalensee stated that the vertical differentiation is based on the distinct quality[99].

The key step of devising a differentiation strategy is to determine what makes a company different from its competitor. To be effective, the message of differentiation must reach the clients (McCracken, 2002), as the customer's perceptions of the company are important[74, 14]. Van Raaij & Verhallen suggest bending the customer's will to match the company's mission through differentiation[40]. Chen argued that a company can achieve differentiation by enhancing product attributes in a way that adds value to buyers. This differentiation can be achieved through technology, brand usage, additional features, and unique services such as, pre and after sales. In addition, companies need to adopt a "dominant design" and create bonds with their customers through the superiority of their product and services[24]. Similarly, Deise stated that companies can gain differentiation by offering better product quality, improved service quality, pricing, and

fulfillment time[32]. We summarize the previous literature and find key concepts for achieving a differentiation strategy (Table 1).

Additionally, some researchers have found that sticking on only one strategy is flawed for a business. Evidence suggests that Porter's conceptualization is oversimplified. Although Porter recognized that firms can pursue both low cost and differentiation strategies successfully only in three temporary circumstances: when all competitors are stuck in the middle, when cost is strongly affected by share or interrelationships, and when a firm pioneers a major innovation. The first aspect which can be a flaw is that differentiation strategy is not inconsistent with cost leadership strategy. Some business can achieve a low-cost position through a differentiation strategy. Hall observed that there are more and more situations proving that companies need to combine both low-cost and differentiation strategies to pursue competitive advantages as there is no unique low-cost position in many industries[49]. Companies those that successfully emphasize both differentiation and low cost strategies will be rewarded by superior performance[55]. A study by White of 69 businesses units produced similar findings that 19 of the 69 units had a competitive advantage based on a combination of both low cost and differentiation[111].

However, we found a knowledge gap in that most researchers study the service differentiation strategy in isolation from other firm activities[58, 81]. By doing so, they neglect the interaction of service differentiation with other antecedents that may affect success, such as customer relationship and resources or capabilities of the companies. Combining service differentiation with factors such as resources-based view and customer centricity, versus service differentiation alone, can sustain above-industry average performance. Only the combination of service differentiation with other factors can translate into valuable resources that are neither perfectly imitable nor easily substitutable[60]. A few studies have taken a large-scale study approach[36, 44], but none of them has investigated service differentiation in relation to other firm activities. To address this gap, we will combine other factors that may affect success with service differentiation strategy instead of studying service differentiation alone.

1.3 RESEARCH QUESTION

How can catering businesses work with service differentiation strategy in order to achieve competitive advantage in Chinese market?

1.4 RESEARCH PURPOSE

The purpose of this study is to explore how a catering business can achieve competitive advantages through service differentiation strategy in the Chinese market. The thesis investigate the interaction of

service differentiation strategy with other factors, such as customer relationship management and human resource management, instead of studying service differentiation alone.

1.5 KEY CONCEPTS

1.5.1 *Differentiation strategy*

According to definition of dictionary, differentiation strategy is a firm aims to develop and market unique products for different customer segments[2]. Usually employed where a firm has clear competitive advantages, and can sustain an expensive advertising campaign. It is one of three generic marketing strategies (see focus strategy and low cost strategy for the other two) that can be adopted by any firm. In this thesis we focus on service differentiation. In this study, the definition of differentiation strategies will be divided into three sub-strategies since we focus on how a catering business implement service differentiation strategy.

1.5.2 *Service differentiation*

This concept was proposed by Edward Chamberlin in his 1933 Theory of Monopolistic Competition. In marketing, service differentiation (or simply differentiation) is the process of distinguishing a product or service from others, to make it more attractive to a particular target market[22]. The strategy targets customers in most or all segments based on attributes other than price (e.g., via higher product quality or service) to command a higher price. It is attempting to differentiate itself along these dimensions favorably relative to its competition. This involves differentiating it from competitors' products as well as a firm's own products. We would use this definition as how a catering business offers services differently compares to other competitors in order to attract and sustain the customers.

1.5.3 *Competitive advantage*

Competitive advantage is generally defined in terms of achieving returns relative to competitors[86]. Porter has identified 2 basic types of competitive advantage: cost and differentiation advantage: cost advantage and differentiation advantage. Porter argued that a company could achieve superior performance by producing similar quality products or services but at lower costs. Differentiation advantage is achieved by offering unique products and services and charging premium price for that[90]. For example, Apple's distinguishing factor when developing products is the seamless integration between them which creates a competitive advantage in the form of a strategic

lock-in which builds on path-dependency and imitability and creates high switching costs for the consumer[21]. Therefore, we will use this definition to analyze the core competence of the catering business.

1.5.4 *Human capital resource*

Human capital resources is described as a measure of the economic value of an employee's skill set[41]. In this thesis, human capital resources is considered as all the attributes of the individuals in the company; their skills, knowledge, attitudes, personal networks, motivation, competencies, commitment and experience This is chosen because of the fact that all these attributes could lead to a company's competitive advantage, and that is one of the focuses in the thesis.

1.5.5 *Customer relations*

Customer relations refers to the process and manner in which a business develops, establishes and maintains relationships with its customers. On a practical level, customer relations is effectively communicating with your customers and promptly addressing complaints and treating them as opportunities for improvement. In other words, listen to your customers. The relationship is measured by the degree of customer satisfaction through the buying cycle and following receipt of goods or services. See also customer relationship management. In this thesis the concept is on a more strategic level—placing customers at the center of all the business activities, including services, product quality, and pricing, which is a central component of building effective customer relations.

1.6 DISPOSITION

- **Chapter 2** provides relevant theories for the research problem of this study. This chapter starts with a presentation of marketing strategies. Resource-based view, customer centricity theory and human resource management are introduced followed by. And it ends up with an analyze model from our own illustration by combining some criterias of theories above.
- **Chapter 3** introduces the approaches we used in our study that include the research approach, research strategy, data collection, analysis, company selection and ethical considerations. In each subsection, the reliability of each method is provided.
- **Chapter 4** presents the findings we collected from our interviews and the content of respondents' answers to our questions, which are derived from previous researches and theories we presented in chapter 2.

- **Chapter 5** In this chapter, we analysis the empirical data that collected from the interviews. The analysis will be performed based on the analyze model in Chapter 2. The empirical evidence from how service differentiation strategy operated by the case company will be discussed with the basis from the central parts; Human capital resources, humanistic management, customer centricity theory will be put into relation to our theoretical framework.
- **Chapter 6** is synthesis that focus on the research results and real life, conclusion and discussion in the previous two chapters. At the same time, it conclude all thesis and give implications, limitations of the study and suggestions for further research.

2

THEORY

This chapter provides relevant theories for the research problem of this study. How those relevant theories relate to our study. This chapter starts with a presentation of Firms' marketing strategies. Resource-based view, human resource management and customer centricity theories are introduced followed by. And it ends up with an analyze model from our own illustration by combining some criterias of the-ories above. Table 2 is the overview of our theoretical framework.

2.1 MARKETING STRATEGIES

Chandler defines marketing strategy as the determinator of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals[23]. Marketing strategy has the fundamental goal of increasing sales and achieving a sustainable competitive advantage[75]. Mintzberg states that strategy is a mediating force between the organization and its environment: consistent patterns in streams of organizational decisions to deal with the environment[76]. Prahalad explains that marketing strategy is more than just fit and allocation of resources[50]. It is stretch and leveraging of resources Porter Strategy is about being different[91]. It means deliberately choosing a different set of activities to deliver a unique mix of value.

