Part Three

Core competencies

CHAPTER 11

Resource allocation decisions and organizational structure

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Introduction

Resource allocation decisions are tactical methods to implement organizational goals and objectives. These allocations are tied to firm action plans and policies that impact organizational structure, and, ultimately, performance. The basic concepts of resource allocation decisions and organizational structure are at the heart of an ongoing debate fundamental to management theory. Resource allocation decisions represent the strategic choice perspective. Central to the strategic choice perspective is the notion that management has a substantial amount of latitude in making strategic decisions about the future direction of the organization and its structure including how to respond to a variety of environmental pressures, changes, and other influences (Child, 1972; Pennings, 1975).

The influence of organizational structure has a connection to the roots of organizational theory. Initial work in this area emphasized the imperative of bringing together human and physical resources in a profitable manner (Wren, 1994). Early arguments support the notion of a structural–environmental determination of strategy. Apart from strategy, this school of thought proposes that organizational structure is a complex play of variables including culture, values, the past and present functioning of the organization, and an organization's history of success and failure (Hall and Saias, 1980). These central arguments have fuelled an academic debate over strategy versus structure in the strategic management literature for more than four decades (Amburgey and Dacin, 1994; Chandler, 1962; McWilliams and Smart, 1993; Miller, 1986).

The question of how to structure an organization along with the causes and consequences has been studied from individual, group, departmental, unit, and organizational perspectives. Early studies point to the idea that organizational structure provides both a limiting factor for organizations (i.e., there are limits to our ability to successfully implement strategy due to our structure) and its impact in relation to strategic choice (i.e., strategic leaders' ability to design structure to adapt to strategic needs).

While issues relating to resource allocation decisions and organizational structure are many, this chapter provides a discussion of its application for firms in the hospitality industry. First, we provide an overview of the current thinking regarding resource allocation decisions and organizational structure in the general and hospitality literatures. The application section considers resource allocation decisions and organizational structure issues for entry into a fast-growing foodservice

business segment. Specifically, the emerging trend of channel blurring between retail and foodservice will be discussed in order to demonstrate the impact of level of control considerations, resource availability, and demand uncertainty on structural decisions. This example highlights issues of key resource allocation decision for this strategic option. The example also provides a glimpse at factors influencing structural decisions such as vertical integration and ownership forms.

Literature review

The review of the literature focuses on the impetus behind the strategy–structure debate, early findings related to the environment, and more recent studies on resource allocation decisions and the relationship with organizational structure.

Traditional strategy–structure debate

The age-old question in this debate is: Which comes first—strategy or structure? While at first glance this argument may seem entirely academic, the underlying issue is tied to a central concern for practitioners, namely, do we make resource allocation decisions based solely on achieving what we have defined as our strategic ends (with the assumption that it will be possible to achieve the necessary structure to achieve these ends)? Or, as decision makers, are we severely limited in what we can actually achieve based on the current organizational structure and a limited ability to change this structure given the environment we operate in?

An early study by Chandler (1962) provided a rallying cry for the influence of strategy and strategic choice on the organizational structure of the firm. While the idea that structure follows strategy was christened many times by fellow theorists in the area (Andrews, 1971; Ansoff, 1965; Schendel and Hofer, 1979), a counter-argument developed out of sociology and organizational theory suggesting that strategy follows structure (Amburgey and Dacin, 1994; Hall and Saias, 1980). This perspective argued that strategy grows out of structure, which in turn leads to the modification of structure. Both arguments are not without merit; the "structure follows strategy" concept supports the idea that leaders' actions and planning matter. The central concept here is that (1) managers interpret environment events, (2) they allocate resources to adapt the organizational structure in a fashion that addresses the need for change, and (3) this change makes efficient and effective use of

the firm's resources. In so doing, organizations are able to successfully execute its defined competitive methods and achieve desired performance (Olsen *et al.*, 1998; Porter, 1980).

This idea sounds logical, but as the contingency-determinism arguments spotlight, structure is a complex mix of variables that are likely to have substantial effects on possible strategies, the ability to achieve structural change, and resulting inefficiencies. For instance, Hall and Saias (1980) indicate issues such as organizational culture pose a structural constraint on strategic choice as well as a suggestion that structural characteristics filter incoming information used to make resource allocation decisions by delaying or expediting the transmission of some types of information over others. As the authors state: "Once an organization begins to operate, the nature of its structure limits its perception—both of itself and its environment" (Hall and Saias, 1980, p. 157).

This basic concept seems to be akin to an organizational-level version of "bounded rationality" (Simon, 1945) from the decision-making literature. A strictly rational approach to decision making has been criticized due to the assumptions of the "perfectly rational man": information can be gathered without cost, the decision maker can be perfectly informed, the decision maker is perfectly logical, and the one criterion is economic gain. As Simon (1945) pointed out, managers use bounded rather than perfect rationality due to a number of personal, emotional, and contextual factors. Following the ideas of Hall and Saias (1980), this concept applies to the organizational level with limits to the type, amount, and use of information in the resource allocation decision process as well as having multiple performance interests rather than strictly an economic incentive.

By using both sides of the strategy–structure argument, logic would indicate that each side is partially right. Resource allocation decisions that are tied to achieving strategic objectives are likely to be derived through a complex interaction of variables based on environment events, physical organizational structure, and intangible structural elements such as culture, values, and history. This integrated approach seems to suggest a fit between external and internal needs as well as the need of management to consider both context and process in determining and implementing resource allocation decisions.

While this debate is an interesting one from an academic point of view, the resolution of this debate in the near future is unlikely. For practitioners, a helpful outcome of this debate is an integration of the concepts of contingency theory and the resource-based view of the firm applied to a hospitality

service environment. Therefore, the following sections discuss contingency theory and applicable elements of resource-based approaches to allocation and structure decisions.

Contingency theory and the impact of the environment on structure

The basis of contingency theory is the idea that there is "no one best way" to organize (Scott, 1998) and that efficient and effective resource allocation decisions require creating a "fit" among the environment in which the firm finds itself, internal concerns and capabilities, and organizational structure (Harrington, 2004b; Olsen *et al*., 1998; Scott, 1998).

