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Journal of Retailing and Consumer Services

journal homepage: www.elsevier.com/locate/jretconser

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



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ARTICLE INFO

Article history:

Received 25 September 2012

Received in revised form

26 March 2013

Accepted 12 May 2013

Available online 19 June 2013

Keywords:

Customer orientation

Entrepreneurial orientation

Small-sized retailers

Differentiation

Effectiveness

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

framework, Miller (1983) defined an entrepreneurial firm as one that “...engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch”. In contrast, “...a non-entrepreneurial firm is one that innovates very little, is highly risk averse, and imitates the moves of competitors instead of leading the way...”. In fact the concept of *entrepreneurial orientation* was introduced by Lumpkin and Dess (1996) as an attribute that represents an approach towards entrepreneurship and innovation, reflecting an ongoing processes and corporate culture. In companies where entrepreneurial orientation is strong, the strategic leaders and corporate culture together generate a strong impetus to innovate, take risks, and aggressively pursue new venture opportunities (Dess and Lumpkin, 2005).

Entrepreneurship is also viewed as a *process*, where a unique package of resources are brought together to exploit an opportunity (Stevenson et al., 1989). This process itself includes a set of activities necessary to identify an opportunity, define a business concept, assess the needed resources, acquire those resources, and manage and harvest the venture (Morris et al., 2002). In practice entrepreneurs in small retail companies may find it more difficult to take financial risks, deploy material, and human resources although they may have the flexibility to respond more quickly to new business opportunities (Home, 2011; Steinhoff and Burgess, 1993). Based on this discussion we suggest that:

H2. The magnitude of entrepreneurial orientation in the small-sized retailers will be positively related to performance measured by (a) efficiency; and (b) effectiveness.

2.3. Entrepreneurial orientation and customer orientation

Entrepreneurial orientation refers to “the process by which firms notice opportunities and act to creatively organize transactions between factors of production so as to create surplus value” (Jones and Butler, 1992 p. 735). This explains company involvement in proactive and innovative strategies by entailing risk to bring forth an idea or a vision and carrying it through to completion (Lumpkin and Dess, 1996; Miller, 1983; Osman et al., 2011). Customer orientation, on the other hand, is concerned with creating value for current customers through gaining adequate understanding of their expressed needs (Narver and Slater, 1990). If customer orientation focuses on the present, it may fail to anticipate meeting the future and latent needs, so that cultural values should be taken into consideration, but these may not be sufficient to sustain a competitive advantage. In this regard, successful businesses need a higher level of entrepreneurial orientation to recognize the gap between current market needs and what is required to meet future opportunities (Slater and Narver, 1995). To this end Kandampully and Duddy (1999) argue that in business, anticipation is a process of understanding the future needs of customers to gain a competitive edge. In other words, those entrepreneurial orientated small-sized retailers who tend to be proactive in anticipating the latent needs of customers are able to respond to current and future customer needs and wants, thereby, generating a pioneering advantage over competitors (Tajeddini and Trueman, 2008). Moreover, to better understand customer orientation over time, there is a need to focus on the entrepreneurial orientation of an organization's culture. In particular, we argue that customer orientation with an entrepreneurial drive enables a firm to build a higher level of customer value (Slater and Narver, 1995). As suggested by Griffith et al. (2006) in their study of small retailers, a firm with a stronger entrepreneurial orientation will also be better at gaining knowledge from its customer base. In short, this is all about building customer and learning-orientated organizational value systems so that companies can use their capabilities to achieve a superior performance; and recognizing *two* aspects of value that benefit firstly the

company and secondly the customer (Yilmaz et al. 2005, Trueman and Pike 2006). Accordingly, we suggest

H3. The magnitude of entrepreneurial orientation in small-sized retailers is positively associated with the magnitude of customer orientation.

