



MSc Business Administration

How are the capabilities at the origin of a CA developed through the time in small and medium enterprises?

h3 - Hambúrguer Gourmet Case study



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Acknowledgments

This thesis is dedicated to my family, especially to my father Ovidio Alves who always inspired me with his great entrepreneurial achievements, and to my mother Iolanda Rodrigues who I constantly see as a role model and someone I can always rely on to guide me through life.

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Resumo

Como é que as capacidades na origem de uma vantagem competitiva são desenvolvidas ao longo do tempo em pequenas e médias empresas? A presente dissertação configura o caminho para um entendimento prévio e análise subsequente da teoria baseada nos recursos (Resource-based View Theory) e particularmente da teoria das capacidades dinâmicas (Dynamic Capabilities Theory), consideradas as teorias de estratégia mais citadas e influenciadoras na sua área.

Através do modelo VRIO, a teoria baseada nos recursos defende uma integração dos recursos críticos (valiosos, raros, inimitáveis, organização) da empresa para atingir um posicionamento de vantagem competitiva. Esta perspectiva tem as suas limitações, já que, essencialmente, apenas se foca numa perspectiva interna da empresa. Por outro lado, a teoria das capacidades dinâmicas introduz um contexto externo à empresa, salientando a relevância do ambiente externo para o desenvolvimento das capacidades. As capacidades dinâmicas podem ser definidas como a capacidade que a empresa tem de integrar, desenvolver e reconfigurar a sua base interna e externa de competências, consoante as mudanças no ambiente de negócio.

Dadas estas complementaridades, profissionais vão mais além dizendo que as capacidades dinâmicas podem ser vistas como um caso particular do modelo VRIO, mas capaz de responder e se adaptar a mudanças numa indústria dinâmica. Para ajudar a responder à pergunta da pesquisa, ambas as teorias foram conjugadas para formar a base de conhecimento para a prossecução deste estudo.

O problema de pesquisa associado a este projecto baseia-se, em como pequenas e médias empresas, actuando em indústrias maduras onde o seu crescimento abrandou, desenvolvem capacidades que potencialmente permitem um posicionamento de vantagem competitiva de mercado. O h3 - Hambúrguer Gourmet foi o caso de estudo escolhido para responder ao problema de estudo.

Ao longo da discussão do caso, cinco recursos e duas capacidades do h3 foram argumentados através do modelo VRIO. Numa segunda secção e para perceber como as capacidades da empresa foram desenvolvidas ao longo do tempo, foi aplicado ao h3 um modelo explicativo adaptado por Cardeal (2010), para pequenas e médias empresas e de acordo com três diferentes etapas que o modelo sugere.

Depois de interpretados os resultados do caso de estudo, tornou-se evidente o constante e activo papel que o agente facilitador tem, durante as diferentes etapas do processo de mudança em pequenas e médias empresas. Neste tipo de empresas, os gestores de topo são normalmente a parte responsável neste processo de desenvolvimento de capacidades, ficando claro como as acções e decisões dos mesmos desencadeiam o progresso desde o início até ao posicionamento premium no mercado do h3.

O progresso começa com o reconhecimento de oportunidades de mercado e oportunidades internas, que irão desencadear o novo modelo de negócio. O papel dos gestores de topo é preponderante, uma vez mais, para delinear os limites do modelo e também para orquestrar como tudo irá acontecer, através da sua perseverança, políticas funcionais adequadas e do modo como constroem lealdade e comprometimento em torno dos seus objectivos de negócio. Dados os resultados do estudo, é então possível ajudar gestores de topo a melhor orquestrarem as suas ideias para desenvolver novos modelos de negócio e as diferentes maneiras para eficientemente melhorarem a sua implementação.

Abstract

How are the capabilities at the origin of a CA developed through the time in SME? The present dissertation configures the path for a prior understanding and subsequent analysis of the RBV theory and particularly concerns itself with DC theory, which are considered the most influencing and quoted strategy theories in the field.

Through its VRIO model, the RBV theory ultimately defends an integration of the critical resources (valuable, rare, imperfectly imitable, organization) of the firm to achieve a CA positioning. This perspective has its own limitations, as it essentially focuses on the internal perspective of the firm. On the other hand, the DC theory introduces an external context to the company by highlighting the relevance of the external environment in the development of capabilities. DC can be defined as the firm's capability to integrate, develop and reconfigure its internal and external competences base according to changes in the environment.

Due to these complementarities, practitioners go further to say that DC can be seen as a particular case of the VRIO model, but able to respond and adapt to changes in a dynamic industry. To help answer the research question both theories were conjugated to form the knowledge base for the prosecution of this study.

The research problem associated to this project lies in how a SME, operating in a mature industry where the rate of growth has slowed, can develop capabilities that potentially enable a CA positioning in the market. The h3 - Hambúrguer Gourmet was the chosen case study to address the research problem.

Along the case discussion the firm's five critical resources and two capabilities are argued under the VRIO model. In a second section and to understand how the firm's capabilities were developed through time, an explanatory model adapted by Cardeal (2010) to SME is applied to h3 according to the three different stages the model suggests.

After interpreting the findings of the case study, the constant and active role the facilitator agent has during the different stages of the change process in a SME became evident. In these type of firms, the managing partners are usually the responsible part in this process of capabilities development and it became clear, how top manager's actions

and decisions triggered the progress from the beginning towards h3's premium positioning in the market.

The progress starts with the recognition of market and internal opportunities, which will set off the new business model. The top manager's role is preponderant to delineate the boundaries of the model as well as how everything is going to be played out, by means of their perseverance, adequate functional policies and the way they build loyalty and commitment around their business objectives. Given the findings of this study, one is able to help top managers better orchestrate their ideas to develop new business models and the different ways to efficiently enhance their implementation.

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List of Abbreviations

CA – Competitive Advantage

DC – Dynamic Capabilities

HR – Human Resources

h3 – h3 Hambúrguer Gourmet

RBV – Resource-Based View

SME – Small and Medium Enterprises

VRIN – Value; Rare; Imperfectly Imitable; Imperfectly Substitutable

VRIO – Value; Rare; Imperfectly Imitable; Organization

1. Introduction

How are the capabilities at the origin of a CA developed through the time in SME? The present dissertation configures the path for a prior understanding and subsequent analysis of the RBV theory (Barney, 1991) and particularly concerns itself with DC theory (Teece, et al., 1997), which are considered as the most influencing and quoted strategy theories in the field (Kraaijenbrink, et al., 2010).

Through its VRIO model, the RBV theory ultimately defends an integration of the critical resources (valuable, rare, imperfectly imitable, organization) (Barney, 1997) of the firm to achieve a CA positioning. This perspective has its own limitations, as it essentially focuses on the internal perspective of the firm. On the other hand, the DC theory introduces an external context to the company by highlighting the relevance of the external environment in the development of capabilities. DC can be defined as the firm's capability to integrate, develop and reconfigure its internal and external competences base according to changes in the environment (Teece, et al., 1997).

Due to these complementarities, practitioners go further to say that DC can be seen as a particular case of the VRIO model, but able to respond and adapt to changes in a dynamic industry (Barney, et al., 2001). To help answer the research question both theories were conjugated to form the knowledge base for the prosecution of this study.

The research problem associated to this project, lies in how a SME operating in a mature industry where the rate of growth has slowed, can develop capabilities that potentially enable a CA positioning in the market.

This thesis is divided into six main chapters. The literature review that follows this brief introduction focuses on the RBV, DC and CA theories and provides the theoretical guidelines for this work. The third chapter describes and justifies the methodology used, starting with an initial phase of information gathering about the Portuguese restaurant industry, which in turn will support the second phase regarding the construction of a case study based on a Portuguese restaurant chain named h3 Hambúrguer Gourmet. In the fourth chapter the case study is analyzed.

In the first section of the discussion chapter the firm's five critical resources and two capabilities are argued under the VRIO model. In a second section and to understand

how the firm's capabilities were developed through the time, an explanatory model adapted by Cardeal (2010) for SME is applied to h3 according to the three different stages the model suggests.

The sixth chapter highlights the main conclusions of the study, as well as its empirical and management contributions and main limitations. Given the conclusions, a research suggestion is also proposed.

2. Literature Review

In the first section of the literature review, the RBV will be explained. The analysis has a special focus on characterizing what a resource is. Also mentioned is the evolution of the theory, which enabled an important change in the key features a resource must have in order to be the key driver for the achievement of CA, adapting from VRIN (Valuable, Rare, Imperfectly Imitable and Imperfectly Substitutable) (Barney, 1991) to the VRIO model (Valuable, Rare, Imperfectly Imitable and Organization) (Barney, 1997). The VRIO model adds the variable organization to the model which, as will be explained in further detail, is essential for organizing the resources in a certain way that will enable the firm to achieve a CA position in the market.

In a business environment nothing is completely static. The surrounding settings keep on evolving at different paces according to how dynamic the industry is. This led to a new theory named DC that can be seen as a particular part of the VRIO model. The second section will go more in depth into this theory.

A firm that operates in a dynamic industry needs to go beyond its basic set of organizational processes, because it must adapt to changes outside the firm in order to extend, adapt or create new capabilities (Winter, 2003). These capabilities will change the way the firm operates in order to sustain its CA.

Concluding the previous line of thought, where there is a close correlation between the two theories of the study (Barreto, 2010), the third section will focus on defining CA. Different aspects for reaching such position will be analysed, namely by differentiation and efficiency (Peteraf, et al., 2003).

2.1. Resource-Based View

“The RBV intends to explain the conditions under which firms may achieve a sustained competitive advantage based on their bundles of resources and capabilities.” (Barreto, 2010 p. 258).

Having said this, the theory will be introduced by first describing what a resource is. Many discussions have taken place through time regarding this matter. For the purposes

of this theory explanation, it makes sense acknowledging that a resource, should be capable of acting as a strength, able to contribute to the development of strategies that can lead to a CA and ultimately generating rents (Ambrosini, et al., 2009). Also, to be a source of CA, it must be in possession of the firm for some time (controlled internally) (Espino, et al., 2006).

In another words, *“firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness”* (Barney, 1991).

Based on the previous definition, resources can be divided into physical resources (e.g. geographic location, equipment, access to raw materials), HR (e.g. knowledge, experience, workforce competencies, critical capacity), organizational resources (e.g. firm reputation, formal and informal planning, business relationships within the firm) and financial resources (e.g. equity, debt, earnings) (Barney, 1991).

Resources can also be differentiated as tangible and intangible assets (Teece, 2007).

As this theory evolved through time, due to some critics of its first structure, it makes sense to analyse the main changes. In 1991, a resource, to be considered as a potential generator of CA, had to match the feature's requisites presented on the VRIN model (valuable, rare, imperfectly imitable and imperfectly substitutable) (Barney, 1991).

Valuable

As the name suggests, a valuable resource is an attribute that can contribute to enhancing a firm's level of efficiency and effectiveness, by being more cost efficient and/or recognizing opportunities and neutralizing threats. The extent to which the firm is able to actively use those resources to create value defines the extent to which it will achieve a CA position (Scott, 2008).

