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Human Capital, Organizational Orientations and Performance: Evidence From the Restaurant Industry

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ABSTRACT

The study examines how human capital combines with and influences organizational orientations to determine performance. Specifically, this study investigates small restaurant businesses' ability to effectively exploit intangible resources and capabilities, rather than tangible resources, in order to produce sustainable competitive advantage. A structured questionnaire was used to survey owners/managers of small independent restaurants in the United States. The results demonstrate that human capital, market orientation and entrepreneurial orientation serve as intangible resources and capabilities that can augment the competitive position of independent restaurants, and thereby improve performance. Human capital also combines with and influences the adoption of market orientation and subsequent performance.

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KEYWORDS

entrepreneurial orientation; human capital; market orientation; performance; restaurants

Introduction

Organizational theorists have argued that physical, human, and organizational resources facilitate the achievement of sustainable competitive advantage and help improve performance (Barney, 1991; Hult & Ketchen, 2001; Lonial & Carter, 2015). In this light, the resource-based view (RBV) provides the theoretical framework (Barney, 1991; Wernerfelt, 1984) to examine the impact of intangible firm-level resources, represented by the restaurateur's human capital (HC), and firm-level capabilities, represented by its organizational orientations (e.g., entrepreneurial orientation [EO] and market orientation [MO]) on firm performance. According to the RBV, HC is viewed as a firm-level resource that can be leveraged to achieve sustainable competitive advantage (Barney, 1991; Nyberg, Moliterno, Hale, & Lepak, 2014). HC results from education, experience, and practical jobrelated learning (Lee, Hallak, & Sardeshmukh, 2016; Unger, Rauch, Frese, & Rosenbusch, 2011) and includes the "training, experiences, judgment, intelligence, relationships and insight" (Barney, 1991, p. 101) of the restaurateur.

Following the pioneering work of Kohli and Jaworski (1990) and Narver and Slater (1990), a rich body of empirical research has found general support for a

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positive association between MO and business performance (e.g., Campo, Díaz, & Yagüe, 2014; Lee, Kim, Seo, & Hight, 2015). However, and despite theoretical generalizations, empirical examination of how internal organizational variables (e.g., HC) influence MO and subsequent performance is scarce (Kirca, Jayachandran, & Bearden, 2005). Gebhardt, Carpenter, and Sherry (2006) argued that the lack of research on the effect of internal variables limits both our understanding of MO and how it should be implemented. Furthermore, there is little or no evidence of research that has modeled HC as an antecedent to MO and its consequent effect on organizational performance, especially within the context of small hospitality businesses.

Parallel developments in the domain of entrepreneurship have witnessed considerable theoretical and empirical efforts being focused on the central concept of EO (Covin & Wales, 2012; Rauch, Wiklund, Lumpkin, & Frese, 2009; Wales, Gupta, & Mousa, 2013). This has led to broad acceptance of the conceptual meaning and relevance of the concept, the development and widespread use of measurement scales, and the assessment of its relationship with other variables, including business performance (Rauch et al., 2009). Substantial prior research suggests not only that EO has differing effects on performance based on industry context but also that EO manifests itself differently in differing settings (for reviews see Rauch et al., 2009; Wales et al., 2013). On this basis, scholars have called for additional research on the organizational processes and specific industry conditions under which EO improves firm performance (Miller, 2011; Rauch et al., 2009; Wales, 2016; Wales et al., 2013) as well as research on internal organizational variables that influence EO (e.g., Altinay & Wang, 2011; Lumpkin & Dess, 1996)

The primary purpose of this research is to address these gaps in the literature by examining the RBV's perspective that firm resources combine with and influence the adoption of organizational orientations to enhance firm performance (Barney, 1991; Edelman, Brush, & Manolova, 2005). In particular, this research addresses the following questions: Does HC influence the adoption of organizational processes such as MO and EO in small independent restaurants? In small independent restaurants, does HC directly influence firm performance, or do MO and/or EO influence the link between HC and firm performance? And if so, what is the intervening mechanism by which they affect this link? Evidence that particular 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) in an effort to obtain superior performance. This study contributes to the hospitality literature by investigating small restaurant businesses' ability to effectively exploit intangible resources and capabilities, rather than tangible resources, in order to produce sustainable competitive advantage (Kraaijenbrink, 2011; Morgan, Rapp, Glenn Richey, & Ellinger, 2014; Unger et al., 2011). In the context of small restaurant businesses, resource endowments arising from HC (e.g., Unger et al., 2011) together with the manager's strategic capability to shape and mold organizational orientations such as MO and EO will likely determine their ability to generate sustainable competitive advantage and enhance firm performance (Kraaijenbrink, 2011; Morgan et al., 2014).