3. Research method

3.1. Data collection

The pool of business owners contacted was selected randomly from different small retailers in Switzerland. We focused on small businesses with fewer than 50 employees, where the likelihood of strategic influence on the company by the business owners was highest (Keh et al., 2007). Small business owners were our target respondents because they tend to be the most knowledgeable people about company orientation (Keh et al., 2007). A list of potential respondents was obtained from two private Swiss business directories to compile a pool of 550 companies. Back translation was done to ensure accuracy of the original scales in the German context by following the guidelines suggested in the literature (Sekaran, 1983; Werner and Campbell, 1970). The questionnaire was pre-tested using four academics in order to insure that the survey content and measurement scales were clear, valid and appropriate. Following modifications, a second pre-test was carried out with eleven small size business owners, to make sure that all the questions were relevant for respondents. This practice follows previous research to ensure the scales for all the constructs were clearly marked and each item was critically evaluated and verified. Finally, a few open-ended questions were added to give “color” to our data and lead the respondents to think analytically and critically. After the process of refining and 550 questionnaires were distributed. Three weeks after the first wave of mailings, we followed up with further reminder mails, emails and phone calls to non-respondents. As a result, a total of 261 questionnaires collected, making a response rate of 47.4% that were valid and useful for analysis purposes. Non-response bias was tested using the method advocated by Armstrong and Overton (1977). Responses to each variable by 7% of the first respondents were compared to those obtained from the last 7%, and the results of independent samples t tests showed no significant differences between these two groups ($p > .05$).

3.2. Respondent and organizational profiles

Table 1 provides more information about the respondents' demographic characteristics as well as company characteristics. There was a wide spread of small retailers, with the two top sectors being those engaged in food, beverage and raw materials sales (22.2%) and repair and maintenance (15.7%) sectors. In terms of size, 63.6% of the entrepreneurial firms have fewer than 20 employees and 87.4% of them have fewer than 40 employees. The age of the respondents surveyed was skewed towards young and middle-aged people, with the majority (75.9%) being less than 40 years old. On the other hand the companies in this sample can be divined roughly into three parts with 38% less than 10 years old, 31% between 10 and 20 years, and a further 31% that have been established for more than 20 years.

3.3. Measures

The survey questionnaire contained items assessing general demographic characteristics, as well as a number of instruments measuring customer orientation, entrepreneurial orientation and

Table 1
Profile of respondents (Demographic Variables) (n=261).

| Characteristics | Percent % | Frequency | Characteristics | Percent % | Frequency |
|----------------------------|-----------|-----------|---|-----------|-----------|
| Sex | | | Retail area | | |
| Male | 57.5 | 150 | Financial services//banking/insurance | 11.5 | 30 |
| Female | 42.5 | 111 | Traveling | 14.2 | 37 |
| Employee members < 10 | | | Food and beverage/sales/Raw materials | 22.2 | 58 |
| 10 but less than 20 | 31.8 | 83 | Professional and health-care activities | 12.6 | 33 |
| 20 but less than 30 | 21.8 | 57 | IT/computer/internet | 9.2 | 24 |
| 30 but less than 40 | 17.7 | 46 | Repair and maintenance | 15.7 | 41 |
| 40 but less than 50 | 16.1 | 42 | Education | 10.0 | 26 |
| Years of establishment < 5 | | | Arts and crafts | 4.6 | 12 |
| 5 but less than 10 | 12.6 | 33 | Age | | |
| 10 but less than 15 | 16.5 | 43 | < 25 | 14.2 | 37 |
| 15 but less than 20 | 21.4 | 56 | 25 but less than 30 | 19.5 | 51 |
| 20 but less than 25 | 17.3 | 45 | 35 but less than 40 | 18.8 | 49 |
| 25 or more | 13.8 | 36 | 40 but less than 45 | 23.4 | 61 |
| | 18.0 | 47 | 45 but less than 50 | 16.8 | 44 |
| | 13.0 | 34 | 50 or more | 7.3 | 19 |

business performance. All items were rated on a seven-point Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree) unless otherwise noted, and all items were scored such that a higher score indicated higher standing on the construct being measured. Following the data collection, scale purification using a series of reliability and validity assessments was undertaken prior to hypothesis testing. Although the scales were grounded in the previous literature (O’Leary-Kelly and Vokurka, 1998), and following basic descriptive analyses including the examination of coding errors, normality, skewness, kurtosis, means and standard deviations (Panayides and So, 2005), exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) by means of AMOS was employed to evaluate the psychometric properties (Lukas et al., 2001) and ensure reliability (Kim and Mueller, 1978). In order to test the constructs’ underlying dimensions and to search for a more parsimonious set of variables for subsequent analysis, all the scales in our study were first subjected to exploratory factor analysis, using principal components analysis using varimax rotation with a criterion of eigenvalue greater than 1.0. In addition the results of coefficient alpha indicate that the scales are reliable (Table 2). The average of the item scores for the items in each instrument was then taken to arrive at the participant’s score on each measure. For the purposes of this study, we have selected the constructs that are considered appropriate to use in the context of the small-sized retailers.