Rare

If a valuable resource is possessed by many competitors it naturally loses its potential value. With the same resource, those competitors will be able to develop exactly the same strategy in a way that will not contribute to a CA (Scott, 2008). Best case scenario,

it could contribute to a short lived CA, if the firm can successfully exploit such resource before the competition.

It is argued that, in order for a valuable resource to have potential to generate a CA, the number of competitors in possession of that resource should be lower than the number of players needed to form a perfect competition dynamic (Barney, 1991).

Imperfectly Imitable

According to Barney (1991), a resource that has proven its value and rareness, but at the same time can be copied or imitated easily, will not ultimately lead to a sustainable CA.

A firm resource can be imperfectly imitable if it matches one or more of the following conditions (Barney, 1991); (Wills-Johnson, 2008): (1) the way the firm obtained such resource is historically dependent, (2) there is a certain level of ambiguity in the connection between the firm's resources and its CA, (3) the resource is socially complex, (4) the resource is protected by legal property rights and/or (5) time compression diseconomies.

- (1) The historically dependent condition retracts how resource imitability is dependent on a historical evolution path. The resource could be, for instance, the process that the firm undertook through time that led to a cost reduction (Barney, 1991).
- (2) Causal ambiguity can be perceived as the condition related to uncertain imitability. When a certain firm possesses a wide array of resources, which enables a complex set of process while operating its business, it may well not be clear to a competitor, which resources are in the origin of the other firm's CA (e.g. Pharmaceuticals industry) (Dierickx, et al., 1989).
- (3) A resource social complexity relates to a phenomenom that goes beyond a firm's capability to manage and manipulate such resources. (e.g. firm's culture and reputation) (Barney, 1991).
- (4) Legal property rights protects firm's resources from being copied/imitated by competitors (Wills-Johnson, 2008).
- (5) Time compression diseconomies aims to highlight the importance of experience a firm accomplishes through time. This is very difficult to replicate, and it would require a long time for competitors to catch up with the intrinsic learning

experience, in the origin of such knowledge that ables the control of resources, endowed to contribute to a CA (Wills-Johnson, 2008).

Imperfectly Substitutable

Accordingly to Barney (1991), even though a resource is valuable, rare and imperfectly imitable, it should still count on the substitutability requirement to meet the VRIN model. Imperfectly substitutable stands for a resource that can't be substituted for another strategically equivalent resource able to deploy equivalent strategies to exploit the same oportunities to achieve a CA.

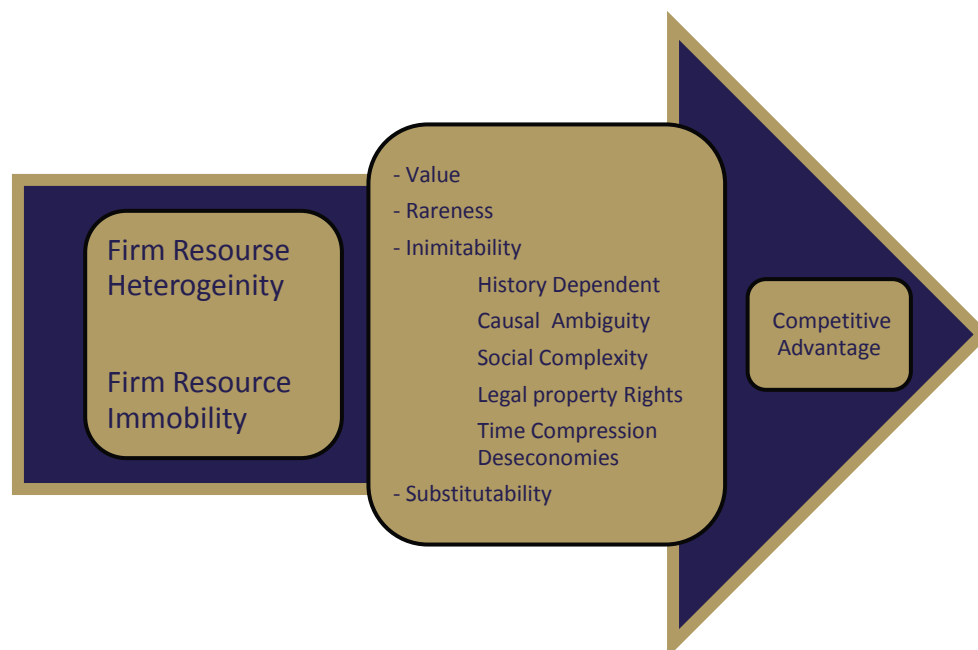


Image 1 – Competitive advantage model based on resources

Source: Adapted from Barney (1991)

Barney's (1991) RBV theory had a strong focus on the resources itself, but not on the process through which these resources would guide the firm towards a CA path. This reality geared the development of the VRIO model (valuable, rare, imperfectly imitable, organization), which positions the firm's internal organization as responsible for transforming resources into CA.

In this sense, if a firm has valuable, rare and imperfectly imitable resources, but it doesn't have individuals capable of understanding their utility and functionality to efficiently take advantage of them, a CA is not likely to be achieved (Barney, 1997).

Given that, it can also be acknowledged that this model underscores the relevance of being aware of competitor's functional similar resources, and doesn't treat resource substitutability itself as relevant anymore (Peteraf, et al., 2003).

2.2. Dynamic Capabilities

"We define dynamic capabilities as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments." (Teece, et al., 1997 p. 516)

"Dynamic capabilities are the firm's processes that use resources, specifically the processes to integrate, reconfigure, gain and release resources, to match and even create market change. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die." (Eisenhardt, et al., 2000 p. 1107)

There is a clear interconnection between the DC concept and the matters discussed in the previous section. Practitioners go further on this statement, by saying that DC can be seen as a particular case of the VRIO model, but able to respond and adapt to changes in a dynamic industry (Barney, et al., 2001). Going more in depth in the DC theory, its main particularities are highlighted below.

Dynamic Markets

Markets can be framed as moderately dynamic and highly dynamic, where the pace of change in the business environment changes accordingly. The difference in the speed of the market evolution dictates how important it is to gather new knowledge or to use the existent knowledge to face the changes (Eisenhardt, et al., 2000).

A really dynamic industry naturally represents a high level of uncertainty concerning future alternatives and for instance, clients, suppliers and competitor's actions.

The term dynamic is related to change (Winter, 2003). This change can be related to a change in the client's needs, or simply due to technological changes, leading to the

development of new products and processes, or even new business models. The enterprise's top management team has a primordial role in dealing with these changes (Teece, 2007).

The organizational and (strategic) managerial competences in the origin of CA are highlighted by the DC framework. When changes take place, the way firms superiorly adapt, relates to how good those competences are, responsible for maintaining the CA and triggering conditions for long term profits (Teece, 2007).

These capabilities enable the firm to proactively resolve problems, by being able to respond on time to opportunities and threats in the market and by changing its resource base (Barreto, 2010).

External environment and capabilities

In a fast moving business environment where everything needs to adapt and evolve accordingly to market pace and global competition, resources and capabilities are keen to lead to a CA.

In a continuous struggle to remain relevant and competitive, firm's capabilities are responsible for continuously creating, expanding, upgrading and protecting its unique asset base, representing the change process which to some extent defines DC (Teece, 2007).

According to Teece (2007), DC can be disaggregated along three main stages of the process: (1) sensing and shaping opportunities and threats, (2) seizing opportunities and (3) managing threats and reconfiguring.

- (1) Sensing and shaping opportunities and threats requires a capacity of scanning, creation, learning and interpretation. If a firm is able to detect opportunities externally and at the same time adapt to changes in customer needs, it would generate a wide array of paths to face the changing process.

Sensing and shaping opportunities and threats require a great integration between firm's entrepreneurial top managers (responsible for undertaking the strategies) and the bottom down layer of the hierarchical pyramid, able to better

understand the customer, due to its closer proximity and interaction. Top managers should take advantage of whose closer to the market, clients and new technologies.

Having said this, one can acknowledge the importance of the HR in the DC. Top managers are responsible for acting in the present and thinking about the future according to the feedback received from commercial departments, which interact with the market in a daily basis.

- (2) Once a new opportunity is identified, it must be addressed through products, services or processes. Opportunities are then powered by investments when the dominant design is believed to be achieved. Notwithstanding, how, when and how much to invest has to be supported by a business model, which ultimately will represent its commercialization strategy and investment priorities (Teece, 2007).

The business model is the means to an end that will support the investment after opportunities are sensed. It highlights how the product, service or process will deliver added value to the consumer, justifying their investment. This in turn answers the question of how the investment is translated into profits which lead to the development of a CA through the time.

Selecting, adjusting and/or improving a business model is complex but the capability of creating, adjusting, aligning and, if needed, substituting it is seen by Teece (2007) as a foundation of DC.

- (3) This final stage relates to the action skills a firm should have to manage threats and reconfigure according to changes in the environment. To maintain a sustained profitable growth it is crucial to reconfigure the organization as the variables evolve, changing the path previously forecasted.

In the DC spectrum, it is acknowledged that business environment evolves, but this does not take for granted that the firm's structure is modelled to handle internally such changes with ease. This is why it is critical to develop a firm culture where the employees are ready to accept changes, derived from reconfiguring and substituting business models.

Further concluding the DC explanation, one can see that opportunities are the triggering factor that can lead to a premium positioning in the market. Nevertheless, the capabilities built along the process are the firm's enabling factors to help shape the

future or at least unshackle it from the past. By better understanding, or at least better forecasting the future, entrepreneurial managers will have a clearer perspective of where the dynamics of the business environment could take the firm if the right organizational innovations and physical technologies are developed or acquired. As previously mentioned, these strategies often lead to the improvement or creation of business models (Teece, 2007).

Although Teece (2007) highlights to a great extent the difference between DC and RBV, their theoretical foundations are clearly related, particularly with regard to heterogeneity, immobility and also their tacit and endogen nature. Even though RBV represents a static model, it can still be seen as critical and relevant to the DC spectrum. On the other hand, RBV doesn't give an answer to the resources needed by a firm in the future, which leads to the conclusion that if a firm doesn't develop DC, it will only be able to foresee a short lived CA (Ambrosini, et al., 2009).

All in all, along the two previous sections RBV and DC were scanned down and their features highlighted, to the extent that it is clear that resources and capabilities represent the roots for achieving a CA position. Also, the development of capabilities enables a fluent integration of resources and firm adjustments according to external environment evolution, which can sustain a longer CA through the time.

2.3. Competitive Advantage

“An enterprise has a Competitive Advantage if it is able to create more economic value than the marginal (breakeven) competitor in its product market” (Peteraf, et al., 2003).

A good economic value proposition can be characterized by a positive difference between the consumer perceived benefit (willingness to pay) and the economic costs of producing/processing such product or service. Consumer's perceived benefit and economic cost is then compared with a marginal competitor, who is only able to achieve the breakeven point in those features (perceived benefit equals the economic cost). By comparing a firm's value proposition with a marginal competitor, it is being correctly assumed that an industry can have more than one firm with a CA.

Under this definition, perceived benefits are the measuring condition to create value in a firm. The ability to create more value than competitors resides in presenting greater benefits, either by differentiation (greater benefits for the same cost), efficiency (same benefits for a lower cost), or both (increasing the value differential by both efficiency and differentiation) (Peteraf, et al., 2003).