Catering businesses in Chinese market			
Marketing Strategies	Resource-based view	Human resource management (HRM)	Customer relationship management (CRM)
<ul style="list-style-type: none">• Categorizing generic strategies• Differentiation strategy• Service differentiation strategy	<ul style="list-style-type: none">• Firm resources• The source of competitive advantage• Human capital resource	<ul style="list-style-type: none">• HR activities• Humanistic management	<ul style="list-style-type: none">• Customer centricity• Customer relationship life-cycle view

Table 2: Overview of the theoretical framework



Figure 1: Porter's generic competitive strategies

2.1.1 Categorizing generic strategies

Michael Porter defines a category scheme consisting of three types of generic strategies that are cost leadership strategy, differentiation strategy and focus strategy, which can be applied to products or services in all industries, also to organizations of all sizes[90]. It is shown in figure 1. This theory describes how a company pursues competitive advantage across its chosen market scope. These three generic strategies are defined along two dimensions: strategic scope and strategic strength. Porter also claimed that a company must only choose one of the three or risk that the business would waste precious resources. Since different strategies appeal to different groups of customers.

2.1.2 Differentiation strategy

To better understand service differentiation strategy, a clarification of the concept of differentiation is needed. Porter argues that there are two types of competitive advantage: lower cost or differentiation relative to its rivals[90]. According to Porter, a firm following the differentiation strategy provides something unique that is valuable to buyers beyond simply offering a low price. This allows the firm to command a premium price (a price above the average price in the industry); to sell more of its product at a given price; or to gain equivalent benefits such as greater buyer loyalty during cyclical or seasonal downturns. Edward Chamberlin states that differentiation is the process of distin-

guishing a product or service from others, to make it more attractive to a particular target market[22]. Differentiation makes customers in a given segment have a lower sensitivity to other features (non-price) of the product[102]. Differentiation strategies are based on providing buyers with something that is different or unique, that makes the company's product or service distinct from that of its rivals. The key assumption behind a differentiation strategy is that customers are willing to pay a higher price for a product that is distinct (or at least perceived as such) in some important way. A successful differentiation strategy need good research, development and innovation; the ability to deliver high-quality products or services; effective sales and marketing, so that the market understands the benefits offered by the differentiated offerings[31].

2.1.3 *Service differentiation strategy*

Companies have started adding more services to their total offerings as part of a differentiation strategy[46, 81, 82]. Companies with greater reliance on the service part of their business reportedly achieve better return on sales and improve their value[36]. Service differentiation includes service business development, servitization, service infusion, high-value solutions, and transition from products to services [101]. According to Heskett, a common rationale involves using service differentiation to take advantage of strategic, financial, and marketing opportunities[54]. The fact that services are less visible and more labor-dependent makes them a strategic opportunity and a sustainable source of competitive advantage.

2.2 RESOURCE-BASED VIEW

The resource-based view (RBV) purposed by Jay Barney at Ohio State University: that the competitive advantage and superior performance of an organisation are explained by the distinctiveness of its capabilities. A company or an organization could be viewed as a collection of resources, and the development of new and existing resources is essential for businesses' growth according to Penrose[85]. Penrose proposed a distinction between physical resources and human resources in 1959, where physical resources are representing buildings, land, equipment etc. and human resources are defined as labor skills, technical knowledge etc. Resource-based view explains how a company through its internal competencies and resources could gain sustainable competitive advantages over its competitors. Wernerfelt argued for the need to consider both intangible and tangible resources[110]. According to Porter a competitive advantage is created when the customer experiences a higher value based on price, uniqueness or the combination of the two compared to what is offered by the

competitors[90]. Barney (1991) states that in order to form a base for a competitive advantage the resources possessed by the firm needs to be: valuable, rare, imperfectly mobile and non-substitutable[9].

2.2.1 *Firm resources*

Ansoff defined different types of resources as physical, monetary and human[5]. He acknowledged that configuring and manage these resources effectively is a vital part of the process of achieving the goals and objectives of the business. How a firm or manager perceives the availability of resources and the actual resource availability, does affect the outcome for companies over time[20]. According to Barney (1991) the resources includes all assets, capabilities, organizational processes, firm attributes, information, knowledge etc. controlled by a firm. He divides the resources of a firm into three categories[9]:
 1) Capital resources: equipment, location, finances and raw materials.
 2) Organizational capital resources: systems for control, planning.
 3) Human capital: the individuals in the firm, and their knowledge, intelligence, skills.

2.2.2 *The source of competitive advantage*

The source of competitive advantage for firms is a major area of research in the field of strategic management[90]. A resource is considered valuable if it contributes to the creation of strategies that enhances the firms' effectiveness[9]. Barney also claims that to create a competitive advantage, companies need to acquire, combine, develop its resources in a way that makes it difficult for competitors to imitate and that creates a unique value. The constraint of valuable resources is a challenge to small firms according to Welsh and White, which makes utilization of the resources, possessed an important issue[109]. The human capital is often seen as the main source of competitive advantage for firms. Most research on the sources of competitive advantage has focused either on isolating a firm's opportunities and threats[90], describing its strengths and weaknesses[57, 104], or analyzing how these are matched to chosen strategies.

2.2.3 *Human capital resource*

When looking at a firm from the resource-based perspective, one basic assumption is that the human resources are control of the other resources in the firm, and how they are utilized[114]. Wickham concludes that human resources are the people in the organization and their behavior and skills regarding how to acquire, develop and strategically implement resources are critical[112]. In other words; the performance and growth of the organization lies in the hands of the

human capital resources. Thus, the importance of human capital resources as a source of competitive advantage has been acknowledged by many studies. The most important factor for successfully implementing a service differentiation strategy is having sufficient human resources that can actually provide such different services. Human capital resources are the attributes of the employees in the company; their skills, knowledge, attitudes, personal networks, motivation, competencies, commitment and experience [42]. According to Katz this is true whether there comes to technological experts, customer service experts or visionary managers[65]. The development of the economic climate has made it more difficult for companies to gain competitive advantages by controlling or owning physical or financial resources[43]. Therefore a strategy which is focused on having highly skilled human capital within the company could be essential as a possible way to gain sustained competitive advantage[9]. Since these resources are connected to individuals in the organization it could enhance the complexity of imitation by competitors[18]. This is supported by Wright who argues that the value in human resources lies in the individuals themselves and the fact that these individuals can only work for one company at a specific time, leads to an inimitability of these particular resources[115]. This also addresses the importance of retaining the existing human capital resources in the firm, since the organization itself cannot have full access to the knowledge of each individual within it[26]. The study conducted by Van Hove concluded that to attract and retain individuals who adds value to the firm is highly important, not only to be successful but also in order to compete in an increasingly hard competition[107].

2.3 HUMAN RESOURCE MANAGEMENT (HRM)

Human resource is primarily concerned with the management of people within organizations, focusing on policies and on systems[27]. According to Graham and Bennett (1998), the management process has evolved since the age of slavery and human resource management emerged from personnel management. Human resource management emphasizes the fact that people employed in a company are resources which are at least as important as financial or material resources and must be given careful and expert attention[47]. According to Boxall and Purcell human resource management refers to all those activities that are associated with the management of work and people in firms and other formal organizations[19]. HRM can be understood as a set of activities that is aimed to enhance the individual and organizational performance. It is a function in organizations designed to maximize employee performance in service of an employer's strategic objectives[63]. According to Mondy, human resource management has six core functions which are: staffing, human resource develop-

ment, compensation and benefits, safety and health and employee and labor relations[79].

2.3.1 *HR activities*

HR departments and units in organizations typically undertake a number of activities, including employee benefits design, employee recruitment, "training and development", performance appraisal, and rewarding (e.g., managing pay and benefit systems)[16]. HR activities have been identified by Barret and Mayson as: recruitment, development (training and Performance appraisals) and retention[11].

