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

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A B S T R A C T

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.

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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 and small businesses 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 (Terziövski, 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” (Kraaıjenbrink 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 (Stam 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.

Intelligent 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 sets are 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 competences 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 a firm 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...
innovation (Hillman and Keim, 2001; Surroca et al., 2010). Proactively engaging with relevant stakeholders and related issues enhances firms’ shareholder value (Hillman and Keim, 2001) and financial performance (Berman et al., 1999; Orlitzky et al., 2003).

With small businesses in particular, maintaining a favorable, cooperative relationship with the community is especially critical because of their interdependent relationship (Spence et al., 2003). Communities provide businesses with labor, suppliers, as well as customers and offer economic, social, cultural, and a political ecosystem in which the businesses can build stakeholder relationships. The small businesses, in turn, contribute to the community’s prosperity through employment and providing necessary products and services. Given that small business owners/managers tend to have considerable autonomy and flexibility in organizational decision making (Singhapakdi et al., 2010), we believe that a small business’s strategic orientation toward its community should be manifested in the owners/managers’ beliefs, perceptions, attitudes, decision making as well as their contribution toward the community. To assess this, we examine 1) small business owners/managers’ belief that doing a good thing is good business (i.e., enlightened self-interest); 2) salience of the “community as a stakeholder” to the owners/managers; 3) their sense of belonging to the community in which they operate (i.e., in-group ties); and 4) small businesses’ corporate social responsibility toward the community.

Enlightened self-interest (EnSi) has been defined as “the belief that contributing to societal betterment will be good for business” (Besser and Miller, 2004, p. 402). Small business owners/managers who adopt an EnSi view believe that the business has a reciprocal relationship with its community and that embracing social issues into business decision-making process would eventually pay off to the business (e.g., Keim, 1978). Since EnSi provides rational that justifies resources required for building better relationships with its community, small business owners/managers with EnSi should be more likely to make community-oriented decisions, which eventually reward them with favorable responses from the community (Besser, 2012). Therefore, we suggest the following:

**H4. There is a positive relationship between enlightened self-interest and business performance for small businesses.**

The salience of stakeholders to small businesses can be considered as “the degree to which managers give priority to competing stakeholder claims” (Preble, 2005, p. 410). In this study, the salience of community refers to the extent to which small business owners/managers perceive their communities as an important stakeholder of their business and give priority to the communities. As small businesses determine which stakeholders are most influential to the overall business strategy, salience and the appropriate focus may have a positive effect on business. As it has been argued from a competitive advantage standpoint that firms who work with trusting and cooperative stakeholders can achieve reduced costs (Jones, 1995), choosing an appropriate stakeholder focus and increasing their salience to a company should result in better overall performance outcomes (Hillman and Keim, 2001). In fact, Miller and Kean (1997) found that local consumers are more likely to purchase from local retailers who are actively engaged in community affairs. Therefore, we suggest that:

**H5. There is a positive relationship between stakeholder salience of community and business performance for small businesses.**

In-group ties have been previously defined as “group members feel “stuck to,” or part of, particular social groups” (Bollen and Hoyle, 1990, p. 482; Cameron, 2004, p. 243). Granovetter’s (1992, p. 10) seminal work on network ties noted a couple of key points;

while network and group ties can be stifling to business as they try and please everyone, group ties can also serve to help as “the actor (business) whose network reaches into the largest number of relevant institutional realms will have an enormous advantage”.

How can small businesses use these social networks to their advantage? Small business owners in rural communities have reported that being tied to a community supportive environment can lead to more economic success (Miller et al., 2003), while Arys et al. (1992a, 1992b) found that community and local government group ties were stronger in more successful towns across business and retail development measures. We therefore suggest that:

**H6. There is a positive relationship between in-group ties and business performance for small businesses.**

While prior literature has suggested a general definition of corporate social responsibility (CSR) as “policies or action which identify a company as being concerned with society related issues” (Roberts, 1992, p. 595), our study follows Besser’s (1999, p. 16) conceptualization of CSR as “the contribution that businesses make to the public good above and beyond the provision of goods and services that they exchange in the market”. While CSR efforts are considered important in helping to create brand identities, often times CSR actions are not easily recognized by retail consumers, particularly those of a younger generation (Loussaief et al., 2014).