The position of contingency theory is not one of contingency determinism but instead one of structural adjustment. In other words, the basic proposition by most modern advocates of a contingency approach is a structural–functionalist position where structural adjustment to regain fit (SARFIT) is sought after an acknowledgement of substandard performance. While misfits among strategy, environment, and structure have been shown to impact performance (Burns and Stalker, 1961; Geiger *et al*., 2006; Harrington, 2004b; Harrington *et al*., 2004; Lawrence and Lorsch, 1967), there is little support for the idea that structural change is an automatic response. This concept rejects the sole reliance on contingency determinism and strategic choice but instead defends the complex interplay between strategy–structure and the context in which the firm operates (Amburgey and Dacin, 1994; Harrington, 2004b; Hill and Hoskisson, 1987). For instance, Harrington (2004b) found a relationship among the external complexity, internal complexity, and firm performance. This finding indicated a tacit response by many executives across 18 industries to match the internal complexity with the external one (Ashmos *et al*., 2002). By so doing, firms were able to achieve above-normal returns—a key objective of strategic management (Harrington, 2004b).

A related concept from the hospitality literature is the co-alignment principle (Olsen *et al*., 1998). Olsen and colleagues describe this principle as an all-encompassing underpinning of strategic management. The basic idea is that environmental forces drive change in the firm's environment. Leaders chose competitive methods to take advantage of these forces (representing opportunities or threats for the firm). These choices require resource allocation decisions that impact organizational structure; ultimately, these changes and choices impact firm performance. If these choices co-align with environmental change and firm structure, the results will provide the firm with a sustainable competitive advantage (Olsen *et al*., 1998).

At first glance, this overview appears to imply that strategic choice advocates and contingent determinists are talking in circles. In reality, the concepts of the co-alignment principle and the structural-functionalist arguments may be two sides of the same coin. Thus, while the explanation of the co-alignment principle is presented from a strategic choice perspective and the structural-functionalist view from a contingency and organizational theory perspective, both arrive at similar conclusions regarding a process of fit and readjustment based on balancing external and internal needs for determining what will be achieved, how it will be implemented, and the complex interplay involved.

Resource-based theory and intangible elements

The resource-based view provides useful concepts because it moves the strategic choice and structural arguments from being primarily physical resources and manufacturing based to greater acknowledgment of intangible elements and the business-unit level of analysis (Barney, 1986, 1991), both of which appear more applicable to a service-based environment such as hospitality. For instance, the unique characteristics of hospitality and other high-contact service firms indicate potential differences from the normative descriptions of what "should be" as described in the strategy literature. Contextual and situational issues such as geographic distribution of units (Harrington, 2005), size (Byers and Slack, 2001), type of ownership (Bradach, 1997; Roberts, 1997), greater difficulty in predicting the demand curve, and key characteristics that distinguish services from products (intangibility, heterogeneity, perishability, and inseparability) (Olsen *et al.*, 1998) have implications on the general assumptions developed in the resource allocation decision and organizational structure literatures.

The greater acknowledgement of intangible resources and activities in the resource-based approach is directly applicable to the hospitality total experience concept (Harrington, 2004a; Olsen *et al.*, 1998). Each hospitality experience can be thought of as a bundle of tangible and intangible products and services provided to the consumer. The total experience evolves from the bundle of resources and capabilities that create a total "product" or experience that is part of a product-service continuum (Olsen *et al.*, 1998). Given that much of the service provided is intangible in nature, firms allocate resources to create value for the customer and, hopefully, creating a service experience that is difficult to imitate (Harrington, 2004a).

Barriers to imitation

In a hospitality business environment, ideas can generally be quickly copied and imitated by competitors (Olsen *et al.*, 1998). One reason for this situation is that individual innovations in hospitality are generally transparent in nature and the resources (whether tangible or intangible) to create these products or services are readily available in the marketplace. Two methods of creating barriers to imitation established in the literature relate directly to the creation of barriers in hospitality: asymmetric information (Barney, 1986; Williamson, 1985) and causal ambiguity (Reed and DeFillippi, 1990).

Asymmetric information is described as competitors having difficulty in obtaining information on costs or other areas of expertise in the marketplace. Hence, if competitors (or network members in the branded foodservice product example) are able to obtain complete information, they will quickly understand where and how any competitive advantage arises. Reed and DeFillippi (1990) described a causal relationship among tacitness, complexity, and human asset specificity with causal ambiguity. Tacitness is defined as know-how that is achieved through experience and a learning-by-doing approach. Complexity arises from increases in the number and heterogeneity of technologies, organizational routines, and experiences in the organizational environment. Thus, imitation through observation by rivals is limited, and increased complexity safeguards firm information from being expropriated as rivals recruit employees. Human asset specificity is the specific deployment of firm resources in obtaining and developing human resources with specific knowledge and capabilities. Tacitness, complexity, and human asset specificity are proposed to have both direct and interaction effects on ambiguity. Therefore, all three of these elements should create higher ambiguity in relationships and ultimately heighten barriers to imitation by industry competitors (Harrington, 2004a).

From a marketing perspective, causal ambiguity appears to be a key driver of intangible concepts such as brand equity derived through an ongoing, internal tacit process as well as an ongoing process that impacts customers' perceptions of quality and image of a firm's products and services. Aaker (2004) classifies brand equity assets as brand loyalty, name awareness, perceived quality, brand associations in addition to perceived quality, and other proprietary brand assets (e.g., patents, trademarks, channel relationships, and so on).

Examples of foodservice products that have substantial brand equity assets include McDonald's (The Big Mac), Burger King

(The Whopper), The Outback Steakhouse (Bloomin' Onion), and Dairy Queen (The Blizzard). In these cases, the product name is a brand on its own. However, it also automatically recalls to the consumer the brand of the operation relating to the entire bundle of tangible and intangible elements. In a recent interview, McDonald's former president supported the notion and importance of branding relating to both tangible and intangible concepts. Accordingly, a number of elements inherent in a branded item, such as the Egg McMuffin, protect it from direct duplication. These include supplier relationships, the implementation process, location factors, and price–volume relationships.

