



The effect of market orientation, entrepreneurial orientation and human capital on positional advantage: Evidence from the restaurant industry



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1. Introduction

Resource-based theory (RBT), or the resource-based view (RBV) of the firm, is one of the most widely accepted theories of management (Kellermanns et al., 2016; Nyberg et al., 2014). The RBV regards the internal resources and capabilities of a firm as valuable and therefore sources of competitive advantage (Barney, 1991; Wernerfelt, 1984). Resources are the factors owned or controlled by the firm and capabilities are the firm's capacity to deploy those resources (Amit and Schoemaker, 1993). The RBV assumes that organizational resources are composed of tangible and intangible assets that a firm uses to develop and implement strategies aimed at improving efficiency and effectiveness (Barney, 1991). Organizational theorists have argued that physical, human, and organizational resources can enable the achievement of sustainable competitive advantage and help improve performance (Barney, 1991; Lonial and Carter, 2015). In this light, intangible organizational resources and capabilities such as entrepreneurial orientation (EO), market orientation (MO), and human capital (HC), if effectively exploited, should facilitate the development of competitive advantage (Hult and Ketchen, 2001; Lonial and Carter, 2015) and thereby improve performance.

It has long been argued that analysis of individual components or single resources is not sufficient as resource combinations are more likely to explain performance (Newbert, 2008; Kraaijenbrink et al., 2010). It has also been claimed that the process by which these capabilities influence performance is more complex than might be revealed by the univariate examination of a direct, linear link between each and performance (e.g. Lonial and Carter, 2015; Hult and Ketchen, 2001). Scholars further contend that the link between organizational resources and performance may be incomplete,

implying that there are potential intervening constructs that may influence this relationship (e.g. Newbert, 2008; Hult and Ketchen, 2001; Lonial and Carter, 2015). On this basis, researchers assert that there is a need to clarify 'how' organizational resources affect performance (e.g. Lonial and Carter, 2015). Moreover, and in particular, researchers have also called for the examination of diverse firm types with differing resource endowments to test RBV's assertion that unique resources influence organizational outcomes (e.g. Hult and Ketchen, 2001).

The primary purpose of this research is to examine the RBV's perspective that a combination of firm resources and capabilities (e.g. MO, EO, and HC) helps determine positional advantage and that PA in turn promotes firm performance (Barney, 1991). Evidence that a particular combination of resources and capabilities enable the achievement of competitive advantage in a specific industry setting will provide managers operating in that situation the impetus to deploy and exploit those factors (Newbert, 2008). This study contributes to the hospitality literature by: 1) adopting RBT and focusing on the conceptual gap that addresses 'how' organizational resources affect performance, and 2) by adopting a combination of resources and capabilities (e.g. EO, MO and HC) that has not previously been examined in the literature. Among small restaurant businesses, the ability to effectively exploit intangible resources is more likely to generate sustainable competitive advantage and enhance firm performance (Kraaijenbrink, 2011; Morgan et al., 2014). The findings should: 1) enhance restaurant manager's understanding of the value of these organizational resources and their link to performance, and 2) inform owners'/managers about the need to bring to bear the effects of multiple organizational capabilities rather than narrowly focusing on a single organizational orientation such as MO to achieve superior performance.

This research is important to the hospitality sector comprised of small restaurant operations because these businesses compete in crowded and often undifferentiated markets (Morgan et al.,

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2014). Moreover, research suggests that the hospitality industry is exposed to higher levels of risk and higher competitive rivalry than other industries in the U.S (Singal, 2015). The restaurant industry is also characterized by high levels of localized competition which is intensified by fragmentation, low barriers to entry and high exit barriers, as well as imitation and substitution (Barney, 1991; Porter, 1980). As with the hospitality industry in general, small independent operators face higher operational risk associated with the perishable character of their product and the discretionary nature of demand for their services (Singal, 2015). Although major players appear to dominate the marketplace, a good proportion of the industry can be described as small-businesses that are managed by individual owner/operators. According to the National Restaurant Association (2015), more than seven in 10 restaurants are single-unit operations, and more than nine in 10 have fewer than 50 employees. These small restaurant businesses must achieve competitive advantage not solely on the basis of their access to better resources, but because they are able to coordinate and combine their resource bundles in superior ways (Kraaijenbrink, 2011).

2. Theoretical framework

The RBV suggests that firms are endowed with different bundles of resources and that firms can achieve superior performance by effectively exploiting those bundles of resources (Chang et al., in press). According to the RBV, competitive advantage is secured through resources that are valuable, rare, unique, and difficult to imitate (Barney, 1991). Moreover, resource-based theory suggests that firm resources and capabilities are not productive in isolation (Pertusa-Ortega et al., 2010), but rather, they act as a “source” of competitive advantage. Thus, organizational capabilities such as EO, MO, and HC may not be valuable in and of themselves, but are internal capabilities, that if effectively exploited, can contribute to the attainment of competitive advantage. In addition, resource heterogeneity across firms suggests that some firms are better equipped to accomplish particular activities based on their possession of unique resources (Kozlenkova et al., 2014). Many small firms including independent restaurant operations may be constrained by their limited access to tangible resources (i.e. physical, financial), which in turn limits their range of feasible strategic options (Porter, 1985). Furthermore, small restaurant ventures may require different resources, or use those resources differently in order to gain competitive advantage and improved performance (e.g. Unger et al., 2011; Kellermanns et al., 2016). Given the restricted access to tangible resources available to small independent restaurant operations, intangible resources (e.g. HC, MO, EO) may be more important than other types of resources (Greene and Brown, 1997). Intangible resources are also more likely to produce competitive advantage because they tend to be rare and more difficult to imitate (Peteraf and Barney, 2003; Hitt et al., 2001).