Within the small business literature, perception of business success has been linked to commitment and support for communities (Besser, 1999). CSR efforts can help provide a distinct point of differentiation for small businesses as well as help support successful business strategies that could ultimately affect overall performance (Besser and Miller, 2001), Niehm et al. (2008) also suggested that aspects of CSR relating to community commitment can positively affect objective and subjective measures of performance by family businesses. Therefore, it is believed that small business performance can benefit from a CSR strategic perspective. We subsequently suggest that:

**H7. There is a positive relationship between corporate social responsibility toward community and business performance for small businesses.**

2.3. Business performance

Historically, performance measures were confined within the literature as single dimensions such as sales, ROI, profit and productivity or market share and aggregated as a score (Wall et al., 2004). Recently, however, researchers have successfully used subjective-based measures to assess company performance. Along these lines, the current study borrowed measures from previous studies on small or family owned businesses (Campbell et al., 2011; Runyan et al., 2008, 2006; Frazier, 2000) that used a subjective versus objective type of question. Questions examples such as, “How would you compare your business to last year?” or “How would you compare your business to other major competitors/major businesses?” were used to ascertain performance. Wall et al. (2004, p. 115) also supported validity of subjective measures for company performance by determining that a degree of “equivalence between the findings for subjective and objective measures” occurred. To this end, our current study used a total of four subjective measures across a 7-point Likert scale.

2.4. Conceptual framework and research hypotheses

From a review of prior literature, a conceptual framework was created that included seven constructs and their proposed
relationship to business performance. These included constructs related to the RBVF framework such as social capital (SC), entrepreneurial orientation (EO), and intellectual capital (IC), and constructs from the instrumental stakeholder approach – including enlightened self-interest (EnSi), stakeholder salience (Sal), in-group ties (GTies), and corporate social responsibility (CSR) (Fig. 1).

3. Methodology

Given the research objectives, a nationally-distributed online survey was completed in partnership with C&T Marketing, a research company which utilizes multiple business-to-business and consumer panels across various demographic and segmenting characteristics. This ensured a sufficiently large sample across the U.S. while similarly gathering data across various business segments (e.g., retail, service sectors, administrative), ownership types, and company role (e.g., owner, manager).

3.1. Measurement development

Utilizing previous academic studies within retailing, psychology, management, sociology, and other related disciplines, 28 measures were created that reflected eight distinct constructs. SC and EO have been found in the literature as multidimensional, with four dimensions of trust, reciprocity, shared vision, and homophily being associated with SC (Campbell et al., 2011; Runyan et al., 2007) and three dimensions of innovativeness, risk, and proactiveness reflecting EO (Runyan et al., 2006; Runyan, 2005; Covin and Slevin, 1989). Responses for questions regarding each of these dimensions were summed and composite scores created for use in both the confirmatory factor and structural model analysis. From the management literature, four measures of IC were utilized (Lepak and Snell, 2002; Bontis, 1998). Nine measures, three items for each of EnSi (Quazi, 2003), Sal (Agle et al., 1999), and GTies (Cameron, 2004), were also utilized. Four measures of CSR were taken from Spiller (2000) and Jenkins (2006). Finally, four measures of business performance were taken from Campbell et al. (2011) and Runyan et al. (2006). All items (except for the construct of business performance) were measured using a 7-point Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree). For business performance, the scale measured from 1 (much worse) to 7 (much better).

3.2. Data collection

Data were collected during a two-week period, with a screening question utilized to include only small business respondents (i.e., Is your business classified as a small business by the US Small Business Administration?). Additional questions regarding the business (e.g., industry sector, annual revenue, and employee numbers) were also included and compared to the US Small Business Administration standards for a “small business” definition (US SBA.gov, 2014). Qualified Responses totaled 477.