2.3.2 *The theory of humanistic management*

Humanistic management is a brand new administration theory and method which rose up and began to prosper in 1980s. The theory advocates enterprises should emphasize on stimulating employees motivation, activity and creativity to carry out administrative activities. The psychologist Abraham Maslow, who is remembered as the founder of the Humanistic psychology, developed a theory of human motivation, presenting a hierarchy of needs, which can be applied to deal with employee motivation[72]. Maslow assumes that the basic inner nature of human beings was good and that unsatisfied human needs motivate behaviour. Needs can be presented in a hierarchy, he identified five different levels: psychological needs, safety needs, belongingness and love needs, esteem needs and self-actualization needs.

2.4 CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

Customer relationship management (CRM) begins with the basic premise that firms view customers as manageable strategic assets of the firm[98]. This approach is to manage a company's interaction with current and potential future customers[97]. Moving beyond this basic concept, the customer-firm relationship has been dissected into stages and firms have attempted to manage and strategize about those relationship stages. In general terms, those stages are 1) customer relationship (re)initiation; 2) customer relationship maintenance (i.e., relationship duration management and customer value enhancement), and 3) customer relationship termination management. Various authors expound on these core ideas, and in doing so, derive varied conceptualizations of CRM and its practice. Customer learning orientation, interaction orientation, key customer focus, and customer knowledge process are all relate to the basic premise of the CRM concept[96]. CRM is explicitly mentioned as a distinctive organiza-

tional capability with the potential of being a major source of a firm's positional advantage[30].

2.4.1 *Customer centricity*

Customer centricity is a business culture that produces outstanding performance through commitment to the creation of superior value for customers[33]. Combining service differentiation with factors such as innovativeness and customer centricity, versus service differentiation alone, can sustain above-industry average performance. Only the combination of service differentiation with other factors can translate into valuable resources that are neither perfectly imitable nor easily substitutable[61]. It emphasizes how firms capture and use information about customer needs[73]. The concept of customer centricity is that the company focuses its activities and products on consumer demands. Generally, there are three ways of doing this: the customer-driven approach, the market change identification approach, and the product innovation approach[28]. Customer centricity theory aims to identify opportunities to create a competitive advantage based on increasing customer satisfaction. Therefore, focusing simply on information regarding the needs of actual and potential customers is inadequate without also considering the more deeply rooted set of values and beliefs that are likely to reinforce customer centricity and pervade the organization[34]. An integral part of customer centricity is customer treatment that affects customers' perceptions of performance[6].

2.4.2 *Customer life-cycle view*

The customer life cycle comes from the practice of customer relationship management (CRM) where it's traditionally used to map the different stages a customer goes through from considering a product, service or solution to the actual buy and, at least as important, the post-purchase stages (where customer retention, loyalty and advocacy come in). It gets increasingly used in different business functions, including marketing and the management of the customer experience [29]. In CRM, the life-cycle view is a term used to describe the progression of steps a customer goes through when considering, purchasing, using, and maintaining loyalty to a product or service. The overall scope of the customer life-cycle implementation process encompasses all domains or departments of an organization, which generally brings all sources of static and dynamic data, marketing processes, and value added services to a unified decision supported by all the phases of customer acquisition, retention, cross and up-selling, and lapsed customer win-back[59]. Sterne and Cutler have developed a matrix that breaks the customer life cycle into five dis-

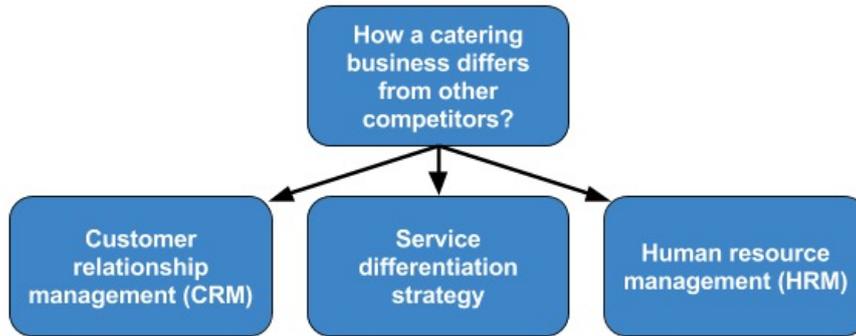


Figure 2: Analyze model, own construction. How the case company views their human capital resources, how the executives practically work with daily activities to manage their human resource and how they handle the interaction between customer centricity and service differentiation. If they integrate these factors to some extent will be analyzed.

tinct steps: reach, acquisition, conversion, retention, and loyalty. The customer life cycle is often depicted by an ellipse, representing the fact that customer retention truly is a cycle and the goal of effective CRM is to get the customer to move through the cycle again and again[29].

2.5 ANALYSE MODEL

In order to answer the research question how catering businesses work with service differentiation in order to achieve competitive advantages in Chinese market, the most suitable model has to be identified. After a literature review, four most relevant theories have been found, namely marketing strategy, resource-based view, human resource management and customer centricity theory. However, those frameworks all have different focus and therefore can not be applied directly to our study. Thus, we have illustrated our own model to analyze the combination and interaction between those key factors which can have effects to a service differentiation strategy. Figure 2 depicts the overall structure of our model.

3

METHODOLOGY

This chapter introduces the approaches we used in our study that include the research approach, research strategy, data collection, analysis, company selection and ethical considerations. In each subsection, the reliability of each method is provided.

3.1 RESEARCH APPROACH

We perform a qualitative research using a case study with abduction method.

3.1.1 *Abductive approach*

The concept of abductive approach was first put forward by Aristotle, then it has been developed by Charles Sanders Peirce into an explicit theory of inference. He argues that the traditional modes of reasoning induction and deduction should be supplemented by this third mode abduction, which he claimed was qualitatively different from the two others[84]. Abduction infers a case (particular abstract relations) from a rule (general requirements) and a result (empirical observation). It starts consider the fact that a particular observation. These observations then give a hypothesis which relates them to some other fact or rule, and which will account for them. This involves correlating and integrating the facts into a more general description, that is, relating them to a wider context. Thus abductive approach complied more with the aim of our study.

This study purposes to describe how food companies achieve competitive advantages in Chinese market by using service differentiation of differentiation strategy as a marketing strategy, moreover, we decided to adopt an abductive research approach to analyses research subject. It is a known result about differentiation strategy can help food companies achieve competitive advantage as a prove truth. Therefore, this thesis will deduce from the consequence to research how the service of differentiation of differentiation strategy help Chinese catering businesses achieve competitive advantages, which is a process of backward inference. After that, we will find new conclusion which was not explained or involved in the existing theoretical framework. According to these findings, it can be used to analyze the collected data.

3.1.2 *Qualitative research*

This study is set in the qualitative research paradigm as defined by Bryman and Bell[13]. To refer to research about how catering businesses work with service differentiation strategy in order to achieve competitive advantage in Chinese market. A qualitative research is, according to Guest and Namey, preferred when the aim is to describe situations and create new theories instead of testing existing theories[70]. A qualitative research also allows the analysis of collected data to take other forms than numeric, and can be focused on a smaller number of cases[13]. Qualitative research is centered on revealing a target audience's range of behaviors and the perceptions that drive it with reference to specific topics or issues. It uses in-depth studies of small groups of people to generate a wide range of data.