The strategic process, decisions, and structure

Strategic process

A key consideration in strategy is how the process of strategy making is formulated, implemented, and evaluated. This question is particularly relevant at the point of resource allocation decisions and the impact on organizational structure. Resource allocation decisions are at the point of deciding how strategic ends will be implemented. Several key features are pointed out in the literature as important to the process and ultimately the decision outcomes. These features include how the process takes place and who is involved in the process (Ashmos *et al.*, 2002; Brews and Hunt, 1999; Harrington, 2004b, 2005; Mintzberg *et al.*, 1998; Okumus and Roper, 1999).

The importance of this area of study is the situational connection among external environmental characteristics, the internal context, and the impact of the process on desired outcomes. Thus, a key factor for decision makers in the area of resource allocations includes decisions on designing a strategic process that enhances the likelihood of achieving desired outcomes and performance. As pointed out in this and other studies, this decision includes an understanding of the impact of external factors (such as uncertainty, volatility, hostility, and complexity) (Harrington, 2004a; Jogaratnam and Tse, 2006) and internal factors (structure [size and ownership], culture, values, etc.) (Bradach, 1997; Okumus, 2004; Parsa, 1999; Ritchie and Riley, 2004; Schmelzer and Olsen, 1994) in hospitality industries.

Strategic decision making

Most studies in the strategic decision-making arena are tied to the notion of a strategic or management choice perspective

(Child, 1972; Hambrick and Mason, 1984; Olsen *et al.*, 1998). This notion indicates that organizational structure and processes are, in part, a reflection of management's cognitive interpretation of contextual variables (both internal and external), thus driving decisions for the allocation of resources in process issues such as the complexity of the internal structure (Ashmos *et al*., 2002).

Roberts (1997) determined that the choice to franchise in the hotel industry placed limits on managerial discretion and impacted strategic decision making. Byers and Slack (2001) studied the strategic decision-making processes used by owners of small firms in the leisure industry. The study determined that firms in this business sector used adaptive and reactive decision making. The reasons given for this approach included time constraints, an unwillingness to relinquish control, and the unique constraint by owners in this sector to "pursue their hobby while simultaneously operating their businesses" (Byers and Slack, 2001, p. 121). Harrington and Kendall (2006a) found that two main tactics were used by organizations: middle-up-down and top-down approaches. In many cases, middle managers in foodservice firms appeared to serve as boundary spanners synthesizing information up and down the organization. This approach was particularly prevalent in an environment of high uncertainty and when using multiple ownership forms. An autocratic and top-down management approach was also used frequently across the foodservice industry (85% of the time in this sample). Overall, the study provided support for a relationship among management structure needs based on ownership type (franchise, sole-proprietor, and wholly corporate owned), number of units, and the task environment.

Because a fit between managerial discretion and the aim of decision making is generally a desired characteristic, these findings relate to the need (and ability) to achieve strategic objectives with the appropriate structure. Overall, the studies on decision making point to the importance of context on the decision and the decision process. Specifically, issues such as uncertainty, complexity, and instability are important factors to consider when delegating to a resource allocation team or designing the decision-making process in general.

Organizational structure and service excellence in hospitality

Firms in many service industries understand the importance of service excellence and its relationship with a competitive advantage. Service quality can be defined by the customer, and a variety of industry segments have reputations for providing

service excellence. For instance, McDonald's restaurants and Ritz-Carlton Hotels are two organizations with a reputation for service quality but the structure and approach at achieving it are very different. McDonald's utilizes a very standardized approach where everything from layout, equipment, and staff behaviours is tied to standard operating procedures and training systems. In contrast, Ritz-Carlton Hotels, twice a winner of the Baldridge Award for quality, use a process that emphasizes empowering all employees to do whatever it takes to exceed hotel guests' expectations. While two companies' approaches to delivering service excellence are quite different, so are the organizational structures that are designed to ensure customers' expectations are met.

Traditional structural characteristics

While every organization is unique in how it is structured, basic structural characteristics consider vertical and horizontal decisions on the division of labour and coordination of firm activities. Issues such as span of control, flat or tall organization, formalization of tasks, and centralization or decentralization of activities are key structural decisions for any organization. A key factor tied to a contingency approach discussed earlier is mechanistic versus organic organizational structures. Mechanistic structures are characterized be tallness, high specialization, centralization, and formality across the firm. Organic structures are characterized by flatness (few hierarchical levels), low specialization of labour, informality, and a decentralized process. Studies in this area suggest that firms in a more complex and uncertain environment perform better when using a predominantly organic structure and firms in a less complex and stable environment achieve better results using a mechanistic structure (Burns and Stalker, 1961; Lawrence and Lorsch, 1967; Harrington, 2004b).

Plural forms and other arrangements

Several studies in the hospitality literature have suggested that there is value in designing organizations utilizing multiple forms at different levels of the organization. Ritchie and Riley (2004) found the communication role of the multi-unit manager to balance an organic frontline structure that allowed employees to deal with operational contingencies while maintaining a more stable environment at the higher organizational levels to allow a formal and a more mechanistic structure for top-down communication of strategies.

