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The more things change the more they stay the same: A replicated study of small retail firm resources

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ABSTRACT

This research identifies the resources that predict performance in small, independent retail firms over a three-year period. Surveys were mailed to small business owners in 2013 and in 2016. Responses (2013, $n = 384$; 2016, $n = 363$) from each administration revealed consistent findings: informational (business information systems) resources and access to financial capital were positively related to firm performance, as measured by average annual sales turnover. On the other hand, informational (web) resources, including social media, were negatively related to performance. Strategic orientation and planning capability were examined as possible mediators of the resources-performance relationship. The results from this replicated study demonstrate, which firm resources do, and do not, relate to small, independent retail firm success.

1. Introduction

Small and medium retailers make a vital contribution to local communities and economies (Parnell, 2013; Tajeddini et al., 2013) and are an important source of job and revenue generation (Valliere, 2006; Henderson and Weiler, 2010; Campbell and Park, 2017). Small and medium enterprises (SMEs), in general, often occupy niche markets and promote innovation, economic variety and integration, and social stability, as well as activating competition (Franco and Haase, 2010; Omri and Frikha, 2014; Hallak et al., 2018). Many communities rely directly or indirectly on small retail businesses for their livelihood (Atkinson and Storey, 2016); in this context, retail activities are an integral part of an economy, and in many communities small, independent retailers are also an important part of the social fabric (Findlay and Sparks, 2002; Tajeddini et al., 2013). While many traditional industries have disappeared, retailing continues to develop and flourish, providing an ideal platform for many entrepreneurial operators (Findlay and Sparks, 2002; Kajalo and Lindblom, 2015). Given the significance of small retailers, continued understanding of the factors contributing to their performance is critical.

This current research examines the relationship between resources and performance in small retail firms. Hunt and Morgan's (1995, 1996) Resource-Advantage (R-A) theory is used to understand which resources are leveraged to enhance performance. Despite studies examining small retailers (e.g., Megicks, 2007; Megicks and Warnaby, 2008; Coca-Stefaniak et al., 2010; Quinn et al., 2013), there remains limited research on those resources that are important for small retail firm performance. Work is increasing (e.g., Battisti et al., 2013; Battisti and Deakins, 2017; Campbell and Park, 2017), but the field is still in its infancy.

This research also responds to the call by Finnegan et al. (2016) for researchers to move beyond a reliance on cross-sectional designs (and convenience sampling), which dominate retailing literature. Accordingly, we collected data over two survey administrations to the same population, separated by three years, obtaining a large sample of small retailers each time. In the period between the survey administrations, a new pro-business government was elected in the State of Tasmania (in 2014), indicating that the face of retail may well have changed over this period. This second administration means that the stability of findings can be assessed, and issues of common method bias overcome (Podsakoff et al., 2003).

Our core research question is: *what is the relationship between small retail firm resources and performance?* We show the level of stability, over a three-year period, of the resources that relate to performance. Our results show that informational (business) resources are the most important to retail performance, followed by access to financial capital. Contrary to popular wisdom that social media and store websites are important drivers of retailer success, we found that informational (web) resources were negatively related to performance. We find that planning capabilities were vital to the performance of small retailers, along with prospector, defender and analyser orientations, but not reactor (Miles and Snow, 1978). We determine as well, over the study period,

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the effect of strategic orientation and planning capability as mediating variables of the resources-performance relationship.

This research makes important contributions to both knowledge and practice. From an academic standpoint, while Hunt and Morgan's R-A theory has been applied in corporate planning (Tomczak et al., 2018), branding (Sun et al., 2016), customer service innovation (Paswan et al., 2009) and sales management literature (Raman et al., 2006), this is the first application within a SME retail firm context. Similarly, and as stated above, much of the research on resource-based theory focusses on large firms; this research applies the approach to small retail firms (Runyan et al., 2007). To overcome the limitations of point-in-time, cross sectional designs, this research also explores the relationship between firm resources and performance in small retail firms over two administrations separated by three years, providing constancy in our results. For retail managers, this work identifies those resources that are most important (and least important) to overall retail performance, and which should therefore be the focus of small retailers moving forward.

1.1. Theoretical development

In a contemporary sense, the most significant theoretical development in the examination of retailing has been the application of resource-based theory, which contends that a firm generates competitive advantage from its own set of unique resources and capabilities (Wernerfelt, 1984, 1995; Barney, 1991; Campbell and Park, 2017;). Under resource-based theory, the key to performance is for firms to be able to sustain their competitive advantage by exploiting (in the long term) the advantages from superior resources and capabilities (Barney, 1991; Runyan et al., 2007). In general terms, the ability for retailers to use their resources to enhance firm performance is a critical component of retail strategy, and resource-based theory has been applied extensively in retail research. Yet, again, much of the research has concentrated on larger firms rather than small retailers (Runyan et al., 2007; Kajalo and Lindblom, 2015). Only a few studies have empirically examined the resources used by successful small retailers (e.g., Megicks, 2001; Billesbach and Walker, 2003; Edelman et al., 2005; Megicks, 2007; Megicks and Warnaby, 2008) and of these, a number use very small samples – for example, Billesbach and Walker (2003) (n = 58); Nelson and Ratliff (2005) (n = 6); and Runyan et al. (2007) (n = 35).