Positional advantage theory (PAT) (Day and Wensley, 1988) proposes that a firm’s unique resources and capabilities engender positional advantage in the marketplace. Though initially conceptualized as a superior market position resulting from the creation of greater customer value or low relative costs (Day and Wensley, 1988), positional advantage has taken different forms and been operationally defined to suit the context of a given study (e.g. Chang et al. in press). For the purposes of this study, we follow previous research (e.g. Lonial and Carter, 2015; Hult and Ketchem, 2001), and consider PA to be an individual latent construct (Jöreskog and Sörbom, 1996) that is collectively determined by a combination of organizational capabilities. A latent variable is a hypothetical construct that combines two or more observed variables. The model (Fig. 1) linking the three capabilities (HC, MO, EO) with PA is not causal. In other words, the three capabilities are not expected to

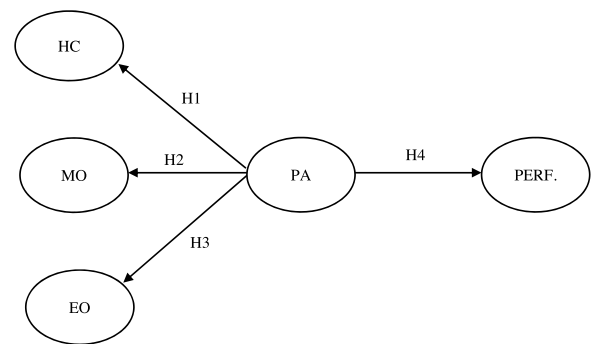


Fig. 1. Conceptual Model and Hypotheses.

“cause” positional advantage, but rather they are expected to be factors (first-order indicators) that collectively contribute to the development of this latent construct (Hult and Ketchem, 2001; Jöreskog and Sörbom, 1996). As such, EO, MO and HC are considered to be three potential capabilities (i.e. observed measures or first-order indicators) that collectively generate positional advantage (Hult and Ketchem, 2001). Although past research has considered a diverse array of indicators, EO, MO, and HC are the focus of this research because these indicators have been shown to directly influence performance in previous hospitality research.

2.1. Human capital

Human capital should be viewed as a firm-level resource that could be leveraged to achieve sustainable competitive advantage (Nyberg et al., 2014; Barney, 1991). HC results from education, experience, and practical job-related learning (Unger et al., 2011; Davidsson and Honig, 2003). Though numerous studies have concluded that HC is related to success, this relationship is confounded by a number of factors and thus conflicting findings are easily found (Davidsson and Honig, 2003). Despite the volume of research relating HC and success, there is scarce evidence of studies that have examined the effect of intervening constructs on the human capital-success relationship (Unger et al., 2011). In the hospitality context, Nieves and Quintana (2016) reported that HC mediated the relationship between HRM training/development and IT practices and innovation. In another study, Lee et al. (2016) reported that innovation activities and entrepreneurial self-efficacy fully mediate the influence of HC on restaurant performance.

Small ventures such as independent restaurant operations are formed around the persona of the individual owner/operator (Cooper et al., 1994). Such operations tend to be reflections of the entrepreneur and cannot be understood without reference to the entrepreneur’s role in the business (Hambrick and Mason, 1984). The strategy literature has viewed human capital as a resource that affects the firm’s ability to obtain competitive advantage (Javalgi and Todd, 2011; Nyberg et al., 2014). According to human capital theory, the task-related knowledge, skills, qualifications and experience of the restaurant entrepreneur is likely to be a prime source of critical resources (Unger et al., 2011; Nyberg et al., 2014) that influence organizational outcomes. Previous research in the hospitality context suggests that HC is one of the most important resources available to industry practitioners (e.g. Kim et al., 2012; Sainaghi et al., 2013).

Human capital theory (HCT) suggests that individuals have varying knowledge and skills that create economic value (Marvel, Davis, and Sproul, 2014). There is compelling evidence that human capital or prior knowledge is vital to discovering, creating, and exploiting entrepreneurial opportunities (Dimov, 2010). Unger et al. (2011: 341) argued the “human capital is most important for success if it

consists of current task-related knowledge and skills." For instance, task-related human capital that includes industry specific knowledge and prior experience pertaining to customers, suppliers, and competitive pressures should help minimize threats and exploit opportunities (Unger et al., 2011; Lee et al., 2016), thereby generating positional advantage. Non-task-related HC includes general education and employment experience that is not related to the current business (Unger et al., 2011). Evidence on the effect of task-related HC on business success is mixed. Though Lerner and Almor, (2002) found that task-related industry experience was positively associated with business success, Lee et al. (2016) reported that HC was not related to restaurant performance. Likewise, Hallak et al. (2011) reported that entrepreneurial experience had no significant effect on the performance of small and medium tourism enterprises. However, on the basis of their meta-analysis, Unger et al. (2011) concluded that task-related HC, rather than general HC, was a better predictor of success. On this basis, the following hypothesis is examined:

H1: HC is a positive first-order indicator of positional advantage

2.2. Market orientation

The concept of market orientation lies at the heart of marketing theory (Levitt, 1960). According to the marketing concept, an organization's purpose is to determine the needs and wants of its customers and to satisfy those needs more effectively and efficiently than the competition (e.g. Slater and Narver, 1998). Market oriented organizations aim to satisfy their customers by organizing and coordinating their activities and efforts around the needs of the customer (Levitt, 1960). In essence, a market oriented approach focuses primarily on improving the customer-provider relationship and, it is reflected in an organization's culture, shared values, and beliefs about focusing first on the customer's interests (Deshpande and Farley, 1999). MO has been examined in terms of both behavioral as well as cultural perspectives. Kohli and Jaworski (1990) described MO as being associated with three behavioral components, namely, intelligence generation, intelligence dissemination, and responsiveness. Narver and Slater (1990) on the other hand, conceptualized MO as consisting of three cultural dimensions including, customer orientation, competitive orientation, and inter-functional coordination.

In the hospitality industry, market orientation has been studied in relation to a variety of related variables including business strategy (Lee et al., 2015), information and communications technology (Peña et al., 2013), tourist behavior (Peña et al., 2012), total quality management (Wang et al., 2012), and competitive advantage (Zhou et al., 2009). In general, hospitality managers have been urged to become more market oriented to better satisfy customer needs and achieve their business performance objectives (Lee et al., 2015; Wang et al., 2012). The dominant view is that market orientation is positively related to performance (Jaworski and Kohli, 1993; Slater and Narver, 1994). Though the greater emphasis on market orientation may be an intuitively attractive response to rapidly changing market conditions, empirical findings pertaining to the relationship between MO and performance in the hospitality services industry is mixed. While some studies have found general support for a positive association between market orientation and business performance as it applies to a range of hospitality businesses (e.g. Lee et al., 2015; Campo et al., 2014; Peña et al., 2012; Wang et al., 2012), others have found no evidence that MO is directly related to firm performance (e.g. Sargeant and Mohamad, 1999; Au and Tse, 1995). It also appears that the link between MO and performance may be mediated by factors such as innovation (e.g. Agarwal et al., 2003; Sandvik and Sandvik, 2003). Besides, according to a meta-analytic study by Kirca et al. (2005), the magnitude of the relationship between MO and performance varies broadly from a

high correlation of $r = 0.37$ in manufacturing firms to a low of $r = 0.26$ in service firms.

The restaurant business, like many other services, is people intensive, and characterized by intangibility, simultaneity of production and consumption, heterogeneity of service performance, and perishability (Parasuraman et al., 1985). These characteristics along with the critical need for direct person-to-person interactions imply that the gratification of customer needs in the restaurant industry involve a higher level of customization relative to manufacturing firms (Anderson et al., 1997). Furthermore, many small restaurant operators, may also be constrained by their meager access to resources (e.g. time, labor, expertise, finance) (Didonet et al., 2012) and therefore limited in their ability to practice a market orientation (Harris, 2000). Harris and Watkins (1998) argued that factors such as an unclear view of the customer, satisfaction with the status quo, ignorance of market orientation, and lack of competitive differentiation may inhibit the ability of small hotels to focus on market trends and customer needs. Yet, as Hills (1999) remarked, it is marketing and entrepreneurship that largely determine the success or failure of small businesses such as those making up much of the restaurant industry. In summary, there is much evidence that supports the link between MO and performance; however, the strength and significance of this association is expected to vary based on industry context and firm size. Additionally, MO is considered a distinctive capability and a potential source of positional advantage. On this basis, the following hypothesis is examined:

H2: MO is a positive first-order indicator of positional advantage

2.3. Entrepreneurial orientation

Over the past three decades, a profusion of studies have examined the concept of EO (for reviews see, Rauch et al., 2009; Wales et al., 2013). Entrepreneurial orientation is distinct from entrepreneurship and reflects 'how' a firm operates rather than 'what' it does (Lumpkin and Dess, 2001; Miller, 2011). EO represents a firm's strategic posture as demonstrated by the processes, practices, and activities of the business (Wales et al., 2013 Lumpkin and Dess, 1996). Entrepreneurship on the other hand, is primarily concerned with new business entry and addresses questions such as, "What business do we enter?" and "How do we make the new business succeed?" (Richard et al., 2004: 257). Much of entrepreneurship research has traditionally focused on the actors (managers) or the individual level of analysis, whereas the focus of EO is on the practice of entrepreneurship, a firm-level, process oriented construct (Wiklund, 1999). EO represents the firm's overall proclivity towards entrepreneurship (Miller, 2011; Wales et al., 2013). In the context of a small "simple" business, entrepreneurship is likely to be driven by the personality of the leader – if a leader exhibits entrepreneurial characteristics, so would the business (Miller, 2011: 875).

EO was conceptualized as a uni-dimensional construct and the three most commonly studied dimensions of EO are innovativeness, proactiveness, and risk-taking (Miller, 1983). Entrepreneurially oriented firms monitor market trends and act quickly to exploit emerging opportunities ahead of the competition. They are proactive in delivering new product/service combinations to the market and take calculated business risks as they innovate and rejuvenate the firm to preempt the competition (e.g. Covin and Slevin, 1989). Taken together, the combination of these capabilities gives them a competitive advantage that translates into superior financial performance (Wales et al., 2013; Wiklund, 1999; Covin and Miles, 1999). In environments characterized by rapid change and shortened product or business life-cycles, where future profitability based on current operations is uncertain, and where businesses are constantly on the look-out for new opportunities,

firms may benefit from adopting an entrepreneurial orientation (Rauch et al., 2009; Wiklund and Dean Shepherd, 2005).

