

## Development of A Performance Model of the Foodservice Industry

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**ABSTRACT:** This study reviewed previous researches about the competence selection of foodservice firms, and shows firm's performance model through the results. The study classified factors according to core competence, differentiation strategy, and management performance. Out of 400 survey responses from by the firm's executive and employees who had worked for over three years at the headquarters (sales, financial, marketing/plan, R & D, etc.), a total of 302 questionnaires were used for the final analysis due to missing values and biased responses (response rate: 75.5%). As the results of analyzing final research model of this study, it appeared that  $\chi^2(df=170)=384.88$ ,  $\chi^2/df=2.26$ , GFI=0.90, NFI=0.92, CFI=0.95, RMSEA=0.07. The results indicated that the CEO leadership, organizational culture, and human resource competencies are a driving force in all aspects of competitive advantage differentiation strategies. In addition, the R & D innovation, service, and marketing differentiation strategies are positively related to performance. The results validate the fact that foodservice firms could reinforce strategic decisions through a variety core competencies and achieve continuous performance through competitive strategies.

**Keywords:** CEO leadership, organizational culture, human resource, R & D innovation differentiation, service differentiation, marketing differentiation, foodservice

### INTRODUCTION

The Korean foodservice market has seen radical change over the last 30 years. The period before and after the 1986 Seoul Asian Games and the 1988 Seoul Olympics was a time of profound growth, qualitatively and quantitatively, for the foodservice industry. Coping with a critical situation forced on South Korea by the International Monetary Fund (IMF) in 1997, the foodservice industry was confronted with its worst circumstance: the shrinking of consumer sentiment. More recently, globalization and increasing free trade have changed the business environment[1] and firms have had to compete fiercely for survival because of the prolonged de-

pression. Up to this point, empirical questions have arisen such as how firms would adapt to the external environment and how continual growth could be generated. To answer these questions, executives intend to reinforce core competencies and select competitive strategies to achieve the desired performance while evading threats[2-4].

The competence model is a technical tool to discern the knowledge, technology, ability, and conduct required by an organization to work effectively[5], the model provides various functions in the organizational structure[6]. Effective competence models provide broader insight into successful management in the industry[7]. In particular, the core competencies of the service industry are important in es-

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tablishing the firm's value from the customers' perspective. Service markets, spurred by economic growth, could bring attention to service innovation competence and help achieve an innovative and sustainable competitive advantage by using their dynamic capabilities[8]. However, the development of models related to the competencies in the hospitality industry has developed the competence of employees because they provide the service to customers[5,9,10]. Even though most foodservice top managers know that corporate competence means competitive advantage, most studies examine the improvement of professional knowledge of the restaurant chef[7,9,11] ; these empirical studies have not examined the growth of foodservice firms.

Firms emphasize the necessity of strategy development, which creates competitive advantage for sustainable growth based on the core competence [12]. As strategists started showing greater interest in customer analysis, they realized that using low-cost production to provide customers with low-price products was not the best strategy[13]. Firms began to bring attention to the "differentiation advantage" strategy to secure premium prices. Since the advantages of low cost are associated with the high risk of weakening over time, the importance of differentiation is growing rapidly by creating entry barriers, security against imitation, and customer loyalty[14]. Because restaurants provide services, they fall under the category of the hospitality industry; the differentiation strategies studies related to strategic management in the industry are comprehensive. As yet these studies have not presented a way to overcome the uncertain foodservice business environment.

Due to the low entry barrier and high exit hurdle of foodservice business, it is crucial for restaurants to maintain their competitiveness by developing a successful business model and establishing an organizational system based on expert management. In this area, the development of core competence is not a new concept but if this study is to find the driving force for a competitive advantage strategy selection for foodservice firms, it needs to investigate core competence. To grasp the differentiation strategy needed for performance in foodservice firms, it will provide insight into continuous com-

petitive advantage in the future. This study suggests that the core competency of firms could create a continuous competitive advantage and a source of improved business performance. We investigate core competence to solve the problems and examine the influence of differentiation strategies on core competence. We assess the relationship between differentiation strategies and performance. This verification will suggest ways of developing a firm by investigating the integrated structure of strategies for foodservice firms.

