A Study on the Success Factors for the Restaurant Service Industry: Moderating Effects of Restaurant Types and Locations

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Abstract

We develop the success factors model including research hypotheses in the restaurant service industry. The research model in this study was tested on survey data collected from 282 restaurant owners. In this study, we tried to identify the success factors of the restaurant service industry and analyze the relationship between those success factors and business performance. Especially, we analyzed the impact of success factors on business performance being moderated by the restaurant type and location. Through the analysis of the research model, it is shown that operation management and customer relationship management and so on play an important role in the improvement of business performance. In addition, we found that the impact of the success factors on business performance is moderated by the restaurant type and location. A limitation of our study is the sampling. Franchise restaurants will need to be included in future studies. We expect that our research will help start-up restaurant managers to get useful insights to better manage their own businesses. Although the study on the success factors of the restaurant service industry is very important, there are few researches on that in Korea. Therefore, this study can give new insights on how the restaurant owners do business in the restaurant service industry.

Keywords: Restaurant Service Industry, Success Factor, Restaurant Type and Location
JEL Classifications: D20, M15

Ⅰ. Research Background

As the economy is growing rapidly in Korea, there are many changes occurring in people's lifestyles. Due to increases in income and discretionary time, people tend to pursue qualitative satisfaction as well as quantitative satisfaction in their life. As a new qualitative dining culture spreads, the restaurant service industry is seeing an increasing shift from a focus on fast food to family restaurants. This is

evidenced by the rapidly increasing growth rate and sales revenue in franchise and family restaurants (Nam Jae-Chul, Jo Sun- Rae and Lee Hye-Won, 2016).

Compared to most other service industries, the restaurant service industry has a greater variety of types and lower entry-barriers. Nonetheless, all restaurants should be consumer-oriented using key concepts that identify factors affecting customer satisfaction and loyalty in an increasingly competitive market. The restaurant service industry plays an important role in economic growth and job creation, especially in the small business sector (Parsa, Van der Rest and Smith, 2015). Therefore, the number of start-ups is increasing, and the scale of the restaurant service industry is growing gradually in Korea (Lee Kun-Hee, 2010). However, the success rate is decreasing (Park Dae-Seob, 2004) and the restaurant service industry has become one of the highest failure rate sectors.

Past research on Korea's restaurant service industry has been conducted. Many of these studies focus on the 'well-being'trend in the Korean food service market. Especially, many current studies seek to identify the attributes of customers' selection in traditional Korean restaurants (Yang Hee-Jung, Baek Hang-Sun, Kim Chan-Hee and Shin Chung-Sub, 2016).

As for the factors leading to visiting a restaurant, there are also many previous studies. Schroeder (1985) suggested nine factors such as the quality and quantity of food, diversity of menu, atmosphere, hygiene, exterior, the quality of food and service, and price. Puzo (1997) regarded the quality of food, hygiene, customer value, service level, atmosphere, diversity of food, and convenience of location as important factors in selecting restaurants. Engel and Blackwell (1986) argued that customers choose restaurants by assessing the restaurant's image. Swinyard and Struman (1986) maintained that customers select restaurants by analyzing the diversity of menus, quality of food, quantity of the meal, friendly service, and accessibility of location. However, few research on the success of start-ups in the restaurant service industry have been done.

In that respect, the success of start-ups in the restaurant service industry became an important issue. It is crucial to find out the reasons behind customer's revisiting behaviors in the dining market. Therefore, in this study we developed the success model in the restaurant service industry and not only identified the factors affecting the success of start-ups, but also analyzed the moderating effect of the restaurant types and location for success. We tested the research hypotheses based on the analysis of results from the survey data.

The rest of this paper is as follows. First, we suggest our theoretical model, which outlines the antecedents and consequences of business performance in the Korean restaurant service industry. Second, we explain the empirical study design to test the hypothesized relationships, and summarize the analysis results. We conclude by outlining the study limitations and present agenda for future research.

II. **Research Model and Hypotheses**

1. Research Model

Figure 1 represents a conceptual model of this study. We suggest the founder's characteristics, operation management, facilities, accessibility, CRM, service, and external environment, and so on as the antecedents of the business performance. Business performance consists of two variables defined as 'financial performance' and 'non-financial performance'. Detailed descriptions of the model and the research hypotheses underlying our theoretical model are proposed in the following.