Although the argument that EO leads to improved performance is both conceptually and intuitively appealing, and though the vast majority of prior studies find a positive relationship between EO and performance, the magnitude of the association appears to differ across study context and type of firm (e.g. Wiklund and Dean Shepherd, 2003; Lumpkin and Dess, 2001; Wiklund and Shepherd, 2011). Based on their meta-analytic study, Rauch et al. (2009) reported a correlation of 0.242 between EO and performance, providing convincing evidence for the link between these variables. Yet, it is recognized that not all EO related activities are successful and that many fail to produce economic returns (Wales, 2016). Given the considerable resources required for EO to be successful – a major concern for small businesses with limited access to tangible resources – there is a need for further research to examine the specific circumstances under which EO is especially beneficial to performance (Rauch et al., 2009; Miller, 2011; Wales et al., 2013; Wales, 2016).

Although EO was initially conceptualized as having universal relevance, subsequent research suggests that the nature of EO and its effect on performance differs across context (e.g. Covin and Slevin, 1991). While research applying the EO construct in hospitality research is sparse (Tajeddini, 2010; Jogaratnam, 2002; Jogaratnam and Tse, 2006), there is no evidence that these studies have addressed the role of intervening constructs in the link between EO and performance. On the basis of their review study, Rauch et al. (2009) call for further study of intervening constructs to help reduce the sizeable unexplained variance in the relationship. Moreover, there have also been calls for the study of intervening variables to enrich our understanding of ‘how’ and ‘why’ EO enhances performance within a particular industry setting or type of firm (e.g. Wales, 2016; Wiklund and Shepherd, 2011). On this basis, the following hypothesis is examined:

H3: EO is a positive first-order indicator of positional advantage

According to the RBV, some unique assets and capabilities are more important than others, are more challenging to duplicate, and thus help differentiate their owners from the competition (Barney, 1991). Day (1994) argues that organizational resources composed of integrated combinations of assets and capabilities help distinguish the organization and maintain a superior competitive position. In this regard, organizational capabilities are viewed as complex bundles of skills that are so deeply embedded in the organization’s routines and practices that they are difficult to imitate (Day, 1994). In other words, it is not the possession of resources *per se*, but the managerial ability to leverage, integrate, deploy, and exploit them effectively that generates sustainable competitive advantage (Petaraf and Barney, 2003; Kozlenkova et al., 2014). Given this perspective, firms with the ability to effectively align HC, MO, and EO may have an enhanced understanding of its current and potential customers, competitors, and market conditions, and therefore better overall adaptive and environmental management capabilities that support the creation of superior customer value (e.g. Atuahene-Gima and Ko, 2001). These arguments suggest HC, MO, and EO combine synergistically to positively influence competitive advantage and subsequent business performance. For instance, managers with higher quality HC should be better at perceiving and exploiting new entrepreneurial opportunities and making marketing-related decisions (Davidson and Honig, 2003). HC resulting from formal education and experience may also assist in the accumulation of knowledge and skills useful to marketers and entrepreneurs (Davidson and Honig, 2003).

For the purposes of this study, EO, MO and HC are not considered to be independently unique, but can together generate a unique resource labeled positional advantage (PA) (Hult and Ketchen, 2001). In other words, the confluence of EO, MO, and HC should

collectively stimulate the creation of PA. The PA that these intangible resources generate should be sufficiently unique and thus more difficult for competitors to imitate or duplicate. In essence, each of these capabilities may not be autonomously unique, but in combination can create a unique resource (Hult and Ketchen, 2001) that generates positional advantage and thus a pathway to higher performance. As Hult and Ketchen (2001) contend, these factors are necessary but not independently sufficient to generate PA. Moreover, these factors are not anticipated to ‘cause’ positional advantage, but rather they are factors that together, fuel the development of positional advantage (Hult and Ketchen, 2001). PA is thus viewed as the mechanism through which EO, MO and HC influence performance. In practical terms, PA is said to represent the unique skills and capabilities employed by an organization to raise entry barriers and impede competitor efforts at imitation (Lonial and Carter, 2015). PA should in turn generate superior performance. On this basis, the following hypothesis is examined.

H4: PA is positively associated with performance.

3. Research methodology

3.1. Measurement of variables

3.1.1. Human capital

According to recent review studies, the majority of prior studies have adopted education and/or experience to operationally measure HC (Marvel et al., 2014; Unger et al., 2011). Educational level attained is a non-task related measure and work experience is a task-related measure of HC. In this study, human capital was measured in terms of the entrepreneur’s industry specific experience and highest educational level achieved. Respondents were asked to indicate the number of years in the current industry as a measure of experience. Highest level of education was measured using a six-point ordinal scale ranging from primary to post-graduate degree. In the absence of universally accepted multi-item measures or indices of HC, these single-item indicators have been used as proxies for human capital in prior studies (e.g. Javalgi and Todd, 2011; Lee et al., 2016).

