

Full Length Research Paper

The influence of service-dominant orientation of small firms on its growth

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Managers of small firms who adopted Service Dominant (S-D) logic will orient and align their businesses with this strategy. S-D orientation can be beneficial for small firms because it postulate value co-creation with its customers through cooperation. For that reason, we hypothesize, that S-D orientation of small firms will positively influence its growth. The empirical investigation is based on a sample of sixty-one small construction firm in Serbia. We test our hypothesis using partial least square (PLS) regression. The results show that S-D orientation has the significant negative influence on small firm growth. For that reason, we did not find enough empirical evidence to support our hypothesis. At the end, we draw some conclusion and set implication for further research and practice.

Key words: Service dominant orientation, service dominant logic, small firm growth.

INTRODUCTION

S-D orientation is an important strategic behavior of a firm that is a consequence of S-D strategic way of thinking. S-D logic is the novel view of economical exchange that shifts the focus of value-creation process from product to customer (Gronroos, 2006). This view emphasizes that customer is always a co-producer of value in service-provision process (Vargo and Lusch, 2004). An adoption of this strategic logic can be beneficial for small firms, because it improves their service capabilities and result in co-creation of values with customers.

Because small firms are limited in their resources, they can integrate resources through service provision and cooperate with customers. From these perspectives, goods are the instrument that transmits operand resources to customer, and starts the process of value co-creation. Small firms initiate the process of resource integration through individuated, relational, ethical, developmental, empowered, and concerted interaction (Karpen and Bove 2008). Although previous studies emphasize that adoption of S-D strategy will enhance

firm growth, there is very few empirical evidence about speculated link.

Therefore, the aim of this study is to investigate, how does S-D orientation influence growth of small firms? To achieve this purpose, we have conducted the survey research among small firms from construction sector, and later analyzed data using partial least square (PLS) regression. This paper first gives a brief overview of literature, later we describe the research method and present the research results, and finally, we discuss the findings and their implication in the practice.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

S-D logic postulate the co-creation of values through collaboration, where the actors take part in the process of reciprocal service provision, and collaborate through sharing of operand resources (Vargo and Lusch, 2004). Operand resources are "resources on which an operation or act is performed to produce an effect" (Vargo and Lusch, 2004:2). Important to our understanding, is that this S-D logic see service as a process of interaction between actors who co-create value, rather than services that yield intangible output to create value (Lusch and

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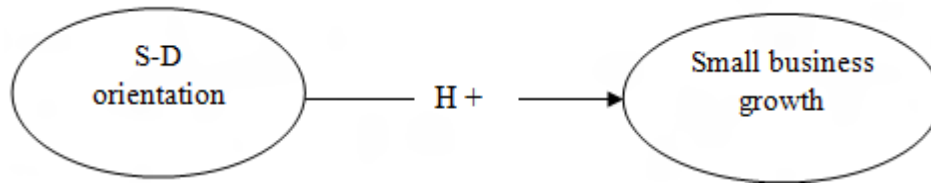


Figure 1. Conceptual model.

Vargo, 2006). As a departure from this fact, S-D logic refers to the outcomes of process as something to learn from and not something to be maximized (Vargo and Lusch, 2004). This principle Lusch and Vargo (2006) named 'service-for-service'. Service dominant logic is explained in the literature by contrasting its philosophy with goods dominant (G-D) logic. For that reason, S-D logic brings the major shift from services as intangible units of output common for G-D logic, to services as a collaborative process (Vargo and Akaka, 2009).

Organizations that behave in agreement with S-D logic are organizations that have the S-D orientation. Karpen and Bove (2008) define S-D orientation as "portfolio of organizational capabilities that facilitate and enhance the reciprocal integration of resources through individuated, relational, ethical, developmental, empowered, and concerted interaction". Therefore, the six dimensions constitute the S-D orientation, and omitting one dimension will alter the meaning of this construct. For that reason, S-D orientation is the formative construct (Karpen et al, 2009). First dimension refers to "the extent to which an organization acts to understand service beneficiaries' individual contexts and needs" (Karpen and Bove, 2008: 222). The second dimension refers to "the extent to which an organization supports the connecting social and emotional links with service beneficiaries" (Karpen and Bove, 2008: 223). The third dimension refers to "the extent to which an organization acts in a fair and non-opportunistic way when interacting with service beneficiaries" (Karpen and Bove, 2008: 224). The fourth dimension refers to "the extent to which an organization enables service beneficiaries to shape the nature and/or content of exchange" (Karpen and Bove, 2008: 225). The fifth dimension refers to "the extent to which an organization supports service beneficiaries' own knowledge and competence development" (Karpen and Bove, 2008: 226). Finally, the sixth dimension refers to "the extent to which an organization supports coordinated and integrated service processes" (Karpen and Bove, 2008: 227).

Small firm can benefit by adopting S-D strategy not just by sharing their resources, but also through development of long term trusting relation with their customers. For these two reasons, small firm will improve their position in the market and co-creates values that will later reflect itself in firm growth. Therefore, we can hypothesize that S-D orientation of small firm will positively influence

the growth of small firms, as shown in the Figure 1.

RESEARCH METHODS

The purpose of this study is to investigate the influence of S-D orientation on growth of small firms. Population from which sample was drawn are Serbian small companies from construction sector, which corresponds to EU definition¹. To represent population statistically, we used technique of simple random sample to select the participants for our study. Sample consists of sixty-one firms. Self-administer questionnaires' were sent to selected sample in the winter of 2011, and the response rate was 34%.