Harrington (2005) used the quick service restaurant (QSR) segment as an example of the multiple structural form model. Earlier research indicates that the QSR environment lends itself to achieving greater efficiency by utilizing a deliberate and fairly individualistic (top-down) approach. This segment of the restaurant industry is more homogenous and, at the segment level, has been less uncertain. Theoretically, the nature of the organizational form in this segment indicates that a top-down, mechanistic approach can be successful. The franchise form should allow a top-down approach from the corporate level to individual units specifying product specifications, service levels, and marketing campaigns. This general proposition is supported by earlier research findings. Parsa (1999) determined that increased levels of profits for franchises in the QSR segment were associated with the use of Bourgeois and Brodwin's (1984) change model; this model was described as a predominately top-down strategy-making approach. Bradach (1997) found that QSR firms use a plural form to manage the restaurant chain and strategy-making processes. While the literature portrays the corporate-franchise structure as one of bureaucratic managers versus local owner-operators, Bradach (1997) found the arrangement to be generally a "large monolithic hierarchy (a company arrangement)" and "a federation of semi-autonomous small hierarchies (a franchise arrangement)" (p. 285). Therefore, a use of multiple models appears to enable firms to leverage company strengths of controlling and providing overriding directions for the firm. The strengths of franchise units are in understanding the needs of local markets and having a willingness to champion ideas up the chain to top management (Bradach, 1997). This finding supports the value of multiple ownership structures with implications on resource allocation decisions and processes.

In addition to a variety of ownership structures and traditional organizational forms, several other contemporary organizational structures have emerged due to changes in national borders, technology, and demographic shifts. Key contemporary organizational structures are described as network—virtual and modular. A network organization is a structure that facilitates the sharing of assets necessary to deliver the finished product or service that lie within the various members of the network rather than within one firm. A virtual organization is also a network but one that is a constantly changing independent group that shares the skills, knowledge, costs, and access to each other's markets (Johns and Saks, 2005; Miles and Snow, 1992). A modular organizational structure is one that performs a small number of core functions internally and outsources any non-core functions to other specialists and suppliers (Karim,

2006). While the nature of network and virtual organizations require that they give up much of their control, the modular organization maintains complete control over strategy and objectives (Dess *et al.*, 1995).

Summary

A synthesis of the literature instils several prominent points. First, the overwhelming evidence appears to support the concept of achieving a fit or co-alignment among firm strategic ends, resource allocations, and organizational structure. This fit does not appear to happen automatically but instead appears to be a tacit skill developed through experience. Ultimately, a co-alignment among these elements provides firms with higher performance. This enhanced performance is due to two main areas: (1) greater likelihood of successful implementation through the use of specific knowledge and an understanding of organizational culture, values, and history effects and (2) the utilization of organizational forms that adapt to the needs of an uncertain environment across and within the organization.

Practitioners and researchers should consider relationships at a variety of levels to appropriately operationalize the resource allocation process across the firm. For instance, due to the aforementioned characteristics in hospitality (i.e., a combination of multi-unit firms and independent operators, a variety of ownership structures, widely varying organizational sizes, and geographically dispersed business units), it seems likely that firms will utilize multiple models of the strategy-making process simultaneously based on the context and organizational level. Ritchie and Riley (2004) found that lower levels of the hierarchy in multi-unit service firms was where organizations coped with uncertainty in the environment, shielding the uncertainty from higher levels of the organization. Bradach (1997) found that QSR chains utilized multiple forms of management in the strategic process to simultaneously balance a need for control and adaptability. This finding illustrates the need to utilize a more adaptive approach at the unit level to maintain flexibility and use a more traditional, top-down approach at the corporate level of a firm to maintain control and linear strategic direction (Harrington, 2005).

To illustrate these points, resource allocation decisions on the restructuring of McDonald's over the past few years have been driven by many of these factors. First, in regards to ownership structure, McDonald's leadership wrestled with the fit and balance between a franchised and corporate-owned restaurant

mix. In the U.S. market, McDonald's typically has an 80/20 (80% franchised and 20% company owned) ownership structure. Internationally, the structure is about 40/60 (40% franchised and 60% company owned). As stated by the recent president of McDonald's "I began strategically to say that in my opinion internationally we should have more of our operators run our restaurants because the presence of an on-premise owner operator is the most effective way to build the brand in that community. This is difficult because the profitability to the company [McDonald's]—if the restaurants are run well—the profit is greater when we own it. So, when I went to our team and said here is an idea, there were a lot of raised eyebrows." To evaluate this potential restructuring decision, the leadership at McDonald's followed a strategic decision-making process of

1. Analysis—(a) communicate with operators; (b) evaluate capabilities of operators; (c) analyse the market; (d) determine who is capable of running more units; (e) determine a price for each unit that would be competitive, enable them to do well, and yet provide the company with a good return; and (f) question employees and suppliers.
2. Financial considerations—implications to the company, operators, and shareholders.
3. Development of a plan of action.
4. Execution of the plan.

Part of this restructuring evaluation and implementation process included utilizing information from operators, managers, employees, and suppliers as well as assessing the company and asking questions to determine "what is working" and "what would you change." The McDonald's experience underlines the importance of involvement across the organization and the time commitment in seeing such an endeavour to fruition: spending time in restaurants, time to develop a gut feeling based on experience from visits, training, mentorship and history working with operators. Much of the process involved in this turnaround related to building trust and commitment from all members of the organization. This process provided greater turnaround success by breaking down barriers to implementation and avoiding costly mistakes prior to resource allocation decisions.

In a nutshell, earlier literature and the McDonald's example indicate a need in the resource allocation decision process to balance external and internal factors. Further, findings support the notion that there is no best way to do things and leaders need to be aware of options. These options include the

various business options to consider but also process options on who to include in the process and how much adaptability is required. Organizational options include traditional organic and mechanistic forms as well as a variety of ownership forms to consider (Sorenson and Sorensen, 2001). New organizational forms of network, modular and other hybrid arrangements, provide potential opportunities to simultaneously increase service quality and organizational capabilities and lower costs.

Application: key resource allocation factors

In this section, we focus on key resource allocation factors that may impact decisions for internal or external implementation of strategic plans (i.e., structural arrangements). We present the discussion in the context of decisions related to possible entry into the branded foodservice product sector of retail. Specifically, we consider key resource allocation decision factors for entry in general and then factors that impact organizational structure decisions.