3.1.2. Entrepreneurial orientation

According to Miller (1983), an entrepreneurial firm “engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch” (p. 780). Adopting this operational definition, EO is measured using a 9-item scale developed by Covin and Slevin (1989). The items are assessed on a 7-point semantic differential type scale anchored by pairs of opposing statements. The measure is reportedly the most commonly used formulation in measuring EO (Rauch et al., 2009) and continues to be used extensively in entrepreneurship research (e.g. Javalgi and Todd, 2011). Previous research has provided evidence of reliability as well as convergent validity (e.g. Richard et al., 2004). The composite scale comprised of the nine items had an alpha coefficient of 0.73.

3.1.3. Market orientation

Market orientation has been defined as “the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it” (Kohli and Jaworski, 1990). Adopting this widely accepted definition, MO was measured using the 10-item MORTN scale developed by Deshpande and Farley (1998). According to Baker and Sinkula (2009), this scale is more parsimonious and employs the most powerful indicators from the Kohli et al., 1993, Narver and Slater (1990), and Deshpande et al., 1993 scales. The items were measured on seven-point scales

anchored by “strongly disagree” and “strongly agree”. The MO scale had an alpha of 0.92.

3.1.4. Performance

Given that this study sampled independent restaurant operations, it was acknowledged that objective financial data would be difficult to obtain. Even if accurate, objective, performance-related data were available they may not be comparable due to the use of different accounting systems (Jogaratnam et al., 1999). As such, and while acknowledging the limitations associated with such an approach, we used self-reported subjective interpretations of performance. Previous studies provide strong support for the adoption of subjective measures of performance. Research has established that subjective measures correspond closely to objective performance indicators (e.g. Slater and Narver, 1994; Jaworski and Kohli, 1993). Performance is a multidimensional concept and was measured using seven items that reflect aspects of both financial and marketing outcomes. Seven-point scales anchored by “well below industry average” and “well above industry average” were used to elicit managerial assessments of firm performance. Respondents were asked to indicate their firms’ “Average performance over the past three years.” The items measuring performance were ROI, profit, profit growth, and ROS, market share growth, sales volume growth, and sales (in dollars) growth. The coefficient alpha obtained in this study was 0.94.

3.1.5. Control variables

Based on theoretical evidence, firm size and firm age were included in the analysis to control for potential interpretational confounds. Firm size, was measured in terms of the number of employees and firm age was measured in terms of the number of years in existence. The log of these variables is used to minimize issues relating to skewness of data.

3.2. Sample and data collection

The sampling frame consisted of independent restaurant operators in the United States. A commercial database represented the population of respondents from which initial contact information was obtained. To ensure unbiased responses, we assured respondents of their anonymity and the confidentiality of their responses. Considering the low cost and time efficiency of the online survey method, the questionnaires were uploaded online through a commercial online survey service. An email containing an invitation to respond was sent to each identified contact and followed-up with a reminder email a week later. A structured questionnaire was designed for the purposes of this study. Reliable scales adopted from prior research, or slightly modified and adapted versions of them are employed in this research. The instrument was pre-tested and refined with respect to clarity and formatting. The survey link was emailed to a random sample of 1000 restaurant managers and 171 responses were obtained. However several responses were, for the most part, incomplete and had to be discarded. A total of 135 respondents completed all sections of the questionnaire for an effective response rate of 13.5%. This is similar to response rates ranging from approximately 8 to 15 percent obtained in previous research adopting samples of hospitality managers (e.g. Grisseman et al., 2013; Seilov, 2015). Adopting the ratio of indicators to latent variables criterion (Marsh and Bailey 1991; Westland, 2010), this sample is considered adequate for SEM based analysis. Gerbing and Anderson (1985) and Iacobucci (2010) provide further support for this perspective when they suggest that a sample size of 100 will usually be sufficient for convergence.

Approximately 65% of respondents were owners and the remainder were managers. On average, the respondents had approximately 10 years of experience in their current jobs and had

accumulated over 20 years working experience in the restaurant industry. Over 60% of restaurants employed fewer than 20 full time equivalent employees while the average guest check (per person average) was less than \$20.00 at approximately 46% of restaurants.

3.3. Common methods and non-response bias, assessments of normality, and multicollinearity

A *t*-test comparison of early-respondents and late-respondents showed that these groups did not differ on any of the key variables studied. Because non-respondents have been found to resemble late respondents the insignificant difference between early and late respondents suggests that non-response bias does not pose a serious concern (e.g. Armstrong and Overton, 1997). Following Podsakoff and Organ (1984) we used Harmon’s one factor test to assess if common-method bias was a potential threat. Given that the first factor accounted for 18% of the variance, and that there wasn’t one general factor in the un-rotated factor structure that accounted for the majority of variance, we were able to conclude that common-method bias did not pose a serious threat. Examination of skewness and kurtosis values along with the variance inflation factor (VIF) revealed that data do not violate normality or multicollinearity assumptions.

4. Results

4.1. Data analysis

The structural equation modeling approach was employed for model testing. The statistical software AMOS 22.0 was used along with the Maximum Likelihood Estimation method for all parameter estimation. Following the two-step approach suggested by Anderson and Gerbing (1988), we first validate the measurement model before testing the hypothesized model. Modification indices, analyses of residuals, and model fit statistics were examined in an effort to refine the measures. Reliability, convergent validity, and discriminant validity of the measurement models are then examined via confirmatory factor analysis (CFA). Five fit indices were selected to assess the goodness of fit (Kline, 1998): 1) χ^2 statistic: non-significant *p*-values are desirable, 2) GFI (goodness-of-fit index): values greater than 0.90 are satisfactory, 3) AGFI (adjusted goodness-of-fit index): values greater than 0.90 are acceptable, 4) CFI (comparative fit index): values greater than 0.90 are satisfactory, and 5) RMSEA (root mean square error of approximation): values less than 0.05 are favorable (Anderson and Gerbing, 1988; Hair et al., 1998).

