

An Emerging Service Paradigm for Catering Industry in China:

A Case Study of Hai Di Lao

ABSTRACT: Chain management of Chinese restaurants follow the model of Western restaurant chains while accommodating Chinese customer for long time. The emergence of Hai Di Lao service establishes its own management techniques which pioneers in chain catering management to help the Chinese restaurant industry establish its professional image, explore local management model, and maintain high standards of food safety. The objectives of this case study are to introduce Hai Di Lao managerial strategy, investigate the secrets of success from human resources management perspective, explore the innovation service they offer, and eventually discover its empirical inspiration to the marketers and the catering industry. The results reveal that human resources management can change employees' behavior and emotional states by addressing a wide variety of needs. In addition, customer satisfaction and retention will be greatly improved with thoughtful service quality.

KEYWORDS. Hai Di Lao Hot Pot Restaurant; Service Quality; Service Innovation, Customer Satisfaction

Introduction

China has a long history of traditional food, rich cultural connotations and enormous intangible value. With the development of society and economy, China's catering industry is experiencing the rapid growth stage, and meanwhile bring profound impact on Chinese lifestyle. China restaurant industry sales researched a record \$ 444.8 billion in 2012, employing 12.08 million individuals (Ministry of Commerce People's Republic of China [MOF], 2012). Studies have been indicated that the effects of service quality on customers behavioral intentions and develop a competitive advantage in service industry (Berry, Carbone & Haeckel 2002; Cronin & Taylor 1994; Herson, Nitecki & Altman 1999). However, it is well documented that restaurants industry have highest turnover in service industry, employee turnover statistics indicate highs as 127% (overall) and 31% (management) in China (Ministry of Commerce People's Republic of China [MOF], 2012).

Therefore, for competing with their Chinese counterparts, how to motivate employees in the restaurant, hence offer good service to the customers will be the competitive advantage.

Founded in 1999, Hai Di Lao Hot Pot Restaurant is famous for its customer-oriented attitude and attentive staff. This case study goes into greater detail to examine how Haidilao "treating employees like human beings" is so crucial to its success and evaluate its service quality from the perspective of customer by participate observation and analyzing over 20000 online customer comments. The rest

of this article is organized into four sections. The next section provides a brief overview of the literature regarding service quality and discusses the relationships between customer satisfaction and service quality. The sampling and data analysis methods are described in the following section. In the results section, in-depth examine the internal service quality in Hai Di Lao Hot Pot, and then evaluate their service quality in terms of customer satisfaction. Last, the case study are discuss within the context of future research.

Literature Review

Service quality

In the early of 1980s, the manufacturing industry implemented total quality management (TQM) and similar approaches (Kim, 2011). In the hospitality industry, previous research on service quality has been examined in great number of studies and there are a number of models that conceptualize the construct of service quality (Cronin & Taylor, 1994; Kim, 2011; Parasuraman, Zeithaml & Berry, 1985). Different from the concepts of quality from the manufacturing sector, service quality developed a unique service quality concept using consumer behavior models (Kim, 2011). By emphasis on the customer satisfaction, service quality was defined as the difference between customer expectations of service and the perceptions of the actual service received (Parasuraman, Zeithaml & Berry, 1988). Lovelock and Wright (1999)

indicated that the delivery of service in hospitality industry with high interaction among customers, employees and facilities. Customers are often involved in service production, a distinction needs to be drawn between the process of service delivery and the actual outcome of the service multifaceted. Therefore, one of the challenges for service industry manager is to balance the need for routine and standardization with the need to treat customers as individuals. Berry *et al.*(2002) stated that the service quality is critical to business success or failure, which is rarely concerned with only one aspect of service but with the whole service package. Offering products or services alone is no longer enough: organization must provide their customers with satisfactory experience (Berry *et al.*, 2002). Additionally, positive employees attitudes promote stronger customer loyalty, thus companies must attract and keep the best employees with a long term development (Briggs, Sutherland & Drummond, 2007).

Customer satisfaction and service quality delivery

The relationship between customer satisfaction and service quality in hospitality industry has been examined in a number of studies (Cronlin & Taylor, 1994; Oh, 1999; Tian & Crompton, 2010). There is broad consensus that service quality and customer satisfaction are different constructs (Tian & Crompton, 2010). Service quality relates to customers satisfaction, whereas satisfaction is transaction-specific which is focus on a personal, emotional reaction to service they received (Oh,1999; Parasuraman *et al.*,1996; Schneider & Bowen,1999) suggested that satisfaction consists of service

encounter satisfaction and overall service satisfaction. Recent studies indicated that emotions play an important role in perceived levels of service quality and satisfaction (Dube & Menon, 1998). In the past businesses have been satisfied with meeting perceptions of customers adequate expectation, while nowadays more service industry companies emphasis on customer satisfaction, even few excellent service organizations provide exceed customer expectation's service to achieve customer "delight" due to the fierce competition satisfying customers is not enough to retain them (Schneider & Bowen, 1999). Terrill and Middlebrooks (2000) suggested that many businesses continue to promise exceptional service, and focus on provide better product and service, but only few organizations actually delivering excellence product and service.

