Extending the resource-based view: Effects of strategic orientation toward community on small business performance

Jeffrey M. Campbell a,*, Joohyung Park b

a Department of Retailing, University of South Carolina, 4005-B Carolina Coliseum, Columbia, SC 29208, United States
b Department of Retailing, University of South Carolina, 4005-E Carolina Coliseum, Columbia, SC 29208, United States

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ABSTRACT

The current study explores factors relating to self-interest, corporate social responsibility, and a resource-based strategy to help predict small business performance across a number of domains including retailing and service-based industries. Combining the resource-based view and instrumental stakeholder approach, we suggest that resources such as social capital, entrepreneurial orientation, and intellectual capital along with strategic management of community as a stakeholder contribute to small business performance. Results from a national survey of small businesses supported the importance of both the resource-based view and the instrumental stakeholder approach to overall performance.

1. Introduction

Small businesses continue to be an important driver of the U.S. economy, comprising over 28 million businesses and contributing 48% of U.S. sales. At a total, 50% of the nation’s private workforce and 64% of the “net new jobs” in the U.S. between the years of 1993–2011 have been from small businesses (US SBA.gov, 2014). Although small businesses provide an important resource to the U.S. economy, not all succeed. Statistics suggest that only 20% of businesses survive the first year, and only 3% survive the first five years (US SBA.gov, 2014).

Failure can be attributed to several factors including financial (Lussier and Halabi, 2010; Van Auken et al., 2009) and non-financial relating to poor staffing, institutional support, or lack of networking/co-operation (Franco and Haase, 2010). Retail may be especially vulnerable to failure as “The retail product – at the item level, and to some degree at the level of the store – can be relatively and easily copied…” (Burt and Davies, 2010, p. 872). Overlooked in the reasons for failure, however, are issues relating to strategy. Can small businesses including retailers utilize their resources as a strategic competitive advantage to prevent failure and positively affect business performance? Can strategic management of a primary stakeholder contribute to their performance? Whether a combination of these two strategic orientations will work together to improve small business performance has yet to be ascertained or studied. This becomes the impetus to our inquiry.

Much of the prior small business research has taken a narrow perspective to measuring success and performance. These studies include a resource-based view of the firm (RBVF) approach that considers strategy derived from internal resources (Runyan et al., 2006; Runyan, 2005; Wiklund and Shepherd, 2005). Other perspectives, however, suggest the importance of society (Besser and Miller, 2004), external stakeholders (Preble, 2005), and corporate/community social responsibility (Niehm et al., 2008) as possible influences to better small business performance. What is missing, however, is an integrated study that includes both “a resource-driven” approach and a “relationship-driven” approach to strategic management. To this end, our study fills a gap in the literature by suggesting a new manner to view small business performance through a proposed combined framework.

The purpose of our exploratory study is to propose and test factors believed to affect small business performance, utilizing the RBVF and the instrumental stakeholder framework approach. Our study will add to the literature by following Newbert’s (2007, p. 141) suggestion of extending the RBVF paradigm, given that “scholars seeking to use the RBV to explain performance may wish to carefully consider those exogenous factors that may hinder the firm’s ability to appropriate rents”. By including factors relating to strategic management of community as a stakeholder, we create a new view of business performance and how a focus on both self and others can lead to improved performance and a sustainable competitive advantage.
2. Theoretical background

2.1. Resource-based view of the firm

Theoretical foundations from the RBVF helped to guide the study. As an extension of Porter’s Five Forces within the strategic management literature (Wernerfelt, 1984), the RBVF suggests that a firm’s sustainable competitive advantage can be reached if internal resources are leveraged to help guard against competitors and other external market forces that may negatively impact performance (Porter, 1980). Competitive advantages can be reached through factors such as social capital derived from social networks (Nahapiet and Ghoshal, 1998), organizational process (Barney, 1991), innovation through products and process (entrepreneurial) for cost efficiency (Terziiovski, 2010), and intellectual capital gained from employees (Bontis, 1998) among others. It is through these three perspectives (social capital, entrepreneurship, and intellectual capital) that the current inquiry is directed. For these competitive advantages (or others) to remain sustainable, however, Barney (1991) suggested that four distinct attributes exist; these include resources being 1) valuable, 2) rare, 3) imperfectly imitable, and 4) hard to substitute.

In an analysis on empirical research regarding the RBVF, Newbert (2007) noted that firm capabilities or resources were the primary driver of explaining outcomes of performance or competitive advantage. The difficulty in identifying the true value or definition of a firm “resource” (Kraaijenbrink et al., 2010), however, has called into question the use of the RBVF as a solitary explanation of performance. As a singular theory, Barney et al. (2011, p. 1304) contemplated that a resource-based theory view may be in a mature stage, ready for “interlinkages with other perspectives”. In particular to small businesses or start-ups, they noted that research has not adequately considered factors of ownership and strategic leveraging of resources.

