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

Melecio A. Sy, Jr.[1,a,*]

[1] Ateneo de Davao University, Davao City, Philippines

E-mail: [a,*]masyjr@addu.edu.ph (Corresponding author)

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 develop a VI adoption model in the restaurant industry in Davao City. The study used a validated survey questionnaire among 264 restaurant owners and managers randomly selected using a two-step sampling process including geographical classification and randomly selecting from the list of restaurants provided by the City Government Business Bureau. 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 services to customers through third-party delivery services. The VI slowly increased over ten years except for online marketing, which has grown significantly in just 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. The model revealed that favorable market factors may lead restaurants to adopt VI.

Keywords: business efficiencies, Davao City, Philippines, firm economies, market factors, strategic motives, structural equation model, supply chain, vertical integration adoption.