For the purposes of this study, CA can also be measured through induced effects such as increase in market share, good reputation in the market, durable relationships with clients, or even a successful brand.

3. Methodology

The research problem studied in this thesis was idealized based upon the notion that few undertaken studies tried to explain how capabilities, in the origin of CA, are built through time. This short number of studies clearly created a need for further investigation, which gave more consistency to the theory, making it more relevant and pertinent to additional future research (Cardeal, 2010).

To simplify the research, the investigation criteria were scoped down. The emphasis of the study was narrowed to SME in a mature industry, where the rate of growth has slowed. Changes in this business setting occur with a low pace, meaning that external business clashes are less likely to take place.

To address the research problem at hand, a research question was created: How are the capabilities at the origin of a CA developed through the time in SME?

According to Yin (2003), the case study should be the applied method when the studied phenomenon cannot be set apart from its context. What is relevant to be analysed is the story behind the result, capturing what happened through time and under different empirical perspectives. This method offers a clearer picture of why and what influenced a firm's path that led to its present situation.

The initial phase of the study started with market research and direct observations from an expert in the restaurant industry, more specifically in the fast food¹ segment, which will be the focus of this project. The information gathered from different sources was then interlinked, creating a knowledge base around these matters that enabled the identification of the main factors that often contribute to add value to a firm operating in such industry. The following were identified: fast service, low prices, food quality, location and variety of products.

In a second stage of the project, the conceptualization of the study was defined and the case to study selected. As the most appropriate method to answer the research question, the case study created a link between the literature and the phenomenon that took place along the development of the studied firm. This ultimately gave consistency to the

¹ "The fast food market is defined as the sale of food and drinks for immediate consumption either on the premises or in designated eating areas shared with other foodservice operators, or for consumption elsewhere." (Datamonitor, 2010)

theories presented in the previous chapter, highlighting the roots to achieve a CA position in a real business scenario.

Due to simplification purposes, only one case study was developed, around a company named h3 Hambúrguer Gourmet (h3). To deliver the outcome proposed by the research question, the starting step was to identify all h3's sources of CA. Because this study is not meant to build theory, other than to apply past theories to a specific real practical case, the study will only focus on two of h3's capabilities, that combined are responsible for achieving such CA positioning.

The selection of a Portuguese SME, operating in the restaurant's fast food industry, to study how they develop a CA, was based on the following criteria:

- (1) The world fast food market had a total of \$201.1 billion in 2009, with a compound annual growth rate (CAGR) of 4.8% for the 2005-2009 periods. Market consumption volumes increased with a 4.6% CAGR in the same period, reaching 208.1 billion transactions in 2009. Notwithstanding, the performance of the market is forecasted to decelerate, with an anticipated CAGR of 3.6% for the next five year period (2009-2014) (Datamonitor, 2010). The deceleration is a clear signal of the maturity stage of an industry, because even if sales and earnings are growing, the rate has slowed when compared to the growth stage (Hillstrom, et al., 2006). Nevertheless, the current economic crisis is playing a decisive role in how this industry in particular grows, due to its price incentives when compared to regular restaurants.
- (2) In Portugal, the fast food industry can be considered as concentrated, meaning that a small number of major players holding a high market share have the means to influence the evolution of the industry (i.e. McDonalds, Pizza Hut). According to the DBK consulting company, in 2009, the restaurant's industry with no table service grew by 2.1%, achieving revenues of 595 million Euros, mainly because of the fast food chain restaurants (Jorge, 2010).
- (3) By choosing a SME, the final results would be clearer than if the studied firm was a huge multinational firm like MacDonal'd's, not only because the analysed

variables would be much more complex and spread, but also because the access to key information would be a lot more difficult to reach.

The selection of the case study was supported on the initial market research that listed the food courts' main Portuguese players in the restaurant's fast food industry. Also, h3's indicators and media exposure highlighted their growing positioning in the segment. Many reviews from top business magazines and newspapers referred to its great entrepreneurial success. All this exposure contributed, to a great extent, to their brand notoriety. This also appealed to my curiosity to understand how their business model was built around, in a broad sense, the idea of completely refurbishing the consumer's mindset regarding the already mature hamburger concept.

A first contact with the company was followed, where the feedback given was an agreement to fully cooperate with all the matters related to the development of the present investigation.

In order to guarantee a high standard of the investigation process, different sources of information (direct observations, interviews, archived documents and press releases) were interlinked and quoted to support the facts found.

As mentioned, direct observations were one of the starting points of the research. Apart from documents found in multiple sources used to access the market, Dr. Nuno Van Uden's observations about the industry were also very relevant in this initial phase of the case study design. Parallel to this, 24 different press releases about h3 were read to deepen my reasoning on h3.

As a more complex and relevant source of information for the purpose of this thesis, the interviews were undertaken after the questions to be asked were properly formed and reflected on (the final interview guide can be found in the annexes). Two interviews took place on the March 28th 2011 in Lisbon at h3's headquarters. The first had two interviewees, Dr. Henrique Freire (partner) and Nuno Van Uden (marketing and communications), lasting one hour. On the second interview, I met Dra. Catarina Valério (HR Manager Assistant) and interviewed her for 40 minutes. Both interviews were recorded, translated to English and then written down for better and more efficient use of the information gathered (the transcriptions can be found in the annexes).

The interviews with h3's managers were then codified into inputs that gave answers to how their capabilities were developed. In a first section of the discussion chapter, the VRIO theory was applied to the identified capabilities/resources, scaling its potential as a source of CA (Peteraf, et al., 2003).

As a concluding section of the chapter, I proposed to apply an explanatory model of the capabilities development by Teece (2007), adapted accordingly to the restaurant's fast food industry and drew on the h3's case study. Beyond simplifying into a clear model the development of capabilities, it also gave a valuable help to SME's top managers, in sensing and acting along the entire process.

4. Data Analysis

4.1. Company description

h3 hambúrguer gourmet was a great entrepreneurial success brought together by three old friends with a shared passion for food. Such passion was what led these three men, with different backgrounds, to completely change their career paths and embrace this new project in their lives. They felt h3 was able to shake up the food courts in Portugal just by selling quality food at an affordable price.

Miguel Van Uden has a professional and technical degree in commerce and worked for many years in the real estate and merchandising sectors. He is now h3's operations manager, who mainly deals with all suppliers and employees.

Albano Homem de Melo graduated in law but worked as a publicist for 15 years, being creative director and also president of BBDO. He is now in charge of h3's image, communication, product development, food quality, safety and hygiene.

António Cunha Araújo also graduated in law, and worked in that sector for 9 years. He took over h3's finance and legal departments and also expansion projects.

Henrique Freire graduated as an engineer, but for many years worked as a consultant in the mergers and acquisitions field. He joined h3 in 2009 and is now the h3 partner responsible for international expansion.

Holding a minor participation in the firm's capital, Chef Vítor Lourenço assures the quality of the meals and also leads the HR training programs.

The history of Miguel, Albano and António dates back to May 2004, when they opened a restaurant called "Café 3" in Tivoli Forum (Av. da Liberdade, Lisbon). This was a traditional restaurant that beyond serving a wide variety of dishes, they would have a range of burgers served in a plate at an affordable price that started becoming very popular. From this success started the desire and ambition to make it grow, since Café 3 was lacking a higher number of clients during the evening to make it more attractive in terms of profitability. From this perception arose the idea leading to the development of a new business model, customized to be implemented in food courts.

For that purpose, they spent a whole year studying the market, working on the new business concept and its brand development. The type of service they wanted to provide and how they should offer it, were the main questions to be addressed at the time.

“Monumental Saldanha” in July of 2007 and “Amoreiras Plaza” during September of 2007 were the two first h3 restaurants. These spaces soon became very popular and that was reflected in their sales per day increase up to an average of 500 by mid 2008 and on their billing volume increasing consecutively during several months.

Aspiring for more, the three venture partners asked for funding. From March to November 2008 four new stores were opened and during 2009, 15 more were also opened.

Currently, h3 owns 35 restaurants dispersed across the main national cities and one in Poland. It has already announced more investments in Poland as well as in Spain, due to the food court industry similarities when compared to Portugal. h3 plans to inaugurate another 15 stores by the end of 2012. On top of that, the company spent 5 million Euros in investment and reached an accumulated gross sales volume of 22 million Euros in 2010.

	1st Semester 2010	2009	2008	2007
Net Income	899.117 €	294.565 €	88.518 €	-5.231 €
ROI	17,5%	7,2%	8,0%	-1,2%

Table 1 – Net result analysis

Source: h3 Hambúrguer Gourmet

Accordingly to what was transmitted by h3’s partners, more than fulfilling a gap in such a mature industry, the initial gearing of the project was significantly enhanced by an intrinsic passion and devotion to what was being created at the time:

“...my belief, developed through many years working as a consultant, is that more often than not, businesses that are successful, have a genuine passion and devotion associated... what exists here is a genuine passion for food, which results not only in good food but also in good service to the client...”

At the time, it was clear that to a great extent there weren’t good restaurants serving good food in the Portuguese food courts. When attempting to make a difference in the

food courts, the central strategic mindset was focused towards building a business model that could develop tools, which would allow a well balanced ratio between high quality meals with low prices:

“...first we have the quality of the product and a customized offer to the food court consumption profile (structure build on the food court segment). We have a limited offer of products because there is the idea that the food court itself is a menu. We have to be really specialized in a product, achieving high levels of specialization, enabling the achievement of great quality products, with low levels of waste from production and high levels of efficiency in operations. All of this, in a certain way, gives us capacity to be cheaper, allowing great quality at the same time...”

After defining the strategic positioning, it was clear that a critical part of the business was the HR. The entire business model can be very well defined, but ultimately if the operations don't meet the requirements, the aimed strategic positioning wouldn't likely be achieved. The next steps were defined based on the awareness of a need to standardize the production methods and processes, to guarantee both quality and consistently good service provided to the customer.

“...every day we work so that everything remains the same...all the operations are well thought. There was an evolution, and today all the operations are well defined and documented. A lot of effort was putted into operation's optimization and delineation (how to do good and in a consistent manner). An exhaustive work is constantly undertaken by the entire team to improve manuals and procedures, along with a constant training of the employees...”

It can be said that h3's CA is based upon the capability of reaching the market with a very appealing price given the quality of the meals and good service provided. It can be acknowledged that its origin it's based in the quality of the raw materials used to prepare the meals and the quality of the processes through they are processed and prepared. Notwithstanding, the fact that they are both achieved with low prices is what is really crucial and can be seen as a key success factor in the origin of the CA.

All in all, the origin of h3's CA derives from combining different capabilities:

- The quality of products obtained at low prices, enabling to compete in the market with higher quality products, at the same time as taking advantage of price incentives.
- The type of service provided to the customer at low prices, built upon an involving organizational culture as well as HR training, complemented with some service differentiation features justifying the word gourmet.

