



Disentangling the interplay between customer orientation and innovation. A qualitative study from small independent retailers

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ABSTRACT

Small independent retailers are having to cope with an increasingly hostile environment, and the sector is experiencing numerous challenges in terms of customer needs, technological advancements, and intensifying competition from large retailers and e-commerce platforms. This study explores how small retailers implement customer orientation to generate innovation, adopting a micro-foundational perspective within the dynamic capabilities approach. The focus of the research is on how the interaction between customer orientation and innovation is put into practice in small independent retailers through concrete behaviours, repeated actions, and operational choices. We conducted a multi-case study involving a sample of 15 small retailers, with the results revealing how different dimensions of innovation, including retailing mix levers, relationship-oriented, technological, and sustainability, are simultaneously customer-driven and -oriented due to their micro-foundations of sensing, seizing, and transforming. By identifying micro-organizational practices through which customer orientation and innovation influence each other, the study develops a framework that advances a micro-foundational perspective within the dynamic capabilities approach. The final section of the paper presents theoretical and practical implications with a view to improving the competitiveness of small retail businesses in the current hostile and challenging environment.

1. Introduction

Small independent retailers are characterized by their small size, traditional operations, and proximity to customers (Runyan and Droge, 2008), and they are legally, financially, and commercially independent (Bezes, 2024). The literature describes how small retailers play a social role as landmarks for the community, contributing to cultural preservation by maintaining strong ties to local traditions and preserving neighbourhoods against urban desertification (Clarke and Banga, 2010; Ekström and Jönsson, 2022); moreover, they have a significant impact on economic growth and job creation within local communities (Lee and Park, 2024).

Recently, researchers have started focusing on the relevant challenges among small retailers, often defined as a “retail apocalypse,” because of the rise of e-commerce and the development of large retail chains (Helm et al., 2020). This is evident in many European cities, where the presence of new retail formats has intensified competition between large retail chains and small independent shops (Barata-Salgueiro, 2021). From a broader perspective, national

governments have rarely employed competition policies or initiatives to support the competitiveness of small shops; moreover, some governments have introduced burdensome bureaucracy, which has become a significant external obstacle to doing business (Coca-Stefaniak et al., 2010).

In analysing this type of firm, it is commonly recognized that small retailers show significant weaknesses, including limited financial and managerial resources, smaller catchment areas, logistical inefficiencies, higher operating costs, and a lack of novelty in their retail format and business model (Coca-Stefaniak et al., 2005). Further weaknesses consist of inadequate business and management training, a tendency towards individualism, lobbying voices that are too weak to influence policy, and a prevalent distrust in local authorities (Coca-Stefaniak et al., 2010).

Despite these weaknesses, the literature emphasizes that small retailers have several strengths. First, their flexibility and adaptability allow them to respond quickly to changing market conditions and customer needs (Megicks and Warnaby, 2008; Tajeddini et al., 2013). Second, small retailers are characterized by strong bonds with local communities, and they have local knowledge that enables them to tailor

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their offerings more effectively to their customer base (Megicks and Warnaby, 2008; Runyan and Droge, 2008). Specifically, strong local ties and community engagement enhance the business sustainability of small retailers (Ekström and Jönsson, 2022), as being close to customers is a strategic advantage that allows small retailers to overcome their structural weaknesses and market pressures (Bezes, 2024).

Samanta and Aithal (2023) suggest that small retailers perceive crisis as an opportunity to rethink their strategies and increase competition in the future – for instance, small retailers that adopt niche strategies and strong customer-oriented approaches achieve a more resilient market positioning, even in hostile environments (Tajeddini et al., 2013). Amongst these strengths, the literature views personalized services and social interactions as particularly relevant (Runyan and Droge, 2008). Consumers tend to use small independent shops, especially when other types of outlets are not available (e.g. in rural and peripheral areas), when they need to make emergency purchases (i.e. convenience buying), or when seeking products or services that are not available elsewhere (e.g. speciality shops) (Coca-Stefaniak et al., 2010).

Recent studies reveal a growing interest among customers in small retail businesses – for example, AmEx (2024) indicates that human interaction and staff friendliness nurture the popularity of small stores (customers appreciate the personalized experience of shopping in a small business). The EY Future Customer Index (2024) explains that 57 % of customers prefer to buy in-store rather than online, as they consider the in-shop experience more relevant in terms of seeing, touching, and feeling items. Additionally, Confcommercio (2024) points out that 64 % of Italians consider local shops to be a strength of their communities, and 57 % state that such shops enhance the safety within them. In the same vein, a study by SDA Bocconi (2023) reinforces these findings, indicating 54 % of Italians utilize services provided by local shops, eight out of 10 ten they would continue to shop in their neighbourhood, and 70 % of respondents prefer small stores to large chains.

Based on these premises, we assume that the survival and competitiveness of small retailers depend fundamentally on a strong and practical commitment to customer orientation (Tajeddini et al., 2013). Customers are drawn to small retailers because they offer unique attributes compared with larger businesses (Lee and Park, 2024); therefore, comprehending the factors that specifically influence customer satisfaction and loyalty is essential for the survival of these small businesses in an environment that is generally dominated by large retailers and e-commerce (Lee and Park, 2024).

Small retailers should continuously adapt their strategies to market dynamics, and adopting technology is crucial to enable them to remain competitive, meet customer demands, and improve their operational efficiency (Aithal et al., 2023). Customer orientation stimulates innovations in the “retail format” and enhances relationships with local consumers, thereby creating customer value. Specifically, while larger retailers are already using smart retail technologies in order to improve customer relationships and support digital transformation (Roy et al., 2018), small retailers are also moving in this direction, as they are adopting digital tools and combining physical and digital experiences.

To identify external opportunities, small retailers do not focus exclusively on technological innovations; rather, they also pay particular attention to changes in consumer behaviour (Bezes, 2024). Customer orientation stimulates innovation that involves “soft” elements, such as the upgrading of product assortments to meet new and specific customer needs, targeted communication strategies, and the creation of a shopping experience that reinforces cultural identity and a shared sense of belonging (Jamal, 2005). Research in the retail context reveals that digital tools can facilitate the innovation of elements such as assortment, communication, and expertise by integrating physical and digital channels, thereby enhancing customer sensemaking (Madsen, 2021).

Founded on these premises, the general aim of this paper is to explore the micro-foundations operated by small retailers to nurture the relationship between customer orientation and innovation. Various studies

have explored this relationship, focusing predominantly on a literature review or meta-analysis (see Grinstein, 2008a; Grinstein, 2008b) and quantitative analysis (e.g. Sondhi et al., 2024), with the field being mainly represented by large companies (Stremersch et al., 2025) in manufacturing sectors (Thoumrungroje and Racela, 2013). Analysing the context of small production firms, Verhees and Meulenber (2004) suggested exploring this established relationship in different contexts and sectors to enable generalization. In examining the extant literature, we found that only a few studies explore the micro-level mechanisms through which this relationship is translated into operative practices (Stremersch et al., 2025). In addition, to the best of our knowledge, this relationship and its micro practices remain underexplored, particularly for small businesses operating in a retail context.

This research offers novel insights into how customer orientation and innovation interact through the practices and behaviours employed in small independent retailers by adopting a micro-level approach. We contribute to the prior literature by identifying the specific routines and micro-behaviours through which small independent retailers sense and seize market opportunities and transform their business in response to customers’ needs.

Moreover, while the literature has predominantly treated customer orientation as either an antecedent or outcome of innovation, this study intends to theorize the dual role of customer orientation, as empirically explored within the small independent retail setting. Given that the focus of this research is on small retailing, the closeness to the customer creates an ideal field for exploring these issues. Indeed, thanks to the knowledge of their customers, small retailers can react to changes in customer behaviour and provide personalized services (Beckers et al., 2021). At the same time, small retailers’ efforts to “transform” their format and business model can create new solutions for implementing customer centricity.

Therefore, this study contributes to the literature by asking the following research questions:

(RQ1) *What is the role of customer orientation in conceiving, developing, and implementing small retailers’ innovation? and.*

(RQ2) *What are the micro-foundations of innovations related to customer orientation in small retailing?*

To answer these research questions, we developed a study based on 15 semi-structured in-depth interviews; this research is grounded in the dynamic capabilities framework (Teece et al., 1997) and adopts a micro-foundation perspective.

The current study has several important implications for the existing literature. First, it contributes to the literature on small retail businesses, using the specific lens of customer orientation. Second, this research contributes to the framework of retail innovation by revealing the micro-foundations of dynamic capabilities that make the relationship between customer orientation and innovation actionable. We identify customer-driven and customer-oriented innovation categories and show how small retailers use customer orientation to innovate and, in turn, strengthen customer orientation through these innovations.

In addition to its theoretical implications, this study provides practical insights and specific actions for supporting the competitiveness of small retailers.