## BACKGROUND AND HYPOTHESES

### *Core Competence and Differentiation Advantage Strategy*

Understanding the source of the continuous competitive advantage of firms has become an important area of research in the field of strategic management[4,15]. Since the 1980-middle, by analyzing corporate internal attributes, competitive advantage originating from managerial resources and core competence started to proliferate[16,17,18]. In other words, it explains that the core competencies were tangible and intangible processes that were developed through an interactive process of the firm's resources[2]. Although competence development differs according to the subject, researchers suggested that firms should be a driving force for growth through three organizational competencies categories: CEO leadership[19,20], organizational culture[21,22] and human resources[10,23].

Researchers have shown that CEOs' leadership [20,24] is important to performance achievement. Leaders are the factors that define the value and rules of a firm and affect its organizational culture and behavior[25]. The CEO must have the problem-solving skills to develop successful firms in complex environments and offer idea creation as well as creative people management[26]. And, the firm's organizational culture is a complex aggregate of values, trust, estimation, and symbols, and it is the source that produces continuous competitive advantage[27]. Particularly in the field of emerging industries, the organization's flexibility and innovation are required and indicate that well-structured organizations perform better than others[21]. Orga-

nizations encourage creative acts by employees, starting with system maintenance, new products, and process development[28]. Lastly, human resources are a source of sustainable competitive advantage and provide value to a firm[29]. They are important during rapid environmental change because they are the firm's most flexible resource[30]. Firm is recognized as the top priority in hiring and managing people who have the required technique and aptitude for differentiation-led competitive advantage [31]. Particularly, human resources are a core resource in leading the service industry. In this way, because the service and marketing employees play an important role in maintaining a good relationship with customers, it is important to strengthen the competence of the employee[32].

#### *Differentiation Advantage Strategy*

Business strategies are related to organizational decision-making on the achievement of competitive advantage[33]. Each firm uses its own competitive strategies; Porter[4] has developed a general strategy typology to distinguish the common core dynamics of firms. The economists in industrial organizations explain the importance of the differentiation advantage strategy in terms of reducing competition by creating entry barriers. High costs related to differentiation maintenance could generate high profitability by avoiding strong low-priced competitors [34]. Therefore many researchers suggest that continuous differentiation to acquire a competitive advantage in markets could be maintained through outstanding products and innovation[35,36]; service[34,37] ; and marketing, which could be helpful in distinguishing the firm's offerings (products and service)[12,38,39].

Above all, customer-focused organizations are directly related to product innovation, which is a differentiation strategy. This enables them to surpass rival companies in maintaining more customers and sustaining their competitive advantage in markets by offering premium prices[40]. Restaurants must continually develop new products in line with the lifecycle of the products; such innovation achieves a competitive advantage by maintaining a competitive product portfolio[41]. Meanwhile, service firms are essential in providing services to supersede the

expectations of customers; success depends on how often they satisfy customers' expectations[42]. The firms that pursue policies to deliver high-quality service are important because they provide ways to maintain competitive advantage in well-structured markets[34]. Since human resources influence the structure of service-providing costs, the importance of realizing service differentiation is emphasized[43]. Finally, the marketing orientation toward customers has long been evaluated as the essential factor of management philosophy in the fiercely competitive industry[44]. Promotion and marketing tactics contribute to creating a strong brand through customer experience and relationship building; they are also useful for the efficient management of competition[45]. Also, R & D-marketing interface is vital to the success of innovative firms in an uncertain environment[46].

#### *Performance*

Traditionally, financial results are estimated for the analysis of objective data such as sales, market share, return on investment (ROI), and net income during the term (net gain). However, this method represents a difficult approach because these data are considered confidential and even though data collection for research may be possible, between each nations, precise comparison is a complicated task dependent on the way of maintaining sales records and accounting procedures[47]. To supplement this weakness, researchers include non-financial measures such as operational indices and financial measures as a judgment of business performance[48]. They stated that financial or non-financial measures (operational) could be measured. For non-financial performance, subjective aspects such as customer loyalty, value of products and services, employee satisfaction, and firms' image and reputation are emphasized and evaluated under various names, including customer performance and behavioral performance[49-51].

#### *Hypotheses*

The CEO's leadership strongly influences strategic decision-making[52]. The top manager confirmed it benefits the relationship between the product / market innovation[53,54]. Both participative leadership

and transformational leadership are related to employee service performance[55,56]. They provide a marketing direction for strategic decisions, decided at corporate or departmental levels[57]. Thus, this study hypothesis was set as follows:

Hypothesis 1a. The CEO leadership is positively related to an R & D innovation differentiation strategy.

