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Leveraging Resources Availability of Full-service Restaurants a Social Network Perspective

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Abstract: Prior research has not discussed the availability of leveraging resources in full-service sectors, which are facing a lot of challenges, such as a shrinking labor pool, increased competition, rising operating costs and an increasingly demanding customer base. Leveraging resources is a key element for resolving the constraints of full-service restaurants' resources. Applying a social network perspective to this research, we use hierarchical regression of cross-functional data to conduct this research. 70 effective samples obtained by survey and questionnaires which were filled out by entrepreneurs or CEOs of full-service restaurants. Integrating human capital and social network with the literature on availability of leveraging resources, this study builds and tests a theoretical model that connects firm age, human capital and social networks with the availability of leveraging resources in full-service restaurants sectors. The results have revealed that social networks and firm age are key determinants for availability of leveraging resources in full-service restaurants sectors. In details, firm age were negatively related to availability of resources (β = -.25, p $\leq$ .05) and social networks were positively related to availability of resources (β = .46, p = .01).

Key words: Full-service restaurants, leveraging resources availability, entrepreneurship, legitimacy, human capital, social network

INTRODUCTION

Sometimes, what a customer really demands is a satisfying meal at a full-service restaurant. Neither is eating a sandwich at a quick-service restaurant like KFC. Definitely, the thought of taking out meal for dinner is just not attractive. Of course, good food is a very important component of a "satisfying lunch or dinner." But good service and a pleasant environment are also important in a full-service restaurant. In full-service restaurants, food, environment and service are very important to customers and the manager needs to know how satisfied his or her customers. All three components contribute to overall satisfaction with the dining experience. Satisfied customers tend to come back, but the overwhelming majority (more than 90%) of unhappy diners never returns again. Dissatisfied customers come to complain on average to ten other people about poor service quality. Therefore, running a full-service restaurant with customer perspective is very essential for continuous growth.

However, the satisfaction of the segmental customers depends on the resources the full-service restaurant owns or controls. In fact, the restaurant sectors are facing a lot of challenges, such as a shrinking labor pool, increased competition, rising operating costs and an increasingly demanding customer base (Noone and Coulter, 2012). In the United States of America, operating costs are rising while customers with limited income need more of service quality, convenience and speed (NRA, 2009). The full-service restaurants are also facing such pressures as that in China. Besides the serious competition, most of the full-service restaurants are faced with challenge of resource constraints and suffer from liabilities of newness and liabilities of smallness (Morse *et al*., 2007). New restaurants flow cannot be explicable or imitable yet and there is no adequate information for shareholders to know firm value, quality and reliability. On the other side, the lack of required resources for competition results in full-service restaurants that often go with a small scale suffering from high rates of failure. The usual concurrence of these liabilities inhibits restaurant capacities of gaining access to recourses from outside related resource controllers. Many research results indicated that the liabilities of newness and smallness are often closely related with the availability of external resources. The more obvious of the restaurant's liabilities, the less and worse resources they could obtain.

As network economy developed, the availability of leveraging resources has been increasingly received attention of scholars. An institutional economics explanation for exploiting resources leveraging is provided here by taking the example of restaurants

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gaining access to strategic alliances resources (Xu *et al*., 2009). The low transaction cost feature associated with strategic alliances may greatly reduce the negative impacts resulting from bounded rationality and opportunistic behavior of contracting partners in their market transactions, which can determine the transaction cost size. These two behaviors are affected by three factors: First, asset specificity, which may result in participants relying on each other and if one contracting partner behaves opportunistically to breach the contract, it leads to a loss of the other party. With highly specific assets, contracting partners tend to sign long-term contracts and build strategic alliances to make their relations stable. Second, uncertainty, due to bounded rationality may make it difficult to accurately predict customer preferences, changes of market demand, policy and industry technology, with ethical risk and reciprocal self interest seeking behavior resulted from information and strength asymmetries of contracting partners, these uncertainties inevitably increase transaction costs, but strategic alliances can reduce those uncertainty effects by making partners more coordinated, Third, facing high inter-firm transaction frequency, implementation of strategic alliances can reduce contracting time and transaction cost, with crucial point to be the long-term contracts which may offset the negative effects of these three factors above. Applying the leveraging resources theory, we integrate the factors that influence the availability of leveraging resources of full-service restaurants. That can help the restaurants handle the shortage of resources so as to improve the success rate of the restaurant growth.