3.3.1. Customer orientation measures

To measure customer orientation, multiple sources were examined due to the emphasis on customer focus in small independent retail businesses. This scale using the nine items was adopted from Ashill et al. 2005, Berthon, McHulbert and Pitt (2004), Deshpandé et al. (1993), Pelham (1999) pertaining to product mix, services, prices, market research activities, database marketing and CRM to capture respondents’ perceptions regarding customer orientation concept. A confirmatory factor analysis was used to validate a Likert-type 7-point scale (1 “totally disagree,” 7 “totally agree”), which required deletion of Item 9 ($\chi^2=7.23$, $df=12$, Normed Fit Index [NFI]=.98, Non-Normed Fit Index [NNFI]=.96, Comparative Fit Index [CFI]=.98, Incremental Fit Index [IFI]=.98). The scale is unidimensional and this procedure allows selection of eight items (see Appendix A) with high validity and reliability ($\alpha=.95$). The composite reliabilities³ (CR) was used to assess the degree of

³ $CR_{\eta} = \frac{(\sum \lambda_{i\eta})^2}{(\sum \lambda_{i\eta})^2 + (\sum \epsilon_i^2)}$ where CR=composite reliability for scale η ; $\lambda_{i\eta}$ =standardized loading for scale item γ_i , and ϵ_i =measurement error for scale item γ_i (Fornell and Larcker, 1981).

Table 2
Measurement model and confirmatory factor analysis.

| Constructs | Indicator (parameter) | Factor loadings |
|---|---------------------------------------|------------------|
| Effectiveness $\alpha=.818$ CR=.76 AVE=73% | Profit growth goal achievement | .74 |
| | Sales growth goal achievement | .82 |
| | Market share growth goal achievement | .76 ^a |
| Efficiency $\alpha=.942$, CR=.75 AVE=68% | Profitability goal achievement | .95 |
| | Return-on-investment goal achievement | .89 |
| | Return-on-sales goal achievement | .85 |
| | Return-on-assets | .89 ^a |

Model summary statistics: $\chi^2_{(13)}=41.32$, $\chi^2/df=3.18$, p-value=.00, robust CFI=.98, GFI=.95, RMSEA=.08, Delta2=.98, RMR=.02

^a Loading fixed to 1 for identification purposes.

consistency between multiple measurements of a variable (Hair et al., 2005) and average variance extracted⁴ (AVE) to measure the convergent validity (Anderson and Gerbing, 1988). CR was calculated using the procedures suggested by Fornell and Larcker (1981). The CR of customer orientation was .79, exceeding .79, which is the acceptable level suggested by Bagozzi and Yi (1988). The value for average variance extracted from the construct was .76, which also exceeds the threshold level (.50) suggested by Bagozzi, Yi, and Phillips (1991). All item loadings ranging from .78 to .93 are significant at the 5% significance level, indicating convergent validity (Bagozzi et al., 1991).

3.3.2. Entrepreneurial orientation measures

From a small retail businesses perspective, the entrepreneurial orientation scale was adopted from the work of Altinay and Wang (2011). These items are duly adapted to the present study as they pertain to new product identification, new services, new ways to communicate with customers, new ways to distribute the product, new ways to run the business as well as they capture a business’s tendency to be bold and tolerate the risk and embraces the

⁴ $AVE = V_{\eta} = \frac{\sum \lambda_{i\eta}^2}{\sum \lambda_{i\eta}^2 + \sum \epsilon_i^2}$ where V_{η} =average variance extracted for η ; $\lambda_{i\eta}$ =standardized loading for scale item γ_i , and ϵ_i =measurement error for scale item γ_i (Anderson and Gerbing 1988).

dynamic process in dimensions of innovation, proactiveness and attitude toward strategic planning processes in small retail businesses. After Exploratory Factor Analysis (EFA), a confirmatory factor analysis was used to validate the scales ($\chi^2=93.44$, $df=47$, $NFI=.91$, $NNFI=.94$, $GFI=.94$, $CFI=.95$, $IFI=.96$) showing that the scale is unidimensional and has adequate validity and reliability ($\alpha=.86$) for small independent retailers. The CR and AVE of entrepreneurial orientation were examined resulting .76 and .66 respectively exceeding the accepted threshold levels. All item loadings ranging from .69 to .76 are significant at the 5% significance level, indicating convergent validity.