4.2. Measurement model, reliability and validity

The initial analysis resulted in the elimination of one item representing the EO scale (strong emphasis on marketing ‘tried and true’ products) and one item representing the HC measure (years of experience). The remaining items were found to provide a good representation of the constructs. Goodness of fit measures were examined to assess overall model fit. Item loadings are significant (0.71–0.96, $p < 0.001$) and the fit statistics for the final measurement model were considered acceptable (Hu and Bentler, 1999) with *chi square/df* = 1.55; *GFI* = 0.90; *NFI* = 0.91; *CFI* = 0.95; *RMSEA* = 0.06. These values suggest that the model represented the data fairly well.

All Cronbach alpha coefficients exceeded the 0.70 threshold suggested by Nunnally (1978) and composite reliabilities ranged from 0.72 to 0.94 thus satisfying the acceptance level (Bagozzi and Yi, 1988) for the reliability of constructs (see Table 1). Convergent validity was established by examining the Average Variance Extracted (AVE) for each construct against its correlation with the other constructs. The standardized factor loadings for each item

Table 1
Items, fit indices, composite reliability (CR), average variance extracted (AVE) and standardized loadings.

	Standardized Factor Loading
Entrepreneurial orientation (Cronbach's Alpha = 0.73, CR = 0.72/AVE = 0.58)	
Proactive in pursuing market opportunities	0.81***
Act in anticipation of future problems, needs or changes	0.84***
Track industry trends in anticipation of future developments	0.72***
Usually the first to find and introduce new products/ technologies	0.92***
Committed to acquiring and deploying new technologies ahead of the competition	0.71***
Usually the first to introduce new innovations in our market area	0.84***
Support high-risk initiatives in anticipation of high returns	0.73***
Adopt a bold, aggressive posture to maximize potential opportunities	0.76***
Strong emphasis on marketing 'tried and true' products (deleted)	n.a
Market orientation (Cronbach's Alpha = 0.92, CR = 0.92/AVE = 0.54)	
Our business objectives are driven primarily by customer satisfaction	0.74***
We are more customer focused than our competitors	0.78***
Our strategy for competitive advantage is based on our understanding of customer needs	0.77***
We believe this business exists primarily to serve customers	0.72***
We freely communicate information about successful and unsuccessful experiences	0.73***
We continually monitor our customers and competitors to find new ways to improve	0.69***
Data on customer satisfaction are disseminated at all levels of the on a regular basis	0.71***
We have routine and regular measures of customer service	0.87***
We survey our customers at least once per year to assess the quality of our services	0.71***
We measure customer satisfaction systematically and frequently	0.72***
Human capital	
Educational level	1
Number of year experience in this industry (deleted)	-
Performance	
Financial Performance (Cronbach's Alpha = 0.92, CR = 0.92/AVE = 0.80)	
Profit Growth Percent	0.92***
Average Profit	0.96***
Average Return on Investment	0.81***
Market Performance (Cronbach's Alpha = 0.91, CR = 0.91/AVE = 0.73)	
Average Return on Sales	0.82***
Average Growth in Market Share	0.83***
Average Growth in Sales (\$\$)	0.86***
Average Growth in Sales volume	0.89***

***Significant at $p < 0.001$ (two-sided).

Fit statistics: chi square/df = 1.55; GFI = 0.90; NFI = 0.91; TLI = 0.93; CFI = 0.95; RMSEA = 0.06.

were also examined. All items loaded significantly ($p < 0.001$) on their corresponding factor with factor loadings ranging from 0.71 to 0.96. The AVEs exceeded 0.50 suggesting that the majority of variance was explained by the constructs and not by measurement error. This satisfies the threshold recommended by Bagozzi and Yi (1988) and is indicative of the convergent validity of constructs. In addition, discriminant validity was established by examining

Table 2
Correlations and Descriptives.

N = 135	MO	EO	HC	Fin.Perf	Mktg_perf
MO	0.733				
EO	0.249**	0.762			
HC	0.264**	-0.134	0.894		
Fin_perf	0.298**	0.258**	0.125	0.894	
Mktg_Perf	0.285**	0.319**	0.216*	0.711**	0.854
Mean	5.53	4.12	4.19	4.56	4.67
S.D.	1.12	1.07	1.19	1.12	1.06

Square root of AVE in bold on diagonals; ** $P < 0.01$; * $P < 0.05$.

Maximum Shared Variance (MSV) and the Average Shared Variance (ASV) along with Average Variance Extracted (AVE) for all the constructs. Both MSV and ASV were less than the AVE for each construct, and the square root of the AVE for each construct was larger than the inter-construct correlations thus confirming discriminant validity among constructs (Fornell and Larcker, 1981; Hair et al., 1998) (see Table 2). Based on these analyses, it can be concluded with reasonable confidence that the measures adopted in this study are both valid and reliable. In sum, these tests support the use of our scales.