McDowell et al. (2016) argue that small retail firms deserve special attention as they typically have fewer resources than large firms, and Stam et al. (2014) add that small retailer resources may often be obtained outside of the firm, through personal networks. Kellermans et al. (2016) further argue that resources are likely to have a differential effect for small retail firms, in part because of the greater reach of control and flexibility that comes with small size. Bartz and Winkler (2016) similarly indicate that such retailers have the flexibility to respond quickly and in this regard exhibit a relative growth advantage over large firms, especially in times of financial crisis. It is also argued that small retailers in particular often have full responsibility for operating their stores, and thus have great ‘potential competitive advantage’ (Kajalo and Lindblom, 2015; Ghantous et al., 2018). Hence, small retail firms are likely to have ‘nimbleness’ (versus the ‘slack resources’ of large firms) and so can react quickly, being less constrained by bureaucracy (Uhlaner et al., 2013). Under the nimbleness view, slack resources – especially human resources – can be disadvantageous and lead to the aggravation of ‘stickiness’: the inability to transfer skills and best practices within the firm.

The resource-based view offers a broad context for explaining the competitive advantage of small retail firms that identify and take advantage of critical resources (Runyan et al. 2007). However, as Kellermans et al. (2016, p. 29) point out, one of the criticisms of the resource-based view is that resources remain ill-defined and ‘virtually anything … can be a resource’. This leads to conceptual vagueness. R-A theory was developed (Hunt, 1995; Hunt and Morgan, 1995) as a comprehensive alternative to resource-based theory. Hunt and Davis (2008, 2012) explain that under R-A theory, small retail firms need to understand the processes of marketplace competition, and in this regard, innovation becomes an endogenous part of how the small retailer deploys resources to gain competitive advantage. This is compared with the relatively static view of resources implied under resource-advantage theory which focusses on large firms that, as alluded to above, possess inertia versus nimbleness. Similarly, the resource-based view posits that competition serves to create equilibrium in markets, again a function of the focus on large firms. With R-A theory, competition (and innovation) creates disequilibrium, and the small retail firm in this regard seeks to achieve superior financial performance by deploying the most effective mix of resources advantages, including, as stated above, resources that may often be outside of the firm (Stam et al., 2014). In essence, R-A theory focuses on the organisation's efficiency and effectiveness in creating, discovering, accessing, and exploiting heterogeneous resources to create superior market offerings, as well as ensuring superior market position and competitive advantage. This is not to say that there have been no criticisms of Hunt's R-A theory (or its predecessors), for example, Deligönül and Çavuşgil (1997), who argue that it is not a replacement for the neoclassical theory of perfect competition. But as an attempt to create a theory that explains market place competitive processes, R-A theory arguably has more application to small firms than does the broader resource-based view (Hunt, 2013, 2015).

Under R-A theory, each firm possesses a unique set of resources that can lead to a comparative advantage (Hunt and Arnett, 2003). Resources are defined as the inputs used by an organisation to produce, efficiently and/or effectively, valuable products (Hunt, 2000). These resources are considered to be relatively heterogeneous and imperfectly mobile, and are classified (with associated examples from a retailing context) as: relational (e.g., customer loyalty programs), informational (e.g., monitoring competitors, inventory systems), physical (e.g., store atmospherics), financial (e.g., access to financial capital), legal (e.g., patents and trademarks), human (e.g., skills and experience), and organisational (e.g., business reputation). Greater access to, and successful competition for, resources means greater comparative advantage, and so greater performance. R-A theory has more specificity than the resource-based view by specifically illustrating what constitutes a comparative advantage.

1.2. Hypotheses development

While R-A theory as a concept has been largely well received, there has been very little empirical work carried out which employs the theory, particularly in the context of retail SMEs. Exceptions include studies by Jambulingam et al. (2005), who used R-A theory to examine entrepreneurial strategy and performance in retail pharmacies; Hu and Wang (2009), who adopted a case study methodology to examine a single retail company in Taiwan; Colton et al. (2010), who studied the performance of retail e-commerce firms, and Chotekorakul and Nelson (2013), who examined the relationship between customer orientation, merchandising competencies and retailer financial performance. While these studies make a useful contribution, all examined only limited aspects of firm resources, in a narrow context. To date, beyond the replicated research reported in this paper, there has been no large-scale survey of all sectors across the retail industry (particularly small retailers) which comprehensively applies R-A theory. If small retailers do indeed have more limited access to resources (Franco and Haase, 2010; McDowell et al., 2016), then identifying which resources must be effectively and efficiently deployed to create a superior market position and competitive advantage is critical. Accordingly, we propose that retailers with greater access to resources will show higher levels of performance:

H1. The performance of small retail firms is positively related to resource advantage.

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