3.3.3. Organizational performance measures

Two subjective dimensions were used to evaluate retail business performance: effectiveness and efficiency. Retail effectiveness was measured in terms of profit growth achievement, sales growth achievement, and market share growth achievement, while retail efficiency was measured in terms of profitability achievement, return-on-investments (ROI) achievement, return-on-sales (ROS), and return-on-assets (ROA) achievement (Auh and Menguc, 2005; Kara et al., 2005; McDougall and Levesque, 1995). Each outcome item is phrased so that respondents evaluated these aspects of business performance over the last 3 years relative to their business unit's primary competitors' (1—much worse than my competitors; 7—much better than my competitors). This scale reflects the extent to which a retailer practices as a result of the level of exposure to business philosophy (Tajeddini and Trueman, 2008). In line with Dess and Robinson, (1984), Slater and Narver (1994), Matsuno, Mentzer, and Özsoy (2002), Tajeddini (2010); Tajeddini and Trueman (2012) argue that objective (i.e., certifiable by a third-party) relative performance measures were virtually impossible to obtain at the business unit level, and also subjective measures have been shown to be correlated to objective measures of performance. By using factor analysis, two distinct factors: 'Retail effectiveness' and 'Retail efficiency' were found to have eigenvalues greater than unity (see Table 2).

After Exploratory Factor Analysis (EFA), a confirmatory factor analysis was used to validate the scales ($\chi^2=41.32$, $df=13$, $NFI=.97$, $TLI=.97$, $GFI=.94$, $CFI=.98$, $IFI=.98$) with adequate validity and reliability for effectiveness ($\alpha=.81$) and efficiency ($\alpha=.94$) showing appropriate measures for small independent retailers. The CR and AVE of effectiveness (CR=.76 and AVE=73%) and efficiency (CR=.75 and AVE=68%) were examined and the results show that have exceeded their threshold levels. All item loadings ranging from .85 to .90 are significant at the 5% significance level, indicating convergent validity. We also included retail age and the participant's background (0: marketing/sales; 1: other) as controls. Retail age was measured by the number of years that a retailer has been in operation.

3.4. Common method variation

Because of Campbell and Fiske (1959) concern about self-reported measures and the data for each variables is from a single respondent, a common method bias may occur due to influences such as self-desirability, or ambiguity, leading to some inflated estimates of hypothesized relationships and misleading interpretations of findings (Podsakoff, MacKenzie, Lee, and Podsakoff, 2003; Menguc and Auh, 2008). Therefore, we employed Harman's one-factor test within a CFA setting (Podsakoff and Organ, 1986). This resulted in four factors with eigenvalues greater than 1.0, as expected, which accounted for 68.53% of the total variance; and Factor 1 accounted for 33.16% of the variance. Because a single factor did not emerge and Factor 1 did not explain most of the variance, common method bias is unlikely to be a concern in our data (Tajeddini, 2010).

3.4.1. Model and analysis

To eliminate same-source bias and add to the value of our research, retail managers were asked to assess business performance and corroborate measures of it drivers observed by other respondents. Furthermore, we aggregated the responses of multiple informants to measure exogenous and endogenous constructs (Medsker, Williams, Holohan, 1994). This increases convergent validity (Zaheer et al., 1998), and reduces random error in measurement. Given the existence of two exogenous latent variables (customer orientation [ξ_1] and entrepreneurial orientation [ξ_2]), a first-grade endogenous latent variables (effectiveness [η_1] and efficiency [η_2]), the study applies structural equation modeling (SEM) to establish causal relationships between these variables and to test the study hypotheses using AMOS 7.0. This process not only translates the theoretical construction into mathematical model (Jöreskog and Sörbom, 1996), but also it provides estimation and evaluation the model empirically.

In the SEM model, all scale items represent the indicators of exogenous and endogenous constructs. The parameter estimates or factor loadings are used as single item indicators and perform a path analysis, with the maximum likelihood estimate (MLE) method. Given the non-normality of some of the measures, the guidelines follow recommendations of Jöreskog and Sörbom (1993). The MLE method was chosen rather than regression analysis to meet the four assumptions suggested by Wang and Ahmed (2004), indicating a reasonable sample size; continuous scales for the observed variables, validity of hypothesized model; and multivariate normal distribution of the observed variables. The results showed a univariate skewness of each variable as less than .559 meeting the requirement of <2 and the univariate kurtosis of each variable is less than 1.229 well below the <7 recommended. Thus, the fourth assumption of MLE is met.

Table 3 summarizes the variables' means, standard deviations, correlations, and shared variances.⁵ As shown in Table 2, the average variances extracted were above 50 percent for all constructs. The shared variances between pairs of all possible scale combinations indicated that the average variances extracted were higher than the associated shared variance in all cases which indicated another evidence of discriminant validity (Table 3).