LITERATURE REVIEW AND HYPOTHESES

The field of entrepreneurship research arrived at a watershed definition when Howard Stevenson described entrepreneurship as "…the process of creating or seizing an opportunity and pursuing it regardless of resources currently controlled" (Timmons 1994). This resulted in a clearer focus on the entrepreneur as a "coordinator", or "inter-market operator", in the sense of mobilizing other peoples' resources to pursue opportunities. Thus, a key element of entrepreneurial behavior is accessing resources controlled by other individuals or organizations in the entrepreneur's network of contacts, or resource leveraging (Hamel and Prahalad, 1993).

Another defining aspect of entrepreneurship is that compared with small business owners, entrepreneurs pay close attention to the firms' growth over time. Jarillo (1989) provided empirical support for both of these perspectives and established that fast-growth firms use more external resources. He pointed out that "…the essence of entrepreneurship is seen precisely in the ability and willingness to use external resources". Thus, entrepreneurial firms focus on firms' growth, but this ambition may be constrained by the resources currently owned by the entrepreneur. To overcome this constraint, it is expected that entrepreneurial firms will employ more external resources. In addition, Wilson and Appiah-Kubi (2002) suggested that except for containing external resources, resources leveraging had broader implication by having the consideration of the leveraging role. Hudson and McArthur (1994) indicated that many entrepreneurs would not be members of networks at or near the startup of their ventures. The implied proposition here is that entrepreneurial firms typically suffer severe resource constraints and the recognition of which would lead entrepreneurs to prefer inter-firm transactions over external resources. Birley (1985) distinguished the new venture between formal and informal networks. Informal networks, which included relations with family, friends and colleagues and can be termed social networks, were found to be more important for the resource accumulation process than formal networks, comprising professional services and government agencies.

Ostgaard and Birley (1994) found that firms employed different networks according to the strategies pursued. Specifically, patented and focused production innovation-based firms had extensive networks centered on customers, market information, distribution channels and product development ideas. Aggressive innovation and marketing-based firms focused on maintaining contacts, especially with investors and suppliers. Finally, product offering-based firms focused mostly on customer relations. These later two networks contained strong vertical relation elements. Ramachandran and Ramnarayan (1993) established that pioneering and innovative entrepreneurs employed networking behavior more than other entrepreneurs and that the "inner circle" of family and friends provided the major share of the external resources.

The study of legitimacy originated from institutionalism. It is socialized judgment on acceptance, adaptation and expectation, which helps the firm to acquire resources necessary for its maintain and development. (Powell and DiMaggio, 1991). Suchman (1995: 574) defines legitimacy as " a generally accepted perception or hypothesis: An entity's action is in accordance with the criterions, values, beliefs and definitions of the social structural system". Legitimacy can also be defined as the frequent accordance of values and regulations with social expectations, of the firms' performance with its outcomes. Scott (2013) suggests that legitimacy is not only kind of resources, but also environment conditions that reflect cultural integration and standard-sustainment and that accord with related regulations and laws. Legitimacy itself is also kind of resource (Zimmerman and Zeitz, 2002), which is of no less importance than a firm's capital, technology, man power, customers, or social networks and so on. For an entrepreneurial firm, during the process of its establishment, survival and growth, legitimacy plays a key role, for it can help the firm to acquire the necessary resources. Some researchers have come to know the importance of legitimacy, which they think is the key to the success of an entrepreneurial firm.

Legitimacy can also help the firm to overcome the liability of newness and the liability of smallness, the two qualities that can lead to a high rate of death of firms (Stinchcombe, 2000). Because of the fierce competition, too often about 40% of entrepreneurial firms die within two years, from short of resources to a great extent. Legitimacy can make the firm more regulated and credible, which helps strengthen the investors' confidence to invest and thus bring many beneficial resources, including capital, technology, talented managers, competitive staffs, customers and network relationships. (Scott.,2013)

However, many researchers usually just pay attention to the big or successful firms in their researches of legitimacy, believing that these firms have legitimacy because of their ability to acquire profit continuously. By contrast, entrepreneurial restaurants do not get the attention they deserve. The study is still at an early stage. Then how to test the influence of legitimacy on the availability of leveraging resources? Drawing from Petklova (2006) study, this paper tests it from two dimensions: Human capital and social networks.