Restaurant branded products in a food retail environment

The separation between restaurant and grocery store food has slowly dissolved over the past two decades. With the advent of the ready-to-eat, prepared food counters in most full-service grocery stores and retail super-centres, the retail industry has made inroads into the foodservice market. A report on global pricing trends described this non-traditional strategy as "channel blurring" (Ernst and Young, 2004). In this discussion, restaurant-branded products are defined as food products that are tied to a specific restaurant brand and are made available in a food retail (grocery) environment, in other words foods using restaurant brands that have transitioned from foodservice establishment to grocers' retail shelves. Very little research has been published on this contemporary food topic. Thus, the purpose of the discussion in this chapter is to consider the resource allocation implications for foodservice firms entering the retail arena.

Figure 11.1 provides a framework of key issues to consider when making resource allocation decisions in this area. The framework is based on our research on this topic drawing on earlier studies and in-depth interviews of knowledgeable executives involved with this segment of the foodservice industry. In evaluating the resource allocation options in this area, restaurant operators need to evaluate intangible resources such as their firm's branding, brand equity, and brand awareness to

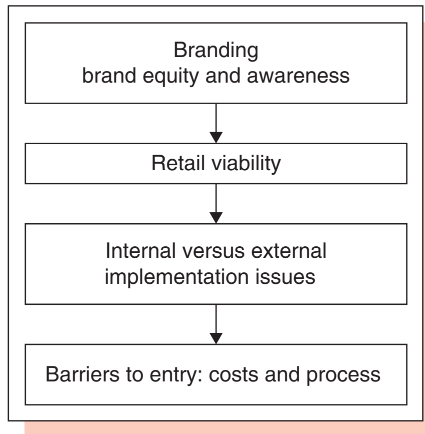

Figure 11.1
Key issues in the branded foodservice product decision.

determine the value added of their branded products (Aaker (2004)). Additional issues directly related to determining resource allocations include retail viability, internal versus external implementation issues, and barriers to entry (costs and process).

Resource allocation decision—step 1: evaluating a fit with strategic ends and brand equity

As foodservice operators consider entering the branded foodservice product market (retail), it appears imperative to consider the strategic ends of the organization as well as the realistic value of its brand, brand equity, and brand awareness prior to entry to determine whether benefits of a brand extension are probable. Aaker (2004) describes brand extension benefits as having five main characteristics:

1. Enhancing the brand's visibility and image. Placing the brand in another setting can be a more effective and efficient brand-building approach than spending money on advertising.
2. Changing a brand image. If a brand needs to broaden or shift its associations in order to support strategic initiatives, moving the brand into a new area may be the most convincing way to do that.
3. Providing a way to maintain relevance by creating competitive entries in emerging product markets that would be difficult or impossible to enter without an existing brand asset.

4. Inhibiting a competitor from gaining or exploiting a foothold in the market. Thus, an extension can be strategically defensive and be worthwhile even though it might struggle.
5. Providing a source of energy for a brand, especially a brand that is established and a bit tired.

By using the built-up, intangible equity in a brand, a foodservice operator should be able to leverage this equity to create more opportunity and, possibly, more revenue. This type of leverage is not dissimilar to the use of tangible assets such as cash, equipment, or property. The extension of the brand is one way to leverage the consumer awareness and loyalty into new or existing markets in which the firm may not currently be competing. If the brand equity is strong enough, the idea is that consumers who are loyal to the brand, or at least aware, should follow into this new market. The idea of "channel blurring" is a direct result of brand extension. The practice of private label branding and an extension of the branded foodservice retail product provide an opportunity for many operators to extend the value of their brand. To determine the potential benefits of this strategy, foodservice operators need to consider a variety of issues based on the tangible and intangible resources they have at their disposal.

Many companies have determined not to enter this area and focus on their foodservice operations exclusively. In the case of McDonald's, the leadership has decided not to enter the branded foodservice retail market while many of their quick service competitors have (e.g., Taco Bell). McDonald's explains the decision based on alignment and accountability issues. They believe everyone's focus should be on "improving the customer experiences" of their more than 33,000 restaurants. The McDonald's brand strategy is to focus on things such as clean restrooms, relevant building design, new food offerings, and friendlier service rather than external products tied to its brand equity. Of course, the purchase of Boston Market by the company has provided a strong foothold in the branded foodservice product arena—but it is a brand clearly separated from McDonald's (interestingly, Boston Market branded foodservice products are achieving more success than the restaurant concept on which the brand was founded).

Therefore, leaders in the foodservice industry considering entering this area should answer the following questions: What is the strength of our brand equity? Will branded foodservice retail products provide a viable brand extension for the firm? What are the potential benefits? Further, in attempting to answer these questions, leaders should first determine who should be involved in this decision process based on knowledge, insights,

and expertise, then design the resource allocation decision process integrating the desired involvement levels to increase the likelihood of achieving the best solution, successful implementation, and organizational support (Butler, 1997; Harrington and Kendall, 2006; Nutt, 1989).

Resource allocation decision—step 2: retail viability

In order to fully comprehend the retail food market and determine retail viability of a restaurant food product, the current competition between national- and private-label food products needs to be considered. Based on the interviews of grocery executives and operators, food retailers appear to view all products as either a national brand or a private label. One interviewee, director of operations for a large retail food group, indicated that the creation of private labels in the late 1970s and early 1980s gave more control to the retailers in the area of product mix and allowed them to respond to consumers' needs. This branding paradigm shift nearly two decades ago created a situation where retailers could offer a wide range of products and product lines at competitive prices rather than having product development, pricing, and product mix dictated by a handful of large multinational manufacturers.

For retailers, one apparent advantage is the store brand; the store brand carries with it a substantial amount of brand equity as many consumers develop loyalty to a particular grocery chain. The residual effect of this increased loyalty is less competition based solely on price and an increase to the bottom line for the grocery chains. Interviewees indicated that the margin on private-label products is more favourable than that on national brands due to much lower marketing costs. This consensus was supported in the study by De Wulf *et al.* (2005). In the study, the researchers compared consumer perceptions of national brands versus private-label products. Their study confirmed that, "the common belief that private label products can offer the same or better quality than national brands, but a lower price …" and that "store patronage has an influence on perceived brand equity of store versus national brands (De Wulf *et al.*, 2005, p. 223).