Service quality involves every aspect of organization, and every organization has both internal and external customers (Hernon, Nitecki & Altman, 1999). This review suggest that by paying attention to both internal and external service quality and customer expectation, ensure that service meet or exceed customer expectation, are increasingly important to success in fierce competition. The combination of internal and external customer service quality, and identify customer satisfaction in the case organization, Hai Di Lao Hot Pot is the focus of this study.

Methods

The overall study objective was to examine Hai Di Lao Hot Pot Restaurant management experience mainly by examining Hai Di Lao Hot Pot Restaurant service quality to investigate the reason of success and then assess service quality performance in terms of customer satisfaction. This case study involved the following activities: review of relevant second-hand information to understand the performance of Hai Di Lao Hot Pot Restaurant and possible reasons; a participated observation of Hai Di Lao customer service; supplementary interviews with customers; an assessment of customers' experience of service and product quality through an analysis of comments and findings on Dazhong.com. This case study was undertaken between June 2014 and September 2014.

Firstly, a purposeful second hand research was conducted to find out the potential reasons of the successful of Hai Di Lao Hot Pot product and service from the perceptive of leadership and organization culture. Then, a participant observation was conducted at one of the Hai Di Lao Hot Pot Restaurant in Shen Zhen. Because the customer expectation and satisfaction is an emotional response and changes frequently at multiple level. The complexity of service quality in the dining and the perception of customers towards those services are difficult to measure. Participant observation can illuminate the details regarding service quality and observing the reality, and allows researcher to interact with employees and customers.

Complementing the participated observation, individual in-depth interviews were

undertaken with ten observers. Interviewees were guided based on the observing open questionnaire. To furthermore explore the customers' views, online comment analysis was utilized. dianping.com is the largest online comment website in China. Around 70 million individuals visit this site monthly. Customer feedback was available for all Hai Di Lao Hot Pot Restaurants. To ensure the timeliness of the information, only reviews from January 2014 to August 2014 were included. About 20000 comments were used for this online comment analysis. Nvivo was used to identify differences of first time and repeat customers' experiences in Hai Di Lao Hot Pot from few determinants; Service, Value, Product, Atmosphere.

Case Study

Background of Hai Di Lao Hot Pot Restaurant

While China is known for its rich culture and cuisine, with a population of 1.2 billion people, food consumption has dramatically changed from meeting basic physiological needs to an lifestyle or enjoyment. The rapid development of the restaurant industry in China has grown four times from \$109. 2 billion in 2002 to \$444.8 billion in 2012 (Ministry of Commerce People's Republic of China [MOF], 2012).

During last two decades, the restaurant industry in China has made great development, and renowned hot pot restaurants brands also continue to appear. In

addition, the concepts of quality, service, environment, and value brought by the Western fast-food chains have had a dramatic impact on local restaurant operators. After observing the success of international restaurant chains in China, many local entrepreneurs developed a growing interest and experience in restaurant quality control and efficient restaurant human resources management according to Chinese culture. While most competitors struggle to win the favor of the clients in such a stringent environment, a Chinese hotpot chain brand named Hai Di Lao Hot Pot Restaurant has gained the popularity among the critical customers.

Hot pot is different from traditional Chinese dishes, Hot pot allows customers to participate in a portion of the cooking experience, and offers different soup bases and a large selection of previously processed food options. While the hot pot is kept simmering, ingredients are placed into the pot and are cooked at the table. The cooked food is usually eaten with dipping sauce (“Hot Pot”). Hot pot as one of the most popular food in China typically based on collectivized culture background. The story of how Zhang Yong (owner of Hai Di Lao) manages a Hot Pot restaurant into an upscale service quality phenomenon has become taking delight in talking about it not only in the dining industry in China. Founded with 10,000 RMB in 1994 in the small city of Jianyang, Hai Di Lao, whose name roughly translates to “scooping treasure from the bottom of the sea”, has since become the dominant hot pot restaurant chain in a country obsessed with hot pot. In 2014, the Hai Di Lao directly owned 91 chains across the nation, and 1 in Singapore and 1 in United States with over 14,000 employees. With turnover approaching \$6.6 billion, and net profit reached 3.3 billion

Yuan (\$500 million) in 2012 (Lu, 2011; Li, 2000).