3.1.3 *Case study design*

In this study, we design a case study that allows us to focus on research problem. Research based on case studies has been of growing importance in the management field and is often the preferred strategy for research degree work in such fields as organization, strategy, marketing and accounting. Case study research can be defined as the detailed examination of a single example of a class of phenomena or as a research design that takes as its subject a single case or a few selected example of a social entity [48]. As a research strategy, the case study aims for the intensive examination of one or a small number of instances of the unit of interest. These units may be of any kind, but in management research they are often organizations or departments within them. They could, however, be larger units such as industries, smaller units such as work groups, or even single individual such as organizational leaders[66]. According to Mitchell as a working definition we may characterize a case study as a detailed examination of an event (or series of related events) which the analyst believes exhibits (or exhibit) the operation of some identified general theoretical principle[77]. Then Yin argued a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evidence; and in which multiple sources of evidence are used[116].

The approach akin to that of stratified sampling although the aim is not that of producing a statistically representative sample. When theory-testing is the goal, the selection of cases follows a replication logic rather than a sampling logic. Cases are selected either because they are predicted to display the same characteristics (literal replication) or because they are predicted to exhibit different ones (theoretical replication). The study of the cases may support the theoretical

propositions or may diverge from expectations, so requiring revision of the theory.

At last, we think that using this method can improve the credibility and effectiveness of the thesis. The multiple-case design aims to get the relevant information as much as possible, and to compare results between each case, which can help us to identify the important model.

3.2 EMPIRICAL DATA

This thesis is based on a literature review of previous research regarding service differentiation strategy, competitive advantages, human capital resources and customers' perception of service. Previous studies were studied by us before the thesis started in order to find the potential knowledge gap, acquire knowledge subject and build a foundation for our thesis. We also obtained materials from the annual report and the company's website and use qualitative data retrieval semi-constructed interview. According to Bryman and Bell, empirical data, known as sense experience, is a collective term for the knowledge or source of knowledge acquired by means of the senses, particularly by observation and experimentation[13]. This is contrasted with a prior knowledge, the knowledge accessible from pure reason alone.

3.2.1 *Company selection*

This thesis would like to investigate service differentiation strategy based on an empirical study of a Chinese chain restaurant Haidilao. Sichuan Haidilao catering Co., Ltd. was founded in 1994, which is one of the largest catering private enterprise in China[1]. It serves mainly Sichuan style hotpot while mixing the pick of other style hot pot. It has the top priority of ensuring the customer satisfaction by providing the best service and best food. The company values innovation and encourages personalized service. The management delivers the philosophy of 'hands change fate', and creates equitable environment for each employee. It also implements humanistic management and affection management, to promote employees' value. According to Haidilao's website, the company has opened 137 restaurants in Beijing, Shanghai, Xi'an, Zhengzhou, Tianjin, Nanjing, Hangzhou, and Shenzhen etc. and has over 20000 employees. The company has gained over 10 awards in Sichuan, Shan'xi and Henan, such as 'Excellent Enterprise', 'Customer Choice Winner' and 'Notable Hot Pot Restaurant' etc. From 2008 to 2015, HaiDiLao has been voted as 'The Most Popular Hot Pot Restaurant'. On May 27 2011, HaiDiLao won the honor as the 'China Well-Know Trademark'. Haidilao has played a vibrant part in the food industry for 22 years. It has successfully

Located	Name of respondents	Position	Date
Beijing	Shi da	Site manager	2016-04-14
Sichuan	Zhang yong	CEO	2016-04-13
Zhengzhou	Zhang Zhiguo	HR manager	2016-04-15
Shanghai	He Renqiong	Head waitress	2016-04-12

Table 3: Information of the respondents.

created an authentic hot spot brand, with merging the Sichuan cuisine culture, and the taste of Sichuan flavor. Since Haidilao company has very good reputation among customers especially for its gold services, thus we would like to choose Haidilao as our case study.

3.2.2 Selection of respondents

According to our research purpose, data of achieving competitive advantage in Chinese catering market through service differentiation need to be collected. We followed the suggestions from Kvale and Brinkmann and based the criteria on the purpose of the study and who could provide the information needed[68]. We decided to interview CEO, site managers and HR managers from HaiDiLao and they are come from different city of China. One of respondent Shi da who is site manager in Beijing HaiDiLao. Ma yong is the CEO of this company in Sichuan. In Zhengzhou HaiDiLao, we try to contact HR manager Zhang Zhiguo. In addition, He Renqiong is a head waitress working at the flagship store of Shanghai. The information of the respondents in detail is presented in table 3. The author interview staffs from different cities related to different roles. Therefore, the data collected from different aspects that a more comprehensive interview could have been achieved by interviewing these relevant managers of HaiDiLao.

3.2.3 Qualitative interviewing

The qualitative interviewing is probably the most widely used method in qualitative research. When conducting a qualitative interviewing, interviewers can depart from any schedule or guide and ask new sub-questions according to interviewees' answers or replies. In other

words, qualitative interviewing tends to be flexible. Therefore this method is suited for our study since both the time span and number of instances examined is limited. Qualitative research focuses more on words, than the amount of data collected, and leans more towards induction, which is in line with the need to generate new theory and concepts and contribute to filling the research gap. And there are two major types approach in qualitative interviewing introduced by Bryman and Bell: unstructured interview and semi-structured interview [13]. When conducting an unstructured interview, there may be just a single question and interviewer allow to respond freely. It is an approach similar to a conversation. However, a semi-structured interview needs a list of questions on specific topics to be covered. Although, this approach usually has an interview guide, interviewee has a leeway in how to reply questions. Questions that are not included in the guide may be asked as the interviewer picks up on things said by interviewees. But, by and large, all the questions will be asked and a similar wording will be used from interviewee to interviewee. Therefore, we focus on qualitative approaches use semi-structured, as suggested by the list above.

We designed the interview guidelines/questions (Appendix 1) based on our own research model that consists of three main focuses, namely human-capital resources, custom perception of service and human based management. In the beginning of the interview, the questions are more general and focusing on getting the overview of the company where interviewee came from. Then the questions are directly designed from each of the subpart of our research model intending to get concrete result reflecting each feature. For example, the question 17 concerns about the custom feedback channels and whether the company track customers purchases and provides a streamlined process for getting feedback from custom. It will help us establish the custom perception of service part of the undergoing case study. We also include the Chinese version of the questions in Appendix 2.

3.2.4 *Data analysis*

The data analysis was based on the analytical model in chapter 2 combined with the empirical findings. These consist of categorized information retrieved from the case company. The aim was to analyze how the case company manages the employees and the relationship with their customers to implement service differentiation strategy. We use analytical and logical reasoning to examine each component of the data provided to obtain the process of evaluating data. During the analysis, the empirical findings were compared with the theoretical framework and research sustainable in differentiation strategy and competitive advantage of companies, to find commons help generalizing the findings and make them applicable on other contexts.

3.3 GENERALIZATION

The real focus of a case study is particularization, in stead of generalization. We take a particular case and primarily focus on what it is, what it does as opposed to understand how it is different from others. There is emphasis on uniqueness, which implies knowledge of others that the case is different from, but the first emphasis is on understanding the case itself[103]. It is also true that some kind of generalization from case studies is possible. Yin argues that while results cannot be generalized to populations or universes (statistical generalization), they can be generalized to theoretical propositions (analytical generalization)[116]. Punch adds that the derivation of new concepts is another way in which a case study can yield "generalizable results"[92]. Clearly, these claims indicate an analyst may derive general theoretical propositions and concepts from the study of a specific case. But these are not qualified as empirical generalizations. Moreover, we would even argue that they are not generalizations at all.