Moreover, the variables were mean-centered to minimize the threat of multicollinearity in equations where we created interaction terms. The largest variance inflation factor (VIF) was 1.201, well below the 10 benchmark (c.f. Jaccard and Turrisi, 2003; Neter, Wasserman, & Kutner, 1990), and in no case did the tolerance lower than .1 indicating that multicollinearity was not a concern in the data. In other words, the same part of the dependent variables was not explained by the independent variables.

4. Hypothesis analysis and results

The hypothesized model was estimated by using structural equation modeling with the AMOS 7.0. The results of the hypothesis testing are provided in Table 4, along with parameter estimates, their corresponding t -values, and the fit statistics. The model fits were evaluated using different psychometric properties indicating the most stable in confirmatory factor analysis (CFA) and structural equation modeling to estimate the measurement properties of multi-item constructs in AMOS (Bagozzi, Yi, and Phillips, 1991; Gerbing and Anderson, 1988, 1992). The CFA was fitted using the maximum likelihood estimation procedure with the raw data as input in AMOS. In addition, the items were

⁵ $\gamma_2=1-\psi$ where γ_2 =shared variance between constructs, and with the diagonal element of ψ indicating the amount of unexplained variance.

Table 3
Correlations among variables, and shared of measurers (N=261).^a

| Variable | 1 | 2 | 3 | 4 | 5 | 6 |
|-------------------------------|--------|-------|--------|--------|--------|------|
| 1.Retail age | 1 | .000 | .000 | .000 | .000 | .000 |
| 2.Participant's background | .093 | 1 | .000 | .000 | .000 | .000 |
| 3.Customer orientation | .040 | -.021 | 1 | .403 | .423 | .469 |
| 4.Entrepreneurial orientation | .035 | -.019 | .635** | 1 | .388 | .386 |
| 5.Efficiency | -.003 | -.077 | .651** | .623** | 1 | .320 |
| 6.Effectiveness | .045 | -.073 | .685** | .622** | .566** | 1 |
| Mean | 29.72 | .54 | 4.38 | 4.40 | 4.39 | 4.46 |
| Standard deviation | 13.973 | .499 | .737 | .720 | .886 | .789 |

Sample size=261.

Notes: ** $p < .01$, (two-tailed test).

^a The correlations are included in the lower triangle of the matrix. Shared variances are included in the upper triangle of the matrix.

Table 4
Hypotheses and standardized structural estimates of model.

| Path | | Direct effect | |
|-----------------------------|----------------------|---------------|---------|
| | | Coefficient | t-value |
| Customer orientation | Efficiency | (H1a) .61 | 8.08*** |
| Customer orientation | Effectiveness | (H1b) .77 | 6.39*** |
| Entrepreneurial orientation | Efficiency | (H2a) .10 | 1.96 ns |
| Entrepreneurial orientation | Effectiveness | (H2b) .51 | 6.63*** |
| Entrepreneurial orientation | Customer orientation | (H3) .72 | 8.30*** |

Goodness-of-fit statistics: $\chi^2_{(210)} = 397.94$, p -value=.00, CFI=.96, GFI=.89, TLI=.95, Delta2=.96, AGFI=.91, RMSEA=.06.

*** $P < 0.001$ (two-tailed test)

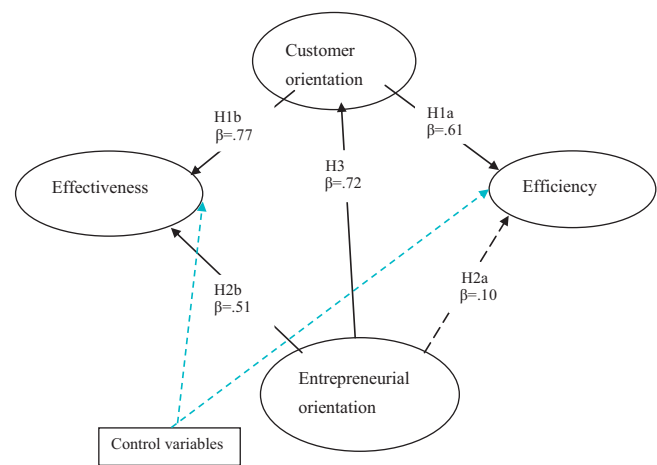


Fig. 1. Theorized model.