We suggest that nine success factors of start-ups are positively related with the business performance. In addition, the effects of these antecedents on business performance can be moderated by restaurant type (Korean and Non-Korean) and location (populated, residential, and outlying areas). Regarding the restaurant types, we assessed the Korean restaurant and Non-Korean restaurant models and analyzed the commonalities and differences across the two perspectives. Similarly for the locations, the three models were assessed from the three perspectives (populated, residential, and outlying areas). Business performance consisted of both financial performance (Net profit growth) and non-financial performance (Customer growth).

2. Hypotheses

As for the leadership of the restaurant manager, Umbreit and Smith (1991) sug-

Fig. 1. Research Model
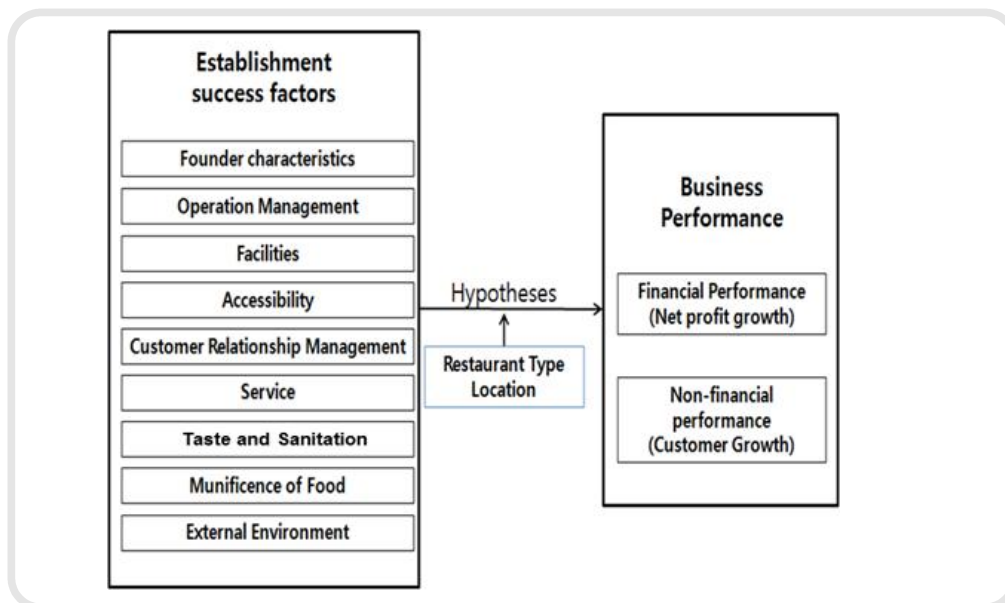
gested that skills, knowledge, and behavior of the restaurant manager can be measured by five aspects. There are restaurant operations, financial management, marketing and promotions management, facilities and safety management, and human resource management. In our study, we assumed that the founder's characteristics; including these dimensions; directly affect the business performance in the restaurant service industry.

Service quality and customer satisfaction are often held to be the main factors affecting the service-profit chain (Heskett, Sasser and Schlesinger, 1997). Johns and Howard (1998)maintained that the service quality in the food-service industry has been regarded as subjective, intangible, and individualized. The customers' perception is built based on their experiences and expectations (Chow, Lau, Sha and Yun, 2007). Rust and Oliver (1994) disagreed, suggested a service quality model including three factors such as service environment, customer-employee interaction, and service outcome. The quality of environment can be measured by design and ambient conditions. Similarly, the quality of interaction is analyzable in terms of expertise, attitude, and behavior. The quality of outcome is also affected by tangibles such as waiting time and valence (Brandy and Cronin, 2001). Therefore, a higher level of the service quality leads to a higher level of customer satisfaction, which in turn produces a higher level of the customers' revisit and revenue.

As noted in the introduction, most studies into the factors leading to visiting restaurants, summarized the influential factors in customers' selection of restaurants as: price, quality of food, diversity of menu, friendly service, hygiene, atmosphere, and the exterior of the restaurant.

In addition, previous studies have indicated that the perception of a customer in the restaurant service industry is positively related with the main attributes of food quality (such as taste and nutritional properties, price, location, brand name), and the restaurant's image (Chow, Lau, Sha and Yun, 2007; Johns and Howard, 1998; Tam and Yung, 2003). Especially important factors for customer satisfaction in the restaurant service industry are the attributes of the food (hygiene and healthiness), the atmosphere of the restaurant, the physical aspects of the provision (furnishings, cleanliness, and layout), and the aspects of the service (friendliness, care, and speed) during the customer's meal experience (Chow, Lau, Sha and Yun, 2007; Johns and Pine, 2002.)

