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Efficiency and effectiveness of small retailers: The role of customer and entrepreneurial orientation



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ABSTRACT

While it is generally agreed that a customer and entrepreneurial orientation enhance company performance in large multi-national organizations, relatively little is known about how these variables influence the small retailers that form a substantial part of national economic well-being. This study investigates the potential influences of these factors on the performance of small retailers in Switzerland, because this nation has long had a reputation for creativity, innovation and a customer focus. Performance is viewed as a two dimensional concept including an effectiveness and an efficiency perspective. Data for this study were collected through personal interviews from 261 SMEs. While customer orientation is found to be positively related to both efficiency and effectiveness, results only show a positive impact from entrepreneurial orientation on effectiveness. At the same time, entrepreneurial orientation is found to be a driver of customer orientation, and thus having an indirect impact also on efficiency for the small retail firms. All in all, the study shows that small retailers do indeed put an emphasis on both customer and entrepreneurial orientation in spite of their limited resources. It also stresses that this will increase their competitive advantage. In the light of existing literature, limitations and future research directions are subsequently addressed.

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1. Introduction

A constantly changing environment, intensive global competition, and lower retail margins characterize today's retail business climate. It is thus not surprising that within many areas, retailing is dominated by large, global firms such as Carrefour, Wal-Mart, Toys "R" Us or IKEA, that benefit from advantages of scale and extensive human resources. Nevertheless, there is a need for smaller retailers since they are an important part of the supply chain in most countries (Shaw and Gibbs, 1999). Small companies collectively employ a substantial number of people, can serve important niche markets and have the flexibility to differentiate service provision and meet a variety of customer needs. They provide opportunities that may be neglected by large organizations and identify changing market requirements in a creative way to capitalize on areas that have future growth potential, providing value for customers as well as generating business profitability (Smith and Sparks, 2001).

However, successful retailers have to meet a number of challenging demands. They need to promote customer service and the value

component of their business (Adjei et al., 2009; Lusch et al., 2007); have a strong market orientation (Elg, 2007; Rodriguez Cano et al., 2004); and be well informed about new technological and environmental developments as well as changing customer needs in order to pursue new, entrepreneurial opportunities (Griffith et al., 2006; Kaufmann and Dant, 1999; Shane and Venkataraman, 2000). But there is relatively little knowledge about how smaller retailers, with limited resources, respond to a changing business environment and how these changes relate to company performance. For example should they take a creative, proactive approach to become leader in a niche market, or should they offer a complementary convenience service at low cost to differentiate their business from competitors? In each case what role does customer orientation and entrepreneurship play in developing company strategy, influencing value perceptions and managing profit margins? To answer these questions this paper addresses the relationships between customer orientation and entrepreneurial orientation in small retail establishments, and examines business performance from an efficiency as well as effectiveness perspective. *Efficiency* is seen in terms of return on investment, return on sales and return on assets, whereas *effectiveness* is interpreted as profit growth (built on profit margins); sales growth (from reliable, quality products and services); and market share that adds credibility and value to the company brand (Auh and Menguc, 2005). We argue that these two performance measures are significantly different in nature and may not always go in the same direction. For example, a retailer may adopt a selling orientation to enhance short-term profit

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and efficiency, but this is likely to have a negative impact on customer satisfaction and long term effectiveness (Goff et al., 1997; Saxe and Barton, 1982). The distinction may be especially important for small service firms with limited resources. For example, a firm with a strong focus on customer and entrepreneurial orientation may be successful in offering attractive solutions to the market and making sales grow, but it may not have the capability to simultaneously maximize efficiency in terms of return on investments or benefit from scale advantages in marketing.

Small retail companies in Switzerland were targeted as a suitable focus for this research because the Swiss culture has a proclivity towards the proactive, risk-taking, and innovativeness observed Tajeddini and Tajeddini (2008); towards creativity discussed by Gielnik et al. (2012); and towards entrepreneurship outlined by Tajeddini and Mueller (2012). Moreover according to the work of Hofstede (2001), the Swiss nation score highly in societal-cultural factors of 'individualism', 'power-distance' and 'long term orientation'; and have a long history of creativity and innovativeness in responding to changing customer needs as well as technological opportunities (Tajeddini and Trueman 2008).

The emphasis on *customer orientation* was chosen because small retailers have limited resources for advanced marketing research or interfunctional coordination as discussed in market orientation studies (Narver and Slater, 1990). Yet there is clearly a need for a customer-focused strategy if companies are to survive in the long term (Brady and Cronin, 2001; Deshpandé et al., 1993; Drucker, 1954; Johnson, 1998; Tajeddini and Trueman, 2008). Furthermore, as recognition of the economic significance of small firms has grown (Acs and Audretsch, 1990; Loveman and Sengenberger, 1991), research has found that customer orientation is especially important (Kara et al., 2005; Pelham, 1997, 1999, 2000; Vitale et al., 2004).