4.2. The development/creation of capabilities in h3

4.2.1. Quality at low prices

The quality is what really geared the business model and everything was built around it as previously mentioned. Quality at h3 derives from a combination of procedures and efforts since the time of “Café 3” in 2004. Different dimensions can emerge to be mentioned with a higher level of detail such as: the demanding and precise procurement of suppliers and targeted raw materials from those suppliers; other strict internal processes related to quality control; the standardization awareness as the group started growing in numbers of restaurants; a premium HR training paired with a shared culture of quality.

It all starts back in the early stages of the supply chain, as the suppliers are chosen based on the ability they have to meet the desired quality standards of the ingredients needed, because the quality of the end product will depend mostly on them.

“...It all takes us back to an obsession with the quality of food...it is easier to cook good food with good ingredients, than with cheaper or equivalent products (i.e. butter and margarine)...”

After the suppliers are chosen: *“...it is negotiated the quality of the products, and only after its price and the intrinsic delivery logistics. But most important is the prototyping process which gears a process of testing and tasting, until the product is accepted after dozens of others being rejected...”*

Bearing in mind that the “status quo” of this negotiation phase changed over time as h3’s business volume with each supplier grew to an extent that enables them to have more bargaining power when setting the business terms. More importantly, it makes them more comfortable to demand tougher specifications from the products they want.

As one can see, quality is important and so it must be controlled along the process. Deviations can often take place on the supplier's side when such strict specifications have to be met:

"...after experiencing quality problems...we started following up burger's production process at the supplier's facilities...we now have built a close relation in order to be able to guarantee a tighten control over our raw materials..."

On the other hand, changes can be attributed to the employees in the restaurant as the control over them can then be seen as difficult to handle with consistency when comparing to other business units of the firm. Also because of the high pace of job rotation, the need for tools that are able to enable a consistent performance of HR is higher:

"...we have an outsourced mystery shopper that goes to every store once a month as a client. This mystery client then fills a table about every single aspect/detail of each restaurant (i.e. quality of food, treatment, waiting time)...."

"...a second service we outsource is food safety and hygiene auditing...responsible to take samples from the counters, employee's hands and food. The samples are then analysed in the lab, enabling us to be aware if the employees complying with all h3's regulations of food safety..."

The need for a standardization of processes and business practices are strictly related to the constant mindset towards business growth. A clear coordination between those processes and practices and HR is also essential to assure the quality and stability of such growth:

"...it is relatively easy to have one good restaurant. It requires a good chef, well trained staff and an in store owner/manager. What isn't that easy is to have 35 restaurants serving everyday quality food in a consistent way...there is a permanent procurement aiming to increase current levels of optimization..."

Concluding what was said, it is critical to mention the difficulties to have the same amount of natural and fresh products, with the same quality in four different seasons (i.e. Potatoes). This goes beyond any initiatives of quality control and can only be surmounted due to the type of trustful relation h3 has with its suppliers, exchanging

commitments that empower the growth of both parts to be able to meet the end consumer demands:

“...we are proud to say that we grew up sided by our supplier’s businesses (to be able to meet h3’s demand) for this exact reason...”

As the most volatile operation’s department in this business, HR are seen since the beginning, as crucial to guarantee quality and standardization, and ultimately to the success of this business model:

“...we believe that the burgers can get ruined’, but not before arriving on the grill...”

h3’s manuals have been the most important training tool to give support to HR. They have been improved through time, with some particular changes regarding their level of detail, to such an extent that currently every specific task has its own manual of operations:

“...the awareness of the need to have such detailed manuals was impossible to predict in the beginning, but in order to be able to replicate the services provided, that became a must...”

The culture of quality embedded on the HR training manuals is also shared with h3’s suppliers under a different scope, building an exchange of trustful commitments achieving a stable interplayed relationship:

“...by assuring them that we can be seen as partners and most importantly, as having good business practices...the relationship we try to build with them is never based upon “squeezing” them in price or payment deadlines, so that a high quality standard is continuously kept. Our business isn’t financially supported in our suppliers...”

4.2.2. Good service at low prices

h3 complements the good quality of their meals with a distinctly good service provided to the customer. This quality service can be separated into three different fields: the service features that go beyond the quality of the raw materials used, but to a certain level influence the quality of the end product; the provision of training down to the finest detail; and a culture of belonging that influences the way employees perceive their work.

The word gourmet required an array of extras that makes up for the good reputation they have. Serving meals on warm plates and the freshness of ingredients (especially the burgers which are never frozen and are cooked to individual customer specifications) are simple examples of how certain features are able to better define and distinguish their service from other competitors in the market.

“...we never try to discover what people like. We have good products and we want to convince our clients to eat them...the best example would be our lemon juice...something completely outdated in our country and we brought it back...currently, and along with our tea, are the best selling drinks...”

The technical capacity/skills of HR are crucial also to provide a great service experience to the customer. Initially, staffs go through an initial training program where it is assessed if they are capable of meeting performance requirements. Further, in a later phase, constant in-store training takes place in order to avoid unexpected behaviours as well as constantly share knowledge within each store:

“...Unexpected problems happen but everyone knows how to react and who should take care of each situation, because all the processes are defined to such an incredible level of detail, which in turn doesn't leave any space for “free riders”. Everything was thought and there are checklists for every single operation (i.e. forms regarding product's quality problems)...everyone knows the limits of their competences within the firm...”

“...the manuals go until an incredible operation's level of detail (i.e. the lemon is hold like this, cut with this knife, a certain amount of slices per lemon)...”

This training is responsible for optimizing tasks accountable for achieving a great level of efficiency, also enable a faster response to the customer and in turn a reduction in queue waiting time. As h3's popularity kept on increasing through time and many restaurants were at their maximum level of efficiency, two other strategies were undertaken:

“...open more stores in strategically placed and close to the already popular locations to divide the cues...we also keep on searching for opportunities to increase the size of

the stores in shopping centres, by closing the small one and opening a new and bigger in the same food court area...”

“...we are obsessed with the processes and the speed of our service’s delivery. We have the capacity to serve between 150 to 220 meals per hour...one of the best practices in the food court segment...”

The organizational culture is something that has been crucial since h3 was created to guarantee that the entire structure was aligned towards a common goal. The way employees perceive their work will directly influence the way they serve the customer and that is why this is a fundamental instrument. It is why, as time passes by, the head of the HR department keeps devoting great attention to this area.

“...while many companies spend millions trying to satisfy their clients, we try to spend our marketing margin to satisfy our employees. It is the idea of inverting the idea of marketing towards the inside of the firm, through ways to provide motivation stimuli giving guarantees to our employees that they are/should be comfortable with us and have all the needed support...”

In an industry segment where a high rate of job rotation is usually a concern, developing an open company thinking of the best interests of HR, in terms of a closer proximity from the top management to the employees working in the restaurants, career progress plans, performance rewards and other simple initiatives can directly and dynamically influence performance and the overall quality of the service provided.

“...we created a grilling school by country zone. The trainee has 15 days of training and if it is approved starts working in one of the branches, also receiving a salary increase after the first month...also there is always a diploma delivery ceremony where they also receive a small Gold, silver or bronze spatula patch according to their level...”

“...it is important to highlight that the progress within the h3’s structure is not vertical but transversal....usually the stores that have a good manager also have a greater dynamic (i.e. afterhours drink to celebrate sales record, pictures shared in on the network, etc.)...”

5. Discussion

The main objective of this thesis is not to build theory, but to apply past theories to a specific real practical case, supporting the knowledge base of how the capabilities which form the origin of CA are developed, specifically in SME operating in a mature industry.

The study was initiated by saying that Barney's theory wasn't able to answer how resources were transformed into CA until 1997, when the actual organization takes a leading role into combining and taking proper advantage of valuable, rare and imperfectly imitable resources, to at last achieve a CA (Barney, 1997). The DC being a particular case of the RBV theory, were then decisive to analyse the organization in the VRIO model, able to answer to changes in the industry (more or less dynamic) (Barney, et al., 2001).

5.1. VRIO analysis of the capabilities

Once the capabilities at the origin of h3's CA were identified and analysed, the right information, which allows us to understand how they were developed through, time was gathered. A detailed capabilities' analysis, applying the VRIO model is carried out below.

Supported by Cardeal (2010) and backed up by Peteraf and Barney (2003), a CA positioning can be achieved when a company interlinks to a certain extent, different critical resources they have (i.e. physical, human, financial or organizational) as inputs, then generating an output - being the capability under analysis.

Inputs	h3 – Outputs	
	Quality	Service
Technical Capacity	Tasks handling related, influencing the quality of the meal	Distinctive tasks surrounding the meal
Internal Processes	Quality control and procedures standardization	Quality control and procedures standardization
Organizational Culture	Of quality	Of belonging
Raw Materials	High quality	
Brand	Awareness/value in the food courts	Awareness/value in the food courts

Table 2 – The contribution of resources to capabilities

In table 2, the inputs of each h3's capability were framed. Moreover, the resources are now analysed individually, accordingly to their value, rareness and inimitableness. Logically, the resources concluded as non rare were not further discussed on the inimitability range, because they can be available to other companies in an external resources market. The other resources were considered and scoped down according to the conditions set by Barney (1991) and Wills-Johnson (2008).

Inputs	h3 – Outputs	
	Quality	Service
Technical Capacity	---	---
Internal Processes	---	---
Organizational Culture	RI	RI
Raw Materials	---	
Brand	RI	RI
Organization (capabilities)	VRI	RI
Quality and Service Capability	VRI	

Table 3 – VRI analysis of the capabilities

The technical capacity of the HR by means of competences to process the raw materials, use the of cooking and maintenance equipments, knowledge of the operations required and service provided to the customer cannot be seen, on its own, as a source of value creation. Without the right equipments and raw materials the HR training will not deliver. Technical capacity needs other supporting resources to be combined efficiently to generate outputs enablers of a CA.

Internal Processes are mainly auditing initiatives used to access current and already produced products. They are also responsible to control and maintain the standardization of the operations inside the restaurants. Nevertheless, they still need qualified staff with proper training, the right equipment and a shared organization culture of quality to be capable of preparing menus with a constant high level of quality. Given the constant growth of the number of h3 restaurants, even internationally, this is an important resource, but only to provide relevant information to control the business operations.

Once again, an organizational culture of belonging, quality and cooperation is a resource unable to guarantee on its own that the client buys a quality and affordably priced meal. A good organizational culture can generate a good working environment

and it certainly helps staff to learn their tasks faster, but either way still needs other resources that influence the quality of the final output (i.e. raw materials, equipment).

The raw materials, without the employee's capacity to efficiently transform them, without equipment to appropriately store them and others to process them with quality, they are afterwards not very likely to be transformed into a quality meal.

The value of h3's brand was something that was achieved based upon a good orchestration of the other resources and capabilities, enabling h3 to grow and differentiate their business within the restaurants operating in the food courts. This resource is very relevant and changed the way they operate their business over time, because as their brand became more popular, they started being requested to enter shopping centres instead of struggling to find one that would want them. Their brand can also be seen as a financial resource, due to the franchises deals they got given their brand notoriety. This resource can be seen as an outcome of good business practices, contributing with a reassuring financial and bargaining power to the production of high quality meals with an intrinsic good service.