The physical environment as an important factor of the customer's experience was suggested as early as the 1970s (Kotier, 1973). This is more related to the service experience than the product itself, when regarding atmosphere or environment-related factors as influential variables in customers' decision making. This concept contains design, ambient conditions, and social factors that are crucial components of service quality. Recently, some researchers have mentioned the impacts of the facilities or the service scape which describes the physical surroundings of the service company and organization (Barber, Goodman and Goh, 2011). The impact of physical sur-

roundings to create a brand image, and to affect customer satisfaction and loyalty, is consistently promoted as important in the restaurant service industry (Nam Jae-Chul, Jo Sun-Rae and Lee Hye-Won, 2016; Ryu Ki-Sang and Han Hee-Sup, 2010).

Therefore, the hypotheses are as followings.

H1: Success factors of start-ups are positively related to the business performance.

   H1a: Success factors are positively related to the financial performance.

   H1b: Success factors are positively related to the non-financial performance.

H2: The impacts of success factors on business performance are moderated by restaurant types and locations.

   H2a: The impacts of success factors on business performance are moderated by restaurant types.

   H2b: The impacts of success factors on business performance are moderated by restaurant locations.

Ⅲ. Methodology

Methodology of our research is based on the hypothesis verification. We collected the survey data from restaurant owners. Then we conducted the analysis of measurement validation through exploratory factor analysis. Lastly, we evaluated our research model through multi-ple regression using SPSS 18.0.

1. Data Collection

To verify the hypotheses proposed in our research model, we analyzed survey data. 282 samples were used in the data analysis. For the survey, a questionnaire was developed in two phases using a five-point Likert scale. In the first phase, a set of items was created based on a review of previous literature and on interviews with experts experienced in the restaurant service industry. The survey was carried out targeting restaurant owners.

Respondents were primarily in their forties and fifties (37.6% and 36.9% respectively). In terms of gender, 48.6% were male and 51.4% were female. As for restaurant locations, 'populated', 'residential', and 'outlying' areas made up 32.5%, 47.7%, and 19.8%, respectively. In terms of restaurant types, Korean restaurant accounted for 68.9%, and non-Korean 31.1%.

2. Measurements and Validation

We developed multi-item scales based on are view of the previous studies and on interviews with practitioners. Statistical procedures used to validate the measures included scale reliability, unidimensionality, and convergent validity. We analyzed those measures using SPSS 18.0. These measures exhibited good reliability overall, with the value of Cronbach's alpha being above 0.6. The reliabilities of all constructs exceeded the minimum acceptable Cronbach's alpha level of 0.6.

Table 1. Results of Reliability Test and EFA(Exploratory Factor Analysis)