The remainder of this paper is organized as follows. Section 2 presents the theoretical framework and reviews the existing literature on customer orientation within the context of dynamic capabilities and retail innovation. Section 3 explains the research design and methods. Section 4 outlines the significant empirical findings of the analysis. Lastly, Section 5 presents some final discussions along with theoretical and practical implications.

2. Theoretical framework

2.1. The interplay of customer orientation and retail innovation

Literature has defined customer orientation in different ways. Early

studies by Narver and Slater (1990, p. 21) describe customer orientation as “the sufficient understanding of one’s target buyers to create superior value for them continuously”, a definition that conveys an internal belief system within firms that emphasizes the importance of customer needs, shaping strategies and decisions at all organizational levels (Deshpandé et al., 1993). Customer orientation is viewed as an organizational focus on understanding and satisfying the needs of customers, following Grinstein’s (2008b) perspective. As a component of market orientation, customer orientation involves gathering information about current and future customer expectations, responding effectively to them, and combining strategic choices with observable behaviour (Grinstein, 2008a; Kashyap et al., 2024). Recent studies emphasize the behavioural dimension of customer orientation, defining it as an internal propensity that drives salespersons to display a specific behavioural pattern in fulfilling their service provision, focusing on customer needs and satisfaction, as it is guided by “care of customers” (Park and Hur, 2023). Therefore, customer orientation must be understood as a strategic integration of functional and relational elements (Mortimer et al., 2021).

Existing literature often includes the concept of customer orientation in studies of innovation. To maintain conceptual consistency, our study adopts the approach presented by Grinstein (2008a, 2008b), which defines innovation as the introduction of new products, processes, or ideas within an organization and identifies the strict link with the different profiles of market orientation, including customer orientation. Grinstein’s meta-analysis found that the relationship between market orientation and the consequences of innovation is stronger for service firms than for manufacturing ones.

Previous studies have extensively documented the relationship between customer orientation and innovation (Grinstein, 2008a, 2008b; Paredes and Olander Roesse, 2024; Racela and Thourunrojro, 2020; Stremersch et al., 2025; Tuominen et al., 2022; Verhees and Meulenbergh, 2004). In this regard, existing studies highlight the notion that customer orientation fosters continuous innovation (Han et al., 1998): customer-oriented companies can use consumer insights to anticipate unmet needs and drive innovation (Gatignon and Xuereb, 1997; Stremersch et al., 2025; Wang et al., 2016). Through multi-channel interactions, firms can sense emerging trends and generate customer-oriented innovations (Sondhi et al., 2024); thus, customer orientation enhances innovation by responding to different market conditions and offering novel solutions, thereby raising firm performance (Grinstein, 2008a; Huhtala et al., 2014).

In small businesses in particular, a strong customer orientation allows innovative efforts to be tailored more effectively to customer needs, thus improving performance (Verhees and Meulenbergh, 2004). In the retail sector, innovation integrates technology, strategy, and customer insights with the development of new services (Pinto et al., 2017), and over the past decade, retailers have increasingly introduced interactive technologies in their stores. The decision to adopt these innovations has been significantly influenced by a customer-oriented approach, which enables retailers to identify, and respond to shifts in, customer needs (Pantano, 2014). Additionally, innovation in retailing is not solely technological, as it often involves limited investments in R&D, and focuses on customer value creation in terms of frontline innovations, experiential shop design, the creation of a new store concept, and the empowerment of personal relations (Hristov and Reynolds, 2015). Specifically, retail firms that systematically measure and act on customer preferences are better positioned to develop innovative products and services that match demands and its needs (Medina and Ruffin, 2009; Paredes et al., 2024). Consequently, for innovation to be accepted, retailers must adopt a customer-oriented approach and communicate its value from the outset (Ratchford et al., 2023). By incorporating customer preferences as part of their innovation approach, retail companies can ensure that their development efforts remain relevant and aligned with evolving consumer needs (Paredes et al., 2024). Moreover, in the actual fast-paced retail context, the ability

to innovate in responding to customer preferences contributes to sustainable long-term competitiveness (Paredes et al., 2024).

Along similar lines, Tuominen et al. (2022) suggest that retailers who closely monitor evolving customer preferences are better positioned to innovate by integrating consumer-driven ideas into their product and service design. In this direction, customer orientation acts as a strategic lens through which retailers sense, interpret, and seize opportunities for innovation (Stremersch et al., 2025). Even for small retailers, customer satisfaction represents a critical factor that improves their performance and competitive positioning (Tajeddini et al., 2013), and the role of customer orientation is even more relevant. Because of their proximity to customers, small independent retailers adopt a customer-oriented approach (Kara et al., 2005), and according to Megicks and Warnaby (2008, p. 114), this closeness to the customer base, adaptability, and flexibility give them an advantage over their larger rivals.

Some contributions, on the other hand, also define customer orientation as a strategic outcome of the innovation process, and adopting innovative strategies leads small businesses to pay greater attention to customer needs (Appiah-Adu and Singh, 1998). Customer orientation tends to be stronger in companies that allocate a significant portion of their profits to innovation, as this enables them to identify emerging needs and strengthen customer relationships (Widelska and Krot, 2021). In this sense, customer orientation stimulates enterprises to transform customer insights into concrete actions (Racela and Thourunrojro, 2020). Specifically, digital innovations and new technologies enhance the ability of small businesses to understand and respond to customer needs, thereby transforming their business models (Hafeez et al., 2025). Thus, innovation is not only the result of a customer-oriented approach; it becomes a way for companies to deepen their understanding of customers and improve their relationships. Modern retailers should adopt technological innovation to enhance customer engagement (Anderson, 2025). Specifically, customer orientation is a significant outcome of innovation that enhances the ability of retailers to understand and meet customers’ needs over time (Smith and Jambulingam, 2018).

In sum, customer orientation has been predominantly studied as an antecedent or outcome of innovation, and less attention has been paid to how this relationship becomes actionable in practice. Accordingly, we aim to fill this gap by investigating customer orientation as both an antecedent and an outcome of innovation in the setting of small retailers. Therefore, we theorize the dual role of customer orientation (as an antecedent and outcome) in the innovation process as being made actionable through micro-foundations of dynamic capabilities. We advance beyond general conceptualizations to uncover concrete micro-level practices, routines, and behaviours through which small independent retailers sustain this interplay.

2.2. Dynamic capabilities: the micro-foundations perspective

This study is framed in the dynamic capabilities approach, which plays a crucial role in understanding a company’s innovation process. “Sensing, seizing, and transforming capabilities” help organizations to adapt quickly to market shifts and co-create value with customers (Engelmann, 2024; Matarazzo et al., 2021; Teece et al., 1997), and these capabilities are fundamental in volatile markets (Teece, 2007; Wang and Ahmed, 2007). By interpreting changing customer needs (sensing), firms can identify new opportunities (seizing) and reconfigure their capabilities to create solutions that deliver superior customer value (transforming) (Martelo Landroquez et al., 2011). In a service context, dynamic capabilities underline the relevance of customer centricity and engagement (Kindström et al., 2013), making customer orientation even more central. The dynamic capabilities approach also offers key insights into how small retailers survive and navigate the pressures of technological changes, evolving customer demands, and heightened competition from e-commerce and globalization (Martinelli et al., 2018).

Sensing, seizing, and transforming capabilities are essential for the survival of small retailers and are most effective when supported by a

strong customer orientation. By staying closely attuned to their customers, small retailers can respond quickly and innovate in agile, customer-driven ways (Megicks and Warnaby, 2008).

Although dynamic capabilities are fundamental to understanding strategic change, their level of abstraction often does not allow for a detailed explanation of how these capabilities are put into practice (Felin et al., 2012). Based on the dynamic capabilities approach, an organization's ability to recognize, assimilate, and exploit knowledge from outside sources lies in its internal routines (Chirumalla, 2021). These routines, in turn, depend on lower-level mechanisms that operate through individuals, processes, and structures, enabling firms to build and adapt dynamic capabilities (Felin et al., 2012). Based on these premises, recent studies have decomposed the sensing, seizing, and transforming dimensions through a micro-foundational lens, revealing how they manifest in specific routines and practices (Khan et al., 2020; Kowalski et al., 2024).

In this research, we apply the micro-foundations perspective to investigate the lower-level mechanisms through which the interplay between customer orientation and innovation becomes actionable. Recent literature has often conceptualized customer orientation as a micro-foundation of business strategy, guiding individual behaviour, interactive dynamics, and organizational processes (Rabetino et al., 2025). Customer orientation is closely linked to knowledge management, a market-oriented organizational culture, and the use of information archives, contributing significantly to a company's ability to perceive, seize, and reorganize opportunities related to business model innovation (Kashyap et al., 2024). Moreover, micro-foundations are used to analyse the learning processes that contribute to recognizing and managing opportunities for innovation (Wang et al., 2025); specifically, they are crucial for small businesses in supporting innovation, as they must adopt distinct strategies from those of large companies to leverage external sources of knowledge (Rhaïem and Doloreux, 2024). Despite the literature recognizing customer orientation as a micro-foundation, to the best of our knowledge, no empirical study has explored how and which micro-operational practices, routines, and behaviors make customer orientation operational, both as an antecedent and as an outcome of innovation.