Hypothesis 1b. The CEO leadership is positively related to a service differentiation strategy.

Hypothesis 1c. The CEO leadership is positively related to a marketing differentiation strategy.

The organizational culture was related to innovations and product development[58,59]. Organizational culture affects organization effectiveness including the service quality and product[60], and it was identified as an important determinant in the firm's marketing effect[61,62].

Hypothesis 2a. Organizational culture is positively related to an R & D innovation differentiation strategy.

Hypothesis 2b. Organizational culture is positively related to a service differentiation strategy.

Hypothesis 2c. Organizational culture is positively related to a marketing differentiation strategy.

The HR system (training-focused, performance-

based reward, team development) and strategic human resource management (SHRM) demonstrated the positive effect of relationships on product development and innovation[58,63]. The knowledge-based approach of employees imparts value to products and services, offering the best possibility for work[34,64]. Human resource practices had strong relevance for marketing effectiveness[30].

Hypothesis 3a. Human resource is positively related to an R & D innovation differentiation strategy.

Hypothesis 3b. Human resource is positively related to a service differentiation strategy.

Hypothesis 3c. Human resource is positively related to a marketing differentiation strategy.

The innovative conduct of hotels, including marketing and food (cuisine), influences non-financial performances such as customer retention and reputation[49]. The result demonstrates that menu quality and the intangible services in restaurants affect repeat visits and willingness to recommend through customer satisfaction[65]. West and Anthony[66] investigated performance differences depending on strategy groups in the foodservice industry; in terms of performance, the innovation of products and service was the highest ranked, followed by innovation in marketing and advertisements.

Hypothesis 4. R & D innovation differentiation strategy is positively related to performance.

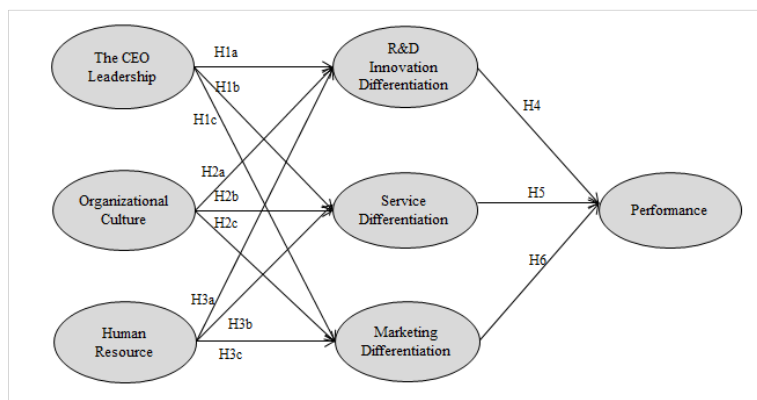


Figure 1. A proposed model of the core competence, differentiation strategy and performance.

Hypothesis 5. Service differentiation strategy is positively related to performance.

Hypothesis 6. Marketing differentiation strategy is positively related to performance.

## METHODOLOGY

### *Sample and Data Collection*

The data collection took two months (August 2012 to October 2012) for goal achievement of this study. The firm's executive and employees who had worked for over three years at the headquarters (sales, financial, marketing/plan, R & D, etc.) were conducted survey to take part. They were chosen because many CEOs were at certain service-level strategies on market share and market growth which were discussed with staff; based on this data the reliability of the strategic direction of market growth with development measures related to new services market change[67]. In relation to the firm's size, a total of 400 questionnaires, each set consisting of 20 to 30 questions, were distributed. Out of 400 surveys, 334 questionnaires were returned, but only 302 questionnaires (response rate: 75.5%) were used for the analysis due to the missing values and biased responses of the survey.

### *Instrument Development and Data Analysis*

Questionnaire items were developed from pre-

vious studies and management and marketing literature. (a) Core competencies comprised three parts: the CEO leadership, organizational culture, human resources; (b) differentiation strategies: R & D innovation, service, and marketing; (c) perceived performances; and (d) questions about participant demographics (gender, age, education level, labor grade, department).

To measure core competencies relevant to the study, measurement items derived from Jeou-Shyan, Husan, Lin, & Chang-Yen[68], Dawson, Abbott, & Shoemaker[69], and Yang, Oh, & Shin[70] were modified and used. Differentiation strategy was examined based on Camisón and Villar-López[38], Gursoy and Swanger[1], Ko and Lee[71] and Rivard, Raymond, & Verreault[39]. The study assessed performance by using perceived performance of items such as customer satisfaction based on Köseoglu et al[50], Wu and Wu[51], and Song and Jung[72].