Continuing this analysis, the rareness of the identified resources is scaled starting by the raw materials. As they can be acquired in a resource's market they are framed as non rare and automatically excluded from further analysis. The same happens with the technical capacity because, as attained from the interviews, h3 doesn't require highly qualified HR. They are mostly students and others with a low level of education, meaning that it is relatively easy to get them in the market, so they are also a non rare resource.

The internal processes are, as previously mentioned, relevant for keeping a continuous screening of the operations along the supply chain. Notwithstanding, they are relatively simple and only require few outsourced staff. Most importantly, they are relatively easy to implement in case a competitor wants to develop a similar strategy of controlling the production process.

Contrary to the previous resources, the organizational culture is not available in the market and so it is not transmutable to other companies. For that reason it is a rare resource. It is not possible for another company to acquire a culture like this as a package and use it in its company. A culture of quality and belonging, enhanced by

constant investments in employees, in order to increase their levels of motivation and build trustful relationships, makes them more comfortable in their workplace. h3’s organizational culture is responsible for getting the employees to engage spontaneously in attempts to achieve performance records as a team within each branch, as a type of internal sales competition. Naturally, this resource contributes to the achievement of great service levels as well as great quality standards.

This type of resource has naturally some evidences of inimitability associated that somehow protects it from being used by competitors. This organizational culture is socially complex because for instance, spontaneity is not something that can be somehow controlled or provoked with certain managerial actions (Barney, 1991). Organizational culture is also historically dependent, since it depends on a path that started in the training period. Also the in store team’s dynamics help involve everyone together and, as time passes by, it keeps evolving through many different linkages (Barney, 1991).

h3’s Organizational Culture - Evidences of Inimitability	
Socially Complex	Path Dependency
<i>“...there is logic of openness in h3 that promotes a closer proximity from the top management with the employees working in the restaurants...”</i>	<i>“...with an unambiguous investment we have been doing in career plans, training, salary conditions and rewards we will be able to finally stabilize the job rotation index in the next few months...”</i>
<i>“...h3’s parties (Christmas and Anniversary) are one of our initiatives that we deeply believe motivate our employees and spreads h3’s culture in them and between them...The main goal is to proportionate the employees a chance for having fun, interact with the entire network including top management...Everything is fully paid by the company, including means of transportation to pick up and bring the employees back home (in the entire country)...”</i>	<i>“...while many companies spend millions trying to satisfy their clients, we try to spend our marketing margin to satisfy our employees...through ways to provide motivation stimuli giving guarantees to our employees that they are/should be comfortable with us and have all the needed support...”</i>
<i>“...the active role many of them have in the development and improvement of our operation’s manuals (i.e. how to hold a spatula and which is the most appropriate one)... They contribute with pictures along the book, and in the end they have a page dedicated to them saying special thanks to each one of them...”</i>	

Table 4 – Evidences of inimitability: organizational culture

h3's brand is a rare resource also because it is not possessed by other competitors, as it is an icon that represents this brand for their business practices and the specific service they provide.

There is an intrinsic causal ambiguity to the way h3's brand value and awareness was developed through the time. An array of different complex events, resulting from a combination of different resources makes it complex to link the phenomenon with the achievement of a CA (Dierickx, et al., 1989). As was previously mentioned, the brand is also path dependent, since it resulted from an evolution, depending directly on the way they planned their growth strategy since "Café 3" as well as a progressive brand acceptance by the customer (Barney, 1991). h3's brand is also legally protected, contributing further to the evidence of inimitability of this resource (Wills-Johnson, 2008).

h3's Brand - Evidences of Inimitability			
Socially Complex	Path Dependency	Causal Ambiguity	Legal
Not applicable	<i>"...we explained what ingredients a good sauce should have and then we received many different sauces. The samples were all tested, feedback to the supplier chosen was given, and adjustments to the proportions were done..."</i>	<i>"...the burger is part of a recipe created by us. It is a mixture of meat and seasonings chosen by us. The production of the burgers is done in the supplier's facilities..."</i>	h3's brand is legally protected. Even though it is an unregistered trademark, h3 is legally eligible to file a suit to prevent an unauthorised attempt to use that trademark.
	<i>"...we are proud to say that we grew up sided by our supplier's businesses (to be able to meet h3's demand) for this exact reason. A good relationship with the suppliers is powered around this exchange of commitments..."</i>	<i>"...the greatest business difficulty is to have consistency in the product coordinated with the human resources, because we believe that the burgers can get ruined, but not before arriving on the grill..."</i>	
	<i>"...knowledge is retained in each branch, through a mix of at home preparation with the manuals and intensive in store training supervised by the store manager...."</i>		

Table 5 – Evidences of inimitability: brand

The conducted individual analysis to the resources shows that none of them pass the VRIO test as roots for being further considered as sources of CA. Although, when the resources are combined by the organization, they develop a capability for producing high quality products at a low price. This, in turn, has been proven as a real source of CA and passes the VRIO test.

As part of h3 business strategy, being able to deliver such a good product in the food court segment, considering an even balance between good quality inputs and the quality of the output, and charging a low price should be seen as an ability to create value. The enabling factor of the value creation is entirely supported by a very appealing value for money price incentive, which can be seen as rare in the food court segment.

This capability results from a combination of multiple resources (i.e. raw materials, technical capacity, internal processes, organizational culture and brand). Because of this causal ambiguity, the more linkages within resources, the more difficult it would be for a competitor to succeed when attempting to imitate this business model, or simply to identify the path to pursue in order to achieve a similar CA.

The capability of good service at a low price cannot be seen as valuable, because on its own, it would not be enough for achieving a CA positioning. Quality service still only indirectly influences the quality of the final output and for that reason it can only be taken as a supporting capability of the main one. Nevertheless, it has inherent rareness and inimitability features associated because of the interconnection it makes with the resources (i.e. organizational culture and brand) it possesses, demonstrating the causal ambiguity effect.

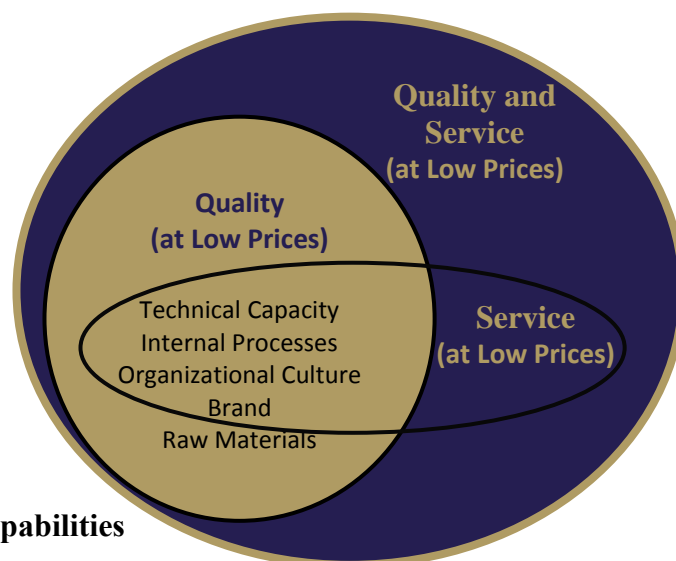


Image 2 – h3's capabilities

5.2. Microfoundations of the capabilities

The microfoundations of DC are the managing skills, processes and procedures that directly influence the way the firm detects and takes advantage of the scanned opportunities through the reconfiguration and adaptation to changes in the business environment.

To analyse the microfoundations of h3's capabilities, the tool developed by Cardeal (2010) based on the elements developed previously by Teece (2007) was used. The adapted categories of this model can be seen as substantially more enlightening because they were meant to be applied in SME operating in a mature industry, which resembles this practical case study. This explanatory model divided the process of capability development into three distinct but interlinked stages, presented in table 6. The objective of this analysis is to codify the case study analysed data, accordingly to the match between that information and the theoretical categories defined at each phase of the microfoundations.

Phase	Categories (Microfoundations)
Detection of Opportunities	<ul style="list-style-type: none"> - External market opportunities - Internal opportunities - Facilitator agent
Harness Opportunities	<ul style="list-style-type: none"> - Business model delineation - Select enterprise boundaries to manage complements - Building loyalty and commitment
Reconfigure and Adapt	<ul style="list-style-type: none"> - Decentralization - Functional policies - Perseverance - Knowledge management

Table 6 – Microfoundation's categories

In the h3 case study it is clear that the capability that forms the origin of a CA is the quality and service provided with a low price proposal, and as mentioned, this capability integrates two different capabilities (i.e. quality at low prices and service at low prices). Because they were achieved simultaneously and, given the dependence of the service capability on the quality of the product (to generate added value to the firm), the observed patterns were analysed as an integrated unique capability.

The initial stage named “opportunities detection” follows Teece’s (2007) proposal to the extent that also threats can be seen as market opportunities, as they often highlight external environment potential risks, disguising potential opportunities within them, if the right changes to the current business model are undertaken.

The DC started being developed straight from when “Café 3” was created and evolved further until the three partners identified a greater market opportunity. This generated a mix between an appealing external market opportunity and the already existent internal opportunity, brought up by a long lasting desire to open a successful restaurant, derived from their truthful friendship and passion for food. According to the information gathered, the DC has been improved through time, mainly by improving the quality of the resources itself. Their quality increase and a more efficient integration among them enhance the overall DC, because the actual quality of the end products has been relatively equal since the beginning of the business model implementation.

Tables 7, 8 and 9 summary the complete codification of the identified capability, describing the microfoundations of h3’s DC.

h3 - Detection of Opportunities		
External Opportunities	Internal Opportunities	Facilitator Agent
Recognition of a market need for quality food with a similarly competitive price when compared to the average of the food court segment	The partners’ old desire and devotion to open a successful restaurant gears the needed embryonic internal conditions to trigger the beginning of a project.	As a SME, h3’s managing partners are expected to be the agents responsible for the development of new capabilities, as well as for the development of the entire change process in the origin of them

Table 7 – Detection of opportunities phase

The detection of opportunities’ phase is characterized by following a pattern of literal replication (Yin, 2009), where the observed case replicates the expected pattern results.

As said, the analysed capability started being developed along with the creation of the initial “Café 3”. Opening a restaurant was a long lasting desire, and this can be seen as a long lasting resource exponentially developed during the “Café 3” attempt, that would clearly enhance the exploitation of potential external opportunities. Nevertheless, there was a clear change between “Café 3” and h3’s business model, which in turn demanded

different levels of devotion and dedication to it. Given this, the external market opportunity is supported by the partner's will to completely leave their successful careers and fully devote to a new and embracing project. This devotion and passion should be seen as an internal opportunity, early recognized but later developed within the firm, as after they were trying to succeed with "Café 3" they ultimately changed their career goals. The partners soon became facilitator agents as they recognized such potentially successful opportunities. These results matched the expected literal pattern.

h3 – Harness Opportunities		
Business Model Delineation	Select Enterprise Boundaries to manage complements	Building loyalty and Commitment
Positioning in a specific market segment where the consumer's main concern is the price	Use of outsourcing to do part of the quality control and food safety and hygiene	Characterization of h3's values of quality, belonging, team working and service to the client
Selling meals with quality above the average with an appealing price scheme, generating a higher consumption benefit perception	Use of company staff at the suppliers production facilities to guarantee a closer control over their process	Motivation of employees through career progress plans, performance rewards and other initiatives that build a closer proximity from the top management to the employees and also within employees
Innovative gourmet service in terms of features and treatment, complementing the quality of the menus		Close and open relationship with the suppliers, always seen as partners and also indirectly supporting their growth along with h3's

Table 8 – Harness opportunities phase

In all the three stages of the opportunities' harnessing there was a clear behaviour of literal replications. A successful business model is powered by successful implementation, which will in turn represent the routes to successfully transform the investment into profits, ultimately leading to a CA positioning.