In our view, these claims for generalization of case studies are equivalent of saying that they can be used for theory construction, as Eisenhardt suggests[35]. We believe it could be better described as a process of analytical or inductive inference rather than of generalization. As Bechhofer and Paterson (2000) say[39], In a strictly statistical sense, we cannot generalize at all from a case study. There are, however, exceptions. It is only logical to generalize from a single case to a population of identical cases or near-identical cases. For instance, reports of our case study of HaiDiLao, which is a traditional chinese food company should be generalized for very similar chinese food companies. But in general, it is beneficial to be cautious about making empirical generalizations based on only one or a few cases.

3.4 VALIDITY

According to Bryman and Bell[13], qualitative research inevitably consists a certain amount of subjectivity. As a result, it is possible that author's personal values could affect the process and result. Therefore, we keep an impartial mind throughout the process of analyzing the results of interview answers.

Case studies have always been criticized for using ill-defined methods for data collection, for reasons like investigator's bias might influence what is observed and reported, and the difficulty of reproducing the same result. On the contrary, these rationales are merely the result of a misunderstanding of what is case study, wrongfully equal it with observational fieldwork, where such issues are valid. Even so, advocates of the case study have found it necessary to address these criticisms. As Stoecker has indicated, there exists at least two types of response. One is to show that these problems are by

no means restricted to the case study but are in fact problematic for all forms of social research. The other, more rigorous methods have been developed which are intended to strengthen the internal validity of the case study[105]. Triangulation, namely the use of multiple methods of data construction, is one such rigorous method advocated by Yin[116]. Yin also suggests a number of other methods, by which a case study's internal validity can be greatly improved. To utilize this multiple methods of data construction, in our case study, we collect the data not only via interviewing managers, common employees but also through finding the services actually provided by checking its website and official reports.

Critics of case studies often argue that since it is impractical to generalize based on a single case, such research is inherently flawed. As a result, a case study can only be used for exploratory purposes or to generate hypotheses, which can be investigated by other more rigorous means. Thus, the role of case study is only secondary and even relatively trivial compared with other methods like survey or experiment. There are several ways to respond to this criticism. Stake argues that the main goal of case study research is 'particularization' rather than generalization[103]. Others arguments based on the ground that even if generalization from a single case is normally difficult, such studies can still be valuable. It have already been shown that case studies can serve as sources or inspirations of theory. In addition, Punch points out that a case may be sufficiently complex, unusual, interesting or misunderstood to have enough value of its own, without need for any aspiration to generalization[92].

3.5 ETHICS

According to Bryman and Bell, an ethical consideration is a consideration of what is acceptable to do in a study[13]. Researchers always have to balance between what they want to find out and the rights of participants. Therefore, researchers need to consider some questions of compliance and privacy, and the rights of the respondent. In order to ensure compliance, we try to contact respondents before and ask them to answer our questions, respect the wishes of the respondents. In order to ensure the privacy of respondents, with some of the information in the process of all respondents are anonymous. Moreover, in order to reduce the error of understanding and memory, we will provide to read the record of interview that include all of the respondents. After interview, respondents can contact the researchers to discuss the answer and ensure the interpretation is correct. In here, author's action will follow the ethics method.

EMPIRICAL FINDINGS

This chapter presents the findings we collected from our interviews and the content of respondents' answers to our questions, which are derived from previous researches and theories we presented in the theory chapter.

4.1 COMPETITION AND SERVICE DIFFERENTIATION

When it comes to the competition in catering business, CEO of Haidilao Zhang Yong states that the restaurant business has entered into a mature stage in China. The market competition becomes increasingly fierce. Zhang Yong admits that nowadays to stand out in the competitive and homogenous catering businesses is extremely hard since there are many substitutes for Haidilao's business. To keep growing in catering industry is also becoming more and more difficult:

It is hard to make different when selling the homogeneous products to price-sensitive customers.

It is increasingly difficult to implement a low price strategy because of the products' homogenize, Haidilao finds out another different way—to implement service differentiation strategy. Although facing the pressure of competition, Haidilao intends to take more market share through their differentiation services and to achieve competitive advantages. Zhang Yong believes that it is not enough to just follow the traditional rules, but a different way of thinking is necessary. The traditional services are not enough to meet the dynamic and unique needs of customers. He has changed a standardization service to a more personalized service :

We are making our best to satisfy our customers through continuously innovating of services and to differentiate our services from others.

Haidilao adapts its business model and its organization to the demands of customers. According to the website of HaiDiLao, on average, it costs one diner RMB 150 to 200 (\$22 to \$30) to finish one meal in Haidilao. This price is approximately 20-30% above the average price of hotpot:

High quality service makes the price reasonable, reaching the satisfaction of our customers and creating the largest profit space for us at the same time.

The reason why some small businesses failed to implement service differentiation is the cost of the organizational complexity. While Zhang Yong says their high quality services and best overall customer experience justifies Haidilao's premium pricing. Haidilao is by far the market leader, the high margins give the company the resources to operate in its unique way. Zhang Yong states their strategy is difficult for competitors to imitate especially for those small catering companies. He believes that it will be hard for those small local catering businesses to survive because of the high costs and difficulties for combining and developing valuable resources.

4.2 CUSTOMER RELATIONSHIP AND LIFE-CYCLE VIEW

While dealing with the relationship of their customers, Shi Da the site manager from Beijing store believes the success of Haidilao critically determined by their customers' experience during their consumption. He believes that the most effective method for building a good customer retention is letting the customers acknowledgement and recognition that they are deserving customers:

Every table is equipped with an Ipad. Every new customer need to create their own account on an Ipad to make order before the meal. It is not just for improving efficiency of services, but the improvement of the recommendations to customers. The personal account keeps all the history orders of a customer and these orders stored shows us every customer's preference. Moreover, the customer can earn stars every time when his or her consumption occurs. A customer who earned more than three stars will be served by a personal manager and enjoy extra rewards and special offers such as birthday coupon and free dishes etc. The personal manager will reserve a table for the star customer before he or she comes to dine.

Haidilao orients the entire operating model around their customers, increasing customer satisfactions and becoming a customer centric business. "Customer first" is Haidilao's business philosophy and company's slogan which known by every member in company. Haidilao has a system named "first hand", one of Haidilao's waitresses He Renqiong explains that any employees received the customer's request, who will become the "first hand", being responsible for the implementation to the customer's request, instead of telling corresponding colleagues to do this. This system not only makes the services effective but also decrease customers' waiting time to let customers feel valued and respected. At the same time every store of Haidilao requires to be equipped with ten percent more employees of floating positions. Customer's life experience, career and personality all can have influence on their perceptions and needs. The basic insight into

what their customers actually want helps Haidilao knowing how to motivate their customers and to promote consumption. Their purpose is to main the sustainable customer's satisfaction:

We tailor our whole operating model to customers' needs, defining and quantifying our customer segmentations, delivering genuine value to them.

Employees at every level of every division also have to deeply understand customer needs to make an end-to-end customer experience, dedicating to provide "attentive, warm and comfortable" services for customers. He Renqiong explains that :

Guidelines for HaiDiLao waiters cover trivial matters. A waiter is required to change a customer's hot towel no less than four times and no more than six times if the customers have no special requirements.

When it comes to the initiation of customers, according to the CEO Zhang Yong, the executives have a holistic view of customers' needs based on different customer segmentations. We target the customers in the more developed regions where hot pot is more of an "occasional treat", and where customers value "service" as much as the food itself. The good relationship with customers will have been building before the customer consumption:

Even people who are not inclined to consumption in Haidilao can enjoy the free extra services we offer, such as manicure, shoeshine, massage, beverages and snacks etc. This is a good way to attract potential customers. Besides, we have our own APP on phone providing variety interesting mobile games, customer can win coupons or awards such as Haidilao's hotpot condiment if they win the games. By this mean, for those who are waiting in line for meals, it can help them pass the waiting time. For those potential customers, the coupon and rewards may let them have greater incentives to consumption in Haidilao.