In empirical research methods, this study identified a structural equation model (SEM) using AMOS 5.0. A confirmatory factor analysis (CFA) was implemented to determine whether the manifest variables reflected the hypothesized latent variables of the multiple-item scales. CFA was explored by composite construct reliability (CCR), average variance extracted (AVE), convergent validity, and discriminant validity of nine constructs. Once the measure was validated, a SEM was used to test the validity of the proposed model and hypotheses.

Table 1. General characteristics of respondents (n=302)

Classification		N	%	Classification		N	%
Gender	Male	170	56.3	Labor grade	Assistant manager	201	66.6
	Female	132	43.7		Manager	59	19.5
Age (yr)	20~29	47	15.6		General manager	30	9.9
	30~39	204	67.5		Director/CEO	12	4.0
	40~49	44	14.6	Department	Sales	82	26.7
	50~	7	2.3		Financial	37	12.1
Education level	College	70	23.2		Marketing/plan	84	27.5
	University	192	63.6		R & D	42	13.7
	Grad. school	40	13.2		Purchase	33	10.6

Table 2. Reliabilities and confirmatory factor analysis for the model

Construct			Stand. loadings (t-value)	CCR <sup>b)</sup>	AVE <sup>c)</sup>	Cronbach's alpha
The CEO leadership (4.88±1.10) <sup>a)</sup>						
CL1			.84(fixed)	.83	.71	.88
CL2			.90(18.22***)			
CL3			.80(15.85***)			
Organizational culture (4.32±1.02)						
OC1			.79(fixed)	.78	.62	.83
OC2			.82(14.24***)			
OC3			.75(13.06***)			
Human resource (4.62±1.02)						
HR1			.84(fixed)	.79	.65	.83
HR2			.90(17.45***)			
HR3			.67(12.37***)			
R & D	innovation	differentiation				
(5.30±1.08)						
RI1			.82(fixed)	.83	.70	.87
RI2			.86(16.59***)			
RI3			.83(16.02***)			
Service differentiation (5.03±1.02)						
SD1			.90(fixed)	.85	.69	.86
SD2			.80(20.25***)			
SD3			.66(13.11***)			
Marketing differentiation (4.67±1.09)						
MD1			.83(fixed)	.85	.73	.89
MD2			.84(17.28***)			
MD3			.89(18.38***)			
Performance (4.99±0.99)						
PP1			.82(fixed)	.93	.82	.93
PP2			.95(21.35***)			
PP3			.94(21.215***)			

Note: <sup>a)</sup>=Mean±SD(1: strongly disagree to 7: strongly agree), <sup>b)</sup>=CCR(composite construct reliability), <sup>c)</sup>=AVE(average variance extracted.) \*\*\*  $p < .001$ .

## RESULTS

### *Descriptive Statistics of Respondent*

Descriptive statistics were used to analyze the demographic profile of the respondents. The data are summarized in Table 1. Respondents consisted of 56.3% males and 43.7% females. In terms of age, 15.6% of the respondents were 20~29 years old, 67.5% were 30~39, 14.6% were 40~49 and 2.3% were 50 or older. Around 76.8% of respondents had received a university or higher level of education, and the general manager and director/CEO were each 9.9%, 4.0%, respectively. The various departments of the respondents were sales, financial, marketing/plan, R & D, purchase and personnel.

### *Measurement Model*

As shown in Table 2, all Cronbach's alpha values were higher than .83, which is the threshold. Based on the CFA, we analyzed convergent validity, discriminant validity and reliability of all the multi-items, following guidelines from previous research [73,74]. As stated above, all the indicators loaded on the proposed constructs were significant at  $p < .001$ . CCR estimates, ranging from .78 to .93 above the recommended cut-off of .70[74] were considered acceptable. AVE had to be greater than the .50 cut-off for all proposed constructs[75] ; the results of this study met the requirements (0.62~0.82). Thus, these results were evidence of the convergent validity of the measures. Discriminant validity is the

degree to which the measures of differentiation concepts are distinct. As shown in Table 3, we assessed the discriminant validity of the measurement model by comparing the AVE values with the squared correlation between constructs. Discriminant validity was evident since the AVE estimates ranged from .62 to .82 and exceeded all squared correlations for each pair of constructs, ranging from .14 to .51. The results of the factor measurement scales were considered as validity of the concept.