To test our hypothesis we have chosen the PLS regression, because it does not make assumption about data distribution. Sample size of sixty-one firm in our study is adequate, because the Chin (1998) recommended minimal sample size with the ten times more cases than number of structural path directed to any construct.

Independent variable in our study is S-D orientation. We measure S-D orientation on self-developed scale by operationalizing the Karpen et al, (2009) six dimensions: individuated, relational, ethical, developmental, empowered, and concerted interaction. For that reason this scale, consist of six items, captured on the 7-point scale. Dependent variable in this study is small business growth. Small firm growth is measured on four items, captured on the 7-point scale that is adopted from Wiklund et al. (2009).

In view of fact that, that Karpen et al, (2009) S-D orientation measurement model is formative and measures are not correlated, internal consistency is not implied (Jarvis et al., 2003). Contrary, the measurement model of small firm growth is tested for reliability, because reflective model implies correlation among measures (Jarvis et al., 2003). After the Fornel and Larcke (1981), measurement model of small firm growth is tested for discriminant validity with the average variance extracted (AVE). Later we will use partial least square regression to test hypothesis, by estimating path coefficient and the coefficient of determination (R^2). To assess the significance of path coefficient, we have conducted a bootstrap test with 200 re-samples and the same number of cases as in the original sample. We have conducted our analysis with the Smart PLS (Ringle et al, 2005).

RESULTS

After the recommendation of Henseler et al. (2009), we first analyzed first reliability of measurement models and construct validity.

In this first step, we did not test reliability and validity of S-D orientation because of its formative measures.

¹ A small enterprise is defined as an enterprise which employs fewer than 50 persons (number of persons expressed in annual work units)

Table 1. Measurement of S-D orientation.

Dimensions	Questions	Factor loading (t-value)	VIF
Individuated interaction	Top management of our firm acts to understand service beneficiaries' individual contexts and needs	-0.06 (.31)	1.82
Relational interaction	Top management of our firm supports the connecting social and emotional links with service beneficiaries.	0.65 (1.25)	2.13
Ethical interaction	Top management of our firm acts in a fair and non-opportunistic way when interacting with service beneficiaries.	0.29 (1.22)	1.70
Developmental interaction	Top management of our firm enables service beneficiaries to shape the nature and/or content of exchange	0.51 (1.63)	1.36
Empowered interaction	Top management of our firm supports service beneficiaries' own knowledge and competence development.	0.15 (.80)	1.34
Concreted interaction	Top management of our firm supports coordinated and integrated service processes.	0.49 (1.25)	1.17

Table 2. Measurement of small firm growth (AVE = .57, $\alpha = 0.77$).

Dimensions	Questions	Factor loading (t-value)
Employment growth	Current number of FTEs over number of FTEs previous year	0.93 (4.8)
Sales growth	This year's sales over last year's sales	0.86 (4.4)
Sales growth compared to competitors	Has your sales development been more positive or negative than of your competitors over the past 12 months?	0.64 (3.2)
Value growth compared to competitors	Has the market value of your firm increased or decreased relative to your competitors over the past 12 months?	0.54 (2.2)

Therefore, we have computed the variance inflation factor (VIF) because the multicollinearity should not exist among formative measures (Diamantopoulos and Siguaw, 2006). We found that the multicollinearity is not the problem because the highest VIF value is 2.13 ($VIF < 3.00$). The overview of S-D orientation measurement model is given in the Table 1.

Contrary, the measurement model of small firm grows this reflective, and we test it for reliability and validity. The scale of small firm growth is reliable ($\alpha = 0.77$), because it satisfies the Nunnally criterion ($\alpha > 0.70$).

Each item in this measurement model load satisfactory on construct, and all loadings are significantly greater than 0.50. The construct of small firm growth is valid, because it share more than half variance with its measures (AVE=0.57) and therefore satisfy the Fornell and Larcker (1981) criterion (AVE>0.50). The overview of small firm growth measurement model is given in the Table 2.

Surprisingly, we found that the S-D orientation negatively influence small firm growth ($\beta = -0.41$), and the result is highly significant ($t = 3.28$; $p < 0.001$). Moreover, we found that the small firm growth is weakly explained by S-D orientation ($R^2 = 0.16$). The overview of results for structural model is given in the Table 3.

Conclusion

In summary, the aim of this study was to investigate the influence of S-D orientation on small firm growth. The results of our study show that S-D orientation negatively influences small firm growth. Therefore, we failed to confirm our hypothesis. Moreover, our results show that S-D orientation weakly explains small firm growth. For that reason, we can conclude that an empirical result of our study does not support the theory. However, a manager of small firm who adopt such logic in his

Table 3. Results for structural model.

Hypothesis	Path coefficient (t-value)	Result	R ²
H: S-D orientation → small firm growth	-0.45 (3.28)	Sig. *	0.16

*Exceeds minimum acceptable level .05 (t>1.96).

business could be affected by its environment and fail to achieve growth, because of an influence of other factors. For that reason, future studies should examine the moderating effect on relationship between S-D orientation and business growth. Our study reduced the research gap that emerges, and increase the knowledge of this relationship. Although we did not find empirical evidence to support our hypothesis, we encourage the scholars to replicate this study and to test influence of moderating variable.

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