Since year 2011, a "virus affect" about Haidilao spreading on the internet, there comes a popular saying among the Chinese people: Nothing can stop Haidilao. Haidilao's gold services have conquered majority of hotpot enthusiasts. Many their customers wrote about their feelings, took pictures and posted on the internet, sharing their dining experience at Haidilao, after they were " treated as a god".

4.3 HR ACTIVITIES AND HUMANISTIC MANAGEMENT

The headquarter of HaiDiLao has no longer operated each store's human resource activities. Instead, every branch director manage their human resource of their branch stores. By this mean, the HRM pro-

cess becomes effective in Haidilao.

"Delegating the power of managing human resource to each branch stores not only can reduce the workload of headquarter but also give the branch stores a few independent innovation space." The site manager Shi Da says.

Recruitment

Haidilao created a unique recommendation system combined with social recruitment to facilitate the recruitment processes. The HR manager Zhang Zhiguo from Zhengzhou store explains that this is a relatively unique way, with good prospects for development:

This way of recruiting is a virtuous circle. Employees, distributors, suppliers and even customers can be a recommender to recommend suitable candidates for Haidilao. Only when employees in Haidilao is sufficiently respected, the cooperative partners or customers enjoy the work environment and harmonious atmosphere in Haidilao, they will introduce friends or relatives to Haidilao. Those who are recommended this time can be referrers in future. By this means, Haidilao has recruited many value-adding individuals.

The HR says that Haidilao pays many attention on cultivating good qualities. They attach more importance to employees' potentials. Many of their employees are come from rural areas who possess many good qualities such as diligence, modesty, simplicity compared to those who come from developed regions. Haidilao also uses social media to attract younger applicants:

High-education or special skills is not the necessary conditions in Haidilao's recruiting but the spirit of hard work is a threshold.

Development (training and performance appraisals)

As the HR states that Haidilao has its own training center equipped with professional trainers. HaiDiLao designs the training process with the purpose of 1) transfer Haidilao's value and culture to their employees; 2) indicate company's basic regulations and principles during daily work; 3) build professional skills and knowledge for specific position; 4) motivate their employees:

Our training programme includes: mission and goals; regulations and principles; job descriptions and basic service manner. We also take employees' education background and personality into consideration, carrying the programme by telling stories and examples with simple words. Those who passed the evaluation exam will be sent to different apartment, illustrating and improving the deficiency in later work. The employees can give us feedback

to strengthen the training process. Besides, Haidilao makes great efforts in transferring what employees have learned in their daily work and improve their capabilities.

Every employee is evaluated by Haidilao's own indicators:

We only have two indicators for inspecting, the first is according to the customers' satisfaction, the other is according to our work enthusiasm.

Humanistic management

The CEO of Haidilao states that satisfy employees first before satisfy customers. The human capital resources are the valuable asset for Haidilao, which are also the key to their success. Every employee is extremely important for Haidilao. Haidilao aims to satisfy every employee from real bottom. Therefore, positive reinforcement on employees can be seen anytime in Haidilao. The employees can always be praised of their efforts for improving customer service, as He Renqiong states:

We are given the authorities to make any decision to satisfy our customers, which includes giving discount to the customers on behalf of the restaurant without the involvement of the manager.

In haidilao, there is no such a rule that forces ordinary employees to obey the managers. Instead, all the employees are encouraged to carry out better ideas than their managers. A family-like culture is behind Haidilao's human resource management, which can motivate their employees and keep the employee turnover low. The dismissal rate of Haidilao is less than 10%:

The rent is very high in Shanghai, but we don't need to worry about it, since we are provided with Internet-connected and well-decorated apartments with housekeeping services. Meanwhile, we also have an education fund and a reasonable salary Said He Renqiong.

5

ANALYSIS

In this chapter, we analysis the empirical data that collected from the interviews. The analysis will be performed based on the analyze model in Chapter 2. The empirical evidence from how service differentiation strategy operated by the case company will be discussed with the basis from the central parts; Human capital resources, human capital management, customer relationship management will be put into relation to our theoretical framework.

5.1 HUMAN RESOURCE MANAGEMENT (HRM)

Haidilao considers their human resource as the key to successfully implement service differentiation strategy. Human capital resources are the attributes of the individuals in the company; their skills, knowledge, attitudes, personal networks, motivation, competencies, commitment and experience [41]. This is in line with Wernerfelt, who states human capital as an important source of competitive advantage[110]. Wickham concludes that human resources are the people in the organization and their behavior and skills regarding how to acquire, develop and strategically implement resources are critical[112]. According to Barney and Wright, managing the employees strategically could enhance the performance of business and should be seen as an important part of the strategy[10]. Wernrtfelt's states in 1984 that the employees of an organization could, if managed correctly, be crucial for the firms' performance compared to competitors. In his study, he explains how a company through its internal competencies and resources could gain sustainable competitive advantages over its competitors. This is shown by Haidilao's own HRM system and regulation which is consistent with benefit of employees, mobilizing the initiative of employees. The idea 'treat every employee respectfully as a family member' is kept in every senior manager's mind.

Besides, the process of employee recruitment and development in Haidilao is unique. According to Bitran and Hoeh, most companies can assure quality in high contact service settings by motivating and training their employees to establish a good interactions with customers[15]. Recruitment can be identified as all the exercises and activities with main goal to identify and attract potential employees. Haidilao combines recommendation system with social recruitment to recruit employees. This is one of Haidilao's HRM approaches to identify potential employees. Since the background and information

of the candidates recommended by their existing employees can be more trustworthy.

Haidilao has the training center equipped with professional trainers to provide new employees with professional skills and knowledge. As Coff and Kryscynski state that a strategy which is focused on having highly skilled human capital within the company could be essential as a possible way to gain sustained competitive advantage[25]. Since these resources are connected to individuals in the organization it could enhance the complexity of imitation by competitors[17]. Professional knowledge, quality management and job skills are critical to service differentiation strategy, which hold the internal capabilities and competence on a high level. Vargo and Lusch who define services as 'the application of specialized knowledge and skills through processed, deeds and performance[108]. Those who are required to do technical work or to have special skills such as manicurist and ramen chef must receive specific training and be certified capable for their position before they assume the posts. This could be linked with Backhaus who claims that it is important for some companies to have a demand for fitting an individual to a specific task[8]. To become a source for competitive advantage the human capital resources needs to interact in an efficient way, both between individuals in the organization, and with the organization as a whole[51].

Haidilao has a low employee turnover compare with other catering businesses. Employee retention is defined as the turnover of the employees within the company. One assumption is that the 'best' employers have a lower employee-turnover rate[69]. The company has a formal strategy and a series of activities to satisfy and motivate their employees. Haidilao reinvest their profits to create a safe and stable working environment for all their employees. This is in line with that the working environment is one of the main factors for employee motivation. Managers need to implement different elements that meet the employees' expectations[106]. Pfeffer mentions factors as showing recognition; provide security and fair treatment as strong motivational tools. There are many studies that emphasize possible ways for how companies could work with retention[87]. Compensation and benefits are considered to be fundamental[106]. Haidilao spend a large proportion of their income on compensation and benefits for their employee. The living conditions of their employees are very good. Besides, the employees can get educational fund for their self-development. Pfeffer argues that benefits such as bonuses, which are based on the profitability, make employees to identify themselves with the company[87]. Stum argues that employees in an organization must feel that they belong to something bigger, and that they are more than workers[106]. In that case, he states that it is most likely that they will stay loyal and also do the best they can to contribute to the organization[106]. This is shown by how the employees in Haidi-

lao are trusted with responsibilities and capabilities. Haidilao give their employees chance to develop and have more responsibilities, making them feel more connected to the company and creating sense of mental ownership.