Survey Items	Factors								
	①	②	③	④	⑤	⑥	⑦	⑧	⑨
The Ability to Identify the Customer's Intentions	**0.778**	0.109	0.153	0.079	0.010	-0.014	0.121	0.142	0.062
The Ability to Respond to Customer Needs	**0.841**	0.113	0.018	-0.047	0.048	0.150	0.161	-0.126	0.102
The Ability to Respond Effectively to the Needs of Customers	**0.829**	0.098	0.035	0.030	0.012	0.095	0.161	-0.055	0.084
Review of Feasibility	0.416	0.367	0.095	0.375	-0.103	0.126	0.101	0.335	0.074
Business Plan	0.287	**0.453**	0.074	0.404	-0.098	0.043	-0.017	0.353	0.002
Interior	-0.017	**0.605**	0.336	0.185	0.008	0.214	0.054	0.058	0.071
Welfare of Employees	0.111	**0.751**	0.137	0.008	0.130	0.123	0.186	0.056	-0.036
Friendly Training for Employees	0.144	**0.815**	0.024	0.052	-0.047	0.150	0.138	-0.073	0.004
Performance Incentives	0.120	**0.660**	0.114	-0.046	0.235	-0.011	0.208	0.023	0.004
Advertising	0.019	**0.546**	-0.015	0.036	0.529	0.115	0.040	0.145	0.195
Parking Facilities	-0.006	-0.002	**0.731**	0.089	-0.050	0.046	0.051	-0.014	0.176
The Size of the Restaurant	0.146	0.240	**0.702**	-0.142	0.176	0.001	0.094	0.114	0.012
View Around	0.096	0.156	**0.728**	0.024	0.080	0.070	0.176	0.072	0.016
Convenience of Public Transportation	0.039	0.099	-0.004	**0.789**	0.122	0.022	0.054	0.044	-0.078
Management of Repeat Customers	0.041	0.203	0.184	0.160	**0.733**	0.168	0.220	-0.032	0.079
Presentation of Food	0.102	0.252	0.018	-0.274	-0.189	**0.527**	0.316	0.281	-0.040
Proper Greeting of Guests	0.037	0.164	0.023	0.019	0.113	**0.866**	0.074	0.083	0.126
Friendly Responses	0.094	0.147	0.041	0.076	0.082	**0.860**	0.089	0.005	0.141
Fast Processing of Orders	0.057	0.050	0.082	0.043	0.086	**0.778**	0.078	0.067	0.136
Clean Environment	0.097	0.213	0.399	0.077	-0.106	0.135	**0.559**	-0.244	0.111
Chef's Cooking Skills	0.162	0.201	0.106	0.075	0.208	0.056	**0.726**	0.113	0.079
Revisit for Good Taste	0.182	0.186	0.085	-0.045	0.049	0.117	**0.764**	0.005	0.067
Menu Development Efforts	0.144	0.199	0.123	0.100	0.274	0.207	**0.504**	0.071	0.266
The Taste of Food	0.165	-0.069	0.083	0.006	-0.303	0.442	**0.463**	0.206	0.077
The Amount of Food	-0.071	-0.130	0.063	0.313	0.155	0.051	0.027	**0.573**	0.165
A Variety of Side Dishes	0.010	0.170	0.054	-0.085	-0.045	0.183	0.049	**0.780**	-0.002
Government Regulations	0.117	0.105	0.046	-0.110	0.077	0.120	-0.145	0.155	**0.759**
Labor Shortages	0.147	0.087	0.158	-0.149	0.075	0.148	-0.061	0.006	**0.759**
High Taxes	-0.021	-0.037	-0.017	0.109	0.052	0.102	0.134	-0.028	**0.829**
Credit Card Fees	0.118	-0.200	-0.025	0.117	-0.090	-0.073	0.277	-0.004	**0.684**
High Initial Investment	0.010	0.160	0.088	0.271	-0.317	0.138	0.161	-0.124	**0.609**
Low Social Awareness	-0.030	0.032	0.126	-0.185	0.250	0.096	0.147	0.130	**0.617**
Cronbach's Alpha	0.774	0.793	0.673	-	-	0.850	0.753	0.480	0.824

①Founder Characteristics ②Operation Management ③Facilities
④Accessibility ⑤Customer Relationship Management ⑥Service
⑦Taste and Sanitation ⑧Munificence of Food ⑨External Environment

We assessed the construct validity of the measurements using exploratory factor analysis. VARIMAX rotation was used in the exploratory factor analysis. From the exploratory factor analysis, factor loadings of each factor were higher than 0.5. Therefore, the measurements had desirable factor loading on the constructs.

The results are shown in Table 1.

3. Results of Analysis

The research model in Figure 1 was evaluated using SPSS 18.0 through multiple regressions. The results are shown in Table 2~5.

In Table 2, the results of multiple regression with success factors and financial performance (net profit growth) for the restaurant types are shown. In the case of Korean restaurants, operation management and CRM were positively associated with financial performance (p< .05). As we expected, financial performance was negatively affected by external environment (p< .1). External environments included government regulations, labor shortages, high taxes, credit card fees, and high initial investments, etc.

As for non-Korean restaurants, operation management and munificence of food were positively related to financial

Table 2. Multiple Regression Analysis with Success Factors & Net Profit Growth for Restaurant Type

Model		Stand.Coeff. Beta	t	Sig.	R2	ANOVA F	sig.
Total	(Constant)		-3.268	.001	.143	9.884	.000
	Operation Management	.206	3.422	.001			
	Customer Relationship Management	.134	2.224	.027			
	Munificence of Food	.146	2.418	.016			
	External Environment	-.246	-4.086	.000			
Korean Restaurants	(Constant)		-3.747	.000	.180	6.666	.000
	Operation Management	.226	2.306	.020			
	Customer Relationship Management	.290	3.057	.003			
	External Environment	-.186	-1.979	.051			
non-Korean Restaurants	(Constant)		-1.709	.478	.136	7.469	.000
	Operation Management	.178	2.267	.025			
	Munificence of Food	.194	2.481	.014			
	External Environment	-.268	-3.426	.001			
Dependent Variable : Net Profit Growth							