The delineation of the business model according to the foreseen opportunities was a key success factor to the firm's initial phase and the decisions reflecting on the boundaries of the firm as well as the creation of loyalty and commitment increased the business model implementation's probabilities of success. This premise is consistent with the prepositions elaborated by Cardeal's (2010) study.

h3 – Reconfigure and Adapt		
Functional Policies	Perseverance	Knowledge Management
Establishment of high demanding requirements to suppliers regarding raw materials and production processes	Top management persistence to negotiate their entering in the food courts segment. Without such persistence, it would have been impossible to overcome the shopping centre’s reluctance of embracing another project with hamburgers, giving the constant presence of McDonalds and Burger King.	Head shifts and store managers are responsible for creating a dynamic working environment, where good levels of team work are easily achieved, to promote a transparent share of information among managers and employees
Hiring of an experienced M&A consultant (partner Dr. Henrique Freire) to undertake to steps for international expansion		There is a continuous effort to codify all the operation’s procedures to the maximum level of detail into training manuals
Top management close supervision of in store operations to access a constant standardization of processes. The same is frequently undertaken through meetings with the store managers		The career progress plans, performance rewards and other initiatives are undertaken to provide a stimulant path to employees and consequently reduce their job rotation, which in turn will contribute to a more efficient management of knowledge
Continuous concerns to maintain the production of high quality products		Constant technical support given to employees working at the branches, to avoid free riders at all times
Close supervision of the supplier’s production processes in their facilities		Initial training and along their integration in the operations line in each branch
Investment in a Pda for every store and in new software that will facilitate communication and flow of information along the entire network		
Employees that underperform in the final assessment for becoming grillers are reallocated to other operations		

Table 9 – Reconfigure and adapt phase

After the opportunities were identified and the route for action delineated, it is time to include the actions needed to create the ability to follow the delineated route to achieve a CA positioning in the model.

h3's capability of quality and service provided with a low price proposal doesn't verify a pattern of literal replication when it comes to decentralization. Also, one cannot state that this parameter can represent a theoretical replication, because it cannot be affirmed that it was expected that h3 would not have a decentralized structure (Yin, 2009).

The employees do not have any decision making responsibility, nor as autonomy to act, since everyone knows the limits of their competences and everything is planned and thought out to the maximum level of detail. There are no space for free riders and potential problems are trimmed long before they become an actual problem, not requiring any decision from an employee in the assembly line. Moreover, h3 is an open firm that promotes communication and where store managers are the linkages within the branches and the headquarters. Nevertheless, the partners of the firm are still close enough to the market and customers that such decentralization is not yet an issue to be handled.

Following the proposition identified by Cardeal (2010), it is clear in this case study that functional policies are responsible for the alignment of operations with the designed business model, through HR and commercial management policies and also very relevant to h3, policies influencing h3's relationship with its partners.

The top manager's perseverance was especially crucial in terms of their persistence and will to hold on to what they believed it was a great business opportunity. Their perseverance was a clear enhancer of the business model implementation in the early stages of the business growth.

Given the high pace of job rotation in h3, knowledge management policies assume a crucial relevance, especially to facilitate the share of information as well as the constant learning processes, responsible for the level at which they perform accordingly to the chosen business model.

Such policies, perseverance and knowledge management actions not only enhance the implementation of the business model, but also promote a higher capacity of adapting within who's part of this business model.

The codification undertaken in this microfoundation's analysis can be interpreted as supporting the theoretical model developed by Cardeal (2010), nevertheless with limited application regarding the last phase (reconfigure and adapt), due to a lacking decentralized structure at h3.

6. Conclusions

In the beginning of the study it was clear that more emphasis in the RBV and DC theories was needed. There was an evident lack of a consistent number of studies that could create the conditions for a generalization of the theories and their intrinsic premises. The aim was to support previous researchers work by using the same methods to evaluate the links between the paths through which different firms achieved a CA positioning, and considering a theoretical analysis under the same spectrum.

This study contributed with different empirical evidences to the enrichment of the studied theories. In due course, it answers to very relevant questions of how the firm's capabilities were developed through the time and how those same capabilities are transformed into a CA in a certain specific business context (SME in a mature industry). Using the VRIO model to access the resource's potential, as well as the potential of the capability developed through the integration of those same resources in possession of the firm, was also a great empirical contribution to the current literature gaps.

The conducted research went in depth into clarifying the concepts of resources and capabilities that are often confused. The VRIO model helped framing their different roles and inherent correlation. The study reinforced Cardeal's (2010) proposal of seeing the resources as the inputs that together generate capabilities, seen as outputs of a process that can then foresee a potential CA positioning.

The constant and active role the facilitator agent has during the different stages of the change process in a SME also became evident. In these types of firms, the managing partners are usually the responsible part in this process of capabilities development and it became clear through the analysed model, how top manager's actions and decisions triggered the progress from the beginning towards h3's premium positioning in the market.

It starts with the recognition of market and internal opportunities, which will set off the new business model. The top manager's role is preponderant to delineate the boundaries of the model as well as how everything is going to be played out, by means of their perseverance, adequate functional policies and the way they build loyalty and commitment around their business objectives. Given the findings of this study, one is

able to help top managers better orchestrate their ideas to develop new business models and the different ways to efficiently enhance their implementation.

Considering this study was not meant to build theory, but to support previous researcher's work, it still has its limitations. The theories' models used were only applied to one case study and only the development of one integrated capability was analyzed, which naturally narrows to some extent, the relevance of the achievement's generalization for future use. Nevertheless, the usefulness of confronting these conclusions with past and advised future research gives pertinence to the study.

The case study was build around a SME created in 2004, and from a theoretical point of view it might also limit the conclusions of how the capabilities are developed in a firm through time, given the firm's short historic background.

Bearing in mind as a final thought, the conducted study was applied to a firm operating in the restaurant industry, and more specifically in the food court segment, I would suggest future research in different segments of this industry. More studies regarding the development of capabilities in, for instance the street restaurants segment would contribute to the generalization of these study conclusions as well as to the empirical relevance of the theories presented.

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8. Annexes

8.1. Annex 1: Interviews

8.1.1. Interview Guide

(Unstructured)

Ao líder da empresa:

1 - Quais é que são actualmente as forças da empresa, ou as suas competências centrais, ou o que efectivamente faz a diferença?

2- Quais foram os principais “*strategic moves*” da empresa (positivos e negativos)

- O que aconteceu de seguida?
- Porque é que aconteceu? Como é que viu a oportunidade?
- Como é que aconteceu?
- Com quem é que aconteceu?
- O que é que as partes interessadas sentiram?
- Quais é que foram as consequências? De imediato e no longo prazo.
- Como é que o senhor lidou com a situação?
- Que tácticas foram usadas?

3- Como foi desenvolvido/estruturado o segmento de mercado alvo inicial? Alterou-se ao longo do tempo?

A outros colaboradores:

Como é que foram os processos de mudança (vide *bullets* acima) para si e para as suas equipas?

Descrição do relacionamento com os subcontratados:

- a) Quantos são,
- b) Como é que são escolhidos,
- c) Tipo de controlo e de apoio dado

Área de aprovisionamentos

- a) Processos de compra
- b) Identificação dos fornecedores (locais ou não)
- c) Tipo de relacionamento com os fornecedores: prazos de entrega, ...

Modelação / desenvolvimento de novos produtos

- a) Processos de desenvolvimento de novos produtos
- b) Quem lidera os processos e quem está envolvido

Trabalho em equipa

a) Dificuldades e facilidades

b) Relacionamentos informais

 Novas tecnologias (novas máquinas)

a) Como é que foram encaradas

b) Que tipo de formação é que foi dada

(Semi – Structured)

1 – Quais são actualmente os **factores críticos para o sucesso** da indústria /empresa de restauração no segmento de fast food em Portugal?

2 - Como é que a empresa/indústria consegue ter **Qualidade** de produto?

 Tecnologia (equipamentos)? Quais (por exemplo)?

Formação dos recursos humanos? Como é que é feita (como é que se consegue ter RH qualificados)?
Estão disponíveis no mercado, os RH qualificados? De que modo foi planeado a partilha/transferência de conhecimento e aprendizagem?

 Cultura de qualidade? Como é que foi conseguida?

Papel do envolvimento dos fornecedores no desenvolvimento? Quais os mais importantes? Como é que é o relacionamento e o trabalho em equipa? Quais as dificuldades? Como é assegurada a qualidade das Matérias-primas? Temos melhor qualidade de matérias primas? Quem é responsabilizado por problemas que diminuam a qualidade do output final?

Qual o papel do envolvimento do(s) líder(es) da empresa no processo de desenvolvimento dos novos produtos? Os resultados tendem a ser melhores quando eles estão envolvidos?

 Que outros factores são relevantes? Outros factores relevantes? Quais?

3 - Como é que a empresa/indústria consegue ter **Preços** competitivos?

 Produtividade operacional? Como é que é conseguida? Estrutura de recursos humanos? Equilíbrio entre produtivos/não produtivos?

Custos das matérias primas? Que tipo de diferenças de custos existem face aos outros competidores com grande capacidade económica como Macdonald's, PizzaHut?

Flexibilidade dos recursos humanos? Como é que foi conseguida? Formação interna/externa? De que tipo?

 Planeamento das operações? Compras? Produção? Como é que a empresa se organiza a este nível? Outros factores? Quais?

4 – Como é que o **serviço rápido**, com qualidade foi alcançado?

De que forma a marketing interno se relaciona com o processo de formação de RH, na origem do serviço rápido?

 De que forma o serviço rápido foi lidando com o aumento exponencial da reputação do h3? Existe autonomia nas operações? Por exemplo para resolver problemas inesperados.

5– Existem outros factores que não foram abordados neste entrevista e que considere serem relevantes para se perceber melhor como é que a empresa/indústria desenvolveu a vantagem competitiva de que dispõe actualmente?

6 – Dados os objectivos do projecto, gostaria de abordar algum outro tema ou fazer algum comentário?

8.1.2. Dr. Henrique Freire and Dr. Nuno Van Uden

Interview with Dr. Henrique Freire (HF) (Partner) and Dr. Nuno Van Uden (NVU) (Marketing and Communications)

h3 headquarters - *Café 3 Restauração SA*
Rua Joshua Benoliel 6, 3º-C,
1250-133 LISBOA
Date: 28/03/2011 – Time: 15:30

Which are the key success factors of the restaurant industry, more specifically in the food court segment, where the restaurants can be somehow classified as fast food restaurants?

HF: It is a question slightly reductive accordingly to the complexity of the variables involved.