Interviews indicated that food retail professionals consider branded restaurant food products to be a part of the private label group because the margins of these products are, typically, greater than the national brands. This appears to be due to the fact that many of the branded foodservice products are not totally controlled by the traditional manufacturers but instead can be joint ventures between product development

consultants and the foodservice operator. However, retailers suggested that each foodservice branded product might be different in regards to manufacture, control, and profitability. In the case of the United States-based Carlson Restaurants' casual foodservice chain (TGI Friday's), the retail products that bare their name and logo are manufactured by several large multinationals including Heinz and Diageo; in this particular situation, consumer response and relations are also handled by these organizations. Therefore, the ability for Friday's to control the customer experience is limited using this format.

According to a large chain restaurant media representative, the company has some latitude with regards to product development but, for the most part, the arrangement with manufacturers is a royalty payment for use of the restaurant concept name and logo. This limits the chain's liability and resource output to zero—making any revenues derived from royalties a positive cash flow. Access to information due to confidentiality makes it impossible to understand the total relationship between this restaurant group and the manufacturers. However, if the control of these retail products rests with these large national brand producers, the likelihood of these products being considered private label would be greatly decreased. Therefore, the determination of whether a branded foodservice retail product is considered a private label depends on the relationship struck by the stakeholders involved: foodservice operators, product development consultants, R&D team, and manufacturers.

The relationship between McDonald's and Newman's Own provides an interesting twist to this retail viability scenario. In this case, McDonald's co-branding with Newman's Own assisted in creating brand equity for their salad products by bringing in a well-known name from the retail grocery sector. McDonald's implemented a new product line of foodservice salads in their restaurants originally called "salad shakers." They had done extensive research to determine a number of elements that were being done correctly but there were still several issues that were limiting the success of this new product line (issues with the price point, packaging, and disbursement of the salad dressing for greater eating quality). While McDonald's has longstanding equity in products such as McMuffins and French fries, until the not-too-distant past, it had little equity in the salad business. To address this issue, the leadership created a co-brand with Newman's who have a strong reputation as salad dressing experts using natural ingredients and sustainable practices. They hoped a relationship with Newman's would allow them to utilize the brand equity from Newman's millions in sales in the retail market

and create a personality for the McDonald's salad. This "channel blurring" in its reverse form has made McDonald's the largest produce seller in the restaurant world.

This discussion highlights three main issues for retail viability consideration. First, from a retailer's perspective (particularly with small-to-medium-sized restaurant organizations), the viability of a branded foodservice product depends on whether the product can be viewed as a private label, providing greater profitability for the retailer. Second, from a foodservice operator's perspective, there is a need to determine whether a substantive level of brand equity has been established to warrant any value added to the consumer. Third, the channel blurring process can be utilized by taking foodservice products into the retail sector as well as bringing retail brands into the foodservice sector. While value added for the consumer can result from a variety of tangible or intangible attributes, in the case of a branded foodservice item, the value is likely to take the form of brand awareness tied to perceived quality. Thus, it provides an increase in pre-purchase consumer confidence and decreases pre-purchase anxiety (Locander and Herman, 1979).

Resource allocation decision—step 3: internal versus external implementation issues

This section points out several issues for consideration once retail viability is determined. Some of these issues include maintenance of production and marketing control, structural arrangements, internal knowledge, and a confirmation on whether the firm has the resources needed to execute. These resource allocation issues relate directly to decisions on ownership and organizational structure options.

There appears to be a wide range of opportunities for different types of foodservice operations to be involved in the branding for a retail food product. Based on a review of available products and interview responses, it makes little difference whether the development of the product is from a quick service concept, fine-dining, or casual operation. One interviewee, director of a large food product development company, supported the idea that one of the most important aspects to be considered is the equity of the brand and the weight it carries in the marketplace. But, a second consideration is the nature of the actual product to be produced, how it fits the brand it will be labelled with, and how it will ultimately be produced.

The Toronto-based product development company works with foodservice operators to develop retail food products

and has worked with many foodservice firms in the past including Mr. Greek Restaurants, Kernels Popcorn, Pizza Pizza, Golden Griddle Family Restaurants, and New York Fries. In the case of product development firms, they attempt to tailor their relationship to fit the foodservice operator as well as provide services such as product development, retail services, and outsourcing production. A key factor of success in this process is ensuring that the type of product is consistent with the brand. For instance, if the consumer cannot associate the type of product to the brand it is labelled with, then the extension does not work. This situation will not provide the consumer with pre-purchase cues of product quality associated with the brand.

The emergence of R&D and product development companies working with foodservice organizations provides an example of contemporary organic organizational forms such as network and modular organizations. In this situation, foodservice firm leaders make organizational structure decisions based on who can do functions and activities most effectively and economically rather than fixed organizational ties in a traditional organizational chart (Miles and Snow, 1992). This new structure may take the form of a virtual organization (an alliance of partners concentrating on what they do best) or modular arrangements (outsourcing non-core activities to specialists) (Dess *et al.*, 1995).

Our interviews indicated different levels of involvement in product development, manufacturing, marketing, and retailing. For example, firms such as TGI Friday's may decide to have minimal resources allocated to implementation and rely on the strength of their brand recognition to provide retail demand. However, many firms (such as Salsateria [a small, independent Ontario firm]), are responsible for not only bringing the food product to the market but also its distribution. In case of firms such as LeBiftheque and Montana's Cookhouse (causal dining chain operations), distribution control may be maintained internally while the scale-up, manufacturing, and packaging of the final product may be outsourced to food development and manufacturing firms.

What are the reasons for differences in type of involvement? Our interviewees pointed to several issues that are supported in literature on macro and micro issues in management, organizational structure, marketing, and innovation (Barkema and Vermeulen, 1998; Ottenbacher and Gnoth, 2005; Harrington, 2004b).