Most existing studies conceptualize customer orientation at a general level, focusing on its strategic relevance or on its role as an antecedent or consequence of innovation; however, little is known about the micro-level mechanisms through which customer orientation is put into practice. Existing research explores the general relationship between customer orientation and innovation (see Section 2.1) but offers limited insights into how these constructs are enacted in the daily operations of firms. This study aims to address these gaps by adopting a micro-foundational perspective, as it reveals the mechanisms through which firms reconfigure dynamic capabilities in support of innovation (Khan et al., 2020). Accordingly, this research explores how small independent retailers make the interplay between customer orientation and innovation actionable through their managerial practices; specifically, we analyse how such retailers put customer orientation into practice through daily actions related to listening to needs (sensing), responding promptly to requests (seizing), and reorganizing activities (transforming). These actions help in interpreting customer orientation and innovation as interdependent constructs that reinforce each other in practice, with a specific focus on the micro-level mechanisms through which customer orientation interacts with innovation and is shaped and adapted to daily routines.

This research examines the micro-level mechanisms by which customer orientation and innovation mutually reinforce each other across sensing, seizing, and transforming practices. In this sense, the study aligns with recent contributions on dynamic capabilities, which highlight the role of micro-foundations in operationalizing these capabilities through concrete practices and routines (Kowalski et al., 2024). We focus on concrete practices, routines, and daily behaviours that enable small independent retailers to operationalize customer

orientation. Micro-level mechanisms are key to analysing the dual role of customer orientation in helping and being shaped by innovation, as they reveal how the former triggers the latter through close customer engagement and responsive adaptation (antecedent) while at the same time being reinforced and deepened through the innovations adopted to serve customer needs (outcome) better.

3. Methodology

3.1. Qualitative research design

The research employed an exploratory qualitative approach, which is valuable in retail research as it uncovers new insights and addresses complex questions (Finfgeld-Connett, 2014). Furthermore, this kind of study facilitates the development of a conceptual framework that identifies and interprets critical factors and other key variables, thus facilitating the construction of new theories (Patton, 2014). In this study, the exploratory qualitative research allowed us to: (1) inductively explore the micro-level dynamics underlying retailers' behaviours in a challenging and hostile environment; and (2) focus on small independent retailers, whose strategic behaviours can be challenging to capture through a survey. The chosen approach aligns with a qualitative grounded design, allowing concepts to emerge from empirical data. To investigate the underexplored micro-level mechanisms of customer orientation adopted by small independent retailers, an exploratory study was conducted through 15 semi-structured interviews, in which the researchers followed an interview protocol and used questions based on the literature and the preliminary quantitative findings. The questions were intentionally open-ended to encourage the perceptions and experiences of the interviews to spontaneously emerge (see Appendix 2 for the questions used to analyse sensing, seizing, and transforming capabilities).

3.1.1. Selection and sampling procedure

To define the sample for the qualitative study, the research group conducted a preliminary descriptive quantitative analysis on consumers, with the aim of identifying the top-of-mind small retailers from a customer-based perspective (see Appendix 1 for the data collection process carried out for the quantitative part and its results). The customer opinions from the quantitative surveys enabled the research group to select the most relevant small retailers in terms of customer orientation, innovation, and local visibility. In addition, the top-of-mind retailers expressed by consumers were compared with the advice of opinion leaders, including university professors who are experts in retail and consumer behaviour, which helped us to confirm some top-of-mind, small, and recognizable shops in five Italian cities. The involvement of local academics and experts ensured that businesses with a strong reputation for customer orientation and community engagement were selected. The study focused on 15 owners and managers operating in five of the most important Italian cities (namely Rome, Venice, Naples, Milan, and Florence) and across key retail sectors (e.g. clothing, arts and crafts, food and beverages, and building materials). We maintained a sectoral variety to explore how customer orientation is featured in different contexts, without tying the analysis to a specific industry logic. Table 1 presents the main characteristics of the informants (see Appendix 3A for further details).

3.1.2. Data collection

The study employed in-depth, semi-structured interviews since they evolve as new themes emerge and adapt to informants' responses (Gioia et al., 2013). Therefore, these interviews allowed researchers to gather participants' experiences and rich empirical insights, which are essential for developing theoretical contributions (Corley and Gioia, 2011). Interviews were conducted from spring to autumn 2023 at stores and via online platforms, such as Teams or Skype, and each interview lasted approximately 60 min. The interviews were conducted in Italian before

Table 1
Informants' main characteristics.

Informants	Industry	Activity	City
ID1	Food and beverages	Patisserie and bakery	Rome
ID2	Bookselling	Bookshop	Rome
ID3	Consumer goods	Gadget shop	Rome
ID4	Food and beverages	Coffee shop and gourmet products	Venice
ID5	Arts and crafts	Design and artistic glassware	Venice
ID6	Arts and crafts	Jewellery shop	Venice
ID7	Arts and crafts	Accessories shop	Naples
ID8	Fashion	Optician	Naples
ID9	Food and beverages	Pizzeria	Naples
ID10	Fashion	Jewellery shop	Milan
ID11	Building materials and enamels/ DIY/professional cleaning products/wood and floor polishes	Hardware shop	Milan
ID12	Fashion	Clothing store	Milan
ID13	Food and beverages	Patisserie	Milan
ID14	Food and beverages	Restaurant	Florence
ID15	Food and beverages	Restaurant and gastronomy	Florence

being translated into English (see [Appendix 3B](#) for detailed data). One researcher performed the translations and then cross-checked to ensure semantic equivalence.

3.1.3. Data analysis

The Gioia Methodology was used to analyse the data. This methodology supports the need for rigorous qualitative data analysis, as requested by top research journals, allowing the study to fit into broader systematic organizational research ([Gioia et al., 2013](#); [Magnani and Gioia, 2023](#)), and it has been recently applied to several contributions focused on the retail and service context (e.g. [Agarwal et al., 2023](#); [Gupta and Mukherjee, 2022](#)). As the aim of the study is to analyse underexplored customer orientation micro-level mechanisms in small, independent retailers, this method was applied to collect new insights from participants' experiences. In our exploratory study, we strategically employed an inductive methodology, utilizing the grounded theory approach to analyse the rich themes that emerged from participants' responses. Through interviews with entrepreneurs operating in diverse small retail businesses, we gathered a rich base of personal insights that revealed key recurring themes and their logical order. These findings provide compelling evidence regarding the micro-behaviours that promote innovation and customer orientation.

The interactive process followed three phases: first-order codes, second-order themes, and aggregate dimensions. To generate the first-order codes, the authors reviewed the participants' responses to ensure that all of their viewpoints were accurately represented ([Vinoi et al., 2025](#)). In the subsequent phase, the authors identified recurring patterns among the 38 first-order codes, grouping them into 14 second-order themes to accurately capture the essence of the participants' responses. During the analysis of the aggregate dimensions, the authors categorized the second-order themes into five categories, and before finalizing the division of the factors into the five dimensions, the two authors responsible for coding had an alignment to assess and agree on the emerging factors. This approach has enabled the construction of a data structure, which is recognized in the literature as a methodological guarantee, since it enables clear tracing of how the raw data are transformed into theory ([Gioia et al., 2013](#)). To mitigate potential subjective bias, the authors used NVivo 14 software to support the manual coding process, as NVivo is recognized for its rigour in handling and organizing qualitative data ([Bazeley and Jackson, 2013](#)) (see [Fig. 2](#) and [Appendix 4](#) for analysis with NVivo 14). All transcripts were manually coded following an open coding approach, starting inductively from the raw data and developing through an interactive process. Consistency in

coding was ensured by comparing the coders' interpretations and reaching full consensus.

3.1.4. Validity and reliability

Before finalizing the interview, the questionnaire was reviewed by experts in retail and customer behaviour who have proven expertise in qualitative research studies. Their feedback guided the research group in addressing potential issues and refining the wording of the questions, thereby improving the clarity and reliability of the interview protocol. This process supported the assessment of face and content validity regarding the research objectives, in line with the methodological guidelines of qualitative research ([Agarwal et al., 2023](#)). In constructing the interview protocol, particular attention was given to avoiding double-barreled and leading questions, as well as using neutral and inclusive language, with a view to mitigating potential distortions and promoting more authentic responses ([Castaldo et al., 2024](#)).

Furthermore, respondents were guaranteed anonymity in accordance with the GDPR, thereby ensuring compliance with privacy regulations and research ethics standards while also fostering greater trust among respondents ([Castaldo et al., 2024](#)). To ensure methodological rigour and reproducibility, a pragmatic double coding approach was employed, and discrepancies among coders were discussed until a full consensus had been reached.