4.3. Test of the proposed structural model

The proposed structural model (Fig. 1) was then tested to assess the direction of relationships among the constructs. Given our sample size of 135, and in order to minimize the ratio of parameters to observations in model testing, aggregated scales were developed for each construct (Bagozzi and Heatherton, 1994). This approach has been adopted in prior research faced with sample size concerns (e.g. Lonial and Carter, 2015). Firm size (number of employees) and firm age were modeled as control variables in all the analyses. Analysis of the model indicated an excellent fit to the data based on the following fit indices: $\chi^2(3) = 3.49$, $p > 0.32$; GFI = 0.99; NFI = 0.97; TLI = 0.98; CFI = 0.99; RMSEA = 0.03; PCLOSE = 0.46. The RMSEA value is below the cutoff for close fit and the NFI and CFI values satisfy the requirements for good fit (Hu and Bentler, 1999). Hypotheses were then tested by examining the path coefficients between the exogenous and endogenous constructs. The critical ratio (C.R.) was the test statistic used to assess whether the parameter estimates were significantly different from zero. All structural path estimates are statistically significant (C.R. > 1.96).

Hypothesis 1 to 3 proposed that organizational resources were first-order indicators of PA. These hypotheses were supported, with HC (H1: $b = 0.42$; $P < 0.01$), MO (H2: $b = 0.53$; $P < 0.001$), and EO (H3: $b = 0.52$; $P < 0.001$) significantly associated with PA. In other words HC, MO, and EO are first-order indicators of the higher-order construct, PA. In addition, PA has a direct positive effect on firm performance (H4: $b = 0.59$; $P < 0.001$), explaining 35% of the variance in performance (see Table 3). The size of the path coefficients provide preliminary evidence on the relative importance of the factors considered in this research. For small independent restaurants, MO and EO appear to be equally important indicators of PA, while HC appears to be somewhat less important. Yet, each of these capabilities contributes towards developing positional advantage.

4.4. Examination of alternate models

The proposed model (Fig. 1) examines the association between EO, MO, HC and performance via the intervening latent construct for PA. Although the proposed model fit well, we tested a series of alternate models to provide further support for the conceptual model. The rival models tested all pairs of resources as indicators of PA and their subsequent effect on performance. In addition, we also examined the direct effect of all three resources on performance in the

Table 3
Path Results of the Structural Model (Hypotheses Results).

Hypotheses/paths	Standardized Path Coefficients	S.E.	C.R.	Decision	Support
RH1: HC – PA	0.43	0.317	2.68**	Significant	Yes
RH2: MO – PA	0.53	0.351	3.02***	Significant	Yes
RH3: EO – PA	0.52	0.311	3.02***	Significant	Yes
RH4: PA – Perf.	0.59	0.250	3.35***	Significant	Yes
<i>Control Variables</i>					
Number of Ees. – Perf.	0.13 (ns)				
Firm Age – Perf	0.04 (ns)				
SMC: Performance	0.35				
Model Fit: $\chi^2(3) = 3.49$, CMIN/df = 1.16; $p > 0.32$; GFI = 0.99; NFI = 0.97; TLI = 0.98; CFI = 0.99; RMSEA = 0.03; PCLOSE = 0.46					

Note: Significant results are highlighted (** $P < 0.001$; * $P < 0.01$).

C.R. – Critical Ratio.

SMC – Squared Multiple Correlation.

ns – not significant.

Table 4
Comparison of alternate models.

	Model 1	Model 2	Model 3	Model 4	Model 5
	MO, EO, HC and PA	HC, MO and PA	EO, HC and PA	EO, MO and PA	MO, EO, HC and Perf.
HC – PA	0.43**	0.40*	0.60*		
MO – PA	0.53***	0.65*		0.49*	
EO – PA	0.52***		0.49***	0.50**	
PA – Perf.	0.59***	0.52*	0.47**	0.68*	
HC – Perf.					0.22*
MO – Perf.					0.18*
EO – Perf.					0.33***
<i>Cross-Product terms</i>					
EO * MO					0.02 (ns)
EO * HC					0.11 (ns)
MO * HC					–0.12 (ns)
<i>Control Variables</i>					
# of Ees – Perf.	0.13	0.12	0.11	0.11	0.13
Firm Age – Perf	0.04	0.09	0.08	0.09	0.05
SMC: Performance	0.35	0.27	0.22	0.47	0.17
Cmin/df	1.166	2.162	1.143	0.856	6.205
RMR	0.036	0.025	0.062	0.015	0.139
GFI	0.99	0.99	0.99	0.99	0.93
CFI	0.99	0.99	0.99	1.00	0.85
RMSEA	0.035	0.093	0.033	0.00	0.198

Note: Significant results are highlighted (** $P < 0.001$; * $P < 0.01$; $^{\circ} P < 0.05$).

SMC – Squared Multiple Correlation; ns – not significant.

absence of PA. As seen in Table 4, all models except the direct effects model (excluding PA) exhibit acceptable fit characteristics, suggesting that the different conceptual models fit the data reasonably well. Specifically, the alternate model including the pair of organizational orientations EO and MO exhibited a better fit than the proposed model. The direct effects model, with the latent construct representing PA excluded and EO, MO and HC connected directly to performance, exhibited poor fit. In general, these results suggest that a combination of resources gives rise to the creation of positional advantage in a firm, and that PA in turn has a positive impact on firm performance. We also tested models connecting each individual resource to PA and subsequent performance (not shown). However, each of these models exhibited inferior fit. In addition, we also found that the cross-product terms (EO*MO, EO*HC, MO*HC) were insignificant and did not add to the main-effects (Table 4 – Model 5).

