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
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’ where 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 (R²). 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.

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

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Path coefficient (t-value)</th>
<th>Result</th>
<th>R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>H: S-D orientation → small firm growth</td>
<td>-0.45 (3.28)</td>
<td>Sig. *</td>
<td>0.16</td>
</tr>
</tbody>
</table>

*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.

REFERENCES