On the other hand, in order to grow and sustain a competitive advantage, businesses need to combine existing resources in new ways to develop and commercialize new products, move into new markets, and service new customers adopting an *entrepreneurial orientation* (Hitt et al., 2001; Lumpkin and Dess, 1996). Yet the disruptive influence of introducing new products, services and customers can have an adverse effect on efficient and effective performance, presenting the company with a dilemma (Abernathy, 1978); so it is important to balance customer needs with essential entrepreneurial requirements to grow the business (Liu et al., 2002). Similarly organizations have to differentiate themselves from competitors (Parasuraman et al., 1988) and, with intense competition and globalization in the retail industry, a focus on customer service provides an opportunity to differentiate and strengthen the company brand name (Elg, 2007; Panigyrakis and Theodoridis, 2007). However most studies in this field have investigated the manufacturing or hospitality industry rather than small retailer companies (Kara et al., 2005; Tajeddini and Trueman, 2008). In short this research examines the relationship between customer and entrepreneurial orientation and how this influences performance in terms of efficiency and effectiveness for small retail companies. *Firstly* it explores the literature in order to rationalize the key determinants of entrepreneurial and customer orientation as antecedents to company performance and develops a series of hypotheses. *Secondly* it explains the research methodology and rationale leading to key research questions, the research model and an in depth study of 261 Swiss small-sized retailers. *Thirdly* it reviews the statistical analysis and interpretation of research findings and *finally* it discusses the implications of findings and opportunities for future research.

2. Literature review

2.1. Customer orientation in retail performance

Earlier studies have investigated customer orientation in retailing as a component of market orientation (Elg, 2008; Harris, 2000;

Rogers et al., 2005; Soehadi et al., 2001). For example, Elg (2007) argues that retailing has to be studied on three levels; the corporate level where long term strategic decisions regarding brands and store concepts are taken; a mid range level concerned with product and assortment decision, and a local store level dealing with the store environment and daily customer interactions. He adopts the assumption that large firms, as opposed to small retailers, have different departments and functions as well as substantial resources that can be used for intelligence activities. Others, such as Pelham (2000), consider the closeness that small firms have to their customers and the importance of a strong customer orientation. Similarly a study of small independent UK retailers conducted by Megicks and Warnaby (2008), found that a focus on satisfying customer needs was a critical success factor since it is likely to enhance company performance.

In fact customer orientation has long played a dominant role in a conventional marketing management practice (Kotler, 2003) as well as in the service industry (Vargo and Lusch, 2004). While some scholars (e.g. Goff et al., 1997; Saxe and Barton, 1982) have conceptualized customer orientation as a behavioral construct, Brown et al. (1991) observe "a tendency or predisposition to meet customer needs". In marketing philosophy, customer orientation seeks to measure the extent to which decisions and activities in the organization are customer-based (Spillan and Parnell, 2006). Similarly Brännback (1999) argues that customer orientation is the core of business success, the meaning of which has to be disseminated throughout the organization, understood and internalized by everyone. Alternatively customer orientation in service firms is directly related to perceptions of quality, employee performance and service environment, leading to successful external marketing, enhanced customer satisfaction, and enhanced company performance (Dowling and Pfeffer, 1975).

Since the retail environment is fast-moving and constantly changing, with extensive competition and an ever increasing customer sophistication (Stan and Evans, 2000), a customer orientation is likely to be critical for successful performance and forms the focus for this research. This is in line with Merlo et al. (2006), who note that customer service is a key factor that significantly influences performance, and is regarded as the core of business success the retailing industry. Consequently we hypothesize:

H1. Customer orientation in small-sized retailers will be positively related to performance measured by (a) efficiency; and (b) effectiveness.

2.2. Entrepreneurial orientation in retail performance

Overall, there is little research on the role of entrepreneurship for small retail companies in relation to company performance, but Grewal and Levy (2007) view entrepreneurial orientation as a part of the broader concept of managerial orientation with a considerable affect on retail competitiveness. Similarly, Griffith et al. (2006) found that a retail manager's entrepreneurial orientation generally had a positive impact on the firm's ability to take advantage of knowledge resources and turn them into a competitive advantage. Home (2011) identifies four different retailer clusters with a varying approach to entrepreneurial orientation, and Jambulingam et al. (2005) classify retailers by their approach towards entrepreneurial orientation; but these authors do not discuss the relationship between orientation and performance. In this respect earlier research has typically characterized entrepreneurship as a multidimensional construct involving the firm's actions relating to innovativeness, risk-taking, and proactiveness (Covin and Slevin, 1989; Dickson, 1992; Jones and Butler, 1992; Miller, 1983; Morris and Paul, 1987; Slater and Narver, 2000; Smart and Conant, 1994). Within a strategic management

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