Fig. 1. RBVF including strategic orientation toward community as a stakeholder.
3.3. Sample characteristics

Of the sample (N=477), 237 were female and 240 were male. Over half (n=240) were company owners, while 128 were managers and 109 identified as both owner and manager. A total of 55 respondents indicated they had no other employees (besides themselves) in the company. Of these small businesses, 54.5% (n=260) had less than 10 total employees and almost ¾ of the respondents indicated less than 25 employees (n=349). Over 60% of the respondents indicated annual revenue less than $1 million. Finally, the retail sector was the most highly represented (n=94), followed by professional/administrative/technical (n=80), construction/trade (n=47), wholesale/Trade (n=40), and both the arts/entertainment/recreation industry and foodservice sectors (n=34 each).

4. Analysis

SPSS 22.0 with AMOS structural equation modeling was utilized for data analysis. Following the methodology of Anderson and Gerbing (1988) and Byrne (2010), a two-step approach was applied by first completing confirmatory factor analysis (CFA) followed by structural analysis of the hypothesized paths. Reliability of the construct measures was confirmed using Cronbach’s alpha statistic, with all values above 0.80 for the eight constructs. To ensure validity of the measures and constructs, the average variance extracted (AVE) was calculated for each of the proposed constructs (Table 1). AVE values for all constructs were above 0.5, suggesting good convergent validity of the measurement items and were greater than the squared correlations of their respective individual constructs, suggesting discriminant validity between constructs (Anderson and Gerbing, 1988; Fornell and Larcker, 1981).

CFA was first completed on each individual construct and then combining all of the constructs into one main model (Byrne, 2010). Results of the final model ($\chi^2 = 729.98; \chi^2/df = 2.27; CFI = 0.96; RMSEA = 0.05$) suggested a well-fitting measurement model with all regression weights and covariances significant. Following CFA, a structural model was created to test the path relationships (Table 2). Results of the structural model also noted good fit ($\chi^2 = 729.98; \chi^2/df = 2.27; CFI = 0.96; RMSEA = 0.05$). Of the seven hypothesized paths, five were significant. They include EO → BP ($\beta = 0.543$), IC → BP ($\beta = 0.129$), EnSi → BP ($\beta = -0.146$), Gtgs → BP ($\beta = 0.543$), and CSR → BP ($\beta = 0.228$). Two paths including SC → BP ($\beta = 0.122$) and Sal → BP ($\beta = 0.012$) were not significant. While the path of EnSi → BP was significant, the relationship was negative and opposite of the proposed hypothesis. Therefore, H2, H3, H6, and H7 were supported while H1, H4, and H5 were rejected.

5. Discussion

While the RBVF has been a key means to analyzing strategic competitive advantage for businesses throughout prior academic literature, a recent focus on social issues and corporate social responsibility by business management has provided an opportunity to consider other factors beyond the RBVF that can positively impact performance. This is particularly true for small businesses, who may struggle with the amount of resources available or use of those resources (Headd, 2003). Our study provides a first look at how two streams of research (RBVF strategic approach and instrumental stakeholder approach) can be integrated to determine how each may lead to better small business performance.

5.1. Theoretical implications

Findings from the current research both support and contradict previous studies as they related to small business performance. With respect to the RBVF, while entrepreneurial orientation and intellectual capital were found significantly related to performance, our study notes that the relationship of social capital and business performance was non-significant. Perhaps, one might argue, that social capital is something that instead becomes derived as an outcome of small business efforts rather than as an antecedent to possible performance benefits. In this regard, future research may wish to consider factors which may enhance social capital, and whether these factors help to benefit the group as a whole (e.g., retail downtown businesses, groups of entrepreneurs) rather than individual businesses.

Of the four factors relating to the instrumental stakeholder framework, three (enlightened self-interest, in-group ties, and corporate social responsibility) were found significant while stakeholder salience was not. It should be noted, however, that enlightened self-interest had a negative relationship with business performance. One explanation may be that, while small businesses wish to contribute to societal betterment, they realize that this does not specifically lead to better performance and may actually draw the owners/managers away from important business decisions while trying to appease social and community concerns. Networking as part of in-group ties and community efforts do appear to be positively related to performance, perhaps because

Table 2: Structural model path testing.

