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Firm performance in the upscale restaurant sector: The effects of resilience, creative self-efficacy, innovation and industry experience

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ABSTRACT

This research examines a theoretically derived structural model on resilience, creative self-efficacy, firm innovation, and performance in the context of upscale restaurants – a sector facing market disruptions and adversity. Data was collected through telephone interviews with 187 restaurant operators and analyzed through Partial Least Squares-Structural Equation Modeling (PLS-SEM) and Multigroup Analysis (MGA). Results provide empirical support for the effects of resilience on creative self-efficacy and innovation. Furthermore, the operator's level of industry related experience creates variances in the predictors of upscale restaurant performance. The findings present new insights for the restaurant industry in terms of building entrepreneurial capabilities.

1. Introduction

The restaurant sector is a major contributor to national economies and is often the largest employer in the tourism workforce. In the United States the restaurant sector employs 14.4 million people (about 1 in 10 working Americans) and generates almost $78.3 billion (National Restaurant Association, 2016). Similarly, in Australia the restaurant sector employs the second largest share of the tourism workforce and generates AUD$23.5 billion to the national economy (Restaurant and Catering Australia, 2014; Tourism Research Australia, 2016). In 2014 the Australian Government launched 'Restaurant Australia', a national campaign to brand Australia as the 'world's greatest restaurant' and to promote the unique food and wine experiences in targeting international visitors (Tourism Australia, 2016). Since its launch, food and wine spending in the country has grown 24.6 per cent – a $1 billion increase (Tourism Australia, 2016).

Restaurant consumers expect more than just a meal and evaluate the dish presentation, quality of service, and restaurant atmosphere (Sirieix et al., 2011). Upscale restaurants set the standards for innovation in the industry. They have sophisticated décor and ambience, highly trained staff, and act as "hedonic destinations for food experiences to take place" (Lee et al., 2016b, p.21). The upscale sector has experienced steady growth over the past decade (Jin et al., 2015) with recent data showing the average customer spend on upscale dining in Australia growing from AUD$89.02 per head to AUD$104.47 from 2014 to 2015 (17% increase). In addition, bookings at premium dining establishments in 2015 experienced a 49% increase compared to 2014 (Best, 2015). Similarly, in the United States sales growth for fine dining in the second quarter of 2017 was the best performing segment compared to all other segments (Nation's Restaurant News, 2017).

Despite this growth, upscale restaurants have experienced major adversity as they struggle to adapt to shifts in consumer demand. A 2014 article in The Guardian entitled "Fine dining's identity crisis: Is this the end of posh restaurants?" (Naylor, 2014), illustrates the changing dynamics where "haughty waiters, hushed rooms, and starched table clothes" are becoming a thing of the past. Many of the traditional (once sacred) characteristics of upscale dining are losing popularity as consumers demand (and pay a premium) for high quality and innovative cuisine in a more casual dining environment. Along with the "casualization" of fine dining, the restaurant sector has also witnessed a "premiumization" in midscale and quick service restaurants (Euromonitor, 2012). Upscale restaurant entrepreneurs are forced to operate in a dynamic, constantly changing environment and are faced with much adversity including low barriers to entry, increasing competition, and changes in consumer demands (Lee et al., 2016a). Furthermore, consumer decision making with regard to restaurant choice has become less influenced by Michelin stars and the Good Food Guide (Naylor, 2014) and more by review sites, blogs, and social media (Dimmi, 2016).

In response to disruptions in the restaurant sector, upscale

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restaurants must be innovative, creative, and highly resilient to market dynamics. Resilience is of particular importance as it is key to managing adversity and achieving business success (Ayala and Manzano, 2014; Corner et al., 2017). Resilience is a cognitive resource, defined as "an ability to recover and positively adapt within the context of adversity and then pursue personal growth" (Renko et al., 2016, p.3). It strengthens the elements associated with entrepreneurship including self-confidence, building social networks, and commitment to action (Bernard and Barbosa, 2016).

There is a gap in our understanding of how entrepreneurial resilience drives creativity and innovation and the outcomes of these effects on restaurant performance. Innovation is essential for restaurant success (Bouty and Gomez, 2013; Jin et al., 2015). However, studies on upscale restaurants remains predominantly descriptive, with a limited understanding of what drives these factors and their consequent outcomes on performance (Albors-Garrigos et al., 2013; Stierand and Dörfler, 2012). Moreover, the literature has highlighted the role of 'human capital' factors including the owner/manager's industry related experience on influencing resilience and its outcomes (Ayala and Manzano, 2014). Crick and Crick (2016) argue that entrepreneurs' previous experience can build up resilience to deal with future challenges, however, the extant studies have neglected to rigorously examine these effects.