4. Findings

The thematic analysis of the qualitative data reveals the key themes: the dual role of customer orientation in retailing innovation, within the dynamic capabilities' framework, and the types of innovation that are simultaneously customer-driven and -oriented by highlighting their micro-foundations, including micro practices in retailing mix, relationship-oriented, technological, and social sustainability innovation ([Fig. 1](#)). Customer orientation enables practices and activities that strengthen innovation thanks to the micro-foundations of sensing and seizing consumer needs while serving as an outcome by transforming these needs into actionable innovations that enhance customer relationships and competitive advantage. [Fig. 1](#) summarizes how the raw data were abstracted into theoretical concepts. Specifically, we provide an exemplary quote, which, together with other supporting quotes, enables the definition of first-order codes, then grouped into second-order themes and aggregate dimensions. [Appendix 5](#) offers additional quotes and illustrates clearly how these were structured into first-order codes, second-order themes, and aggregate dimensions.

To better understand the relevance of the themes emerging among small, independent retailers, we conducted a content analysis using NVivo 14 software. [Fig. 2](#) presents a hierarchical chart, visually summarizing the structure and frequency of the aggregate dimensions, second-order concepts, and first-order themes, as indicated by the size of the rectangular boxes, which depends on the number of quotes assigned by the researchers. The "Dual role of customer orientation" represents the most cited aggregate dimension and is displayed in the top-left corner. This dimension encompasses the set of practices adopted by small retailers to translate customer orientation into tangible actions, enabling both the sensing and seizing of customer needs and market trends, as well as the transformation of business processes to enhance the shopping experience, customer satisfaction, and loyalty. Based on the thematic analysis, we found other aggregate dimensions representing the categories of innovation that simultaneously exhibit a customer-driven and customer-oriented nature, each of them supported by specific micro-foundations. These types of innovation are customer-driven because they derive from the micro-foundations of sensing and seizing inherent in customer orientation. However, they are also customer-oriented because their micro practices enable small retailers to transform and strengthen their consumer orientation. Therefore, the aim of the analysis is not to propose a new classification of innovations, but to understand which innovations in small retail ensure this dual role for

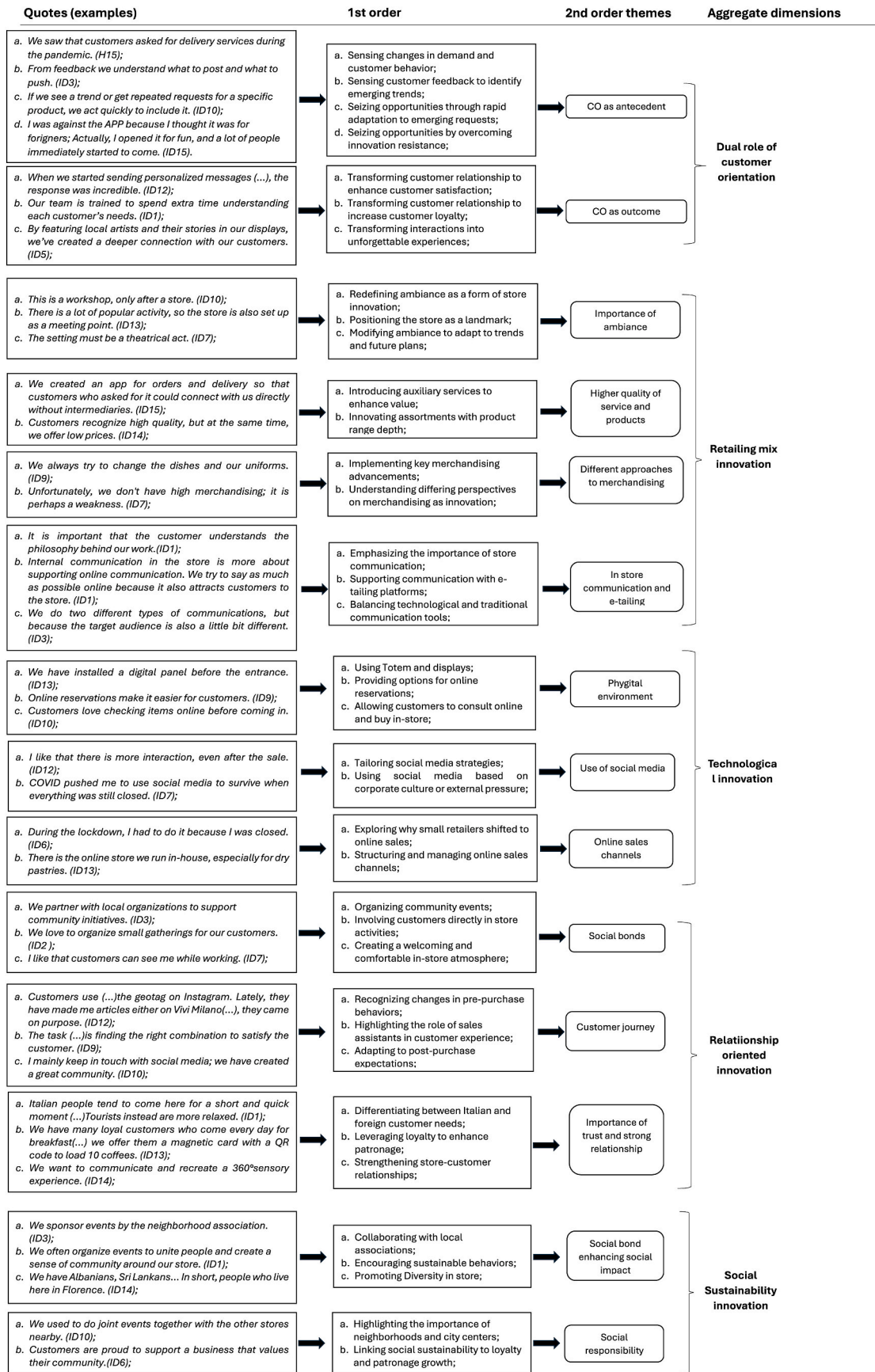


Fig. 1. Data structure based on Gioia methodology.

As an antecedent of innovation, customer orientation also fosters collaboration with customers to obtain feedback. Many of these retailers integrate customer insights to refine their offerings and introduce new solutions:

We always ask what customers think. Their suggestions help in understanding what to improve or introduce next. (ID13)

Therefore, small retailers can improve customer relationships, and this makes customers feel part of the business:

When customers share their opinions, it's always interesting to us. (ID2)

It seems we are building the store with the customer in mind. (ID10)

Seizing dynamic capabilities requires taking action upon sensed opportunities; thus, customer orientation shapes business strategies and improves alignment with market expectations (Appiah-Adu and Singh, 1998; Tuominen et al., 2022).

The results revealed a need to develop offerings that align with customers' desires, and being able to respond quickly, which is a key factor, depends on the relationship with customers:

We like to try new things. If customers come into the store, it is because they are looking for new and different things. (ID3)

Customers were asking for more vegan options, so we quickly adjusted our menu. (ID9)

This approach exemplifies how sensing and seizing opportunities enable retailers to remain customer-centric (Grinstein, 2008a, 2008b; Paredes et al., 2023). Specifically, micro-foundations of sensing and seizing allow small retailers to respond to customer needs by introducing new micro practices, which together constitute innovations. As will be seen in the next section, these contribute to strengthening customer orientation. Detailed quotes are reported in Appendix 5A.

4.2. Transforming sensing and seizing capabilities of customer orientation in retail innovation

From the results, it also emerged that customer orientation is a strategic outcome of innovation, as small businesses need to transform and reconfigure their processes through the micro-foundations of such innovations. Our study identifies the specific practices that underpin innovation categories that simultaneously exhibit a customer-driven and customer-oriented nature. These practices originate from the micro activities of sensing and seizing customer orientation and reinforce customer orientation itself. Thus, the dual role of customer orientation becomes evident, and the strategic relevance of micro-foundations of innovation emerges.

Our findings suggest that small retailers modify their store environments to enhance the shopping experience, utilize digital tools to improve efficiency, and foster stronger customer relationships to increase both engagement and satisfaction. This transforming capability can be achieved through micro practices embedded in innovations in the retailing mix, personal relationships with customers, the adoption of technological tools, and, last but not least, the creation of a diverse and sustainable offering.

4.2.1. Micro-foundations of retailing mix innovation

According to the results of the thematic analysis, small retailers apply transforming capabilities innovating across several actions and practices in the retailing mix, whose micro-foundations originate from customer needs and feedback (*customer-driven*) but, once implemented, enhance customer satisfaction and experience (*customer-oriented*). Specifically, we analyse micro-foundations of transforming that sustain innovations in retailing mix through practical actions implemented in assortment, service, and product quality, as well as in-store communication (Fig. 2). Thus, every observed practice is interpreted as part of a coherent set of micro activities that enable the dual role of customer orientation.

In-store communication and e-tailing emerge as key transformations and are among the most dynamic dimensions of retailing mix innovation.

