



# A nonlinear approach to the congruence of perceived uncertainty and information sharing with suppliers: Effects upon startup and established restaurants



Meehee Cho<sup>a</sup>, Mark A. Bonn<sup>b</sup>, Sora Kang<sup>c,\*</sup>

<sup>a</sup> Dedman School of Hospitality, Florida State University, 288 Champions Way, UCB 2200, Tallahassee, FL 32306-2541, United States

<sup>b</sup> Dedman School of Hospitality, Florida State University, 288 Champions Way, UCB 4110, Tallahassee, FL 32306-2541, United States

<sup>c</sup> Department of Business Administration, Hoseo University, 78 Gackwonsa Way, Dongnam-gu, Cheonan-si, Chungnam 330-713, South Korea

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## ABSTRACT

To better understand reasons associated with high restaurant failure rates, the concept of congruence was employed to investigate the relationship between perceived uncertainty and information sharing with suppliers upon the performance of startup and established restaurant segments. A non-linear approach representing polynomial regression with a response surface analysis was employed for hypothesis testing. Congruence between perceived uncertainty and information sharing with suppliers regarding customers, competitors and the overall independent restaurant business environment had a significant and positive effect upon performance. Startup independent restaurants were found to be more significantly and positively affected by the congruence between perceived uncertainty and information sharing with suppliers regarding customers, while the established restaurant segment was found to be more significantly and positively affected by perceived uncertainty and information sharing related to competitors. The effect of congruence between perceived uncertainty and information sharing with suppliers regarding the overall business environment was not significant. Managerial and theoretical implications are provided.

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## 1. Introduction

For over thirty years, causes attributed to high restaurant failure rates have attracted the attention of hospitality academics and practitioners (Hjalager, 2000; Luo and Stark, 2014; Muller and Woods, 1991; Olsen et al., 1983). This dilemma continues to be addressed in an ongoing effort to identify what causes these high restaurant failure rates in order to determine best practices for preventing and overcoming this situation (Harrington, 2001; Parsa et al., 2005). Literature published in scholarly academic journals has attempted to address why the restaurant business in particular, represents such an extremely challenging venture. An earlier study conducted by Crawford-Welch (1990) found that restaurant companies represent a very dynamic business environment having high volatility levels of customer demands, prices charged by competitors and fluctuation patterns of product availability. Another

study conducted by Jogaratnam et al. (1999) stated that restaurants are more likely to be unable to understand, adapt or respond to market situations due to decision-makers frequently having to face the unpredictable nature of customer wants, needs and demands, which impacts what and how many products should be purchased and made readily available for use.

Environment uncertainty is generally defined as unexpected changes that are difficult to predict (Milliken, 1987). Companies faced with volatile business environment conditions such as restaurants, have high levels of perceived uncertainty which increases perceived risk (Bourgeois, 1985). Perceived uncertainty arises when decision-makers do not feel confident in managing major business issues related to customer needs, competitors and other business environments, which further leads to obscure decision-making for important business-related events and trends (Buchko, 1994). Therefore, perceived uncertainty could represent an impediment that plays an adverse role upon the restaurant business which may ultimately hinder any potential to improve opportunities for reducing operating costs, developing competitive advantages and agilities, and responding to market changes with speed, flexibility and effectiveness.

\* Corresponding author.

E-mail addresses: [mcho3@fsu.edu](mailto:mcho3@fsu.edu), [chom2h2@hotmail.com](mailto:chom2h2@hotmail.com) (M. Cho), [mbonn@fsu.edu](mailto:mbonn@fsu.edu) (M.A. Bonn), [sorak@hoseo.edu](mailto:sorak@hoseo.edu), [sorak21@gmail.com](mailto:sorak21@gmail.com) (S. Kang).

Several research studies stressed the importance of developing effective strategies to improve business performance by adapting and responding to changes in market trends (Chang and Chen, 1998; Zortea-Johnston et al., 2012). These practices would theoretically further enable restaurants to convert the unpredictable nature represented by environment change, into opportunities for business success. These kinds of business practices intend to decrease uncertainty levels through processes designed to obtain information. In a study specifically addressing issues as to why restaurants fail (Parsa et al., 2005), the importance for establishing relationships with suppliers was recognized as one of the most essential restaurant practices that must be developed in order for restaurant owners and operators to gain adequate knowledge through supplier-provided information that is related to the uncertain nature of the specific business environment in which restaurants operate.