<table>
<thead>
<tr>
<th>Structural Path</th>
<th>Standard Estimate</th>
<th>Standard Error</th>
<th>t-Value</th>
<th>p-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Capital → BP (H1)</td>
<td>-0.122</td>
<td>0.031</td>
<td>-1.039</td>
<td>.299**</td>
</tr>
<tr>
<td>Entrepreneural Orientation → BP (H2)</td>
<td>0.543</td>
<td>0.042</td>
<td>13.46</td>
<td>&lt;.001**</td>
</tr>
<tr>
<td>Intellectual Capital → BP (H3)</td>
<td>0.129</td>
<td>0.064</td>
<td>2.211</td>
<td>.027**</td>
</tr>
<tr>
<td>Enlightened Self-interest → BP (H4)</td>
<td>-0.146</td>
<td>0.094</td>
<td>-1.997</td>
<td>.046**</td>
</tr>
<tr>
<td>Salience → BP (H5)</td>
<td>0.012</td>
<td>0.064</td>
<td>0.145</td>
<td>.885**</td>
</tr>
<tr>
<td>In-group Ties → BP (H6)</td>
<td>0.158</td>
<td>0.066</td>
<td>2.239</td>
<td>.026**</td>
</tr>
<tr>
<td>Corporate Social Responsibility → BP (H7)</td>
<td>0.228</td>
<td>0.045</td>
<td>5.037</td>
<td>&lt;.001**</td>
</tr>
</tbody>
</table>

$\chi^2 = 729.977; df = 321; \chi^2/df = 2.27; CFI = 0.96; RMSEA = 0.05$.

BP = business performance.

n.s. = not significant.

* Significant at p < .05.

** Significant at p < .001.

Table 1: Composite reliability, average variance extracted, and shared variance.

<table>
<thead>
<tr>
<th>Construct</th>
<th>C.R.</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Capital</td>
<td>.847</td>
<td>.766</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial Orientation</td>
<td>.812</td>
<td>.664</td>
<td>.769</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intellectual Capital</td>
<td>.848</td>
<td>.398</td>
<td>.555</td>
<td>.764</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enlightened Self-interest</td>
<td>.841</td>
<td>.487</td>
<td>.388</td>
<td>.298</td>
<td>.801</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salience</td>
<td>.933</td>
<td>.555</td>
<td>.334</td>
<td>.271</td>
<td>.539</td>
<td>.907</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In-group Ties</td>
<td>.883</td>
<td>.503</td>
<td>.355</td>
<td>.286</td>
<td>.388</td>
<td>.563</td>
<td>.847</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Social Responsibility</td>
<td>.916</td>
<td>.383</td>
<td>.391</td>
<td>.176</td>
<td>.316</td>
<td>.377</td>
<td>.345</td>
<td>.856</td>
<td></td>
</tr>
<tr>
<td>Business Performance</td>
<td>.904</td>
<td>.316</td>
<td>.453</td>
<td>.232</td>
<td>.171</td>
<td>.205</td>
<td>.266</td>
<td>.318</td>
<td>.838</td>
</tr>
</tbody>
</table>

C.R. = Composite Reliability.

Diagonal entries reflect the average variance extracted (AVE) for each construct. Off-diagonal entries reflect the shared variance between constructs.
owners/managers of these small businesses continue to foster relationships outside of the business and that these relationships may ultimately lead to better performance. The lack of significance for stakeholder salience on business performance contrasts to Agle et al.'s (1999) finding and suggests an opportunity for future research to focus on differences across specific stakeholders rather than a “one-size-fits-all” approach.