examined based on the error variance, modification index (< 3.84), and residual covariation (< 12.581) (Anderson and Gerbing, 1988; Jöreskog and Sörbom, 1996). After dropping some items due to the low factor loadings or high cross loadings (Anderson and Gerbing, 1982), the CFA model resulted in an acceptable fit to the data, with comparative, the model resulted in a reasonable fit to the data, with [CFI]=.96, and [Delta2]=.96, [RMSEA] =.06, [GFI]=.89; [TLI]=.95; [RMR]=.07, Chi-square $\chi^2 = 397.94$; [df]=210, (Browne and Cudeck, 1993; Gerbing and Anderson, 1992). (Table 4). The ratio of chi-square to the degrees of freedom was $\chi^2/df = 1.89$, which was below 4. Psychometric properties indicate that the theoretical model have a good fit to the data (Hu and Bentler 1999).

With regard to H1, we have hypothesized that the magnitude of customer orientation in small-sized retailers is positively associated with the magnitude of performance measured by: (a) efficiency; and (b) effectiveness. As reported in Table 4, customer orientation has significantly related to efficiency (Coefficient=.61; t -value=8.08, $p < .001$) and effectiveness (Coefficient=.77; t -value=6.39, $p < .001$) for small retailers, in support of H1a and H1b. Hence, it appears that generally, the managers and owners of small-sized retailers who believe customer needs and satisfaction are the priority of an organization are able to achieve their firm effectiveness i.e., profit growth, sales growth and market share growth and efficiency, i.e., profitability goal, ROI, ROS, and ROA. H2 posits that the magnitude of entrepreneurial orientation in the small-sized retailers is associated with the magnitude of performance measured by (H2a) efficiency; and (H2b) effectiveness. However, contrary to our expectation, entrepreneurial orientation is not significantly related to retail efficiency (t -value=.10; ns) for small retailers, but it was positively and significantly related to retail effectiveness (Coefficient=.51, t -value=6.63; $p < .001$). Consequently, while H2a was rejected, H2b was supported. The findings show that entrepreneurial orientation plays an important role in effectiveness. We have hypothesized

that the magnitude of entrepreneurial orientation in small-sized retailers is positively associated with the magnitude of customer orientation. Support for H3, entrepreneurial orientation in small retail firms is positively associated with the magnitude of customer orientation (coefficients=.72, t -value=8.30; $p < .001$) (Fig 1).

5. Discussion and conclusions

In the beginning of this paper we asked whether small retailers are investing in marketing activities, and if this will have a positive impact on their performance. Largely, the empirical investigation answers these questions with a “yes”. These firms benefit from pursuing new market opportunities and responding to the needs of their customers. The goal of this paper was to address the question of how two different strategic capabilities, namely entrepreneurship and customer orientation, are differently related to efficient and effective firm performance for small retailers. Despite the strong theoretical suggestion leading to such a research question, the extant literature has not explicitly tested this hypothesis in the small retailer context. This research proposed and tested a more integrated approach that explicitly articulates the role of two key drivers of effectiveness and efficiency in the context of small retailers.

First, the study shows that customer orientation positively influences performance in both efficiency and effectiveness terms to build value for company and customers. In our sample, the results indicate that retailers can influence effectiveness and efficiency by prioritizing customer needs and satisfaction. This linkage is generally supported by the empirical data where a higher level of customer orientation is associated with improved business performance such as profit goal

achievement, sales goal achievement, ROI achievement and market share. The rationale suggests that a customer orientation provides a company with a better understanding of its customers (Voss and Voss, 2000; Tajeddini, 2011). This subsequently leads to more satisfied customers, who will purchase a retailer's products again and inform others, and ultimately leads to long-term relationships with customers and to superior firm performance. Attributed to the definition of (Drucker, 1954), in this field of business, it appears that the managers and owners of small retailers "put the customer's interest first" in order to develop a long-term profitable enterprise. This is particularly intriguing given that outcomes are consistent with prior studies (e.g. Tajeddini and Trueman, 2008; Tajeddini, 2010) that found that customer orientation has a positive effect on profit goal achievement, sales goal achievement and ROI achievement. The results assert that small retailers may develop a long-term profitable enterprise if they are customer focused by creating products or services of superior value and differentiate their business from competitors (Deshpandé et al., 1993). This is in line with Grönroos (1982) who noted that service industries need to impart customer orientation to employees if they are to reinforce the quality of the firm and its services. Consequently, small retailers should create a culture of customer orientation by accentuating the creation of customer value as the overriding organizational goal, and providing norms for business development and consensus (Slater and Narver, 1995). In all, our results support earlier findings that customer orientation has an impact on performance for small retailers (Megicks and Warnaby, 2008) as well as small manufacturers (Pelham, 2000; Vitale et al., 2004). Although Kara et al. (2005) discussed that the results of market orientation may not completely be transferrable from manufacturing to small retailers, our findings indicate that small retailers similar to manufacturing firm are rewarded for putting an effort into customer satisfaction activities and for trying to develop new values for their customers.