This research is important to the hospitality sector comprised of small restaurant operations because they face distinct challenges associated with competing in crowded and often undifferentiated markets (Morgan et al., 2014). Moreover, research suggests that the hospitality industry is exposed to higher levels of risk and higher competitive rivalry than other industries in the United States (Singal, 2015). The restaurant industry is also characterized by high levels of localized competition that are 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 7 in 10 restaurants are single-unit operations, and more than 9 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).

Theoretical Framework and Hypotheses

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, Ellinger, Kim, & Franke, 2016). According to the RBV, competitive advantage is secured through resources that are valuable, rare, unique, and difficult to imitate (Barney, 1991). Variability in resource endowments across firms suggests that some firms are better equipped to accomplish particular activities based on their possession of unique resources (Kozlenkova, Samaha, & Palmatier, 2014). At the same time, 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). Given the restricted access to tangible resources available to small independent restaurant operations, intangible resources and capabilities (e.g., HC, MO, EO) may be more important than other types of resources (Greene & Brown, 1997). Intangible resources are also more likely to produce competitive advantage because in addition to being rare, they are also embedded in organizational routines, and are thus more difficult to imitate (Peteraf and Barney, 2003; Hitt, Biermant, Shimizu, & Kochhar, 2001).

Market Orientation

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, Chen, & Chen, 2012). The dominant view is that MO is positively related to performance (Jaworski & Kohli, 1993; Slater & Narver, 1994). Though the greater emphasis on MO 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 are mixed. While some studies have found general support for a positive association between MO and business performance as it applies to a range of hospitality businesses (e.g., Campo et al., 2014; Lee et al., 2015; Peña, Jamilena, & Molina, 2012; Wang et al., 2012), others have found no evidence that MO is directly related to firm performance (e.g., Au & Tse, 1995; Sargeant & Mohamad, 1999). Moreover, 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 = .37 in manufacturing firms to a low correlation of r = .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, Zeithaml, & Berry, 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, Fornell, & Rust, 1997). Furthermore, many small restaurant operators, may also be constrained by their meager access to resources (e.g., time, labor, expertise, finance) (Didonet, Simmons, Díaz-Villavicencio, & Palmer, 2012) and therefore limited in their ability to practice a MO (Harris, 2000). Harris and Watkins (1998) argued that factors such as an unclear view of the customer, satisfaction with the status quo, ignorance of MO, 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. Although there is much evidence that supports the link between MO and performance, there appears to be little or no evidence of research that has examined the antecedent effect of HC on MO.

Entrepreneurial Orientation

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, p. 875). EO was conceptualized as a unidimensional 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 & Slevin, 1989). Taken together, the combination of these capabilities gives them a competitive advantage that translates into superior financial performance (Covin & Miles, 1999; Wales et al., 2013; Wiklund, 1999).

A substantial number of studies have examined the link between EO and business performance (for reviews see, Rauch et al., 2009; Wales et al., 2013). 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., Lumpkin & Dess, 2001; Wiklund & Shepherd, 2003, 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-scholars have called for further research to examine the specific circumstances under which EO is especially beneficial to performance (Miller, 2011; Rauch et al., 2009; Wales, 2016; Wales et al., 2013).

Human Capital

Small ventures such as independent restaurant operations are formed around the persona of the individual owner/operator (Cooper, Gimeno-Gascon, & Woo, 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 & Mason, 1984). In small restaurant operations, the potential to generate sustainable competitive advantage is contingent upon the HC of the restaurateur. In other words, the restaurateur is considered to be the primary resource, thus manifesting the HC of the enterprise (cf. Barney, 1991).