First we have the quality of the product and customized offer to the food court consumption profile (structure build on the food court segment). We have a limited offer of products because there is the idea that the food court itself is a menu. We have to be really specialized in a product, achieving high levels of specialization, enabling the achievement of great quality products, with low levels of waste from production and high levels of efficiency in operations. All of this, in a certain way, gives us capacity to be cheaper, allowing great quality at the same time. You offer a complete meal, for a price that varies between 6 and 7 euros (simplifying the idea).

Which were the main strategic moves of the company (positive and negative)?

HF: My belief, developed through many years working as a consultant, is that more often than not, businesses that are successful, have a genuine passion and devotion associated. When an entrepreneur develops a project, with its only focus being on making money, it usually doesn't work out as planned.

What exists here is a genuine passion for food, which results not only in good food but also in good service to the client.

The business model was based around an idea and developed by smart people with complementary competences.

How does h3 has quality in its products?

HF: Every day we work so that everything remains the same. It is relatively easy to have one good restaurant. It requires a good chef, well trained staff and an in store owner/manager. What isn't that easy is to have 35 restaurants serving everyday quality food in a consistent way.

It all takes us back to an obsession with the quality of food, where all products are exhaustively pre tested (tasted) by all the managers. This derives from the quality obsession of h3's senior managers. We usually receive new product proposals, ranging from new burgers, rice, potatoes, etc, because h3 is already one of the most important buyers of these products in Portugal. It is easier to cook good food with good ingredients, than with cheaper or equivalent products (i.e. butter and margarine).

All the operations are well thought. There was an evolution, and today all the operations are well defined and documented. A lot of effort was putted into operation's optimization and delineation (how to do good and in a consistent manner). An exhaustive work is constantly undertaken by the entire team to improve manuals and procedures, along with a constant training of the employees.

There is a clear concern of being up to date with technology of the equipments, but also with the food safety and hygiene regulations. There is a permanent procurement aiming to increase current levels of optimization.

How is the quality controlled?

HF: All the suppliers and its products are chosen taking into account a wide range of specific criteria. These suppliers are negotiated centrally.

Our main raw materials are the burgers. After experiencing quality problems when they arrived at the branch, we started following up its production process at the supplier's facilities. We now have built a close relation with the suppliers in order to be able to guarantee a tighten control over our raw materials.

There is more than one supplier for our products, with the exception of the meat supplier. We tried to have more than one meat supplier but it didn't work out properly in the past, due to quality standardization reasons, as well as it was more difficult to have a more tighten control over it.

NVD: The burger is part of a recipe created by us. It is a mixture of meat and seasonings chosen by us. The production of the burgers is done in the supplier's facilities.

HF: We have an outsourced mystery shopper that goes to every store once a month as a client. This mystery client then fills a table about every single aspect/detail of each restaurant (i.e. quality of food, treatment, waiting time).

A second service we outsource to control the quality is food safety and hygiene auditing. This outsourced service is responsible to take samples from the counters, employee's hands and food. The samples are then analysed in the lab, enabling us to be aware if the employees complying with all h3's regulations of food safety. These are the types of initiatives that help us maintaining a constant high quality of our products over time.

How many h3's employees are at the supplier's facilities controlling the burger's production compliment of the h3's quality and proportions requests?

HF: Two plus outsourced consultants of food safety and hygiene.

How the negotiations with suppliers are undertaken?

HF: First of all, the suppliers are chosen taking into account a wide range of specific criteria. Then it is negotiated the quality of the products, and only after its price and the intrinsic delivery logistics.

But most important is the prototyping process which gears a process of testing and tasting, until the product is accepted after dozens of others being rejected.

Who develops h3's products?

NVU: Dr. Albano is the head of the product development department. There is another related department for buying raw materials (procurement).

The suppliers sometimes have the idea of a new product.

To develop the new chocolate sauce for our new store in chiado, we explained what ingredients a good sauce should have and then we received many different sauces. The samples were all tested, feedback to the supplier chosen was given, and adjustments to the proportions were done.

How was the evolution of the human resources training tools (manuals)? How did they evolve through the time?

NVU: The manuals evolved through time with some specific quality improvements regarding its level of detail. The awareness of the need to have such detailed manuals was impossible to predict in the beginning, but in order to be able to replicate the services provided, that became a must.

The advantages are clear, especially given the general low level of education of the employees. An appealing manual is half the way through to get the employee's tasks done to a very strict level of quality and standardization.

HF: We have the best manuals, comparing to our competitors and they weren't copied from anyone. The manuals go until an incredible operation's level of detail (i.e. the lemon is hold like this, cut with this knife, a certain amount of slices per lemon)

The control over the human resources can then be seen as crucial given the difficulty to handle it with consistency, when comparing to other business units of the firm. Also because of the high pace of job rotation, the need for tools that are able to enable a consistent performance of the human resources is higher.

Are qualified HR available in the market? How was it planned the share/transfer of knowledge and learning?

HF: The greatest business difficulty is to have consistency in the product coordinated with the human resources, because we believe that the burgers can get ruined', but not before arriving on the grill. Nevertheless, this knowledge is retained in each branch, through a mix of at home preparation with the manuals and intensive in store training supervised by the store manager. Clear enhancers of this learning process are the manuals because they are detailed, explicit and easy to understand through many pictures for each topic being covered.

A training center is been set up, derived from the clear relevance of the human resources in this business model.

How is done the HR training? How can you get qualified HR?

HF: The most recent example is the store opening in Poland. Two people that are having now a role of business managers were trained in Portugal for three months. They were trained in all the roles a branch needs to operate. Then we hired a manager, head shifts and employees to work on the grill (7 people, where one wasn't approved in the final assessment). The remaining staffs were people already hired in Poland, and trained there by the staff that took the mentioned training in Portugal. Last but not the least, during the first month we had in store experienced supervisors and store managers in Poland, supporting the local team.

How many suppliers do you have (the most important ones)?

HF: We have ten, but we have been trying to aggregate them in order to enhance the relationships with the most important suppliers.

We have a range of 33 products, which can be seen as short/small. The most important ones are our suppliers of meat, rice, potatoes, fresh ingredients, sauces.

Having a relatively short number of suppliers is part of our business model and it helps us to have an important scale with each supplier (i.e. biggest buyers of Thai rice in Portugal). The business volume we have with each supplier enables us to have more bargaining power when negotiating the business terms.

This negotiation flexibility can also be seen as a key success factor. Notwithstanding, our suppliers are our partners, and the relationship we try to build with them is never based upon “squeezing” them in price or payment deadlines, so that a high quality standard is continuously kept. Our business isn’t financially supported in our suppliers.

It is not easy to be supplied with consistent products, especially all year round. Not only because of the considerable amount ordered by us, but also because of external factors related to difficulties to have the same natural and fresh products, with the same quality in four different seasons (i.e. Potatoes). We are proud to say that we grew up sided by our supplier’s businesses (to be able to meet h3’s demand) for this exact reason. A good relationship with the suppliers is powered around this exchange of commitments.

How the delivery deadlines are managed?

HF: We are talking about continuing relations, where they have all the information previously given, and so they are managed as efficient as possible by them to meet our demand deadlines.

What are the payment deadlines to suppliers?

HF: Close to 30 days. I think that this day range, when compared to our competitors, can be seen as very limited. Either way, it is safer because it gives us more guarantees

concerning our supplier's capacity to afford and meet demand, complying with our requested quality standards.

We can build stable relationships with our suppliers by assuring them that we can be seen as partners and most importantly, as having good business practices.

What type of cost differences there are between h3 and competitors with more economical power (i.e. McDonalds and Pizza Hut)?

HF: I don't think that a business can achieve success based upon their input's purchases. I feel like supporting a business specially based on purchase's economies of scale is a bad principle. Nonetheless, today we naturally have more capacity than we had two years ago, as we also expect to have more in the coming years.

The scale of a business can always be a constraint and we felt that in our newly opened polish restaurant. As it was mentioned before, we demand a considerable amount of specifications that our suppliers should meet. For that reason, we found difficult to attract polish suppliers to work with us, considering we just have one restaurant there.

How did fast service handle the exponential increase of h3's reputation?

HF: Open more stores in strategically placed and close to the already popular locations is what we have been doing to divide the cues. We also keep on searching for opportunities to increase the size of the stores in shopping centres, by closing the small one and opening a new and bigger in the same food court area.

We are obsessed with the processes and the speed of our service's delivery. We have the capacity to serve between 150 to 220 meals per hour. This can be seen as one of the best practices in the food court segment.

How is developed the h3's entering process in the shopping centre's food courts?

HF: Regarding the newly opened shopping centres it is relatively easy, especially after h3's achievement of brand success.

NVU: There was a clear change on the way h3 conquered a space in a food court between its early operations and now. I can even say that currently, in 100% of our new branches, we are the ones that are contacted and asked to open there an h3.

In the beginning it was quite difficult because each time we presented our business model, everyone would say that they already had enough burger restaurants in their food courts (i.e. McDonalds and Burger king at least).

Dr. António, one of the business partners is the responsible for handling all the relationships with the shopping centres. He constantly strives to pursuit opportunities and solutions among them, also because there are still some old shopping centres where we would really like to run our business. Another approach used by him, is the assessment of other low profile restaurants in the food courts that could end in an attempt to negotiate the acquisition of their space. However, this is not always easy because there are very successful shopping centres, where even bad restaurants are able to make money.

HF: To conclude this question it is important to say that, if next month we had the money available to open 50 stores and also having already the complete management capacity for those, it would be impossible. There are no available places in such a short period of time. It is a process that takes time to uncover opportunities and then to negotiate.

My main focus is in the international development of h3, but together with the other three partners I also help in the national operations.

Do you have autonomy in your operations (i.e. to solve unexpected problems)?

NVU: Unexpected problems happen but everyone knows how to react and who should take care of each situation, because all the processes are defined to such an incredible level of detail, which in turn doesn't leave any space for "free riders". Everything was thought and there are checklists for every single operation (i.e. forms regarding product's quality problems).

HF: Everyone knows the limits of their competences within the firm.

How is the h3's level of decentralization? To what extent employees are able to influence decisions due to their physical proximity with the clients?

HF: h3 is an open firm that promotes the communication between people inside the firm. The partner Dr. Albano, responsible by new product development interacts directly with Victor (kitchen chef) and also with everyone working on the grill, cash point, etc. There is logic of openness in h3 that promotes a closer proximity from the top management with the employees working in the restaurants.

NVU: We also have a suggestion's box in every store, where we receive hundreds of suggestions as new product ideas.

HF: Nevertheless, the store supervisor works also as the linkage bond between the store and the office, since not all information is represented in the sales reports. For instance, in Poland we could have been selling many of our burgers with spinach, but only the people close to the clients were able to see that, as an example, they were not eating the spinach. This type of information is not represented in financial statements, but it is crucial receiving it in the office, and clearly we do not undervalue it.

NVU: Still, our business model works exactly the other way around. We never try to discover what people like. We have good products and we want to convince our clients to eat them.

HF: The best example would be our lemon juice. Clearly was something completely outdated in our country and we brought it back, not because our customers demanded it. Currently, and along with our tea, are the best selling drinks that h3 sells.