### *Structural Equation Models and Hypothesis Test*

#### *1) Overall model test*

A normed Chi-square ( $\chi^2 / \text{degree of freedom}$ ) is sensitive to the sample size and the number of measured variables, but the value of the normed Chi-square represented 2.26 below the cut-off criterion of 3.0[76]. The data for the structural model proved that other fit indices also fitted reasonably (GFI=.90; NFI=.92; CFI=.95; RMSEA=.07) and it was deemed satisfactory. All the standardized path coefficients are presented together with t-values and results of each hypothesis (see Table 4, Figure 2).

Hypothesis (from H1 to H3) hypothesized a positive relationship between core competencies and differentiation strategies and was supported. The results showed the firm's core competencies as a driving force creating a competitive differentiation advantage strategy.

Hypothesis (H4, H5, H6) hypothesized a positive

Table 3. Correlation analysis

Items	1	2	3	4	5	6	7
1. The CEO leadership	(.71) <sup>a)</sup>						
2. Organizational culture	.42 <sup>b)</sup>	(.62)					
3. Human resource	.30	.51	(.65)				
4. R & D innovation differentiation	.34	.32	.33	(.70)			
5. Service differentiation	.30	.31	.28	.39	(.69)		
6. Marketing differentiation	.42	.34	.37	.44	.37	(.73)	
7. Performance	.21	.20	.14	.23	.28	.27	(.82)

Note: <sup>a)</sup>=AVE, <sup>b)</sup>=squared correlations for each pair of constructs.

Table 4. Structural equation model results

	Hypothesized relationship	Standardized estimate	t-value	Results
H1	H1a The CEO leadership → R & D innovation differentiation	.29	4.02***	Supported
	H1b The CEO leadership → Service differentiation	.16	1.99*	Supported
	H1c The CEO leadership → Marketing differentiation	.41	5.29***	Supported
H2	H2a organizational culture → R & D innovation differentiation	.23	2.01*	Supported
	H2b organizational culture → Service differentiation	.39	3.00**	Supported
	H2c organizational culture → Marketing differentiation	.23	2.00*	Supported
H3	H3a human resource → R & D innovation differentiation	.27	3.09**	Supported
	H3b human resource → Service differentiation	.23	2.44*	Supported
	H3c human resource → Marketing differentiation	.30	3.30***	Supported
H4	H4 R & D innovation differentiation → Performance	.14	2.42*	Supported
H5	H5 service differentiation → Performance	.18	3.39***	Supported
H6	H6 marketing differentiation → Performance	.24	4.39***	Supported

Note:  $\chi^2=384.88(df=170)$ ;  $\chi^2/df=2.26$ ; GFI=.90; NFI=.92; CFI=.95; RMSEA=.07.

\*  $p<.05$ , \*\*  $p<.01$ , \*\*\*  $p<.001$ .

relationship between differentiation advantage strategies and performance and was supported. The results, R & D innovation, marketing, and service differentiation competitive strategies showed that enterprises could survive better in competitive environments. In sum, the strategy selection of corporations produces many positive results; its necessity in the long-term development of corporations has been

confirmed once again.

## CONCLUSION AND LIMITATION

In the fiercely competitive market environment, improvement of core competence is an alternative to the external environment and could explain the growth potential of firms. In addition, the plans of

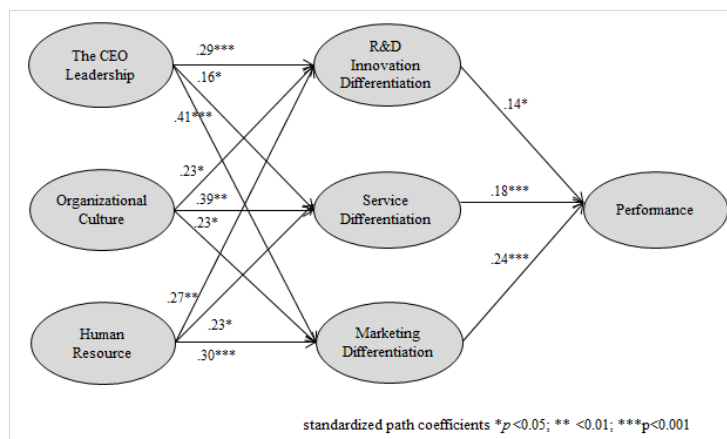


Figure 2. Structural equation model with parameter estimates.



organizations and decisions concerning competitive strategies are vital in achieving competitive advantage and improving performance. From this perspective, an estimation of the performance model for the survival of foodservice firms is the most basic subject.