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Therefore, the restaurateur's task-related knowledge, experience, and qualifications represent a unique organizational resource that is an essential element for gaining competitive advantage (e.g., Davidsson & Honig, 2003; Hitt et al., 2001). According to HC theory, the skill set, experience and know-how of the entrepreneur is likely to be a prime source of critical resources that influence organizational outcomes (Pennings et al., 1998). In accordance with theory, differences in firm performance can be attributed to variances in HC (Hitt et al., 2001). Prior research suggests that HC attributes influence firm performance (e.g., Finkelstein & Hambrick, 1996; Ganotakis, 2012; Hitt et al., 2001).

Unger et al. (2011, p. 341) argued the "human capital is most important for success if it consists of current task-related knowledge and skills." For instance, task-related HC that includes industry specific knowledge and prior experience pertaining to customers, suppliers, and competitive pressures should help minimize threats and exploit opportunities (Gimeno, Folta, Cooper, & Woo, 1997; Lee et al., 2016; Unger et al., 2011), thereby gaining competitive advantage. Moreover, successful restaurant entrepreneurs may also be endowed with job-related social, problem-solving and technical skills that may vary based on experience and practice (Marvel, Davis, & Sproul, 2014), allowing them to more effectively navigate the marketplace. For instance, restaurants offering services with high experience or credence qualities may benefit from strong relational resources (customer closeness) that helps alleviate customer unease caused by insecurities over selecting a particular product/service offering (Palmatier, Dant, Grewal, & Evans, 2006). These task-specific skills could also be developed based on investments in training and education (Marvel et al., 2014). 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 (represented by business ownership experience and entrepreneurship and/or industry education) was not related to restaurant performance. Likewise, Hallak, Lindsay, and Brown (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. Previous research in the hospitality context suggests that HC is one of the most important resources available to industry practitioners (e.g., Kim, Kim, Park, Lee, & Jee, 2012; Kumar, Kumar, & De Grosbois, 2008; Lee et al., 2016; Nieves & Quintana, 2016; Sainaghi, Phillips, & Corti, 2013). On the basis of the literature reviewed, the following hypothesis is examined:

- *H1a-b:* Higher levels of task-related (a) education and (b) experience are associated with higher levels of market performance.
- H2a-b: Higher levels of task-related (a) education and (b) experience are associated with higher levels of financial performance.

In small restaurants, resources that are critical to firm success and sustainability are contingent upon and likely to be accessed via the restaurateur (e.g., Pennings, Lee, & Van Witteloostuijn, 1998). Small restaurants are also likely to dominated by a founder-centric culture with capabilities developed around factors such as customer closeness, innovativeness, and delivering superior customer value (Hills & Hultman, 2011; Roach, Ryman, & White, 2014). As such, the restaurateur's prior knowledge and experience are viewed as a vital resource in pursuing value-adding activities and generating competitive advantage. There is compelling evidence that HC or prior knowledge is vital to discovering, creating, and exploiting entrepreneurial opportunities (Ardichvili, Cardozo, & Ray, 2003; Dimov, 2010). In small firms, HC, particularly the experience and education of the restaurateur is expected to directly affect the firm's product/market strategies (Cooper et al., 1994; Miller & Friesen, 1983). For instance, the human element plays an important role in organizational decision-making pertaining to strategic choice (Finkelstein & Hambrick, 1996) and marketing focus.

The strategy literature has viewed HC as a resource that affects the firm's ability to obtain competitive advantage (Hitt et al., 2001; Javalgi & Todd, 2011; Nyberg et al., 2014) and a number of HC attributes have been linked to entrepreneurial success (Unger et al., 2011). Davidsson and Honig (2003) found that HC is positively associated with entrepreneurial discovery and the successful exploitation of opportunities. Restaurateurs with higher quality HC should be able formulate better strategies and more effectively implement them. They should also be better positioned to recognize available opportunities that can then be exploited to achieve superior performance (Davidsson & Honig, 2003). Therefore, prior experience and education in the hospitality field is expected to be advantageous to market-oriented decision-making that is driven by customer and competitor intelligence (Lee et al., 2016; Ngo & O'Cass, 2012). HC (represented by knowledge of customers, suppliers, and products) while linked to performance (Gimeno et al., 1997), is also likely to facilitate the gathering and dissemination of market intelligence and responsiveness to it. For instance, a deeper awareness of industry specific challenges, customer service requirements, and service recovery strategies, as well as the ability to effectively address and resolve service-related issues should lead to the identification and exploitation of opportunities in the restaurant context. Previous education and experience also improves and entrepreneur's understanding of threats and weaknesses and possible product-market strategies, thus allowing them to successfully navigate the marketplace (Finkelstein & Hambrick, 1996). These arguments suggest that HC should influence the adoption and implementation of organizational orientations such as MO and EO:

- H3a-b: Higher levels of task-related (a) education and (b) experience are associated with higher levels of MO.
- *H4a-b:* Higher levels of task-related (a) education and (b) experience are associated with higher levels of EO.