8.1.3. Dra. Catarina Valério**Interview with Dra. Catarina Valério** (Human Resources Manager Assistant)

h3 headquarters - *Café 3 Restauração SA*
Rua Joshua Benoliel 6, 3º-C,
1250-133 LISBOA
Date: 28/03/2011 – Time: 16:30

In October 2008 I started working at the stores while I was still finishing my bachelor's degree. At the time, we only had six restaurants and very little number of employees, but the business structure was already all set for growth.

When I first started working in the office, I was asked to build an excel data base of the employees information, contracts and so on and so forth. In the meanwhile, I was moved to the HR department, first only processing pay checks and other legal procedures.

More or less a year ago, we acknowledge the importance of betting stronger in our HR. An HR manager was hired and I stood aside him as her assistant. At the time, career progress plans, all sorts of evaluations (i.e. performance management) and our very relevant internal marketing started being built.

h3 operates in an industry segment that usually has a high job rotation. How did it evolved through time?

In the beginning our job rotation was around three months, but not closely controlled. Now we have been investing in creating maps that will be able to access it more precisely.

Currently we already have 35 stores and we are aiming to conquer worldwide markets, all procedures must be closely defined and then controlled. What clearly has changed, comparing to the embryonic stage of the business in 2007, is a demand's increase in our HR due to this growth and standardization need.

This can work against the stabilization of HR's retention goal, but on the other side of the coin there was a clear increase on the incentives (monetary and non monetary). I believe that with an unambiguous investment we have been doing in career plans, training, salary conditions and rewards we will be able to finally stabilize the job rotation index in the next few months.

How can be framed h3's in store hierarchical structure?

One supervisor works with five managers and ten head shifts.

The in store employees can be seen as part of a flexible team where their tasks can change, especially in the front line (cashier, food serving in plates and drinks). In the kitchen team, one of the head shifts or manager is responsible for accessing if the burger is properly grilled as the client ordered. Part of that team is also the griller, the associate responsible for cooking (confection) and product's replacements.

The entire operation's structure and processes never change since the beginning. Everything was very well thought and designed. Small changes took place in the Chiado's h3, but that is an especial case, because it doesn't belong to the food court segment.

How was the employee's career progress planned?

The most important in store task is the person working on the grill because that employee has the greatest responsibility in delivering a high quality meal to the client. The way the burger is cooked determines completely the final product, which is why this is the best paid operational task.

We created a grilling school by country zone. The training staffs are formed by two head shifts, one manager (both trained in the grill tasks) and 2 trainers to organize all this training period. The trainee has 15 days of training and if it is approved starts working in one of the branches, also receiving a salary increase after the first month. If not, this employee will be reallocated to one of the other in store operating tasks. Also

besides the salary increase, there is always a diploma delivery ceremony where they also receive a small Gold, silver or bronze spatula patch according to their level.

The fact that h3 is a growing company; a griller can progress inside the firm not only to become a store manager and supervisor, but also to be part of the training school, which is forecasted to keep on growing as our need for more grillers keep on increasing exponentially. The same will start being applied to other cooker such as for the rice and potatoes for instance. Notwithstanding, the last types of training schools are still to be implemented.

Concluding, it is important to highlight that the progress within the h3's structure is not vertical but transversal.

What sort of new technologies have been implemented to manage HR more efficiently?

We have been implementing a new system that will facilitate communication and flow of information to make a better employee's performance management. This measure is going to enable us to move our employees through our network, nationally and internationally.

If we have capable people within our firm, we don't have to look in the market for alternatives. As this system is implemented, the h3's supervisors (one per five stores) would have an easier job, when opening a new restaurant.

How do you manage difficulties in working in teams at the store?

Sometimes there is a bit of prejudice towards working in restaurants. It is often seen as a last resource decision and that is quite sometimes felt during work, generating friction and tension between colleagues.

Given this, having an employee with an appealing posture and always smiling is not always easy, and conflicts are inevitable because we work totally as a team. This team can be divided into front team and kitchen team. Within this in store teams, there is the

store manager, responsible for generating a dynamic workplace environment, helped by two head shifts. The manager is the leader, also responsible for the in store training.

Usually the stores that have a good manager also have a greater dynamic (i.e. afterhours drink to celebrate sales record, pictures shared in on the network, etc.)

How many employees does h3 have?

We are 500 working for h3 and 20 out of those, work in the headquarters' office. The h3 franchise, only located in the north of Portugal, employees 200 people. Madeira and Poland still a small number of 25 employees. Our average is around 20 people per store.

How is the selection process undertaken?

Everything starts with an application form, available at any store. All the employees, apart from managing roles, are recruited by the stores, selected in a first stage by the store manager and the supervisor (responsible by 5 restaurants) in a final stage of the process.

Regarding managing roles, online job offers are posted. The applicants send their CVs for my evaluation and screening and only after a telephone interview takes place. If they pass this stage, they will have to meet me in the office for a final interview. After being selected a final decision is made based on the operations manager's final approval.

The contracts always last seven months. This period includes an initial month of experience, where they can be reallocated or dismissed.

How was the h3's evolution of its training procedures through the time?

The training structure of h3 has been improving through the time. This improvement is very clear to the extent that currently every specific task has its own manual of operations; there are frequent training sessions both in the office and in store; we will have a Pda for each store trying to increase the in store dynamic.

The first manual was used in a training session in October 2008 and so, it is clear that before then, mostly because of the small number of stores, there wasn't a clear concern regarding standardization of procedures. Nevertheless, most of the initial procedures were quite the same when compared to the present ones, with the exception of an intensification of the food safety and hygiene dealings.

How is the h3's internal marketing related with its HR training? (These initiatives can be seen as responsible for developing a sense of belonging/involvement within the firm, which ultimately enhances their productivity levels)

h3's parties (Christmas and Anniversary) are one of our initiatives that we deeply believe they motivate our employees and spreads h3's culture in them and between them. This is an unusual party, where the h3's brand is not imposed at all (i.e. no corporate speeches). The main goal is to proportionate the employees a chance for having fun, interact with the entire network including top management. In 2008 was a small Christmas dinner; in 2009 a bigger Christmas dinner and in 2010 for the first time both Christmas and summer dinner and party afterwards. Everything is fully paid by the company, including means of transportation to pick up and bring the employees back home (in the entire country).

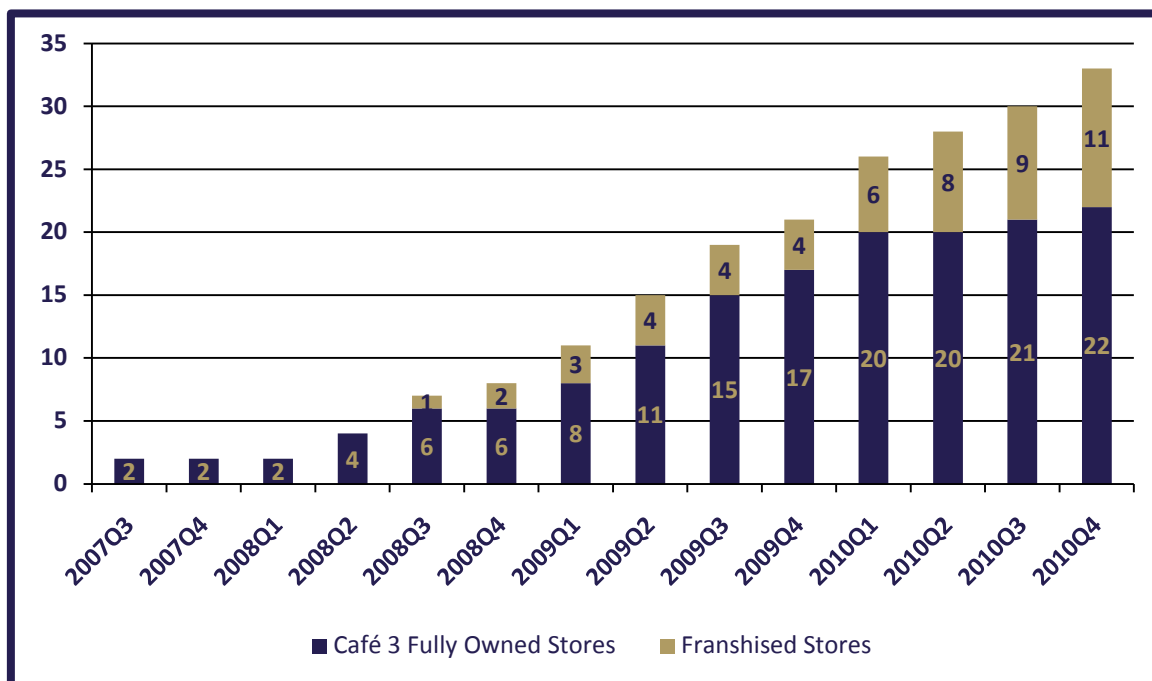
Another idea we believe that motivates our employees is the active role many of them have in the development and improvement of our operation's manuals (i.e. how to hold a spatula and which is the most appropriate one) . They contribute with pictures along the book, and in the end they have a page dedicated to them saying special thanks to each one of them.

While many companies spend millions trying to satisfy their clients, we try to spend our marketing margin to satisfy our employees. It is the idea of inverting the idea of marketing towards the inside of the firm, through ways to provide motivation stimuli giving guarantees to our employees that they are/should be comfortable with us and have all the needed support.

Many more ideas are been developed, but their implementation is yet to be done be done.

8.2. Annex 2: Data

8.2.1. h3 Number of stores evolution chart



Source: Café 3, S.A.

8.2.2. h3 Store openings

Year	Month	Location	Year	Month	Location
2007	Jul	DV Monumental	2010	Jul	Forum Algarve
	Sep	Amoreiras Plaza		Jul	Colombo
2008	Apr	Forum Almada		Aug	Campo Pequeno
	May	DV Mirafleres	Oct	Cascais Shopping	
	Aug	Odivelas	Dec	W Shopping	
	Sep	Loures Shopping	Feb	Palácio do Gelo (F)	
	Sep	DV Antas (F)	Feb	Algarve Shopping	
	Oct	IKEA Porto (F)	Feb	S. J. Madeira (F)	
2009	Feb	Arrábida Shopping (F)	Mar	Central Park	
	Feb	Saldanha Residence	Mar	Leiria Shopping	
	Mar	Oeiras	Apr	ECL Gaia (F)	
	Apr	Spacio Olivais	Jun	Campus S. João (F)	
	May	Dolce Vita Tejo	Aug	ECL Lisboa	
	Jun	Forum Montijo	Aug	Norte Shopping (F)	
	Jun	Coimbra (F)	Oct	Braga Shopping (F)	
Jul	Portimão	Dec	Tivoli Fórum		
			Dec	Madeira (P)	

(F) – Franchised Stores

(P) – Partly Owned Stores

Source: Café 3, S.A.

8.3. Annex 3: Additional Information

8.3.1. Press releases



Source: h3 Official Website (Press Clip)

8.3.2. h3 Storefront



Source: h3 Official Website (Press Clip)

8.3.3. h3 Menus and Prices



Source: h3 Official Website

8.3.4. Organizational Chart



Organizational Chart



Source: Café 3, S.A.

8.3.5. h3 Training manuals



Source: h3 Official Website (Press Clip)



Source: h3 Official Website (Press Clip)