The restaurant's investment on human capital contributes to legitimacy as well, such as by the means of employing senior executives from famous restaurants, or engaging famous specialists as advisors, employing complementary talents or celebrities of a field. Then we can come to hypothesis 1:

- **H1:** Improving restaurant's human capital contributes to the leveraging resources availability of full-service restaurants

  Entrepreneurial firms often construct their social networks according to their strategies, which decide what do they put their emphasis on in the network. And the earlier stage the firm is at, the more is the firm's need for network resources (Ostgaard 1996). They also vary in the options of the types of networks according to their focus. For example, restaurants based on the pursuit of patent and innovation centralize their social networks, both vertical and horizontal, on customers, market information, distribution channels, public praise advertising and the concepts of developing new products and so on. Enterprises pursuing quick innovation pay more attention to the maintenance of contracts, especially to the cooperative networks with investors and suppliers, while enterprises based on providing products attach great importance to maintain a good relationship with customers. From the effectiveness of social networks on the availability of leveraging resources, we get the following hypothesis:

- **H2:** The full-service restaurant's social networks positively influence the availability of leveraging resources

  Sine the restaurants are suffered with the liability of smallness and liability of newness, resources shortage is one of the most serious challenges for the new restaurants. While the restaurants grow stronger and stronger, the dependence on external resources should decrease in long run. Thus we get hypothesis as following:

- **H3:** The firm age of full-service restaurants negatively influence the availability of leveraging resources

VARIABLES DEFINITION AND MEASUREMENT

Dependent variables: The availability of leveraging resources: It shows to what degree the restaurants get leveraging resources. Through deep interviews and first surveys of different types of entrepreneurs, the availability of 7 kinds of leveraging resources are ascertained: the acquisition of customer resources, of distribution channels, of capital support, of policy support, of managerial personnel support, of the guild support, joint research and development and technological cooperation . Likert's Seven-level scale is adopted, in which "1" means "never", "4" , "to some extent" and "7", " greatly".

Independent variables: (1) Human capital: it reflects the restaurant's competitiveness in human capital, especially in excellent managers that influence greatly restaurant's legitimacy. Scale design of improving human capital by Petkova (2006) is adopted to test this variable from five items, such as employing senior executives from famous restaurants, engaging famous specialists as advisors and employing complementary talents in restaurant sectors, (2) Social networks: Constructing social networks is an important way to improve the availability of leveraging resources. Drawing from the study of Petkova (2006), this variable is tested from the four dimensions of investing in social network, constructing customer network, cooperating with famous clients, building strategically alliances with renowned big restaurants.

Controlled variables: The controlled variable chosen on the availability of leveraging resources is firm age.

RESEARCH METHODOLOGY

Hierarchical regression of cross-functional data is conducted in this research to test the theoretical model. Data used in the research were filled out by entrepreneurs or CEOs of full-service restaurants. Based on the research purpose and the character of entrepreneurship, the samples and questionnaires were acquired, from firms in highly active entrepreneurial areas, including provinces and municipalities such as Shandong, Beijing, Shanghai and Zhejiang.

Content validity testing: It refers to the scope or level of the connotation of the questionnaire and survey itself, that is, whether the content of the questionnaire is designed according to the purpose of test, representatively and properly. The content validity of scales refers to whether the evaluated object is wholesome in content and rational in general structure (weight). Content validity depends largely on logic processing rather than statistic analysis. In this sense, theoretical definition becomes significant. When there is not a generally accepted definition, the content also blurs. So content validity depend much on an agreement of a theoretical definition of and research community and on whether the researchers cover the tested content area or direction when choosing index. Most scales adopted in this thesis come from the author's published papers in famous journals, which mean scales reach the acknowledged professionals' standard. To ensure the validity of the original scales in China, several of my colleagues and the author discussed deeply all the items in the questionnaires translated into Chinese and delivered them to the joint entrepreneurs of a full-service restaurant in Jinan and the entrepreneur of a full-service restaurant in Hangzhou, for them to feedback on the clarity of the content and others. It turned out that Chinese managers have enough knowledge to understand the Chinese scales originated from English literature reviews and give definite answers. Understandings of each scale from different dimensions goes with the very first purpose of designing the questionnaires. All shows that content validity of the preliminary questionnaires is good.

Reliability testing: The reliability of a scale refers to the relativity of the renewed item of evaluation with the former one. If there is much difference, it is possible that the designed items do not evaluate the same feature. Then the expected purpose may not be achieved. If many items evaluate the same feature, which is expected to have quite relative results, the evaluation is meaningful and the results are reliable. To analyze the reliability, five friends were asked to finish the questionnaires to test the inner consistency and the reliability of all items in all scales. The result is shown in Table 1.

Generally, if Cronbach's Alpha is above 0.7, the scale is reliable. As is shown in the above table, the Cronbach's Alpha of inner consistency and reliability of all scales is above 0.7, showing all scales in the questionnaire are quite reliable

Questionnaire delivery and collection: After deciding the firms to fill out the questionnaire, interpretations of the survey and the requirement for filling out the questionnaires were attached to the first page of the finalized manuscript of the questionnaires, all of which were then enclosed in the envelopes with the addressors address. All the questionnaires, filled out, would be put back in the original envelopes and collected. The response rate is 40% (120/300). There are 59.3%, that is, 70 valuable samples.