Table 3. Multiple Regression Analysis with Success Factors & Customer Growth for Restaurant Type

Model		Stand. Coeff. Beta	t	Sig.	R^2	ANOVA	
						F	sig.
Total	(Constant)		-2.218	.028	.131	11.438	.000
	Operation Management	.248	4.022	.000			
	Customer Relationship Management	.121	1.965	.051			
	External Environment	-.228	-3.685	.000			
Korean Restaurants	(Constant)		-2.804	.006	.156	5.229	.002
	Operation Management	.246	2.436	.017			
	Customer Relationship Management	.201	2.019	.047			
	External Environment	-.198	-1.959	.053			
non-Korean Restaurants	(Constant)		-0.269	.788	.105	8.193	.000
	Operation Management	.237	2.959	.004			
	External Environment	-.232	-2.895	.004			
Dependent Variable : Customer Growth							

performance (p< .05). However, external environment again had a negative impact on financial performance (p< .01)

In Table 3, the results of multiple regression with success factors and non-financial performance (customer growth) for the restaurant types are shown. Regarding Korean restaurants, operation management and CRM were the main positive factors of the non-financial performance (p< .05). As for the non-Korean restaurants, non-financial performance was positively affected by operation management (p< .01). External environment was negatively related to non-financial performance of both Korean (p< .1) and non-Korean (p< .01) restaurants.

In the analysis, net profit growth was seen to be affected by operation manage-

ment, CRM, munificence of food, and external environment. In addition, customer growth was influenced by operation management, CRM, and external environment. As for restaurant type, net profit growth was affected by operation management and external environment in both Korean and non-Korean restaurants. Customer growth was also influenced by operation management and external environment in both Korean and non-Korean restaurants.

In Table 4, the results of multiple regression with success factors and financial performance for the restaurant locations are shown. For restaurants in populated areas, the operation management was positively related to financial performance (p< .1), service (p< .1) and external environment (p< .05) was negatively

Table 4. Multiple Regression Analysis with Success Factors & Net Profit Growth for Location

Model		Stand. Coeff.	t	Sig.	R^2	ANOVA	
		Beta				F	sig.
Total	(Constant)		-3.268	.001	.143	9.884	.000
	Operation Management	.206	3.422	.001			
	Customer Relationship Management	.134	2.224	.027			
	Munificence of Food	.146	2.418	.016			
	External Environment	-.246	-4.086	.000			
Populated Areas	(Constant)		-1.257	.213	.139	4.074	.010
	Operation Management	.204	1.908	.060			
	Service	-.193	-1.795	.077			
	External Environment	-.264	-2.446	.017			
Residential Areas	(Constant)		-2.558	.012	.063	3.576	.031
	Operation Management	.188	2.004	.048			
	Tasteand Sanitation	-.058	-1.682	.095			
Outlying Areas	(Constant)		-2.062	.045	.429	6.769	.000
	Operation Management	.280	2.380	.022			
	Customer Relationship Management	.275	2.415	.020			
	Taste and Sanitation	.243	2.049	.046			
	Munificence of Food	.207	1.793	.080			
	External Environment	-.463	-3.966	.000			
Dependent Variable : Net Profit Growth							

associated with financial performance. In the case of restaurants in residential areas, financial performance was positively affected by operation management (p< .05). Taste and sanitation was negatively related to financial performance (p< .1). Regarding the outlying areas, the external environment was negatively related to financial performance (p< .01), while operation management (p< .05),

CRM (p< .05), sanitation (p< .05), and munificence of food (p< .1) were positively related to the financial performance.

Table5 shows the results of multiple regression with success factors and non-financial performance for the restaurant locations. For populated areas, we found that external environment alone was negatively associated with non-financial performance (p< .1). In the case of

Table 5. Multiple Regression Analysis with Success Factors & Customer Growth for Location