5.2 CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

Frambach found that differentiation strategy clearly allied with customer centricity[38]. This is shown by how Haidilao manages and designs its entire operating model around their customers. CRM lies in its potential to help firms understand customer behavior and needs in more detail[67]. In particular, CRM can affect future marketing decisions, such as communication, price, distribution, and brand differentiation[94]. Understanding how firms can profit from their customer relationships is highly important for both marketing practitioners and academics[83]. This can be a reason to explain why Haidilao's pricing is 20-30% higher than the average price. There is a more specific classification of the needs of customers includes four stages according to Pine and Gilmore. The first stage is to offer commodities to customers. This is one of the most basic requirements. The second stage is to standardize the products for customers. The third stage of needs is to deliver services to customers. Better services could enhance the economic value more. And the last stage is the experience of the customers. Haidilao company has met all the customers' need of different stages to differentiated themselves from other competitors. The first two stages are essentially external and more basic. However, the last two stages are more internal and personal from a customer's point of view, which is depended on the state of mind of the individual who receipt of services. Haidilao devotes to innovate a caring, compassion, comfortable services based on the technical service skills and standardized processes, personalizing special services to provide customers a better internal experience. This goes in line with Pine and Gilmore (1998) that the management and design of customers' experience can be seen as an effective way for companies to differentiate themselves from competitors to achieve competitive advantages.

By systematically accumulating and processing information across the customer lifecycle, CRM enables firms to shape appropriate responses to customer behavior and needs and effectively differentiate their offerings[78]. For Haidilao, they use technology to take orders, the self-help system can keep all their customers' orders and information and let Haidilao learns customer's preference. In this way Haidilao can keep adapting to customer's individual and dynamic needs. Moreover, the credit system in Haidilao aims to give customer greater intention to consume in Haidilao again. According to Hellier repurchase intention is the individual's judgment about buying

a service again, the decision to engage in future activity with service provider, and what form this activity will take[52]. In Haidilao, every amount of purchasing will be recorded and calculated into credits. When the customers have enough credits, they can have discounts or free dishes. Another important feature of Haidilao's differentiation strategy is that even people who is not intended to consume in Haidilao can enjoy the free extra services like manicure and shoeshine provided by Haidilao. By this means, Haidilao wins a lot of potential customers.

5.3 SERVICE DIFFERENTIATION STRATEGY

Haidilao uses service differentiation to take advantage of strategic, financial, and marketing opportunities. The fact that services are less visible and more labor-dependent makes them a strategic opportunity and a sustainable source of competitive advantage[53]. This is shown by the creation of Haidilao's hotpot delivery service which is hard to be imitated by small business. Since the delivery service requires more employees and drives up the costs. Also delivery service of hotpot can be a new great market opportunity for Haidilao. Service differentiation strategy enables organizations to concentrate more on customers' effectively and secure better performance[56]. Besides, according to Neu and Brown, service differentiation also strengthen the positive relationship between customer centricity and business performance and the relationship between innovativeness and business performance[81].

The success of Haidilao's service differentiation helps haidilao establish a customer perception of their high quality services, making it more easy for Haidilao to innovate and penetrate markets with new service offerings. The good reputation of Haidilao results in customer loyalty and reinitiation. As Yoon states that a good service reputation is an asset that can enhance the customer's expectations about the company's offerings and mitigate uncertainties about the offering's performance[117].

While Haidilao is focusing on service differentiation and customers experience, the operational processes of HRM is focusing on delivery processes and service deliverer. This goes in line with the facets that a leadership focus on goals and planning for differentiated services, recognition and rewards for service excellence, internal support from others on whom service deliverers depend, adequate tools and equipment to deliver service quality, competent co-workers, and a sense that the service that is delivered is of the highest quality. Employee experiences of the service climate in which they work significantly predict customer satisfaction[100].

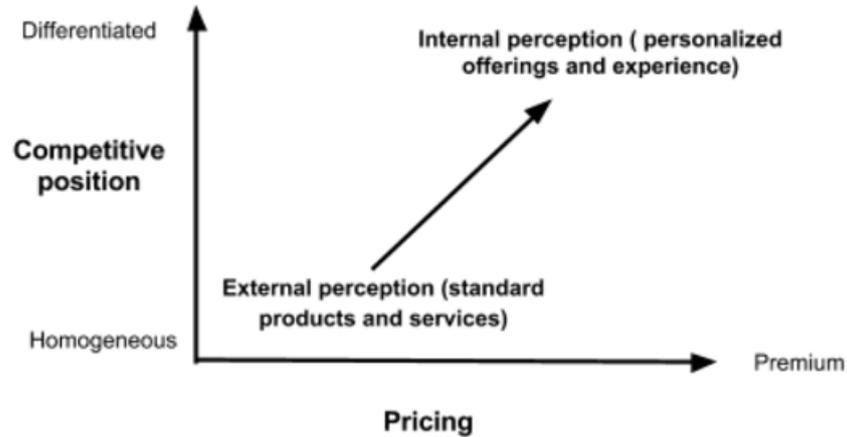


Figure 3: Own construction. Relations of customers' external perception and internal perception with company's competitive position and pricing.

5.4 DISCUSSION AND DEVELOPMENT OF FRAMEWORK

Through the analysis above, We identify two perspectives of customer perception. The first there is an external perception. The other is internal perception They are shown in figure 3. When Haidilao is implementing their service differentiation strategy by offering personalized services and experience to their customers, it is also creating high values for customers' internal perception of services , which can be seen as more emotional and personal. The value addition for internal perspective concerns with the reactions and relationship between customers and service providers. The more relevant to customers' internal needs the more differentiated and competitive position company will achieve also the pricing can be higher.

CONCLUSIONS, IMPLICATIONS AND FUTURE RESEARCH

In this chapter, we will be analyzed by three part: theory,model and empirical and made some conclusions of this study. These conclusions will be presented together with the implications of the findings and limitations. At the same time, research field will also be suggested and give more information for future research.

6.1 FINDINGS AND CONCLUSION

In the background, it was stated that the Chinese catering businesses have entered into a mature stage, the characteristics of product homogeneity makes the competition becoming increasingly fierce. Using a service differentiation strategy as a marketing strategy has been the focus of our study. However the strategy is not often been discussed with other factors. Therefore our study examines the interaction of service differentiation strategy with customer relationship management and human resources management through a case company, which implements the service differentiation strategy successfully. This study builds on established relationship among complexity of customer perceptions, customer needs, human resource and competitive advantages. Our study starts with the research question:

How catering businesses work with service differentiation strategy in order to achieve competitive advantage in Chinese market?

The results of the study demonstrates that there are positive interactions of service differentiation with customer relationship management and human resources management. The findings suggest that from the company perspective, to achieve competitive advantages through the service differentiation strategy, company should execute management activities of both internal (HRM) and external perspectives (CRM). Only the combination of service differentiation with those factors can translate into valuable resources which are neither easily substitutable or imitable for other competitors. Overall, to implement a service differentiation strategy in a catering business requires positive interactions across customers, employees and company itself. Following is a model from our own construction as a summary:

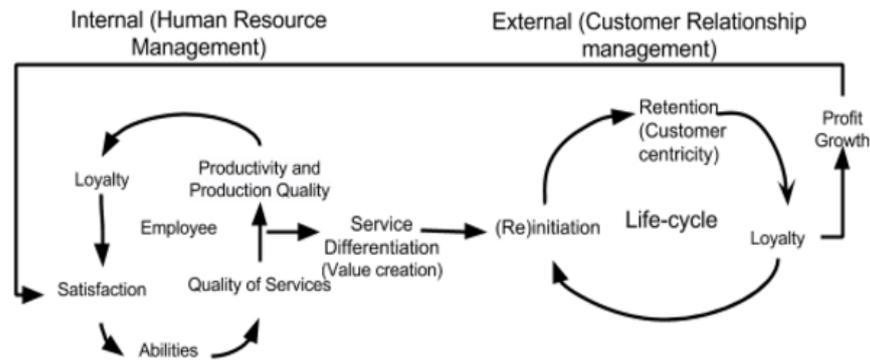


Figure 4: Own construction. Implementing service differentiation strategy through internal management and external management activities.