Research Model

Based on the literature reviewed in the previous sections, we present a research model for this study, according to which, a firm's resources (HC) combine with its organizational orientations (MO and EO) to help determine firm performance (see figure 1).



Figure 1. Hypothesized model.

Research Methodology

Measurement of Variables

Human Capital

The majority of prior studies have adopted education and 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, HC 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 attained was measured using a 6-point ordinal scale ranging from *primary degree* to *postgraduate degree*. These indictors have been used as proxies for HC in prior studies (e.g., Javalgi & Todd, 2011; Lee et al., 2016).

Entrepreneurial Orientation

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 & Todd, 2011). Previous research has provided evidence of reliability as well as convergent validity (e.g., Richard, Barnett, Dwyer, & Chadwick, 2004).

Market Orientation

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, Jaworski, and Kumar (1993), Narver and Slater (1990), and Deshpande, Farley, and Webster (1993) scales. The items were measured on 7-point scales anchored by *strongly disagree* (1) and *strongly agree* (7).

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, Olsen, and Tse, 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., Jaworski & Kohli, 1993; Slater & Narver, 1994). 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 four items measuring financial performance were ROI, profit, profit growth, and ROS. The three items measuring marketing performance were market share growth, sales volume growth, and sales (in dollars) growth. This type of measure has been used in prior research on both EO and MO.

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.

Sample and Data Collection

A commercial database of independent restaurant operators within the United States represented the population from which initial contact information was obtained. Considering the low cost and time efficiency of the online survey method, the questionnaires were uploaded online through a commercial online survey service. An e-mail containing an invitation to respond was sent to each identified contact and followed up with a reminder e-mail a week later. A structured questionnaire comprised of scales adopted from prior research, or slightly modified and adapted versions of them are employed in this research. The instrument was pretested with a group of 8 independent restaurateurs and refined with respect to clarity and formatting. The survey link was e-mailed to 1000 restaurant managers and 171 usable responses were obtained for an effective response rate of 17%. Adopting the ratio of indicators to latent variables criterion (Marsh & Bailey, 1991; Westland, 2010), this sample is considered adequate for SEM based analysis.

Approximately 65% of respondents were owners and the remainder were managers. On average, the respondents had 9.56 years of experience in their current jobs and had accumulated over 20.2 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.

Common Methods and Nonresponse 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 nonrespondents have been found to resemble late respondents the insignificant difference between early and late respondents suggests that nonresponse bias does not pose a serious concern (e.g., Armstrong & Overton, 1977). Following Podsakoff and Organ

(1986) 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 unrotated 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 revealed that data do not violate normality or multicollinearity assumptions.

Results

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), p. 1; a) χ^2 statistic: nonsignificant *p*-values are desirable; (b) GFI (goodness-of-fit index): values greater than 0.90 are satisfactory; (c) AGFI (adjusted goodness-of-fit index): values greater than 0.90 are satisfactory; and (e) RMSEA (root mean square error of approximation): values less than 0.05 are favorable (Anderson & Gerbing, 1988; Hair, Anderson, Tatham, & Black, 1998).

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). 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 (.71–.96, p < .001) and the fit statistics for the final measurement model were considered acceptable (Hu & Bentler, 1999) with $\chi^2/df = 1.55$; 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's alpha coefficients exceeded the 0.70 threshold suggested by Nunnally (1978) and composite reliabilities ranged from 0.72–0.94, thus satisfying the acceptance level (Bagozzi & 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

	Standardized factor
Item	loading
Entrepreneurial orientation ^a	
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	0.71***
competition	
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 [item deleted]	n.a.
Market orientation ^b	
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	0.77***
customer needs	
We believe this business exists primarily to serve customers	0.72***
We freely communicate information about successful and unsuccessful	0.73***
experiences	
We continually monitor our customers and competitors to find new ways to	0.69***
improve	
Data on customer satisfaction are disseminated at all levels of the on a	0.71***
regular basis	
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	0.71***
services	
We measure customer satisfaction systematically and frequently	0.72***
Human capital	
Educational level	1.0
Number of year experience in this industry	1.0
Financial performance ^c	
Profit growth percent	0.92***
Average profit	0.96***
Average return on investment	0.81***
Market performance ^a	
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***

Table 1. Items,	Fit Indices,	Composite	Reliability,	Average	Variance	Extracted,	and	Standardized
Loadings.								