The legendary success can always be deconstructed into several pieces of normal concepts. In this case, the vital factor that leads Hai Di Lao brand and service successful will be analyzed from both employees and customers' perspectives. Hai Di Lao Hot Pot Restaurant serves bring authentic Sichuan-style hot pot with exceptionally good service to boot. Customers can get really spoiled here. Long queues are the reality. Like most restaurants, its labor force is composed mainly of young professionals born in less developed suburban areas. Instilled with a unique entrepreneurial founder values are enthusiastic and motivated to deliver extraordinary customer service creatively. Thinking differently, would the "service strategy" become a shortcut in the competition? Could the example of Hai Di Lao's success give the service industry any inspiration? And what are exactly the essential drivers of Hai Di Lao's success?

Business Strategy

Hai Di Lao's business strategy was best captured by its "employee-centered" strategy. The form of Hai Di Lao's human resource management has its origins philosophy; hence we must look deeper into how this value took root in Hai Di Lao, and influenced it. How Hai Di Lao management ideas come from? How these ideas of management organization transferred across over 90 branches? How it influences the organization, employees, and customers? These questions, are relevant to the transfer

of founder Zhang Yong's Confucianism.

Zhang Yong said that "We have imported American standards to our kitchen. We can control the temperature of our warehouse, we use washing machines and we have a modern distribution system. The biggest difference between our company and others is how we train our employees" (Ma, 2008). As a labor-intensive industry, the entry level of employees in restaurant industry is not high; however, the high turnover rate is one of the most serious issues in restaurant industry. According to survey, the turnover rate of the front-line employees in China dining business, which usually with less salary but heavy labor intensity and bad condition, is as high as 40%. The job duties of front-line employees are monolithic and employees are lack of decision authority. Moreover, the incentive mechanisms in most restaurant businesses are deficient, bringing negative impacts on employees creativity and initiatives (Ma, Qu & Njite, 2011; Qu, 1997). Same as most restaurants in China, Hai Di Lao's front-line employees mostly come from the rural areas in China, and majority of them have not received higher education. However, in Hai Di Lao, the front-line turnover rate is 10% per month which is far below than average annual turnover rate in China restaurant industry, and staff turnover in the management level is almost zero.

Human Resource Management

In Hai Di Lao, Zhang Yong provided four reasons for decreasing turnover rate: 1) developing a motivated system to workforce, 2) offering competitive compensation, 3)

showing workers that they are respected and valued, and 4) providing rewards tied to performance.

Developing a motivated systematic to workforce. Different from other dining enterprises, the founder of Hai Di Lao, Zhang Yong argues that the best way to hire and keep employees is to create a company culture where the employees want to work, a culture in which people are treated with respect and consideration at all times (Huang, 2013). According to the Hai Di Lao culture “the value of fairness and taking fate into your hands”, Hai Di Lao does not only favor employing young and well educated people, they select employees according to their essential qualities, including honesty, hard-working personality, friendliness and helpfulness, etc. New employees in Hai Di Lao need go through a month trial including four-day orientation to help them understand the culture of Hai Di Lao and job skills training. In an attempt to motivate employees overall enthusiasm, all the manager positions are promoted internally; in addition, anyone who wants to be promoted at Hai Di Lao must rotate through the other positions and receive the certificate of approval from each position which can guarantee the manager understanding the needs and expectation of customers and employees (Huang, 2013; Zhao *et al*, 2011).

Offering competitive compensation. In China, restaurant waiters and waitress job are normally regarded as instability and low social status. However, at Hai Di Lao stood out from the crowd of catering business, the employees of which are enthusiastic and creative, contributing to Hai Di Lao’s outstanding market

performance. Employees in Hai Di Lao normally have levels of satisfaction as the company offers competitive compensation. Bases on the values of fairness and taking fate into your hands, Hai Di Lao keeps and motivates employees by providing better living conditions, and more structured pay levels than other dinning enterprises, providing more opportunities for career development. All of the employees can live in the free apartment with air-conditions, Wi-Fi, washing machine, TV and even nannies etc. Those who have worked as assistant managers or higher-level managers for more than six months can have their parents receive a parental subsidy allowance. Furthermore, Hai Di Lao has a Family Care Team and set an extra 100,000-200,000 RMB annual budget to help employees with family crisis and emergency needs. With Zhang Yong's collectivist value, Hai Di Lao is viewed like a family by employees. The principles of impartiality, equity, fairness/justice, organizational/employee wellbeing and participation are embedded in the ancient Chinese texts Hai Di Lao have explored into practice. Taking the main characteristics of Confucianism, family-based collectivism as the main value of Hai Di Lao, ensure Hai Di Lao employees and their family feel cared, respected and trusted, and they become like a family (Ma, 2008; Huang, 2013; Zhao *et al.*,2011; Hong, 2011).