5. Discussion and managerial implications

The purpose of this study was to examine the effect of a bundle of firm resources and capabilities on positional advantage and subsequent performance. Adopting arguments based on the RBV we hypothesized that EO, MO and HC should be collectively exploited by independent restaurateurs to obtain positional advantage in the marketplace, and that PA should in turn promote superior per-

formance. In this process, we set out to examine the conceptual gap in the literature pertaining to ‘how’ a bundle of organizational resources and capabilities that had not been previously examined in the literature would affect firm performance among a sample of independent restaurants. This research also addresses the call to examine diverse firm types with differing resource endowments to test RBV’s assertion that unique resources influence organizational outcomes. The results of our study confirm our propositions and hence should provide both theoretical and practical inferences. From a theoretical perspective, our findings confirm and extend the RBV’s assertion that resources include intangible assets used by firms to influence organizational outcomes (Barney, 1991; Unger et al., 2011). According to the RBV, competitive advantage results from an organization’s ability to effectively leverage available resources. Our study builds on this perspective and finds that a combination of intangible resources can be harnessed to develop competitive advantage in the context of small independent restaurant operations. Our findings also support prior research suggesting that, intangible resources are likely to generate positional advantage in the context of small restaurant operations (Greene and Brown, 1997; Peteraf and Barney, 2003; Hitt et al., 2001). Specifically, our results demonstrate that HC, MO, and EO serve as intangible resources that can augment the competitive position of independent restaurants, and thereby improve performance.

From a practical viewpoint, our research informs industry practitioners regarding the importance of adopting multiple capabilities or resources in an effort to influence organizational performance. Restaurant owners and managers can obtain positional advantage in their marketplaces by simultaneously demonstrating some level of proficiency in a combination of organizational capabilities including EO, MO and HC. Focusing narrowly on a single orientation or resource, or a subset of capabilities, may only serve to provide a limited assessment of factors affecting PA (Lonial and Carter, 2015), thus resulting in inferior performance. Moreover, our results support the contention that the nexus between organizational resources and performance is more complex than might be indicated by a direct, linear linkage (Lonial and Carter, 2015; Hult and Ketchem, 2001). Instead, it appears that a combination of resources function through an intervening latent construct representing positional advantage. As such, restaurateurs should develop the ability to effectively leverage, exploit, and deploy a bundle of capabilities and resources in order to achieve positional advantage, thereby obtaining a more wide-ranging appreciation of their operating environment. This type of broad perspective should heighten the operation's ability to raise entry barriers and hinder competitor efforts at imitation, thus helping develop sustainable competitive advantage.

Our findings should also provide restaurateurs with guidance based on the relative value of the capabilities considered in this study. In line with previous research (e.g. Lonial and Carter, 2015; Hult and Ketchem, 2001), we found that MO had the greatest explanatory power, closely followed by EO and then HC. Clearly, MO is an important resource for restaurateurs aiming to determine the needs and desires of their customers and to satisfy those needs more effectively and efficiently than their competitors (e.g. Slater and Narver, 1998). At the same time, restaurateurs should also endeavor to adopt an entrepreneurial strategic posture; one that enables firms to be proactive in delivering new product/service combinations by taking calculated business risks as they innovate and exploit opportunities to rejuvenate the firm and preempt the competition. Finally, though HC was found to be less important than the other capabilities, it is still important to developing PA. Prior research in the hospitality context (e.g. Hallak et al., 2011; Lee et al., 2016) has noted that HC has no significant effect on performance. However, contrary to these findings, HC represented by highest educational level attained was found to have a significant impact upon PA and subsequent performance. These results are in support of prior research suggesting that educational attainment is important for firm performance (e.g. Ganotakis, 2012), and especially restaurant performance (e.g. Parsa et al., 2005).

6. Conclusion, study limitations, and future research

As with all studies there are limitations to this study as well. The focus of this research effort was on small restaurant businesses operating in a highly fragmented and mature industry. Future research could extend the results of this study and enhance its generalizability by undertaking a comparative study of small and large restaurant businesses. Moreover, our study was restricted to the examination of three resource constructs (EO, MO, and HC). Future studies can expand upon this study by exploring a more inclusive model with both tangible and intangible resource variables, and also examine the relative value of these. This study also adopted a subjective measure of performance. Although prior research has established that subjective measures of performance correspond closely to objective measures, future studies might attempt to obtain objective measures in addition to subjective measures to increase the robustness of their findings. We were also limited in our measurement of HC because one proxy mea-

sure (years of experience) was eliminated during the process of establishing the measurement model. Though prior studies have relied on single-item measures (e.g. Kemmerer et al., 2012) to operationalize their variables, future studies will benefit from more comprehensive measures that capture the multiple components of HC (Nyberg et al., 2014). Our research also relies on answers from a single respondent at each firm. Future studies could increase the robustness of their findings by including responses from multiple individuals at each firm.

Despite these limitations, this study makes an important contribution to the hospitality business literature by highlighting the complex relationship between firm resources and performance. The results emphasize the need for small restaurant businesses to build upon and effectively exploit their organizational resources as they endeavor to develop positional advantage. Small restaurant businesses are more prevalent than their larger counterparts. For the most part, these are small mom and pop restaurants that operate in a mature and fragmented business environment that is highly competitive. These businesses are traditionally resource-poor and face unique challenges in erecting strategic barriers to entry. The results of our study suggest that many of these challenges may be overcome by building on and developing intangible resources available to the restaurateur.

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