The purpose of this study is to address these gaps and examine the effects of entrepreneurial resilience on creativity (operationalised as creative self-efficacy), innovation, and firm performance in the upscale restaurant sector – one where the majority of firms are independently owned small and medium enterprises created by restaurant entrepreneurs (Lee et al., 2016a). Moreover, we examine the extent to which these structural relationships are influenced by the human capital dimension of 'industry related experience'. We build our framework from established theories: Resilience Theory (originating in ecology [Holling, 1973] - later adapted to Resilience in Leadership see [Ledesma, 2014]), Entrepreneurship Theory of Innovation (Schumpeter, 1952), Self-Efficacy Theory (Bandura, 1997), and Human Capital Theory (Becker, 1964; Mincer, 1958), discussed further in Section 2.

Through this approach the study contributes to the literature in three ways. First, we present new evidence on the effects of entrepreneurial resilience in driving innovation, creative self-efficacy, and firm performance. Second, we expand our understanding of the moderating effects of human capital by focusing on a key dimension - industry related experience. Third, we demonstrate the application of multi-group analysis (MGA) in Partial Least Squares-Structural Equation Modeling (PLS-SEM) in the context of service industry research to determine how heterogeneous groups within the sample (set a priori) can create moderating effects on a structural model. From a practical standpoint, the research presents insights on how upscale restaurants can respond and remain competitive in turbulent market environments, assisting operators to be innovative and creative in their business strategies.

2. Theoretical model development

Fig. 1 presents the hypothesized structural model examined in this study which draws on theories of resilience, the entrepreneurship theory of innovation, self-efficacy theory, and human capital theory.

Resilience has its origins in ecology and has developed many definitions in various contexts (Holling, 1973; Limnios et al., 2014). From a socio-psychological perspective, resilience is conceptualised as a cognitive developmental ability (Corner et al., 2017, p.4). Resilient traits allow individuals to use "adaptive cognitive and behavioral coping processes" in response to adversity and significant stressors (Sinclair and Wallston, 2004, p.95).

The Entrepreneurship Theory of Innovation classifies entrepreneurs as important drivers of economic progress by implementing new innovations (Schumpeter, 1952). Entrepreneurs create innovation by introducing new products to market, bringing new production methods to an industry/sector, opening access to new market segments, finding new sources of materials, and creating new organizational structures (Hébert and Link, 2006).

Self-Efficacy Theory (Bandura, 1997) conceptualizes an individual's self-efficacy as "beliefs in one's capabilities to mobilize the motivations, cognitive resources, and courses of actions needed to meet given situational demands" (Wood and Bandura, 1989, p.408). Self-efficacy is idiosyncratic and context specific to a particular activity or outcome (Kevill et al., 2017), thus, in this study we focus on creative self-efficacy (CSE) – "the belief that one has the ability produce creative outcomes" (Tierney and Farmer, 2002, p.1453).

Human capital is defined as the "stock of personal knowledge, skills, and abilities that are accumulated by individuals through investments in education, training and other types of experience" (Hmieleski et al., 2015, p.293). Its underlying theory posits that individuals who develop greater levels of knowledge, skills, and other competencies will outperform others (Bruce et al., 2013). In this study we focus on 'industry related experience' as a specific dimension of human capital.

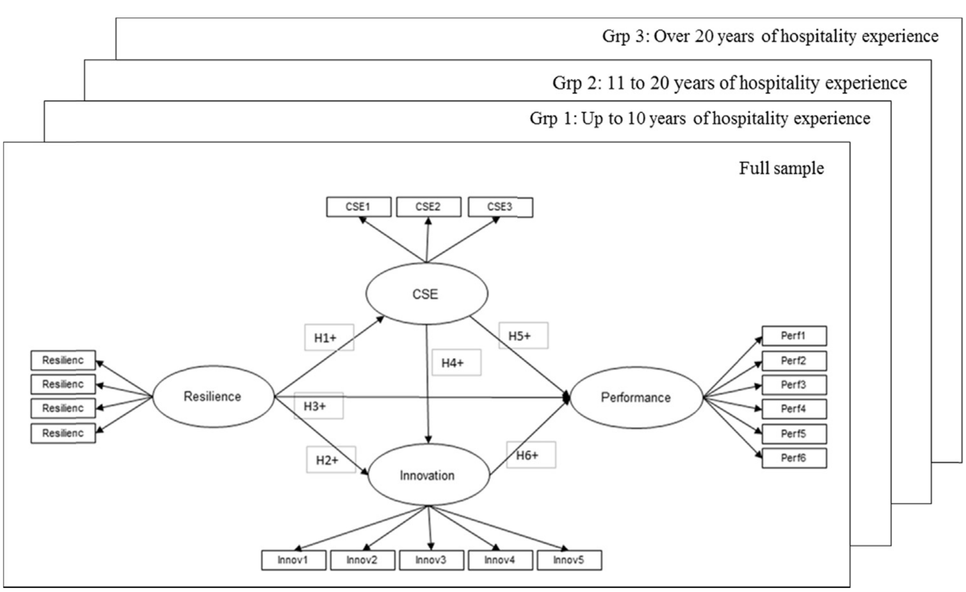

Fig. 1. Model of resilience, CSE, and innovation on performance.