Respecting and valuing employees. In Hai Di Lao, the principles of interpersonal trust strongly motivated employee's passion and service innovation. There is no KPI or Balanced Score Card in Hai Di Lao, but in terms of Taoism, if you trust and respect people, they will trust and respect you in return. Zhang Yong said that "you need to

respect them not as your employees, but as you are equal with them. Trust them that they will do what needs to be done once you provide the tools needed to them” (Huang, 2013). Empowerment efficiently increase employees’ interactions with customers in Hai Di Lao. For example, front-line employees have decision-making power to make choices about whether offer free appetizers or give customer discount to quickly responding unexpected situations.

Providing performance-based rewards. Hai Di Lao, motivates employees by providing better compensation and living standard; moreover, Hai Di Lao performance evaluation system is based on customer satisfaction and employees passion for work. The assessment is not only include the service quality during the meal, but also the greeting from waiting, ordering, dining, until post-meal service and more. For example, to motivate employee’s service innovation, each Hai Di Lao restaurant compiles employee ideas and suggestions on a monthly basis and reports them to the company’s creativity team. The creativity team evaluates the ideas and then chose the practical one into implementation. Those who proposed the ideas will be awarded with bonuses (Ma, 2008).

Service Quality delivery and customer satisfaction

Every customer is bound to have their own perceptions regarding what they expect a restaurant to provide them with. As mentioned earlier, customers play an

active participator role during service delivery. Accordingly, to investigate the service offered by Hai Di Lao Hot Pot Restaurant and their effect on customer service experience. Participate observation and online comment analysis are applied in this research. There is no doubt that customer service management is the critical factor of Hai Di Lao success. Accordingly, participate observation research focused on how service providers of Hai Di Lao can offer exceed service to customers, the service innovation in Hai Di Lao and online comment analysis to understanding the customer satisfaction towards Hai Di Lao Hot Pot Restaurant products and service.

Exceeding customer expectation. A customer's perception of value and satisfaction begins with an initial purchase and continues throughout the actual ownership and the overall service experience. Normally, the queue for a table at Hai Di Lao is long, so reserved a table in advance is necessary. Hai Di Lao telephone operator carefully asked the every customer's special taste for preparation. In Hai Di Lao, when customer arriving, there is free car parking and free dry car cleaning service. When customer get the entrance, few ushers warmly welcomed at the entrance, and introduced the additional services before dinning. Services such as complimentary manicures, board games to play with your friends and kids play area to entertain your children.

Once all of us have arrived, we were given an apron each to protect our clothes from food stains. To take their service to a whole new level, Hai Di Lao also took extra care to ensure that your belongings were well protected from the food. They also

care the long-haired female customers, providing them hair band and hair clips to keep neatly avoiding hair drawing into the food. Furthermore, guests who wearing glasses will get lens cleaning cloth, so the heat of hotpot will not make glasses fuzzy. Accompanying sauces from a buffet table provides all the condiments and sauces that you can think of. All the drink can come with free refills. In addition, all the dishes allow order half portion. As customer were eating and chatting away, different servers came by and consistently scooped away the layer of oil that gathered at the top of the soup, and special dishes with detailed introduction and serve. All of the drinks kept refill. And then came one of the highlights, the Sichuan Opera Face made right in front of customer. Customer just asked waiter help to bring some watermelon, few minutes later, and waiter bought two hand-cut fruit tray which was really surprised and appreciated. After dinner, Hai Di Lao provides free flushing two photos for one customer.

All the participating customers claimed that the whole customer experience was very enjoyable as not only the food was fresh but most important was that customer feel relax and caring with consistently outstanding service. As observers indicated that “I thought that that was very considerate of them!” “I have to say, this place really lived up to its name of providing the best service. And excellence is really in all the tiniest details”. “We had such an enjoyable time that we had 4 hours lunch at there! Yet none of the staff ever pressured us to leave, it was all considerable” .

Since 2013, Hai Di Lao is 24 hours open, and provide take-away service. Customer can order by phone, and Hai Di Lao employees will deliver the food,

electromagnetic pan, induction cooker, wiring board and so on to customer living place, and help them mix seasoning, and all the stuff will be collected by Hai Di Lao employees next day.