Figure 11.2 highlights some of the key factors impacting resource decisions on implementation and structure decisions ranging from exclusively internally derived, to some sort of joint venture arrangement (ranging from a traditional JV

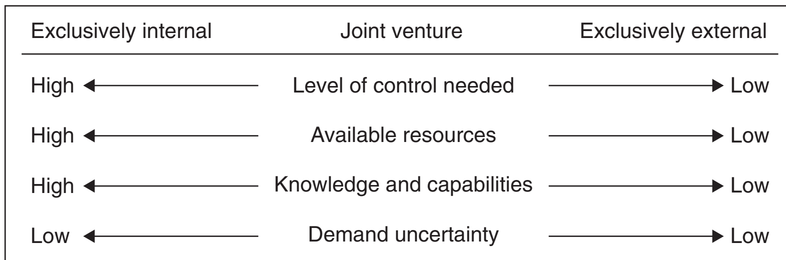

Figure 11.2
Key factors impacting decisions for internal or external implementation.

of two separate firms joining together to create a separate entity to a mix of internal and external implementation elements [e.g., internal product development and external manufacture]), to exclusively externally derived (e.g., licensing of the brand name and logo). These organizational structure factors are based on the resource allocation decisions of the foodservice operator and include issues on level of control, resources and resource commitments, dissemination of information, and demand uncertainty.

Level of control

The need for control and a fear of dissemination of information (i.e., formulas, recipes, or process issues) over the product and its distribution may, in part, drive decisions to license the brand, create a joint venture, or create a wholly owned division to develop, manufacture, and distribute a branded foodservice product line. When there is a high need in one or more of these areas, foodservice operators are more likely to consider internal implementation in the areas of product development, manufacture, and distribution.

This control issue is, in part, related to the resource-based view of barriers to imitation. In the branded foodservice product arena, brand image and equity are key factors driving barriers to imitation by competitors, alliance partners, or retail chains copying products in the marketplace. Sustainability of brand equity is related to the idea of causal ambiguity and stems from concepts such as tacitness, complexity, and human asset specificity. Given the intangible aspects of brand equity, it stands to reason that these concepts are important in heightening barriers to imitation in foodservice operations as well as branded foodservice products. One interviewee pointed out the importance of control and managing everything from

product size, ingredients, packaging, and positioning during the product development testing and implementation phases.

Therefore, organizational structure decisions should be influenced by not only the level of control over tangible elements of the branded foodservice product but also more intangible elements such as tacit processes and human asset specificity that may provide sustainable brand equity and ultimately a competitive advantage. As pointed out by one McDonald's executive, organizational structure and control is "a constant yin-yang, a constant process of giving and taking, a constant working together, sacrificing for the good of the whole." Hence, these decisions may need to be dynamic and adaptable over time.

Available resources

A second issue in this decision is whether or not the firm has the resources to commit this venture (e.g., knowledge, know-how, facilities, network, access to distribution channels, time, and finance). As with level of control and information dissemination, when a foodservice firm has a high (or low) level of available resources and the knowledge and capabilities to implement (or if available in the marketplace), firms are more (or less) likely to use primarily internal avenues to implement a branded foodservice product.

In addition to internal limitation considerations, the firm should consider existing or potential relationships that could be utilized to maximize the benefits for all parties in rolling out branded foodservice products. These relationships can be with suppliers, education facilities, agricultural research centres, or other entities that can be utilized for sharing a variety of resources or capabilities. In some cases, even competitors can evolve into networks for resource sharing. For example, competing firms might share staff members with expertise for special events or projects and may form cooperative agreements for purchasing or marketing purposes (Harrington, 2004a).

Demand uncertainty

A final area presented in Figure 11.2 to consider is the uncertainty in the demand for the branded product. This issue appears to be an important element to consider with its ultimate implications on risk versus return relationships (Barkema and Vermeulen, 1998; Buckley, 1983). Many foodservice firms have developed elaborate "test sell model" or similar processes that simultaneously work out the bugs of implementing new

products along with determining demand levels once fully rolled out. As one executive indicated, new products have to go through a rigorous process that averages about 8 months in length. This process reduces the enormous risk involved. Managerial responsibilities of foodservice leaders in the product development area evolve into a "constant lifecycle of managing opportunity and managing risk."

In order to ensure a stable level of demand, a key consideration in the distribution in a food retail environment is getting the product on the store shelf and in front of the consumer. For many operations, the cost of getting the product to the store shelf can be prohibitive. Depending on the agreement with the specific retailer, a fee may be required just to get the product on the retail shelf. Our interviewees indicated that this fee can range from $25,000 to $50,000 for shelf space, assuming there is store space available. In North America, the average-size grocery store carries somewhere between 8000 and 10,000 different products at any given time. The shelf space is designated for products of large multinationals such as Kraft and Nestle. Therefore, our interviews revealed the difficulty of independent foodservice operators obtaining the shelf or freezer space to display branded foodservice products. Furthermore, not only it is challenging to place the restaurant food items on the store shelf but the specific location within the shelves is also very critical for high sales. For this reason (in addition to stakeholders for development and manufacture), interviewees emphasized the importance of utilizing a manufacturer or consulting company with a network and connections to successfully transfer a branded foodservice product to the retail setting.

Thus, the level of vertical integration (both forward and backward in the supply chain) by a firm involved in the process of bringing a branded foodservice product to the market will depend on the product and situation. In some cases, such as Salsateria, the vertical integration of all aspects from concept to final distribution will be appropriate for the consumer and the firm. However, if the foodservice operator intends to distribute the product on a larger scale, all elements of the process are open for outsourcing or integrating within the firm.

Resource allocation decision—step 4: barriers to entry

Barriers to imitation have been discussed above but traditional barriers to entry ideas are relevant in the branded foodservice product decision. The barriers to entry for a foodservice operator can be divided into two categories: costs and process. In terms of cost barriers, cost issues are multifaceted. In addition

to the costs described above in getting a product on the shelf, there are a variety of costs associated with development and manufacturing that can be substantial.

