Attribution of Strategic Motive, Business Efficiencies, Firm Economies, and Market Factors as Motivations of Restaurant Industry Vertical Integration Adoption: A Structural Equation Model

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Abstract : The decision to adopt vertical integration (VI) is firm-specific, but there is a common practice among businesses in an industry to maximize the massive potential benefits of VI. This study aims to determine VI adoption in the restaurant industry in Davao City. Using a two-step sampling process, the study used a validated survey questionnaire among 264 restaurant owners and managers randomly selected and geographically classified. It is a quantitative study where the data were subjected to a structural equation model (SEM). The results revealed that VI is present but limited to procurement, production, restaurant services, and online marketing. Raw materials were outsourced while delivery to customers through third-party delivery services. VI slowly increased over ten years except for online marketing, which has grown significantly in a few years. The endogenous and exogenous variables were correlated and established the linear regression model. The SEM's best fit model revealed that strategic motives (SMOT) and market factors (MFAC) influenced VI adoption while MFAC is the best predictor. Favorable market factors may lead restaurants to adopt VI. It is, thus, recommended for restaurants to institutionalize strategic management, quantify the impact of double marginalization in future studies as a reason for VI and conduct this study during the new normal to see the influence of business efficiencies and firm economies on VI adoption.

Keywords : business efficiencies, business management, davao city, firm economies, market factors, philippines, strategic motives, structural equation model, supply chain, vertical integration adoption