Viewed from a slightly different perspective, our findings supported the claim that regardless of whether the firm is small or large, customer orientation is positively associated with effectiveness and efficiency of firm performance. Arguably, small firms may enjoy high level of efficiency and effectiveness since they have the flexibility to take care of local and/or special customer needs (Smith and Sparks, 2001). Direct positive impact of customer orientation on effectiveness and efficiency suggests that small service firms should focus on customer orientation as a competence that can distinguish them from their competitors.

Arguably, customer–performance relationship enhances the Swiss retailer's ability to create and deliver superior customer value by optimizing the firm's effectiveness and efficiency. This enforces the classic tenet of staying close to the customer enhances desirable outcome creation and maintains of superior customer value (Slater and Narver, 1998). As a result, in the effort to create superior customer value continuously, retailers are advised to emphasize the need to understand target customers thoroughly to provide the business with insights to deliver better customer value and achieve superior performance (Day 1994; Slater and Narver, 1998). This approach may help them to develop a better system to satisfy customers, and thus is more likely to lead to a differentiation advantage (Zhou, Li and Zhou, 2007).

Next, empirical findings confirm entrepreneurial orientation as an important determinant of effectiveness. This implies that entrepreneurial activities are generally important to the success of small retailers. The findings show that competitiveness achievement is driven by entrepreneurial orientation in the small firms. It indicates that small retailers are required to consistently recognize opportunities and marshal resources to achieve their goals (Stevenson and Gumpert, 1985). This is also important because Switzerland consists of about 300,000 small- and medium-size enterprises (SMEs) accounting for nearly 95% of all active organizations (Quayle, 2001) and over 50% of the

population is engaged with small businesses (Tajeddini and Mueller, 2009).

In addition, the link between entrepreneurial orientation and efficiency, however, appears to be more complex than generally assumed. In our sample, the results indicate that retailers can influence effectiveness by exploiting the opportunity, capabilities and resources, but it seems that it does not necessarily translate to the efficiency application. We approach this finding from two separate but interrelated perspectives: entrepreneurial ventures vs. small businesses and Swiss culture.

A possible explanation is the concept of entrepreneurship in the small businesses. Allen (2007) argues that entrepreneurial ventures and small businesses are related but they are not the same in most respects. While small-business owners typically operate a business to make a living, entrepreneurs can be described as a radical innovator, a disruptor of an existing equilibrium and the instigator of a process of 'creative destruction' (Schumpeter, 1934). In fact, small retailers, as opposed to entrepreneurs, form an economic core (Kirchoff, 1994), and Allen (2007) notes that they may be a lifestyle for the owners or family, often referred to as Mom and Pop businesses. They tend to remain relatively small and geographically bound, most often because of a conscious decision and the part of the founder to keep the firm a small life style business (Allen, 2007).

Corporate entrepreneurship has to do with the process of renewal activities that enhances a firm's ability to compete and take risks (Miller, 1983; Sathe, 1989; Zahra, Neubaum and Huse, 2000). This process requires that the businesses becomes involved with product-market innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch (Miller, 1983). But not all business firms have a willingness to assume risk (Lumpkin and Dess, 1996; Tajeddini and Mueller, 2012). In other words, the owners and managers of small retailers do not have larger resources to be able to have risk-taking propensity towards taking chances in uncertain decision-making contexts. The findings are reminiscent of the recent research of Tajeddini and Mueller (2012) who found that Swiss small watch managers tend to be averse to risk-taking. They found that these managers appear more market-orientated than entrepreneurial-oriented by making a thorough assessment of market needs before undertaking any bold action.

In addition, past research has also shown that many businesses fail to meet financial expectations (Cooper and Edgett, 1996) and produce insignificant success (John and Storey, 1998). Similarly, Lonial and colleagues (2008) found no significant effect of entrepreneurial orientation toward new service development on financial performance in the hotel industry. However, their results provided evidence for the mediating role of NSD–performance in the relationship between market orientation and financial performance. Yet, scholars encourage managers to adjust their innovation focus and approach when the goal is either increased financial performance (Ottenbacher, 2007) or quality improvement (Tajeddini, 2009).