One critical issue pointed out in our interviews in bringing foodservice products into the retail market is addressing government regulations. The amount of regulation depends on the scope of the production and the area that the products will service. For instance, if the production is limited to an individual state or province, the state, province, or municipality will regulate the process. An example is a state health department or provincial ministry of health. However, if the goal is to distribute nationally, federal agencies will become involved in everything from inspection and food safety enforcement to nutritional labelling. In the United States, food safety and inspection issues may cross several organizational boundaries including the U.S. Department of Agriculture (USDA) and the Food and Drug Administration (FDA), whereas in Canada, the primary agency is the Canadian Food Inspection Agency (CFIA). Therefore, an additional barrier to entry for nationwide distribution is expertise in these issues.

According to one manager of product development, the cost of recipe and process development can run $25,000 or more. However, for large international endeavours, this cost can reach several hundred thousand to several million dollars. There are further major costs for those operators who decide to handle production themselves. First is the cost of setting up and running a separate line, specifically for the production of retail products. The production of these products is fundamentally different from a typical foodservice environment. One of the main differences is the use of fresh ingredients. While fresh ingredients are a recognized standard in most restaurant kitchens, shelf life and recipe modification take centre stage in creating most branded foodservice products. Recipe modification requires different equipment than that normally used in restaurants such as packaging, quick cool down, and large-scale production equipment. Other cost factors include storage for raw and finished goods inventories as well as the extra staff required to produce these products. Because most foodservice operators are not equipped (either financially or with expertise) in these areas, most enter into agreements with other companies who specialize in developing and producing retail food products.

Challenges and benefits

One of the challenges alluded to earlier is the loss of control that a foodservice operator may have to concede to get a

product to the retail market. Ultimately, any quality problems will reflect badly on the entire foodservice brand—not just to the retail product. For instance, if the company produces a branded foodservice product for an operator and the consumers become ill, the outcome would affect the foodservice operation without much recourse in regards to brand equity.

Foodservice operators need to weigh the financial and control risks with the potential benefits. As Aaker (2004) indicated, many benefits in his explanation of extending a brand into a new product market include increasing the brand's visibility, providing energy for the brand, and broadening the brand into consumer areas that may not have been achievable previously.

A good example of the implementation and realization of these benefits is the placing of Lick's Homeburger products in the Metro Group grocery stores across Ontario. While Lick's is strictly a Toronto regional restaurant chain, the branded foodservice product offerings provide exposure across the province and give Lick's a platform for potential future growth with an already-established branded product line. A second benefit utilized by Lick's is marketing the brand across both retail and foodservice products. In the case of Lick's retail products, a coupon is included in most of the packaging to drive business to the foodservice locations. An added benefit of this marketing campaigning is that it allows Lick's to track the crossover between the retail and foodservice operations. Of course, the final benefit is the potential for revenue and profits. In many cases, much of the financial risk can be absorbed by the manufacturers and processors of the products with a foodservice operator receiving royalties for the use of its brand if the organizational structure is set up in this fashion. The implicit benefit to this process, in addition to revenues from the retail product line, is the increased advertising in the form of keeping the foodservice name in front of the retail consumer on an ongoing basis.

Conclusion

Resource allocation decisions provide the answer to "how" strategic goals and objectives become implemented. Resource allocation decisions and organizational structure are at the heart of the strategic choice perspective with implications on the future direction of the firm. For practitioners, a helpful outcome of this debate is an integration of the concepts of contingency theory and the resource-based view of the firm applied to a hospitality service environment. Thus, regardless of which side of the strategy–structure argument you might fall into,

logic and a synthesis of the research indicate that successful allocation decisions are more likely to be fully implemented when the complex interaction of variables (e.g., environment events, physical organizational structure, and intangible structural elements such as culture, values, and history) are considered. This integrated approach reveals the need for a fit between external and internal factors as well as the need of leadership to consider both context and process in determining and implementing resource allocation decisions.

We argue that concepts such as the co-alignment principle and the structural-functionalist arguments are two sides of the same coin. A close reading of both perspectives imply a dynamic and adaptable process of fit and readjustment based on balancing external and internal needs for determining what will be achieved, how it will be implemented, and what will be the complex interplay involved. This dynamic component is particularly relevant given the turbulent, complex, and fast-paced nature of today's hospitality business environment.

The application section reveals the evolving and competitive nature of the retail food market. Manufacturers and retailers are continuously looking for ways to gain competitive advantage with the practice of using foodservice operations' brands as one method of achieving this goal. This business model creates an alternative paradigm of bringing foodservice products to the market. Instead of the traditional process of large companies spending substantial amounts on R&D to launch a product and then even more marketing it, this business model creates a more collaborative approach utilizing existing know-how and brand equity.

Based on our interviews, the typical business model involves the foodservice operator developing a menu item in the kitchen of its operation, testing it on restaurant guests to verify the food quality and its popularity. At the same time, the operator builds the brand of the operation through reliable quality, establishing the item as a signature dish. The retail product consultant or manufacturer then takes this popular signature menu item and develops it for the retail market. Once the product is ready for market, the product expert uses established connections within the retail industry to gain access to limited shelf space and sell the product in retail stores. A key benefit of this process for the product expert and retailer is a reduced need to promote the new product as a brand as the product benefits from existing brand equity of the foodservice operation. In many cases, this provides the retailer with an increased profit margin over typical national brands. By leveraging the capabilities of these three main stakeholders

(foodservice operator, product expert, and retailer), this business model and collaboration benefits everyone involved including the retail consumer, who has less uncertainty and anxiety about the initial purchase of the food product.

The emerging trend of channel blurring between retail and foodservice demonstrates key resource allocation decision issues for this strategic option as well as the impact of level of control considerations, resource availability, and demand uncertainty on structural decisions. Organizational structure options in this example highlight a range of possibilities including organic and mechanistic forms, a variety of ownership forms to consider, and new organizational forms such as network, modular, and other hybrid arrangements.

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