The role of digitalization is influential in supporting all the levers of the retailing mix – for instance, retailers have implemented digital panels to allow consumers to choose products while waiting in line (ID1) and have introduced QR codes to replace paper menus (ID15):

Internal communication in the store primarily focuses on supporting online communication. We try to say as much as possible online because it also attracts customers to the store. (ID1)

We are thinking of replacing paper signage with digital signage; I think it is a little more effective. (ID13)

Additionally, service and product quality have undergone significant improvements. Small retail stores enhance competitiveness and consumer satisfaction through physical store attributes and staff interaction (Beneke et al., 2012). Moreover, in the food service sector, firms have improved their delivery services, which has positively impacted customer satisfaction (Uzir et al., 2021, ID9, ID13, ID15). Furthermore, retailers' product assortment emerges as an innovative area. However, such small retailers indicated varied strategies, with some prioritizing product uniqueness:

I have many pieces, but few per item; I want to offer a unique product to my customers. (ID12)

Others emphasize variety and choice to ensure broader appeal:

We offer over 40 pizzas, with the option of customization. (ID9)

The preservation of "local roots" was also mentioned as an important reconfiguration capability that originates from customer expectations and strengthens customer orientation. For instance, one of the most critical choices in the definition of the retailing mix is the preservation of the tradition and authenticity of the small shop: certain aspects of the retailing mix remain unchanged, as they help to reinforce the store's identity and strengthen its connection with the local community (Cuesta Valino et al., 2022).

Several small retailers make a few innovations in merchandising in order to be "innovative in the tradition" (ID6, ID7, ID8, ID10),

We've never thought much about merchandising. I don't want to innovate now. (ID10)

Sometimes someone suggests innovating merchandising, but it is not my priority now. (ID6)

Similarly, ambiance remains an unchanged micro-foundation, as it is considered a symbol of community and tradition that reinforces customer patronage. ID12 described their shop as "a living room", while ID13 highlighted the role of a neighbourhood café as "a gathering centre". This welcoming atmosphere enables small retailers to strengthen customer relationships, making ambiance a crucial component of their strategies (Cuesta Valino et al., 2022). Detailed quotes are reported in Appendix 5B.

4.2.2. Micro-foundations of relationship-oriented innovation

Another set of micro-foundations that made it possible to implement the dynamic capability of reconfiguration is the shaping of the relationship with the customer. This means that small retailers were trying to improve customer trust, which is fundamental for long-term relationships, while also attracting more potential customers. Micro practices of relationship-oriented innovations, driven by shoppers' needs, are thus essential for small retailers, as they satisfy customers and because a customer-oriented corporate culture nurtures strong relationships and enhances trust, loyalty, and ultimately business performance (Deshpandé et al., 1993; Narver and Slater, 1990). As explained by many interviewees, strong social bonds with customers, the development of customer journeys, and the importance of trust are pivotal to most relationship-oriented innovations that transform their customer orientation. Multiple small retailers indicated that innovation in their personalized interactions strengthens social bonds, customer orientation, and loyalty:

Customers appreciate the attention and often mention that it is what keeps them coming back to us. (ID12)

We involve our customers in learning about the artists behind our products. (ID5)

As indicated in the quotes below, relationship-oriented innovation promotes initiatives that create a sense of belonging; thus, customer orientation is reinforced, and the role of the store as a hub is strengthened:

We often organize reading events to engage our customers and create a community around our store. (ID2)

With the new interactive workshop, customers love seeing the behind-the-scenes process and often say it deepens their appreciation of the offerings. (ID4)

Relationship-oriented innovations transform customer interactions and local engagement. Thus, customer orientation emerges as an outcome that reinforces the role of small retailers as community hubs: the enhancement of a strong customer orientation promotes perceived value and strengthens the relationship between businesses and their customers (Appiah-Adu and Singh, 1998). The following quotes provide empirical support for these claims, illustrating how small retailers implement strategies to deepen customer trust:

They come to us because they know they will find good products with a different offering from the local stores in the area. (ID15)

We like customers to come back again. About 70 % of customers are loyal and have strong trust in us. The reason, perhaps, depends on the quality of the product we offer, the advice we can give, but most of all, the originality they find here and nowhere else. (ID3)

The role of high-quality products and distinct offerings in building trust is reinforced by active customer involvement:

We ask for feedback, and we try to implement suggestions. We show customers that their opinion matters. (ID13)

Our goal is to create a space where customers are valued. We change our offerings based on their preferences. (ID12)

This aligns with the results of Widelska and Krot (2021), who emphasize that customer orientation is a lever for business–customer relationships. Firms that prioritize customers' needs and feedback can increase customer engagement and loyalty.

The customer journey has thus become a crucial aspect for relationship-oriented innovation, and personalized interactions and the integration of digital tools are key in this regard. In particular, the competence of sales assistants emerges as fundamental for customer satisfaction:

Customers come to us with doubts or problems, and our role is to listen and recommend the best solution. (ID8)

It often happens that the customer asks us for advice. The task and skill are finding the right combination to satisfy the customer. (ID9)

We are not salespeople obsessed with convincing people to buy at all costs; the customer must feel some freedom and buy more willingly because of this as well. (ID12)

According to the interviews, employees play a key role in relationship-oriented innovation during the purchase phase and transform everyday interactions into meaningful experiences that nurture customer orientation. Frontline employees are essential for sustaining a customer-oriented culture:

Our team is our advantage. Throughout the customer contact period, it is our employees who know how to keep the relationship with the customer alive. (ID15)

The staff is amazing. We do many training courses to be able to communicate with the customer, especially because we live in an international context. (ID4)

Detailed quotes are reported in [Appendix 5C](#).

4.2.3. Micro-foundations of technological innovation

The micro-foundations of transformation are also addressed in the development of specific actions and practices that implement technological innovations for a better relationship with customers. These innovations have become essential for small retailers seeking to strengthen and transform customer relationships while maintaining their market share in a rapidly evolving environment. For this reason, they occupy a substantial proportion of the analysis (Fig. 2). During the COVID-19

pandemic, small retailers accelerated their investments in web-based technologies, including websites, social media, and e-commerce – a natural consequence for business-to-consumer (B2C) companies that want to strengthen their ties with the market during a period of social distancing.

Digital technologies are essential for enhancing customer engagement, as they improve access to information, facilitate interaction with products, and personalize the shopping experience.

We added QR codes so customers can learn about each item's story and the artist. They enjoy it. (ID5)

Such efforts are in line with the theoretical emphasis, in recent years, on improving retail environments through digital technologies and interactive systems that enhance the customer journey (Pantano, 2014).

Another transformative capability that originated from micro-foundations of technological innovation for achieving customer orientation involves the application of social media in a manner that enables consumers to participate interactively in creating a broad community and a sense of family.

The results demonstrate that these areas of innovation are perceived as valuable tools for some small retailers in maintaining relevance (Kwon et al., 2021). The informants' stories reveal the role of social media in fostering customer relationships, as they follow the store “not only to see novelties but to feel connected as a family” (ID12).

However, the adoption of social media and online sales channels varies among small retailers, with some perceiving them as a vital growth strategy, and according to some interviewees, social media improves the ability to respond to customer demand and expand market reach (Kwon et al., 2021):

We created an app for orders and delivery, allowing customers who requested it to connect with us directly without intermediaries. It has become a core part of our service. (ID15)

On social media, we are not the brand; it's a family business. (ID10)

For others, however, maintaining in-store interactions remains a priority, reflecting their belief that physical presence is key to customer relationships:

Strength lies in the in-store advice, which would be lost online. (ID11)

We use the website just as a showcase; customers should come and buy here. (ID8)

Beyond social media, some small retailers point out that technology also enhances the phygital environment, with informants implementing digital tools to pursue omni-channel engagement. For example, the use of interactive displays reduces the gap between online browsing and in-store purchases:

We use digital panels outside the store to inform customers about products, bridging the gap between online browsing and in-store purchases. (ID13)

Phygital innovation transforms the in-store experience and integrates physical and digital elements, such as digital panels (ID13) and online product reservations (ID15). In addition, retailers use digital channels to stay connected with customers, which promotes loyalty beyond the point of sale and gathers customers' opinions on what has been recommended (ID2).

Thus, micro-foundations of technological innovations (e.g. social media, displays, and multi-channel strategies) enhance operational efficiency and deepen customer engagement (De Oliveira et al., 2020; Grewal et al., 2021). Therefore, while these micro-foundations are driven by customer requests, they are also fundamental in transforming capabilities that nurture customer orientation in small retailing. Detailed quotes are reported in [Appendix 5D](#).

4.2.4. Micro-foundations of social sustainability innovation

Although less dominant in the data (Fig. 2), an emerging micro-foundation of transforming capabilities is the implementation of concrete actions in terms of social sustainability, which arises as a critical dimension of innovation that strengthens customer orientation. Small retailers are rooted in their neighbourhoods and support their communities through responsible business practices (ID1, ID5, ID7, ID8, ID10,

ID12, ID14).