Model		Stand. Coeff. Beta	t	Sig.	R^2	ANOVA F	sig.
Total	(Constant)		-2.218	.028	.131	11.438	.000
	Operation Management	.248	4.022	.000			
	Customer Relationship Management	.121	1.965	.051			
	External Environment	-.228	-3.685	.000			
Populated Areas	(Constant)		-.300	.765	.048	3.901	.052
	External Environment	-.218	-1.975	.052			
Residential Areas	(Constant)		-2.579	.011	.109	6.045	.003
	Operation Management	.274	2.881	.005			
	External Environment	-.174	-1.833	.070			
Outlying Areas	(Constant)		-0.998	.324	.417	6.307	.000
	Operation Management	.308	2.555	.014			
	Customer Relationship Management	.248	2.136	.038			
	Tasteand Sanitation	.289	2.385	.021			
	Munificence of Food	.208	1.765	.085			
	External Environment	-.414	-3.488	.001			
Dependent Variable : Customer Growth							

residential areas, financial performance was positively affected by operation management (p< .01), while external environment was negatively related to financial performance (p< .1). Regarding the outlying areas, while the external environment was negatively related to financial performance (p< .01), operation management (p< .05), CRM (p< .05), sanitation (p< .05), and munificence of food (p< .1) were positively related to the financial performance.

In the case of restaurant locations, operation management was a common factor affecting net profit growth in any location. In addition, external environment was a common negative source of the customer growth. Based on the analysis results, both H1 and H2 are partially supported. The summary of the analysis results are shown in Table 6.

Table 6. Summary of Analysis Results

Dependent Variable	Situational Variables		①	②	③	④	⑤	⑥	⑦	⑧	⑨
	Restaurant Type	Location									
Financial Performance (Net Profit Growth)	Total			3.422***			2.224*			2.418*	-4.086***
	Korean Restaurants			2.306*			3.057**				-1.979*
	non-Korean Restaurant			2.267*						2.481*	-3.426***
Non-Financial Performance (Customer Growth)	Total			4.022***			1.965*				-3.685***
	Korean Restaurants			2.436*			2.019*				-1.959*
	non-Korean Restaurant			2.959**							-2.895**
Financial Performance (Net Profit Growth)		Total		3.422***			2.224*			2.224*	-4.086***
		Populated Areas		1.908*				-1.795△			-2.446*
		Residential Area		2.004*					-1.682△		
		Outlying Areas		2.380**			2.415*		2.049*	1.793△	-3.966***
Non-Financial Performance (Customer Growth)		Total		4.022***			1.965*				-3.685***
		Populated Areas									-1.975*
		Residential Area		2.881***							-1.833△
		Outlying Areas		2.555*			2.136*		2.385*	1.767△	-3.488***

①Founder Characteristics ②Operation Management ③Facilities ④Accessibility ⑤Customer Relationship Management ⑥Service ⑦Taste and Sanitation ⑧Munificence of Food ⑨External Environment

△p<0.1, *p<0.05, **p<0.01, *** p<0.001

Ⅳ. Conclusion

Our research has identified different sets of sources of business performance in the restaurant service industry. Some factors that influence Korean restaurants also influence non-Korean restaurants in the formation of business performance. Similar conclusions result from the restaurant locations.

The results from this study provide partial support for the framework presented in Figure 1 and for the hypotheses regarding the directional linkages among the model's variables. From a practical perspective, there are important implications in the findings for enhancing business performance in the restaurant service industry. First, management of employees is a crucial factor for success

in the restaurant service industry. As shown in our analysis results, Customer Relationship Management (CRM) is one of the main positive factors affecting business performance. In addition, operation management strongly affects business performance. In this study, the concept of operation management includes not only the business plan, but also the aspects of employees such as welfare of the employee, training of employees, and the incentives for employees. Employees can be considered direct indicators of CRM. Especially in the restaurant service industry, the interaction between an employee and a customer might determine the overall quality of CRM. For example, motivating customers to revisit a restaurant can be achieved through an incentive system for employees. A good quality of interaction between employees and customers can lead to good results such as customer satisfaction and higher profits. Therefore, restaurant managers should make an effort to improve and develop training programs for employees.

Secondly, operation management is a key success factor in the restaurant service industry. In our study, analysis results showed that operation management was positively associated with business per-

formance regardless of restaurant type or location. This finding suggests that making a good business plan and managing employees are both very important issues for start-ups in the restaurant service industry.

Thirdly, the external environment is also a crucial factor for start-ups in the restaurant service market. As shown in our analysis results, the external environment was negatively associated with business performance. In this paper, external environment included government regulations, labor shortages, high taxes, and credit card fees and so on. These factors have one thing in common: that they are not within the control of the restaurant managers. Therefore, managers should monitor these factors all the time and prepare for any changes that are predicted to take place in market.

In addition, there is a need to make differential strategies according to restaurant types and locations. We expect that our study will help start up restaurant managers to get useful insights to better manage their own businesses. The results of our study will provide clues regarding what strategies a restaurant manager should make to increase the likelihood that a customer will revisit.

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