The findings show that these small service businesses are able to introduce technical solutions that respond the needs of consumers in order to enhance their performance. Still, a successful innovation may generate profit for the entrepreneur, but it will not last for a long time because other rivals quickly enter the market by imitation or adoption. However, if the entrepreneurs align themselves with the centrality of the customer orientation approach and remain active in striving to find additional customer values it may lead to a sustainable competitive advantage. From a managerial perspective, it should also be stressed that while customer orientation initiatives may have a direct impact on both effectiveness and efficiency; new, entrepreneurial efforts should be regarded as a long term investment rather than as a way to drive short term efficiencies.

All in all, our results can be interpreted as suggesting that customers may appreciate small retailers who take risks, introduce new products and ideas that meet their needs. This can lead to

growth in terms of market shares and sales. However, the risks and increased costs generated by an entrepreneurial orientation may make it difficult for a small retailer to increase the efficiency performance in terms of profitability, ROI, etc. However, we also found that an entrepreneurial orientation was positively related to the small retailers' customer orientation. Since the latter is, in turn, positively related to efficiency a strong entrepreneurial orientation does nevertheless have an important indirect effect on efficiency as well and be necessary for long term success.

Our research is among the incipient investigations that intend to empirically test the antecedents of efficiency and effectiveness in the small retail services. The first criterion depicts performance measure in terms of efficiency outcomes capturing a wide range of parameters which impinge upon business success. The second criterion is more of a measure of organizational effectiveness. A simple arithmetical average of four variables such as profitability goal, ROI, ROS and ROA was taken to build an overall business efficiency index. Likewise, the same procedure repeated from profit growth, sales growth, and market share to obtain a total business effectiveness index. Although it would have been possible to incorporate additional marketing measures (customer satisfaction, customer loyalty etc.), these were deemed to be too diffuse. This was thought particularly so because of the cross-sectional nature of the study which meant that such measures were likely to cloud rather than add analytical insights (Ahmed, 1998). To our knowledge, it is the first study that demonstrates the effect of two key orientations on efficiency and effectiveness in a retail setting.

Although our findings expand the extant knowledge on the impact of customer orientation and entrepreneurial orientation on efficiency and effectiveness of retailers, we recognize several limitations that must be taken into account when generalizing our results. The design of our experiment provides insight into the Swiss small sized retailers—one specific service domain with a unique culture and experience—but it remains unclear whether findings would be similar for other service industries and cultures. Another avenue for further research would be to test the cross-cultural stability of our findings. Given that cultural norms about service delivery in general vary across cultures (Tajeddini, 2011; Tajeddini and Trueman, 2012), additional research should examine the extent to which cultural variables influence the interplay of efficiency and effectiveness. Moreover, all data were collected in a cross-sectional manner, and, therefore, all we can conclude is that the role variables and their posited consequences are related at one point in time. A final remark should be made about the relatively small sample size that was a consequence of the time intensive nature of the data collection process.

Appendix A

Customer orientation

Our business views customers:

1. Primarily as a source of revenue for the business.
2. Primarily as providing an opportunity to serve needs and wants.
3. Primarily as enthusiastic consumers of our innovative, market shaping products and services.
4. Primarily as individual co-partners in the development of unique, customized, products and services.
5. Primarily as a source of market information to develop our business.
6. We look for ways to offer customers more value.
7. We handle customers' complaints well.
8. A reputation for good service is stressed in my business.

9. When there is uncertainty, our business typically adopts a 'wait and see' posture in order to minimize the risk of making costly decisions.

Entrepreneurial orientation

1. Our business undertakes market research in order to identify market opportunities.
2. In the past five years, our business has marketed a large variety of new products or services.
3. In the past five years, our business has introduced novel products or services (that did not exist in the market before).
4. Our business constantly introduces new products/services in order to serve new customers/markets.
5. Our business often leads the competition (that our competitors have to follow).
6. Our business has a strong tendency to take on highly risky projects with chances of very high return.
7. Because of the competition, our business must be very proactive in the marketplace in order to achieve our business objectives.
8. When our competitors develop a new product or a new business method, our business quickly responds to it and adopts it.
9. We are willing to try new ways of doing things and seek unusual, novel solutions.

Retail efficiency

1. Profitability goal achievement.
2. Return-on-investment goal achievement.
3. Return-on-sales goal achievement.
4. Return-on-assets.

Retail effectiveness

1. Profit growth goal achievement.
2. Sales growth goal achievement.
3. Market share growth goal achievement.

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