This study demonstrates that foodservice firms could reinforce strategic decisions through core competencies. First, it is important to pay attention to the CEO competence, evaluated as the highest among several core competences (Table 2). Naipaul and Wang[77] explained that to be a successful leader in a changing business environment, the quality of entrepreneurial spirit, the importance of leadership, the philosophy of giving back to society, and the balance between knowledge, education, and business experience provide important learning. Thus, the CEO is necessary to share the firm's vision and corporate objectives with employees, building their knowledge competency to overcome any crisis in a competitive environment. This study showed organizational culture is a valuable resource for competitive advantage achievement, as shown in other studies[78]. Organizational culture must create an atmosphere of positive synergy to cope with the external environment, which is increasingly challenging after market liberalization and intense competition in foodservice. Organizational integration is likewise necessary and shares the firm's target through communication with employees and raising the awareness of job values. Dissatisfaction erodes the loyalty of employees but employee errors determine the survival of the firm. Lastly, the human resources system fosters organizational learning and promotes organizational culture based on innovation[79]. Mumford, Scott, Gaddis, & Strange[26] explained that creative people invest in expertise and strive for its continual development. Thus, it is important for companies to support employees by responding promptly to new technology and accelerating management performance by giving them opportunities to study in wider markets to accumulate intangible assets. Long-term career management development is necessary for efficient human resources management in foodservice firms.

It was verified that differentiation advantage strategies were important in shaping performance. This

empirical analysis derived a result similar to other studies[48,51]. This study is the expanded version of previous comprehensive differentiation strategies because it deals with the relationship verification of the subdivided differentiation strategies (R & D innovation, service, and marketing) in foodservice firms. The menu is the primary tool to communicate with customers in the restaurant. Customers now have higher expectations of the safety and quality of the menu because of the increasing interest in health. A unique experience gained through the menu will be a clear differentiating factor in the future. Therefore, a foodservice firm needs to improve the source by enabling the entire value chain to achieve differentiation rather than concentrating on unconditional cost reduction to reach success. Triggering innovative competitive spirit and motivation among employees is necessary to create competitive advantage. Likewise, long-term planning is necessary for companies to gain a competitive advantage by participating in contests or international cooking competitions. Meanwhile, developing the service is an important way to enhance the value of differentiated products[80], and this process generates customer satisfaction. Therefore, such firms need to change their focus from supplier-centered to customer-centered because in a restaurant there is an encounter between customers and employees, and customers convert the service they receive into value. A failure in service directly affects management performance so it is important to offer compensation in the event of such failure. Lastly, the differentiation strategies in the marketing of restaurant firms are important factors in affecting performance. This study supports a study by Park and Jang[81] revealing that restaurants' marketing strategy readvertising costs has a positive short-term effect on revenue growth and, in the case of franchising, positive long-term benefits owing to mutually boosting effects. The world communicates through SNS such as Facebook and Twitter; customers want to get information quickly and easily. Therefore, restaurant firms need sales promotion strategies to establish a differentiated corporate image by using SNS to stimulate customers' sensibilities through social media marketing.

Although this study pertains to Korean restau-

rants, its results should be studied by managers of restaurants the world over. The results of this study suggested the means by which quantitative and qualitative growth could be realized. However, there are some limitations in the study. Although the study examines the top management team, the results of the demographic characteristics show a high proportion of low-ranking employees or assistant managers. In order to obtain a greater response from the CEO or top management team, future researchers should consider alternative data collection methods. In addition, a firm's optimal positioning requires various factors, rather than selecting just cost leadership or differentiation strategy. In this regard, further investigation is needed on an issue that does not review the cost advantage strategy in business strategy. Although performance indicators are an important standard by which to judge the success of a firm, this study evaluated subjective indicators due to the difficulty of gathering objective data. In fact it may not be sufficient to provide complete reliability. The errors that threaten the validity of the result could have occurred due to the common method bias; therefore, future researchers should consider controlling the variance that might have occurred owing to the common method bias. The study will show a development plan that grows consistently in an uncertain foodservice environment through overcoming the limitations of this study.

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