Analytical methods: The present study assumes that all the data in the 70 questionnaires from 70 full-service restaurant samples is tested. The data is cross-sectional, that is, all the data is collected at the same time and the OSL regression of the data is conducted to test the theoretical model.

Considering the influence of interaction, hierarchical regression of the data is conducted in OSL regression of all the controlled variables and the independent variables. The first step is the input of the controlled variables and the second, the independent variables.

DATA ANALYSIS AND DISCUSSION

Descriptive statistics: Table 1 presents the means, standard deviations and zero-order pearson correlations of all key variables. As expected, human capital ($r \leq 0.34$, $p \leq 0.01$) and social networks ($r \leq 0.52$, $p \leq 0.01$) were positive correlated with availability of resources. Consistent with theoretical prediction, firm age was negatively correlated with availability of resources ($r \leq -0.25$, $p \leq 0.01$).

The above results are consistent with the theoretical predictions. However, to establish the relationships among the studied variables, multiple regression analysis is required. In the next section, I will present the results of multiple regression analysis.

Hypotheses testing: As shown in Table 2, firm age were negatively related to availability of resources ($\beta \leq -0.25$, $p \leq 0.05$, Model 1) and social networks were positively related to availability of resources ($\beta \leq 0.46$, $p \leq 0.01$,

Table 1: Means, standard deviations, correlations and reliability test

Variables	1	2	3	4
Firm age				
Human capital	-0.163			
Social networks	-0.043	0.322**		
Availability of resources	-0.248*	0.337**	0.518**	
Mean	8.16	2.86	4.55	4.34
SD	1.99	1.38	1.50	1.11
Cronbach alpha		0.77	0.78	0.75

N = 70, *p = .05, **p = 0.01, (two-tailed)

Table 2: Results of hypotheses testing on the availability of leveraging resources

	M_1	M_2
Control variables		
Firm age	-0.25*	-0.20*
Independent variables		
Human capital		0.16
Social networks		0.46**
R^2	0.06	0.34
ÄR^2	0.05	0.31
F	4.48*	11.40**

N = 70, *p<0.05, **p<0.01

Model 2), supporting Hypotheses 2 and 3. However, Hypothesis 1 did not receive support.

CONCLUSING AND FUTURE RESEARCH

Creative changes in food and dining atmosphere could make full-service restaurant major changes in the process of gaining leveraging resources. Integrating human capital and social network with the literature on availability of leveraging resources, this study builds and tests a theoretical model that connects firm age, human capital and social networks with the availability of leveraging resources in full-service restaurants sectors. It has revealed that social networks and firm age are key determinants for availability of leveraging resources in full-service restaurants sectors. Sine restaurant sectors are labor intensive industry, human capital can not play the key important role for obtaining external resources as that in high technology industries. The likely reason that human capital matter so little is that full-service restaurants are service sectors, which requiring more employees in good teamwork than more individual heroes in managerial practice.

On the other hand, full-service restaurants should pay attention to the rapid growth of fast-food restaurants because the resources are limited in restaurant sectors. The more resources the fast-food restaurants get, the bigger challenge the full-service restaurants will face carefully. In the United States of America, the number of fast-food restaurants doubled over the last decade while the number of full-service restaurants remained relatively constant. Figure 1 shows the related increase in the proportion of fast-food restaurants among total restaurants based on D and B outlet density data from 1997-2006 . Nationally, in 2006, fast-food restaurants made up roughly 30% of all restaurants, up from 17% in 1997, an increase of 71%. This rapid growth in the fast-food restaurants may be associated with increased external resources consumption, including the finical resources, human resources, technology resources and even some political resources. The extent to which recent increases in the availability of fast-food restaurants require more resources, which definitely constrain the availability of leveraging resources for full-service restaurants, remains an important area for future research.

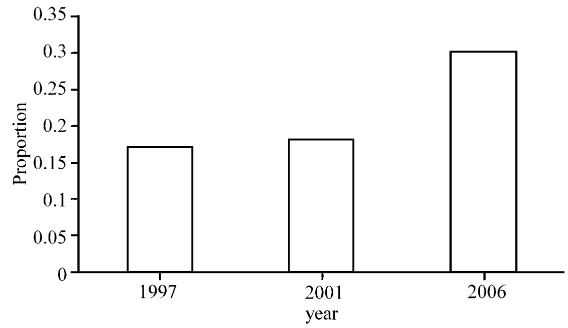

Fig. 1: Proportion of fast-food restaurants out of total restaurants, 1997-2006

Lastly, the availability of leveraging resources of full-service restaurants needs to notice the rapid development of luxury hotel groups (chains). As we all know, most luxury hotels own several full-service restaurants, which could compete the market segments with the independent full-service restaurants.

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