A few recent studies, however, have moved toward this goal of small business consideration, albeit in varying contexts. Campbell (2014) evaluated farmers’ markets as an alternative retail format, using strategic orientation factors of entrepreneurship and social capital as antecedents to performance. Tajeddini et al. (2013) also considered retail small businesses as their focus, and noted that customer and entrepreneurial orientations as a strategic competitive advantage were important even if small businesses had limited resources. Barbero et al. (2011) also suggested factors related to innovation and financial capabilities as important for small business success.

Within the research stream, the RBVF framework has considered the relationship of social capital with business performance. Social capital can be defined as “those expectations for action within a collectivity that affect the economic goals and goal seeking behavior of its members” (Portes and Sensenbrenner, 1993, p. 1323). For the current inquiry, key dimensions such as trust, homophily (the perception of others being similar to yourself), reciprocity (quid pro quo) and shared vision (consideration of the goals of the “collective” as important) were found as important dimensions of social capital (Stan et al., 2014; Runyan et al., 2006; Tsai and Ghoshal, 1998) and were therefore utilized in better understanding the relationship to performance. Social capital can lead to positive performance through value creation (Tsai and Ghoshal, 1998), through innovation and firm embeddedness (Cooke and Wills, 1999), and through network ties relating to government, other businesses, or possible trade associations where information exchange is important to small businesses (Santarelli and Tran, 2013). A meta-analysis of research on social capital and small firm performance by Stam et al. (2014) has also suggested a positive relationship. Taken at a whole, we believe that the presence of social capital will foster strong business relationships and subsequently improve performance outcomes. Therefore we suggest that:

H1. There is a positive relationship between social capital and business performance for small businesses.

Early work by Covin and Slevin (1989) on strategic posture of companies as an entrepreneurial “orientation” and the relationship to competition has also supported the RBVF approach. Covin and Slevin’s (1989) study conceptualized strategic posture through three separate dimensions (innovation, proactiveness, and risk-taking) and found that, depending on the nature of the environment in which a company is competing, it can positively affect performance. Entrepreneurial orientation as a specific construct has been noted as firms who “engage in product market information, undertake somewhat risky ventures, and (are) first to come up with proactive innovations, beating competitors to the punch” (Miller, 1983, p. 771). As a strategic resource, entrepreneurial orientation has been found to have a significant positive relationship to business performance (Campbell et al., 2011; Runyan et al., 2008; Wiklund and Shepherd, 2005). We therefore suggest the following:

H2. There is a positive relationship between entrepreneurial orientation and business performance for small businesses.

Intellectual capital has been defined as “the intellectual material – knowledge, information, intellectual property, experience – that can be put to use to create wealth” (Bontis, 1998, p. 65). Intellectual capital is an important part of the RBVF, particularly given the “intangible” nature of which employee knowledge, experience, and skill set is often hard to imitate and can be of tremendous value to a firm. In prior studies, these intellectual resources have been found to positively and directly affect performance (Crook et al., 2011; Hitt et al., 2001). With this in mind, we argue that a greater leveraging of intellectual capital by small business as a competitive advantage, the greater the likelihood of better performance. Therefore, we suggest that:

H3. There is a positive relationship between intellectual capital and business performance for small businesses.

2.2. Extending the RBVF with an instrumental stakeholder approach

While the RBVF framework often focuses on internal resources of a firm and how the firm can leverage those competencies in developing sustainable competitive advantages, the instrumental stakeholder approach recognizes that a firm is a “social” entity whose activities and performances can affect (and be affected by) various stakeholders (Freeman, 1983). Scholars who support the instrumental stakeholder view suggest increased benefits for firms to take relevant stakeholders into account in its strategic decision-making (Cennamo et al., 2001; Hillman and Keim, 2001; Jones, 1995). Jones (1995), for example, assumed that a firm makes multilateral relationships with various stakeholders and argued developing the relationships based on mutual trust and cooperation helps the firm to achieve competitive advantage as it reduces opportunism and transaction costs among the involved constituencies. Besides, firms’ conscious effort to meet the needs of legitimate stakeholders encourages the stakeholders to share nuanced information, which improves the efficiency of the firms’ resource use (Harrison et al., 2010). Close relationship with primary stakeholders such as employees, customers, suppliers, and communities “constitutes intangible, socially complex resources that may enhance firms’ ability to outperform competitors in terms of value creation” (Hillman and Keim, 2001, p. 127). Examples of such intangible resources include reputation, company culture, long-term relationships with suppliers and customers, and
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