Li and Lin (2006) stated that restaurants began to realize that improving efficiencies within an organization internally was not enough, but efficiencies also could be improved using information sharing with supply chain partners. Information sharing is generally regarded as when additional information about the business environment is obtained directly through a supply chain partnership that further enhances performance of that business (Yu et al., 2001). Prior research documents the importance of information sharing as an essential business activity because uncertain environments can be alleviated by collaborative supply chain strategic plans based upon more accurate knowledge gained from information sharing (Bowersox et al., 2000; Cachon and Fisher, 2000; Li et al., 2006). One study addressing those benefits associated with information sharing demonstrated that business performance is improved when firms are able to acquire a better understanding about the market environment pertaining to their customers, competitors, and economic and political situations through increased levels of information sharing (Yu et al., 2001). Supporting this, one recent study concluded that levels of organizational abilities to adapt and manage in an uncertain business environment are strongly associated with information sharing between buyers and suppliers in an atmosphere of cooperation (Grekova et al., 2014). Another empirical study demonstrated that while information sharing was found to indirectly improve the level of trust between supply chain partners, a well-established system of collaboration further improved their overall relationship (Kwon and Suh, 2004).

Despite the increasing importance of information sharing as a critical supply chain practice in the restaurant industry, another important issue pertaining to what kinds of information should be exchanged with supply chain partners and its impact upon restaurant performance still remains unaddressed (Lee and Whang, 2000). In today's society of information overload, it is quite easy to become overwhelmed and inadvertently burdened by the excessive amount of easily accessed information (Reibstein, 2002). Thus, today's information-seeking process requires a tremendous amount of up-front research and evaluation in order to select only the most useful information necessary for making proper decisions (Wu and Cavusgil, 2006). Considering this fact, a distinction must be made between information 'needs' and information 'availability' in order to accurately manage restaurant uncertainty (Bettis-Outland, 2012).

Although the significant effects of perceived uncertainty involving the business environment and information sharing with suppliers upon business performance have been previously supported in the research literature (Chang et al., 2002; Huang et al., 2014; Lai et al., 2015; Srinivasan et al., 2011), no attention has yet been devoted to investigate how these important factors affect each other and ultimately how they influence the restaurant business. Therefore, this study examined the relationship between

perceived uncertainty and information sharing with suppliers of restaurant products and its impact upon restaurant performance. To do so, the concept of congruence was employed. Congruence was defined as "the degree to which the needs, demands, goals, objectives, and/or structures of one component are consistent with the needs, demands, goals, objectives, and/or structures of another component" (Nadler and Tushman, 1980; p36). Based upon previous studies involving environmental business conditions (Chang et al., 2002; Miller and Friesen, 1984), perceived uncertainty for this research study was categorized into three dimensions (customers, competitors and overall business environments). Accordingly, information sharing with suppliers was also categorized using the same three dimensions. The congruence between perceived uncertainty and information sharing for each dimension was then accessed to investigate its impact upon restaurant performance.

Referencing statistics provided by the National Restaurant Association, Parsa et al. (2005) reported that 60% of all restaurants fail within the first three years of their operation. Because of this alarmingly high failure rate in the early business life cycle period, the belief that restaurants represent a very risky startup business continues to be mentioned in published, academic research (Luo and Stark, 2014). Parsa et al. (2005) concluded that early restaurant failures primarily resulted from a lack of information which could have otherwise enabled those businesses to have adapted and responded to changes in their environment. Of particular interest within the general restaurant business environment are those many startup restaurants that they experience higher levels of difficulty in order to constantly adapt and respond to their business environment compared with those locally established restaurants (Haidet, 2015).

Roles of the congruence between perceived uncertainty and information sharing upon the restaurant business should be distinguished among each other because startup restaurants and established restaurants have functionally been distinct in business operations and requirements; however, no existing literature has addressed these relevant issues. Therefore, in consideration of the previously addressed research, this study proposed that the congruence between perceived uncertainty and information sharing had different performance effects depending upon whether businesses were startup or established restaurants. Specifically, this study expected to find that the appropriate information sharing necessary to address uncertainty issues for startup restaurants would more positively affect the performance of startup restaurants compared with established restaurants.

## 2. Literature review

### 2.1. Perceived uncertainty and information sharing

Perceived uncertainty has been defined as "a state that exists when an individual defines himself as engaging in directed behavior based upon less than complete knowledge of his existing relationship with his environment and conditional relationship between his behavior and environmental variables to an occurrence in the future" (Downey and Slocum, 1975; p571). Subsequent research extended the concept of uncertainty to the organizational environment (Huber et al., 1975; Starbuck, 1976) which further conceptualized perceived uncertainty as having an inability to estimate probabilities related to predicting future events (Pennings, 1981; Pfeffer and Salancik, 1978), or lacking the ability to predict accurately what would be caused by organizational decisions and how much they would lose if their decisions were incorrect (Schmidt and Cummings, 1976).

Different sources of perceived uncertainty exist due to various circumstances depending upon essential business components

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