6.2 THEORETICAL IMPLICATIONS

Researchers have highlighted the service differentiation in Chinese catering businesses, and states that there are limited research. This study contributes to the research field, not only by studying Chinese catering business, it can also provide reference on future study on how foreign catering businesses join Chinese market. This study also has made previously unstudied and unknown behaviors in HaiDi-Lao company visible. The findings implies that the existing theories regarding the interaction of service differentiation with other antecedents that may affect success, the new theories that have been developed fill the gap of existing theories, and can be used to build on for further researches. The author's suggestions and concepts is based on the target, making catering businesses use service differentiation as competitive advantage, in order to easier find patterns regarding this. There is a new theory on the basis of the development, to fill the gaps in the existing theory, and can be used for further research.

6.3 PRACTICAL IMPLICATIONS

This study is of practical relevance since, as mentioned in the introduction, managers and leaders of catering businesses in China are required more knowledge regarding how to be competitive. Through the description of how catering businesses work with service differentiation strategy and the development of new model, this study has made it possible for managers to put into words what they are experiencing and doing in practice, but also how they could work to improve their business. Catering businesses can predict what obstacles which might be found on the road, to a larger extent. This study could be an instruction for managers of catering business to reflect on how they work with their resources and to discover and take action

against the problems of service within their companies. This study could also help catering businesses to implement a service differentiation strategy to adapt fierce competition in Chinese market, providing leaders a long-term way to manage their personnel.

However, from words to deeds is a great space, practicing theory into real life is not always easy. Hopefully this study could help catering companies out in competition by developing their competitive advantages within service area.

6.4 LIMITATIONS

This thesis mainly talk about Chinese catering businesses in Chinese market, but still have some limitations in this thesis, such as the population of the sample of interviewees are not big enough to have a comprehensive result, and all of the samples are managers and employees and only focus on four cities, which could cause inaccurate results of the research. Authors use interview to collect data and this method maybe have some imitate because the questions design is more troublesome, information quality problems may occur when respondents completed the interview estimate answer or avoid something affecting the accuracy of the information. Furthermore, interviews are inherently misleading, the basic foundation of the interview is based on the premise that during the interview, candidates are acting normally and are telling the truth. This is unlikely because it is not "the job" and therefore what happens during the interview might not be representative of what one would actually do on the job (Thomas, 2004). In addition, this thesis is a reference to managers further know how do food companies work with service differentiation in order to achieve competitive advantage in Chinese market, and how does that affect their development in the future.

6.5 RECOMMENDATIONS FOR FUTURE RESEARCH

Our study regarding the catering businesses work with service differentiation strategy is only for Chinese market, in terms of the unique characteristics of Chinese market. Therefore, we suggest future researchers investigate different markets to implement service differentiation strategy. When it comes to our research model, we recommend researchers to further develop our research model in order to explore more potential factors that can influence the service differentiation strategy. As for our research approach, a recommendation is that making a more extensive qualitative study performed by interviewing more respondents in order to get a better reflecting and an overall perspective. Furthermore, we would like to recommend future researchers to complement this study using multiple case studies design.

A

APPENDIX I

A.1 INTERVIEW GUIDE. DEVELOPED FROM THE OPERATIONAL- IZATION CHART

Introduction

- Could you describe the industry you are operating in?
- What is your annual turnover?
- Which is the company's vision?
- What is your process of work?
- What is your title and what is included in your responsibilities?
- Do you want to establish more store in China and how have the establish looked like the last years?
- What is the company's five year plan, and how does this department fit into that plan?

Human resources management

1. Could you tell me what kinds of qualifications would the perfect candidate for this position have?
2. Describe a business problem you faced and how you handled it?
3. Could you tell me how should you go about identifying allies as part of any good business or organizational strategy plan?
4. As you develop a strategic vision for your organization what are the key criteria that you should focus on?
5. When did you last acquire affective knowledge in your own time and how can you apply this towards your career?
6. Can you tell me at least three things that you have done in the past year to improve yourself, both business-wise and competency wise?
7. Tell me about a specific task you undertook, which was a challenge for you?
8. Please give me a specific example of how you obtained information to solve a problem? What was the problem and how did you decide what information you required?
9. Give me an example of a time you had to convince someone to do something they didn't want to do?
10. How do you react in a situation where you need to take an immediate decision? Have you ever faced a situation when you had to take a decision, which did not fall within in your area of responsibility? What decision did you make and how?
11. How do you perform when others need your guidance in a business crisis?
12. What steps do you take to establish a rapport with others?

13. Can you tell me about a time when you and your whole team were demoralized for some reason. What do you do to raise spirits?
14. What steps do you take when the work of a colleague threatens the completion of a project?
15. Do you think it is important to promote team building among employees in the organization? What steps do you take to ensure this?
16. Describe how you get on with your work colleagues? How frequently do you seek each other support? How frequently do others seek and ask for support from you?
17. How do you manage your employees?
18. Have you earned your company incentive bonuses through on-time delivery of products?
19. How would you show co-workers the importance of cooperation? How do you promote employees?
20. Give an example of a time when you assisted a co-worker to enhance his or her work skills?
21. Tell me about a time when you had to help a coworker who had made a bad mistake. What did you do?
22. How have you been able to deliver and measure tangible impact in a global or local context?
23. How could you as an organization scale up to bring your local programs global?
24. How would you provide support and mentor staff, as well as understand different cultural aspects to support success.

Customer relationship management

25. What was the last seminar you attended? How did you apply this new-found knowledge towards your customers?
26. How will you initiate a new relationship with a potential client? Do you think it is necessary?
27. How do you saving time for customers?
28. How do you gain new customers and improved company/product awareness?
29. How do you gain more customers satisfaction?
30. How do you compare your service with other company's? Do you have some special service than others? What is your competitive advantage, such as supply chain?
31. Have you initiated customer feedback initiatives? Set up systems to track customer purchases? Improved customer communication channels? Improved customer access to your company website. Streamlined customer reorder process?

Final questions interview questions

Have we missed anything that you'd like to add?

B

APPENDIX II

B.1 MAIL SENT TO RESPONDENTS AS PREPARATION BEFORE INTERVIEW

Hadilao Hot Pot has been developing and expanding rapidly in major cities of China and also oversea markets and wins over many of competitors in catering market through the excellent customer service. Since the aim of our study is to investigate how can a catering business achieve competitive advantages through service differentiation strategy in Chinese market. And to explore the interaction of service differentiation strategy with other factors such as customer relationship management and human resource management instead of studying service differentiation alone. We would like to know the stories and facts concerning Haidilao's differentiation services and excellent employees. Therefore, we would like to choose your company as the case company of our study. We would like to know more about your company, such as human capital resources, human-based management and customer relationship management, how you operate your company in daily works etc. We will appreciate it so much if you can spare some time to accept our interview.

Thanks in advance for your participation!

Sincerely
Yuanjia Bao and Yanqing Li
Halmstad

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