In the context of small retailers, social sustainability innovation is fundamental and nurtures customer loyalty and engagement. This type of innovation is featured primarily in new social bonds, which enhance social impact and social responsibility initiatives.

Many small retailers organize community-focused events, such as reading groups or workshops, to create a sense of connection (ID2, ID5):

It makes customers proud to support a business that values their community. (ID6)

Through these initiatives, retailers cultivate deeper consumer relationships and reinforce customer orientation as a key strategic outcome, in line with the market-oriented approach that enhances performance in small retailers (Megicks and Warnaby, 2008).

Another aspect of social sustainability innovation is the creation of a welcoming and inclusive in-store environment, in which retailers create comfortable spaces, with the aim of encouraging customers to spend more time in-store and foster emotional bonds (Cuesta Valino et al., 2022). As illustrated in the quotes below, retailers emphasize the importance of comfort and familiarity in shaping customers' experience:

Our store has to be like a home. Everyone needs to feel comfortable here. (ID12)

We involve our customers in knowing the artists of our products to make them feel part of the process. (ID5)

Beyond in-store activities, social responsibility initiatives further consolidate these community ties. Small retailers support neighbourhood organizations, thereby reinforcing their commitment to social responsibility and collective well-being:

We sponsor events by the neighbourhood association, which keeps us involved in community development. (ID14)

However, social responsibility initiatives also extend beyond the store with cultural sponsorships and neighbourhood improvements: as evidenced in the following quote, small retailers actively contribute to public events, and this helps them to strengthen their presence in the community:

We were sponsors of the international marathon in Rome... Customers know when we are interested in the neighbourhood. (ID3)

Such activities nurture connections with loyal customers. Detailed verbatim transcripts are reported in [Appendix 5E](#).

All the micro-foundations of retail innovations we have investigated in this section originate from customer-driven inputs and, once implemented, create a greater perception of customer orientation, transforming customer relationships, increasing their level of satisfaction, loyalty, and trust. From this perspective, customer orientation also becomes an output, reinforcing market relationships.

5. Discussions, implications, and future research

5.1. Discussion

In this study, we reveal how small retailers make the known relationship between customer orientation and innovation actionable through specific practices and routines. In moving beyond general conceptualizations, this study uncovers a crucial gap by examining how the well-known relationship between customer orientation and innovation becomes operationalized through specific micro-level practices in small retailing. The results provide a valuable response to RQ1, revealing that customer orientation is a significant strategic pillar that differentiates small independent retailers from their larger competitors and e-commerce platforms. Findings show that customer orientation plays a dual role, acting both as an antecedent and an outcome of innovation. Specifically, through micro-level routines and practices, customer orientation enables small retailers to develop customer-driven innovations by sensing and seizing the target market's needs. These innovations, in turn, transform customer relationships and engagement, reinforcing small retailers' customer orientation, which becomes a strategic outcome of the innovation process (Smith and Jambulingam,

2018).

As demonstrated by Megicks and Warnaby (2008), customer orientation is a critical dimension of market orientation that significantly influences the success of small independent retailers in satisfying customers' needs, detecting market trends, and achieving enhanced customer satisfaction. In this regard, we propose that sensing and seizing customers' needs are key dynamic capabilities of customer orientation, and allow small retailers to anticipate market shifts, adapt their offerings, and drive innovation with the ultimate goal of strengthening their competitive positioning. When small retailers implement innovations that align with customer expectations and trends, they reinforce their identity as customer-centric businesses. Such innovation practices enhance small retailers' ability to transform their business models and improve their adaptability to market changes. These capabilities work together to integrate customer-driven and -oriented innovation into strategic and operational decisions and are essential for enabling SMEs to reconfigure their resources and to adjust for matching with market dynamics (Engelmann, 2024; Matarazzo et al., 2021). Our study applies the dynamic capabilities framework to small retail businesses, demonstrating how dynamic capabilities also support strategic adaptation and business transformation in this specific context. In doing so, it offers a novel perspective as it uses micro-foundations to explore how customer orientation practices concretely support sensing and seizing processes, which in turn enable small independent retailers to strategically adapt and transform.

To answer RQ2, we identify the four most important categories of innovation in small retailing that are simultaneously customer-driven, as originated from the micro-foundations of sensing and seizing customer needs, and customer-oriented, as their micro practices transform customer orientation: namely retailing mix innovations, relational innovations, technological innovations, and social sustainability innovations. Each of the innovations identified by the results is characterized by specific micro-foundations. First, the micro-foundations of retailing mix innovations enhance small retailers' adaptability. Specifically, service quality, product assortment, and in-store communication are identified as key practices to improve in determining customer satisfaction. However, certain elements, such as the ambiance of the store, remain unchanged, as small retailers wish to preserve their authenticity and reinforce their community identity (Cuesta Valino et al., 2022). In other words, small retailers integrate specific practices and routines in product assortment and service quality, contributing to innovate the retailing mix; however, they limit the changes in merchandising and store ambiance to maintain a sense of familiarity and tradition. Customer relationship-oriented innovations - for example, community events, workshops, and interactive experiences - are considered micro activities and practices that deepen relationships with customers and reinforce the retailer's role as a local hub and a relational platform. Our study also shows that micro-foundations of technological innovations help small retailers transform their customer orientation, enabling them to modify their interactions with customers and thereby bridge the online and offline experiences. The existing literature highlights the fact that retailers are increasingly integrating activities on social media, displays, QR codes, and e-commerce to establish a phygital environment, thereby creating seamless and personalized customer experiences (Grewal et al., 2021). Moreover, innovative technologies are reshaping consumer-retailer interactions, thus improving service efficiency and customer experience (Pantano and Migliarese, 2014). This study also highlights this aspect in the context of small retailing - for example, practices carried out online in a digital or phygital context are increasing among small retailers seeking to enhance their customer engagement. Social sustainability innovations further strengthen the role of small retailers within their communities; therefore, their activities, including local sponsorships, community events, and partnerships, promote social inclusion and responsibility, foster emotional bonds, and enhance customer trust (Adams et al., 2016). These practices nurture customer experience and help small stores to maintain their pivotal role

in the community (Clarke and Banga, 2010).

The grounded model of the Gioia Methodology is represented in Fig. 3. The model provides an overview of the connections between the innovation dimensions and customer orientation by capturing the emergent concepts and their dynamic relationships (Magnani and Gioia, 2023) from a micro-foundation perspective. The research presents customer orientation as central to small retailers' innovation, both as an antecedent (sensing and seizing opportunities) and as a strategic outcome (transforming practices). The analysis reveals that the dual role of customer orientation relates to four dimensions of innovation (retailing mix, relationship-oriented, technological, and social sustainability innovation) and their micro-foundations. To present these dimensions with empirical rigour, the classification of their relationship is based on findings from interviews with small retailers. We consider two parameters to define the relationships between the constructs: intensity and direction. The former depends on how frequently these connections are mentioned; the latter is inferred from whether the influence is reciprocal or one-sided (see Appendix 6). First, technological and relationship-oriented innovations present a strong and bidirectional link. This connection is sustained by micro-foundations such as the integration of social media and the personalization of digital content – micro practices that enable technological innovations to influence consumers' experiences by adapting to their needs and enhancing the accessibility, flexibility, and personalization of the purchasing process (Pantano and Priporas, 2016). Conversely, the interviews highlight the role of relationship-oriented innovation through its micro-foundations, such as personalized customer communication, co-creation workshops, and personalization, in enhancing technological development. Similarly, the practices and routines implemented to strengthen the retailing mix and relationship-oriented innovations mutually reinforce each other. Therefore, micro-foundations such as the adaptation of product assortment, the enhancement of service quality, and the customization of in-store communication enhance the firm's ability to develop products and services that more closely align with market needs. Social sustainability practices also interact strongly with activities that nurture relationship-oriented innovation: local sponsorships, community events, and inclusive in-store environments are the most relevant micro-foundations to promote this link. A strong social bond and social responsibility initiatives help small retailers build trust and enhance customer interactions, while relationships amplify their impact (ID3, ID7, ID12). Despite some links being strong and bidirectional, the results also suggest the presence of unidirectional relationships. Specifically, innovative technological micro practices (e.g. digital panels for in-store communications and QR codes) drive the advancement of the

micro-foundations of retailing mix innovations, highlighting the role of digital and technological improvements in redefining assortment and service advances. However, market-driven retailing mix decisions do not seem to impact the practices of technological innovation. Similarly, social sustainability initiatives benefit from technological practices but do not drive their development. Actions that improve innovations in social sustainability have only a marginal impact on retailing mix decisions, leading to incremental and slight changes (Adams et al., 2016; ID3, ID6, ID14), such as the introduction of local products in the assortment and the adoption of eco-friendly packaging.