Note. CR = composite reliability; AVE = average variance extracted. Fit statistics: $\chi^2/df = 1.55$; GFI = 0.90; NFI = 0.91; TLI = .93; CFI = 0.95; RMSEA = 0.06.

^aCronbach's alpha = 0.73, CR = 0.72/AVE = 0.58. ^bCronbach's alpha = 0.92, CR = 0.92/AVE = 0.54. ^cCronbach's alpha = 0.92, CR = 0.92/AVE = 0.80. ^dCronbach's alpha = 0.91, CR = 0.91/AVE = 0.73. ***p < .001 (two-sided).

correlation with the other constructs. The standardized factor loadings for each item were also examined. All items loaded significantly (p < .001) on their corresponding factor with factor loadings ranging from 0.71–0.96. 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, the square root of the AVE for each construct was larger than the inter-construct correlations thus confirming discriminant validity among constructs (Fornell & Larcker, 1981; Hair et al., 1998) (see Table 2). In sum, these tests support the use of our scales.

Test of the Proposed Structural Model

The hypothesized model (Figure 1) was then tested to assess the direction of relationships among the constructs. In order to minimize the ratio of parameters to observations in model testing, aggregated scales were developed for each construct (Bagozzi & Heatherton, 1994). This approach has been adopted in prior research (e.g., Lonial & Carter, 2015). Firm size (number of seats and number of employees) and firm age were modeled as control variables in all the analyses. Analysis of the model indicated an adequate fit to the data based on the following fit indices: $\chi^2(9) = 16.70$, p > .054; GFI = 0.965; NFI = 0.986; CFI = 0.994; RMSEA = 0.08; PCLOSE = 0.181. The RMSEA value is below the cutoff for close fit and the NFI and CFI values satisfy the requirements for good fit (Hu & Bentler, 1999). Hypotheses were then tested by examining the path coefficients between the exogenous and endogenous constructs. The critical ratio was the test statistic used to assess whether the parameter estimates were significantly different from zero. As seen in Table 3, three of four structural path estimates were statistically significant (CR > 1.96).

Hypotheses 1a and 1b proposed that level of education and level of industry experience were positively associated with market performance. These hypotheses were supported, with level of education (b = .24; p < .01) and level of experience (b = 0.16; p < .05), significantly related to market performance. Hypotheses 2a and 2b proposed that level of education and level of industry experience were positively associated with financial performance. However, level of education (b = .13; p = .14) and years of experience

	МО	EO	Education	Experience	Market performance	Financial performance
МО	.733					
EO	.249**	.762				
Education	.170*	.062	—			
Experience	.264**	134	174*	—		
Market performance	.285**	.319**	.112	.216*	.854	
Financial	.298**	.258**	.008	.125	.711**	.894
performance						
М	5.53	4.21	4.99	20.23	4.68	4.56
SD	1.12	1.07	1.19	9.86	1.07	1.12

Table 2. Correlations and Descriptive Statistics (N = 171)

Note. Square root of AVE in bold on diagonals.

**p < .01. *p < .05.

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	Standardized path			
Hypotheses/Paths	coefficients	C.R.	Decision	Support
Hypotheses				
H1a: Education → Market Performance	.24	2.86**	Significant	Yes
H1b: Experience → Market Performance	.16	1.98*	Significant	Yes
H2a: Education → Financial	.13	1.49	Insignificant	No
Performance				
H2b: Experience → Financial	.03	0.35	Insignificant	No
Performance				
H3a: Education \rightarrow MO	.23	2.76**	Significant	Yes
H3b: Experience \rightarrow MO	.19	2.34*	Significant	Yes
H4a: Education \rightarrow EO	.00	.004	Insignificant	No
H4b: Experience \rightarrow EO	.06	.716	Insignificant	No
Paths				
$MO \rightarrow Market Performance$.22	2.65**		
$MO \rightarrow$ Financial Performance	.25	2.98**		
EO → Market Performance	.28	2.43*		
EO → Financial Performance	.20	3.32**		
Squared multiple correlations				
Financial performance	.13			
Market performance	.19			
MO	.09			

Table 3. Path Results of the Structural Model (Hypotheses Results 1-4).