Customer Satisfaction. It is commonly said that what is not measured is not managed. Service quality as a measure of how well the service level delivered matches customers expectation; however, it is difficult to measure service quality due to the unique characteristics of services are intangibility, heterogeneity, and inseparability (Parasuraman *et al*, 1988). Customer satisfaction alone not be sufficient to generate only repeat purchase, it is requisite in highly competitive restaurant industry. According to Zeithaml *et al*'s (1990) study customer satisfaction was measured using four items related to the service, food and overall feeling towards the experience. The intangible nature of the restaurant service makes the service industry heavily depends upon the company image and work of mouth for generating repeat and recommended sales (Bowie & Chang, 2005). Although it is essential for service providers to realize what customers want, it is still difficult for them to realize customers desirable needs and apply quality service. The gap between service providers and customers still exists in practice (Wildes, 2007). Customer service satisfaction depends on how well the service customers receive match their expectations (Zhang, 2012). Online user comments and review have become important inputs to consumer decision-making process and express their satisfaction, particularly for restaurant industry. Therefore, this case study choose four of the Hai

Di Lao restaurants in Shanghai, Beijing, Shenzhen, Guangzhou and Xi'an, and collected about 20000 online comments from www.dianping.com to better understanding customer satisfaction and satisfaction level towards Hai Di Lao Hot Pot products and service.

The selling points of Hai Di Lao are freshness and service. Many customers talked about their unexpected surprise service received from Hai Di Lao on the Internet. Nowadays, according to the online comments, one of the main purposes to have hotpot in Hai Di Lao is to experience Hai Di Lao service for a large number of customers. Table 1 illustrated there are 43% of the customers were first-time customers in the past year which is lower than repeat customers, and they have different attitudes towards Hai Di Lao products and service as following. By analyzing customer satisfaction level, it can find that majority of customers have high-level satisfaction towards Hai Di Lao service, especially for Hai Di Lao staffs as Table 3.

Insert Table 1, 2 and 3 Here

Service innovation in Hai Di Lao. The importance of service has been widely recognized by corporations, institutes and governments; while service innovation is essential on value creation and keep competitive. However, it is difficult shift from the innovation concept and process need into practice for many corporations. For Hai Di Lao, the reality is that the shoe shine and nail polish stations are easy to be learned by competitors even the chain of Hai Di Lao is legendary for its customer service in

China, where good service is rarely found outside private dining rooms in formal banquet restaurants so far. However, to keep competitive strength of service quality, service innovation and standardization of service is important. According to the participated observation and second-hand information, the founding of Hai Di Lao service innovation were concluded as two level of scope including, service-level innovations, and firm-level innovation.

Firm-level innovation: Empowered employees are likely to be more cognitively active and more likely to modify their own behaviors and attitudes towards customers. They internalize customer feedback into their personal conduct and analyze the effects of different behaviors in regard to their outcomes. To motivate employee's service innovation, each Hai Di Lao restaurant compiles employee ideas and suggestions on a monthly basis and reports them to the company's creativity team. The creativity team evaluates the ideas and then chose the practical one into implementation. The ideas will be posted on internal websites following up assessments conducted every three months after implementation. Hai Di Lao creates an open-mind platform to employees contribute their initiative ideas and suggestions based on their practical experiences. The participate observation noticed that Hai Di Lao provides Si Chuan Opera show during the meal. If you ordered noodle, free noodles pulling entertainment in front of your table will be offered by chief. Customers can take photos and print it with specific printer in Hai Di Lao etc.

Looking forward

Although it is essential for service providers to realize what customers want, it is still difficult for them to realize customers' desirable needs hence provide quality service. The gap between service providers and customers still exists in practice. Hai Di Lao provides an important managerial practice to motivate employees enthusiasm based on the nature of employee's background and organization culture. Service industry confronts with fierce competition especially in catering industry. While other restaurants are learning from Hai Di Lao experience, Hai Di Lao has made preparation towards future. Hai Di Lao has expanding its market in America and Singapore, furthermore, it invests in information technology to control the raw resources for continually improving the customer satisfaction. Despite having a solid staff and customer base, and also keep service innovation, Hai Di Lao's future development still take time and face with the pressure of competition. There is high demands of internal human resource and customer expectation, with the rapid expansion and inhibited the development of enterprise, Hai Di Lao's product and service standardization still face challenges. Ultimately, the success of Hai Di Lao greatly depends on the performance of its employees; however, with the labor cost is getting high and more generation Y in labor market in China, human resource management still would be the big challenge for Hai Di Lao.

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