5.2. Theoretical implications

Our findings contribute to theoretical understanding by highlighting micro-level mechanisms that render the well-established relationship between customer orientation and innovation actionable, within the context of small independent retailers. Previous studies (e.g. Grinstein, 2008a; Verhees and Meulenber, 2004) confirm a positive relationship between customer orientation and innovative capacity; however, these studies adopt a conceptual approach, neglecting the micro-organizational mechanisms through which this relationship is realized in practice. The present study fills this gap by offering a micro-foundational perspective, in which the dual role of customer orientation is analysed through concrete practices and routines. It also offers a novel theoretical perspective by shifting the focus from exploring customer orientation and innovation as main constructs to how their interplay happens in practice. It contributes both to the theory of customer orientation and innovation and to the emerging literature on the micro-foundations of dynamic capabilities in the context of small retailers.

This supports previous studies suggesting that internal routines enable firms to recognize, assimilate, and exploit knowledge from outside sources (Chirumalla, 2021). Therefore, sensing, seizing, and transforming capabilities have been decomposed through a micro-foundational lens to reveal how they manifest in specific actions and routines (Kowalski et al., 2024). Moreover, since proximity to customers and responsiveness to their needs are critical success factors for small retailers (Kara et al., 2005; Megicks and Warnaby, 2008), customer orientation is considered a key element for competitive advantage. Additionally, this study first examines the dual role of customer orientation as both an antecedent and an outcome of innovation among small, independent retailers. Studying the implications of this role is relevant because small retailers may leverage customer orientation as a dynamic capability and incorporate it into practices to

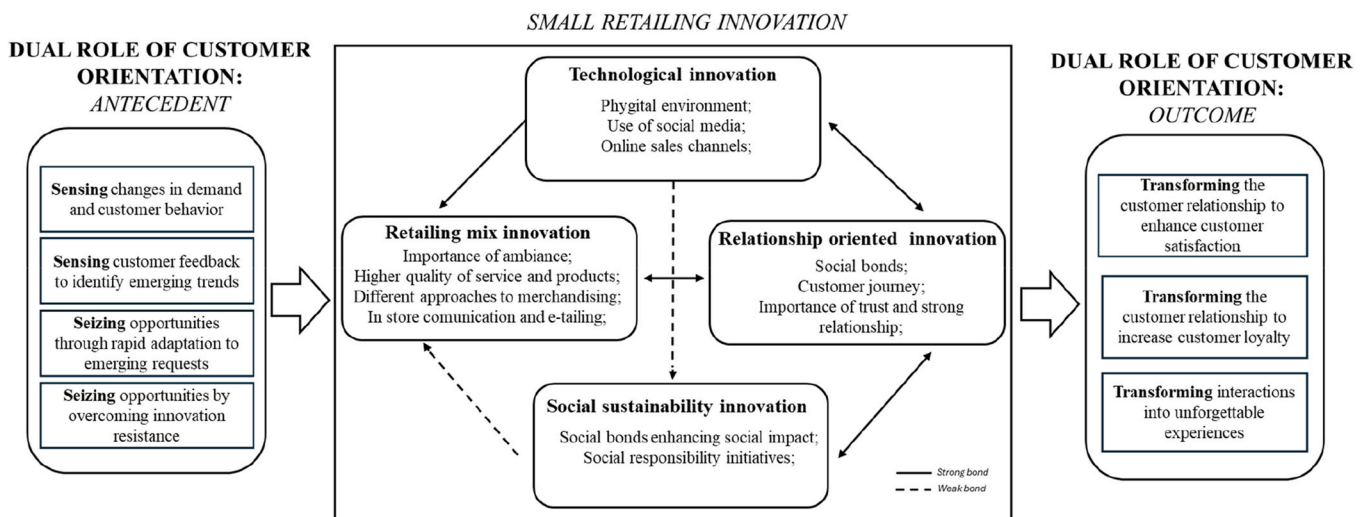


Fig. 3. The grounded model.

promote innovation. We align with previous studies defining customer orientation as an antecedent of innovation (e.g. Paredes et al., 2024; Ratchford et al., 2023; Sondhi et al., 2024; Stremersch et al., 2025) or an outcome of innovation (e.g., Hafeez et al., 2025; Smith and Jambulingam, 2018). However, we expand on this literature, exploring the role of customer orientation as both an antecedent and an outcome of innovation in small retailing, and underlining how the suggested duality is realized in practice through micro-level routines. We state that small independent retailers rely on micro-level practices that support their ability to *sense* (identify emerging customer needs), *seize* (convert opportunities into strategic actions), and *transform* (adapt their business models to evolving market demands) (Engelmann, 2024; Teece, 2007). Building on these insights, we theorize the dual role of customer orientation as a result of micro practices and routines in which customer orientation drives innovation and is shaped by it simultaneously within retail operations.

Furthermore, this study enhances the theoretical understanding of innovation in the small retail sector by examining multiple dimensions of innovation. Specifically, relationship-oriented innovations appear to be particularly effective in fostering customer orientation – a finding that aligns with the contribution by Gilboa et al. (2019), which shows that personalized customer interactions lead to stronger relational outcomes than more general service enhancements. Therefore, customer orientation plays a dual role in relationship-oriented innovation, as it directly influences the retailer's ability to sense and respond proactively to customer preferences while simultaneously serving as an outcome reinforced through personalized interactions and tailored customer experiences. Similarly, the results of our analysis indicate that technological innovations have a positive impact on customer orientation by enhancing customer engagement – for instance, Roy et al. (2018) underline the role of digital tools in improving customer interactions. Technological innovation also benefits customer orientation by enabling retailers to proactively sense evolving customer preferences, personalize shopping experiences, and integrate physical and digital channels (a phygital approach), thereby strengthening customer relationships, enhancing satisfaction, and ultimately reinforcing their competitive positioning in the small independent retail context. The results in respect of retailing mix innovations further enhance the literature by demonstrating that small independent retailers leverage customer orientation to innovate product assortments, services, and in-store communication strategies, but also that maintaining a focus on tradition is relevant. This finding is in line with the contribution of Cuesta Valino et al. (2022), which underlines that maintaining tradition and authenticity are crucial elements in enabling small retailers to reinforce their local identity. Specifically, retailing mix innovations foster customer orientation by allowing retailers to proactively adapt their offerings to changing customer expectations. Similarly, social sustainability innovations highlight how small independent retailers create social responsibility and community engagement initiatives to strengthen their customer orientation. Specifically, these findings align with those of Adams et al. (2016) and Clarke and Banga (2010) in suggesting that socially responsible small retailers foster emotional bonds with customers, promote customer orientation, and support sustainable competitive positioning. The relevance of these multiple dimensions of innovation derives from the complexity of the innovation process in retailing. Specifically, this paper shows that the relevance of innovation dimensions and the enacted micro-level mechanisms that nurture the interplay between customer orientation and innovation may vary depending on the specific retailer's strategic focus.

In sum, this study offers three main contributions. First, it expands the current customer orientation and innovation frameworks. While recent literature has started to examine how dynamic capabilities manifest in routines and individual-level mechanisms (Kowalski et al., 2024; Wang et al., 2025), research on the relationship between customer orientation and innovation mainly focuses on a general or conceptual level, emphasizing the impact on performance (Grinstein, 2008a;

Verhees and Meulenbergh, 2004). This study advances the literature by revealing how concrete practices translate the general concepts of customer orientation and innovation into real practices. Second, our contribution consists of having explored the dual role of customer orientation as both an antecedent and outcome of innovation within a micro-foundational framework, demonstrating how this duality translates into micro-organizational actions. Thus, we fill a gap in existing research that primarily focuses on customer orientation in one direction. Third, it integrates different innovation dimensions. Neglecting this aspect means overlooking essential insights into how customer orientation influences, or is influenced by, various types of innovation within the small retailing context. By integrating customer orientation into the dynamic capabilities' perspective, this study demonstrates how small retailers utilize everyday organizational practices to activate sensing, seizing, and transforming capabilities (Kowalski et al., 2024). These processes, made operational by concrete practices and routines, enable innovation and, at the same time, consolidate customer orientation as a key strategic lever.