Note. C.R. = critical ratio; EO = entrepreneurial orientation; MO = market orientation. Significant results are highlighted in bold. Model fit: $\chi^2(9) = 16.70$, p > .054; GFI = 0.965; NFI = 0.986; CFI = 0.994; RMSEA = 0.08; PCLOSE = 0.181. *p < .05. **p < .01.

(b = 0.03; p = .72), did not significantly influence financial performance. Thus the influence of HC appears to differ based on the type of performance measure adopted. The size of the path coefficients provide preliminary evidence on the relative importance of components that contribute to HC. For small independent restaurants, education appears to be more important than experience at least with respect market performance, while neither was associated with financial performance.

Hypotheses 3a and 3b proposed that HC was positively associated with MO. This hypothesis was supported, with higher levels of education (H3a: b = .23; p = .01) and higher levels of industry experience (H3b: b = 0.19; p < .05), significantly related to MO.

Hypotheses 4a and 4b proposed that HC was positively associated with EO. This hypothesis was not supported, with higher levels of education (H4a: b = .003; p = .97) and higher levels of industry experience (H4b: b = 0.06; p = .47), not significantly related to EO.

Post Hoc Mediation Analysis

Though there appears to be general agreement that HC is related to success, there are potential intervening variables that may influence this relationship (e.g., Hult & Ketchen, 2001; Lonial & Carter, 2015; Newbert,

Table 4. Mediation Testing Summary.

	Direct beta	Direct beta	Indirect beta		
Path	(no mediator)	(with mediator)	(with mediator)	Mediation	Support
Education \rightarrow MO \rightarrow	.24**	.19**	.05**	Partial	Yes
Market performance					
Experience \rightarrow MO \rightarrow	.16*	.13*	.03*	Partial	Yes
Market performance					

Note. MO = market orientation Significant results are highlighted in bold. Model fit: $\chi^2(4) = 5.69$, CMIN/ df = 1.42, p > .22; GFI = 0.95; NFI = 0.99; TLI = 0.99; CFI = 0.99; RMSEA = 0.05; PCLOSE = 0.37. *p < .05. **p < .01.

2008). As such, there is the need to clarify how HC affects performance. In this study we examined the underlying process (MO, EO) by which HC influences performance. As the direct effects model (Table 3) indicated that HC was not significantly related to EO, the indirect effects of HC on performance via EO were not assessed (Baron & Kenny, 1986). Likewise, as MO was not significantly related to financial performance, the mediating paths linking HC, MO and financial performance were also not examined. We did however, examine the mediation effect of MO on the HC-performance link by testing an alternate model with all the model paths and the mediating effect of MO included (Baron & Kenny, 1986). The mediation hypotheses were tested by first running a model with direct effects only (i.e., without the mediation paths). Then the analysis was performed again using the AMOS bootstrapping function to examine direct and indirect effects with mediation. The revised model appears to fit the data well, $\chi^2(4) = 5.69$, p > .2; GFI = 0.95; NFI = 0.99; TLI = 0.99; CFI = 0.99; RMSEA = 0.006; PCLOSE = 0.37. These fit statistics are within the acceptable range suggested by Hu and Bentler (1999).

The model displayed a strong positive relationship between level of education and market performance both with the mediator (b = 0.19; p < .01) and without the mediator (b = 0.24; p < .01). There was also a strong positive relationship between level of industry experience and market performance both with the mediator (b = 0.13; p < .05) and without the mediator (b = 0.16; p < .05). Mediation tests revealed that MO partially mediated the effect of education on market performance (b = 0.05; p < .01) and the effect of industry experience on market performance (b = 0.03; p < .05). Thus mediation was confirmed with the effect of HC on market performance being partially mediated by MO (See Table 4).