5.2. Practitioner implications

Meaningful practical implications can be gleaned from the research. The continued importance of factors such as entrepreneurial orientation and intellectual capital on firm performance suggests that within small businesses, differentiation is important. This differentiation can take place through strategic decision making such as being the first to market, offering new and unique products, and taking calculated risks. They may also differentiate by creating a highly intellectual organization where employees are valued and knowledge is created that cannot be duplicated by competition. This two part process, though, may be difficult for small businesses in an early stage or for start-ups. Small business focus may subsequently shift to better achieve competitive difference in the minds of consumers regarding the products and services, with little to no concern of the employee skill set.

For retail small businesses, the results suggest the need to “hit-the-ground running” in terms of being innovative, taking risks when necessary, leveraging the knowledge and experience of the employees and using CSR in a strategic way. Unlike some of the trade, technical, or manufacturing industries where point-of-difference can be seen through product or process, the retail industry has often been described as “copycat” business in many of its products and services (Davies, 1998). Retail innovation has also become a key focus of recent times, where technology used in an Omni-channel or multichannel environment forces businesses to consider things such as self service, point-of-sale graphics, and shopping experience as a means to influence customer purchase behavior (Pantano, 2014). To this end, the need for retail businesses to better differentiate their product or services through an increased focus on innovation or marketing of their CSR efforts can go a long way to connecting with consumers.

Corporate social responsibility remains important to small businesses, as the results indicate a significant relationship with performance outcomes. Companies should have plans in place to properly address issues within the community and be seen as a socially responsible business may ultimately pay off as consumers make selections on which products to buy and where to shop. That said, not all social concerns can (or should be) be addressed by small businesses. As noted by Carroll and Shabana (2010, p. 93), CSR has shifted for business managers over the years from simple social considerations to economic considerations, and that CSR in today’s world is about “doing good to do well”.

Finally, community group ties remain important. Small business owners/managers may find opportunity to enhance the business through group ties which can directly affect sales (co-creation or collaborative efforts on products or services) or through indirect means such as recruiting and staffing issues. Above all, strong group ties can signal to the community that a business is “one of them” and has the best interest of the community at large rather than simply as a means to make a profit.

5.3. Limitations

While the study results provided a means for academics and practitioners to consider multiple factors affecting small business performance, a number of limitations must be acknowledged. First, the researchers acknowledge that, although the RBV and instrumental stakeholder approach have been shown in the literature as separate paradigms and conceptualized in this study as independent, this gap appears to be closing as factors such as CSR and in-group ties, if unique to certain small businesses and imitable, may lead to a competitive advantage. However, factors such as innovation and intellectual capital may be much more difficult to copy across retail businesses and therefore remain a primary source of advantage. Second, the survey did not consider potential effects of ethnicity of the owners and managers on factors such as social capital or entrepreneurial orientation. Considering ethnicity may help to better understand how some groups are more able to affect performance through a cohesive network of things such as social ties (e.g., “we support our own”) and community support efforts. It would also be important to consider how different industries (e.g., retail versus manufacturing or service) would consider factors such as social capital or group ties as more important than other industries. Finally, the study did not consider size of the town in which the small businesses operate, which may provide more insight as to the importance of strategic business decisions and their effects on community stakeholders.

5.4. Future research directions

Future research, then, might consider if certain aspects of the external-relationships formed as part of an instrumental stakeholder approach could lead to a resource-based advantage for retail companies and other small businesses, particularly if the relationships lead to added assets or capabilities not previously accessible. Added research on whether businesses operating in small cities, towns, or rural areas reflect similar relationship patterns with those small businesses operating in much larger or population-dense cities is also needed. Another opportunity lies within the trades themselves. Retail is highly interactive with customers and the community, while manufacturing, warehousing, or independent entrepreneurs may be less focused on community efforts to enhance business. Testing these relationships across trade industries may help to determine where consistencies lie across boundaries and where opportunities lie within each industry as suggested by Stamm et al. (2014). Additionally, age of business or experience of ownership/management may be helpful to determine which focus (an entrepreneurial focus or socially-driven focus) is (or should be) more prevalent. As society continues to expect and demand more from its businesses that operate within, and competition continues to grow, a better understanding of how companies use internal resources and make community driven relationship-based decisions will become even more necessary.

References


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