5.3. Practical implications

The results of this study also provide some practical implications structured around a two-layer operational framework that links the retailer micro-organizational practices with the support that local institutions and policymakers can provide. The study suggests that innovation does not always require significant investment; rather, focusing on customer-oriented practices can be sufficient to nurture innovation in their business, which in turn strengthens customer orientation. Specifically, some managerial practices can be applied to make customer orientation concrete and relevant in daily activities, especially in the case of small retailing. Actions such as adapting the product range in response to customer feedback, reorganizing display spaces to improve the in-store experience, or using storytelling techniques and hyper-personalized services are concrete examples of customer-oriented practices that, if repeated and formalized, can form the basis for the development of dynamic capabilities. Moreover, frontline employees are the primary source of interaction with customers, and the selection, education, and engagement of salespeople represent a crucial factor in transmitting the retailer's customer orientation initiatives, since they are the ones who carry out the daily practices and micro-level activities. In this context, policymakers, local institutions, and trade associations should create the conditions to make the micro practices more accessible, scalable, and sustainable. Some municipalities and Chambers of Commerce are now supporting the creation of localized e-commerce platforms that allow small shops to sell online while maintaining direct customer relationships and cultural identity (e.g. "Shop Where I Live"). Architectural redevelopment programmes are providing free designs for improving retail streets – for example, in Nice (France), a disused railway station has been transformed into an urban hub with retail spaces and a food court, thereby increasing foot traffic and revitalizing the neighbourhood. Moreover, merchant networks may pool marketing efforts, organize neighbourhood events, and build unified loyalty programmes through CRM and digital payments. The promotion of specific programmes and initiatives supported by external large firms (e.g. AmEx) but devoted to small firms is also important; in this way, the creation of a win-win system can help small retailers offer unique, locally sourced products that differentiate them from larger competitors. The most relevant practical implication is that the survival and competitiveness of small, independent retailers depend on customer orientation within their daily practices, as well as the capacity of these firms to create innovative solutions oriented towards customer satisfaction. However, not all small retailers have the same dynamic capabilities to respond to customer needs and innovate effectively. This difference necessitates intervention by policymakers, associations, and local authorities to bridge the gaps and create good conditions for innovation. Therefore, we propose a synthesis in Table 2 that highlights

Table 2
Practical implications for small retailers and policymakers with examples.

	Customer orientation as an antecedent (<i>sensing and seizing capabilities</i>)	Retailing mix innovation	Relationship-oriented innovation	Technological innovation	Social sustainability innovation	Customer orientation as outcome (<i>transforming capability</i>)
Practical implications for small retailers	<p>Researching: Retailers should conduct market researches and panels to sense customer needs.</p> <p>Monitoring: Using social media is highly recommended to observe trends and collect insights.</p> <p>Testing: They can invite customers to try new products, obtaining feedback.</p> <p>Partnering: Enacting partnerships with other local activities.</p>	<p>Adapting: Retailers should dynamically change assortment, product display, and in-store atmosphere to match new market requests.</p>	<p>Engaging: Retailers should be active members of local events and initiatives that bring customers together.</p>	<p>Digitizing: Retailers should introduce touch screen displays, QR codes, or mobile apps. They should leverage social media and e-commerce channels.</p>	<p>Supporting: Retailers should sponsor or donate to neighbourhood events, collaborate with local charities or schools, and implement inclusive practices.</p>	<p>Enriching: Retailers should mix the tradition of their offering with innovation based on customers' needs.</p> <p>Hosting: Strength relationship with unique events and artisan workshops.</p> <p>Integrating: Merging physical and digital touchpoints.</p> <p>Welcoming: Creating spaces that resemble a "community living room" and invite people to stay.</p>
Practical implications for policymakers	<p>Training: Policymakers and Local Authorities can fund training on social media and big data.</p> <p>Monitoring: Periodic data collection can be encouraged, including surveys on local consumers, to detect new trends.</p> <p>Financing: Financial support for a more structured CRM.</p>	<p>Consulting: Policymakers and Local Authorities can offer access to merchandising consultants, launching initiatives for window design contests.</p> <p>Renewing: They can co-finance experiential renewal of retail spaces.</p> <p>Designing: Urban planning should prioritize attractive commercial areas.</p>	<p>Engaging: Policymakers and Local Authorities can support networks of small businesses (e. g. business improvement districts or local merchant associations) to collectively organize markets, festivals, or cultural events.</p>	<p>Marketplacings: Policymakers and Local Authorities can collaborate with tech firms or commerce chambers to create local online marketplaces.</p> <p>Upskilling: They can offer workshops on social media marketing or online customer service.</p>	<p>Incentivizing: Policymakers and Local Authorities can offer grants or tax breaks for shops providing community services and supporting "multi-service" stores in areas with few services.</p> <p>Integrating: They can integrate small retailers in community development projects.</p>	<p>Structuring: Policymakers and Local Authorities can issue calls for tenders to improve the store layout for enhancing customer experience.</p> <p>Networking: Retailers' cliques can be encouraged to create experiential itineraries (tasting tours, shopping nights).</p> <p>Sharing: The creation of shared local CRM platforms makes it possible to manage multi-store loyalty programmes.</p> <p>Informing: Policymakers and Local Authorities can also promote market research to verify customer satisfaction and loyalty.</p>
Examples	<p>"Programa formatiu per a la digitalització del comerç" (Barcelona, Spain). This is a training programme for small commercial enterprises with the aim of increasing the level of digitization in this segment of the Catalan economy. Small retailers were introduced to disciplines such as the basics of e-commerce, digitization, digital, and strategic marketing.</p>	<p>"Bologna Made" (Bologna, Italy) is a project aimed at promoting craftsmanship and commerce to improve the quality of their services, accessibility, and entertainment offerings for citizens and visitors.</p>	<p>"Nice Shopping Christmas Parade" (Nice, France), with 200 performers and 45,000 spectators, creates an intense community atmosphere around local stores.</p>	<p>"Petitscommerces" (France) helps revitalize downtowns by providing local online gift card platforms and media campaigns. These tools promote neighbourhood stores.</p>	<p>"MontMall project" (Italy) creates, with the support of Piedmont municipalities, a multi-service community hub in villages to counter retail desertification: the project combines retail, postal, social, and cultural services.</p>	<p>"Koop Lokaal" (Utrecht, Netherlands) is a non-profit digital platform with an app that integrates local e-commerce and a multi-store loyalty programme. The data collected through the app have allowed stores to understand who buys what, when, and how, making it easier to adapt their assortment and offers based on actual behaviour.</p>

the main practical implications emerging from the study, offering guidance for both small retailers and institutional players. The aim is to promote innovations that are truly customer-driven and -oriented.

Table 2 goes beyond a purely descriptive account of innovation by offering an operational road map. In the context of a hostile environment created by external competition, the fate of small retailers appears to be in the hands of their owners and managers and their ability to build good practices for customer orientation, sustained by policymakers and local associations.

5.4. Limitations and future research directions

Although our research has made significant contributions, we acknowledge that it has several limitations. First, the sample is limited to 15 small retailers, located in large Italian cities and perceived as being customer-oriented, which may affect the generalizability of the findings, especially in different geographic or organizational contexts. Future research could investigate whether similar micro-level mechanisms emerge in other territories and among retailers that do not adopt a customer-oriented approach. Second, this study adopts a cross-sectional design, which does not make it possible to capture the causal relationships between the topics. Future investigations could explore the role of the sub-sectors in these processes. Moreover, a longitudinal perspective could uncover trends and include additional factors, such as entrepreneurial orientation and cultural dimensions, providing a more comprehensive understanding of retail innovation. Third, the observed practices are based on personal relationships rather than codified routines, due to the nature of the stores. Therefore, formalizing the results becomes more difficult than in complex and standardized organizations. Furthermore, the dynamics described by the interviewees may reflect their personal viewpoint and self-assessment, which would reduce the study's applicability in contexts where management is less owner-centric.

The current study included a preliminary quantitative analysis to identify top-of-mind small retailers from a consumer's perspective. Although the sample was representative of the adult population, it would be interesting to explore how different cohorts relate to, and interpret, small retailing. Furthermore, open-ended questions generated a substantial amount of information that was unnecessary for the aim and scope of the research. Emerging techniques, such as generative AI for language analysis, could lead to the development of new and more sophisticated models. Finally, combining qualitative findings with quantitative surveys could further enrich the study's conclusions. In the research domain, we consider this study to be the starting point for further research.

6. Conclusions

This study examines small, independent retailers in five Italian cities, analysing how customer orientation is both an antecedent and an outcome of small retail innovation. Retailers can use customer orientation to enhance their innovativeness, strengthen their competitive position, and improve their long-term relationships with customers. In particular, small retailers have to face several challenges related to globalization, e-commerce, and digital transformation, and such challenges drive retailers to monitor consumer needs and market trends, enabling them to implement targeted, customer-oriented innovations that reinforce their customer orientation and local identity. Using the Gioia Methodology (Gioia et al., 2013), the research emphasizes the dynamic role of customer orientation in sensing, seizing, and transforming capabilities. These capabilities enable small retailers to innovate, build stronger customer trust and loyalty, and effectively compete with larger retailers and e-commerce platforms. Beyond merely surviving, businesses that embed customer orientation into their innovation strategies and invest in their neighbourhoods contribute to social sustainability, thus fostering stronger community ties.

CRedit authorship contribution statement

Sandro Castaldo: Writing – original draft, Supervision, Conceptualization. **Alice Mantovani:** Writing – original draft, Methodology, Data curation. **Lara Penco:** Writing – review & editing, Writing – original draft, Methodology, Data curation, Conceptualization.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Appendix A. Supplementary data

Supplementary data to this article can be found online at <https://doi.org/10.1016/j.jretconser.2025.104691>.

Data availability

Data will be made available on request.

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