Discussion and Managerial Implications

The purpose of this study was to examine how HC combines with and influences organizational orientations such as MO and EO to determine performance. Adopting arguments based on the RBV we hypothesized that

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EO, MO and HC should be collectively exploited by independent restaurateurs to promote superior performance. In this process, we set out to examine the conceptual gap in the literature pertaining to how a bundle of organizational resources and capabilities would affect firm performance. 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 the majority of 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 both tangible and 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 and improve performance in the context of small independent restaurant operations. Our findings also support prior research suggesting that intangible resources, such as those studied here, are likely to generate competitive advantage in the context of small restaurant operations (Greene & Brown, 1997; Hitt et al., 2001; Peteraf & Barney, 2003). Specifically, our results demonstrate that HC, MO, and EO serve as intangible resources and capabilities that can augment the competitive position of independent restaurants, and thereby improve performance.

This study makes a further theoretical contribution by addressing the call (e.g., Unger et al., 2011) for research to examine the effect of intervening variables on the HC-success relationship. Scholars have asserted that the link between organizational resources such as HC and performance may be incomplete, implying that there are potential intervening variables that may influence this relationship (e.g., Hult & Ketchen, 2001; Lonial & Carter, 2015; Newbert, 2008). The results of this study suggest that HC indirectly affects market performance through MO or that HC propagates through MO to indirectly influence firm performance. Specifically, mediation tests revealed that MO partially mediated the effect of education on market performance (b = 0.05; p < .01) and the effect of industry experience on market performance (b = 0.03; p < .05). As such, this research helps clarify how MO influences the link between HC and performance and supports previous arguments in the literature suggesting that the process by which resources such as HC influence performance is more complex than might be revealed by the univariate examination of a direct, linear link between resources and performance (e.g., Hult & Ketchen, 2001; Lonial & Carter, 2015).

From a practical viewpoint, our research informs industry practitioners regarding the importance of adopting multiple resources and capabilities in an effort to influence organizational performance. Our research supports prior findings suggesting that complementary organizational resources and capabilities are required if their value is to be fully realized (e.g., Kajalo & Lindblom, 2015). Restaurant owners and managers can obtain competitive advantage in their marketplaces by simultaneously demonstrating some level of proficiency in a combination of organizational capabilities. Focusing narrowly on a single orientation or resource, or a subset of capabilities, may only serve to provide a limited assessment of factors affecting competitive advantage, 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 (Hult & Ketchen, 2001; Lonial & Carter, 2015). Instead, it appears that HC combines with and influences the adoption of MO and subsequent performance. In other words, a firm's conduct or behavior (e.g., MO) in combination with its resources (e.g., HC) helps determine firm performance (Barney, 1991). Our findings suggest that restaurateurs should develop the ability to exploit a bundle of intangible resources and capabilities in order to differentiate their businesses and minimize the challenges of competing in crowded markets. This type of approach 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 academics and restaurateurs with guidance based on the value of HC attributes and organizational orientations considered in this study. Though educational level attained (b = 0.24; p < .01) was a better predictor of market performance than industry related experience (b = 0.16; p < .05), together these results confirm the importance and value of task-related HC, at least with respect to achieving superior performance assessed in terms of market-based measures. 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 educational level attained and industry experience were found to have a significant impact upon market performance. These results are in support of prior research suggesting that industry experience and educational attainment are important for firm performance (e.g., Ganotakis, 2012; Unger et al., 2011), and especially restaurant performance. The findings also suggest that HC is positively associated with higher levels of MO. Though educational level attained (b = 0.23; p < .01) was a better predictor of MO than industry related experience (b = 0.19; p < .05), together these HC attributes influence the effective development and implementation of MO in small restaurant operations. These results support previous research suggesting that education and experience are advantageous to market oriented decision-making as well as the development of productmarket strategies driven by customer and competitor intelligence (e.g., Lee et al., 2016; Ngo & O'Cass, 2012).

In line with considerable prior research (see Kirca et al., 2005; Rauch et al., 2009), we also found that MO and EO are significant predictors of firm performance. 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.

The findings should also be of benefit to academics and career counselors associated with guiding students and future managers. Industry specific experience and non-task-related education were found to be positively linked to market-based performance as well as the adoption and implementation of MO. Evidence that firm performance as well as conduct (e.g., MO) may be influenced by education and experience should help emphasize the critical importance of these HC attributes to small business success; thereby helping to guide students (future managers and entrepreneurs) and enhance efforts directed towards recruitment and retention.

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. 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 competitive 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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