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This is a preprint of an article whose final and definitive form has been published in *International Journal of Retail and Distribution Management* © 2008 copyright Emerald Group Publishing Limited. Lindblom, Arto, Olkkonen, Rami, and Mitronen, Lasse. "Cognitive Styles of Contractually Integrated Retail Entrepreneurs: A Survey Study." *International Journal of Retail and Distribution Management* 36(6): 518-532; *The International Journal of Retail and Distribution Management* is available online at:

<http://www.ingentaconnect.com/content/mcb/089/2008/00000036/00000006/art00005>

International Journal of Retail and Distribution Management.

Vol. 36, No. 6 (2008)

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Abstract

Purpose: This study investigates the cognitive styles of contractually integrated retail entrepreneurs with respect to marketing decision-making. The study addresses two research questions: (i) How can the cognitive styles of these retail entrepreneurs be classified? (ii) If there are differences in the cognitive styles of retail entrepreneurs, how are these differences reflected in their business performance?

Design/methodology/approach: Following a literature review and conceptual analysis, a questionnaire on cognitive styles is developed on the basis of Jung's (1946) 'typology theory' and the Myers-Briggs Type Indicator (MBTI). A quantitative Internet survey study is then conducted among 226 retailers contracted to the K-alliance of Finland. The results are then subjected to statistical analysis.

Findings: The study reveals that the cognitive style of most of the studied K-retailers is in accordance with the style of salaried managers, rather than that of 'entrepreneurs'. The study also finds no clear relationship between the cognitive styles of the respondents and their business performance.

Research limitations/implications: The possible existence of explanatory factors other than cognitive styles was not considered in the study. Further research is required on other variables that might have a direct or indirect effect on the business performance of retailers.

Practical implications: The study has implications for the governance and management systems of contractually integrated retailing organisations; in particular the study suggests that such management systems might inhibit entrepreneurial cognitive styles.

Originality/value: The paper offers new perspectives on entrepreneurship in the context of contractually integrated retailing organisations.

Keywords: retail entrepreneurs; cognitive styles; contractually integrated retailing organisations

1. Introduction

Reasoning is the thought process that leads to knowing. According to de Wit and Meyer (1998), this thought process involves the cognitive functions of identifying, diagnosing, conceiving, and realising. In terms of management, the way in which these cognitive functions are conducted reflects an individual manager's 'cognitive style' (White et al., 2003). Not surprisingly, White et al. (2003) observed that significant differences exist among the 'cognitive styles' of various managers.

The present study explores the reasoning processes and 'cognitive styles' of entrepreneurs. Knight (1984) has noted that entrepreneurs can range from self-employed individuals to employees of large corporations. As shown in Figure 1, this wide range of entrepreneurs can be schematically arranged according to their degree of autonomy. Although the types presented in the diagram are not exhaustive, they cover a broad range of entrepreneurial behaviour—from independent entrepreneurs to managers of large corporations.

Take in Figure 1 about here

Figure 1: Degree of autonomy of various entrepreneur types (Knight, 1984)

Within this wide range of entrepreneurial activity, the present study focuses on the cognitive styles of contractually integrated retail entrepreneurs in making marketing decisions. Contractually integrated retail entrepreneurs are neither solo self-employed entrepreneurs nor corporate managers; rather, they function with some degree of autonomy under a variety of contractually based governance arrangements—including franchises, alliances, cooperatives, and network partnerships (Heide, 1994, Grandori, 1997; Grandori & Soda, 1994; Kaufmann & Dant, 1998; Tuunanen & Hyrsky 2001). Although there is a certain uniformity imposed on participants in these arrangements, individual retail entrepreneurs are expected to exercise some degree of autonomy in taking advantage of local opportunities (Kaufmann & Dant, 1998; Sen, 1998; Tuunanen & Hyrsky, 2001).

Such retail entrepreneurs have thus been characterised as 'intermediate actors' between employee managers and independent owners (Tuunanen and Hyrsky, 2001; Knight, 1984). In terms of cognitive styles, the question therefore arises as to whether contractually integrated retail entrepreneurs tend to demonstrate 'managerial' features or 'entrepreneurial' features (Malach-Pines et al., 2002), and whether this has an effect on business performance. The present study therefore addresses the following research questions:

- * How can the cognitive styles of contractually integrated retail entrepreneurs be classified?
- * If there are differences in the cognitive styles of contractually integrated retail entrepreneurs, how are these differences reflected in their business performance?

These questions are addressed in the context of marketing decision-making at the store level (including sales and sales promotion, store-specific product selection, and pricing). The subjects of the study are a group of semi-independent retail entrepreneurs, known as ‘K-retailers’, who are contractually linked to the large K-alliance retail organisation in Finland (Mitronen & Möller, 2003).

The remainder of the paper is arranged as follows. Following this introduction, the paper presents a literature review and conceptual framework of entrepreneurial characteristics and cognitive styles. An empirical study is then described, and the results are presented. A discussion of the significance of the findings then follows. The paper concludes with a summary of the major findings and the implications for managers and future research.

2. Literature review and conceptual framework

2.1 Characteristics of entrepreneurs

A review of the literature reveals that a wide array of features has been suggested as characteristic of entrepreneurial activity. According to Schumpeter (1934; 1965), the distinguishing characteristics of entrepreneurs are their will to conquer, their impulse to fight, their desire to prove themselves superior to others, and their joy in creating and getting things done. Other authors have summarised the distinguishing characteristics of entrepreneurs as the motivation to create wealth and accumulate capital, the ability to recognise opportunities for wealth creation, and good judgment (that is, knowing which opportunities to pursue) (Chell, 1997; Allinson et al., 2000; Beugelsdijk & Noorderhaven 2005). Others have defined entrepreneurship in terms of innovativeness, proactiveness, and constructive risk taking (Bhuian et al., 2005; Matsuno et al., 2002; **Bairinger** & Biuedom, 1999; Miller 1983; Miller & Friesen 1982). In a review of the literature, Kaufmann and Dant (1998) identified a long list of entrepreneurial traits, including: creativity, adaptability, vision, leadership, managerial and organisational skills, ability to make decisions quickly, ability to act in a changing and uncertain environment, and personal integrity. Others have identified a range of cognitive decision-making biases, specific cultural characteristics, and educational background as being associated with successful entrepreneurs (Malach-Pines et al., 2002). This diversity of conceptualisations of entrepreneurship

suggested by various scholars led Kaufmann & Dant (1998) to suggest that the term ‘entrepreneurship’ might be too imprecise to define with any certainty.

Despite these difficulties, there has been a long-established view that entrepreneurs are ‘different’ from salaried managers (Malach-Pines et al., 2002; Forbes, 2005). In particular, an increasing number of studies have suggested that ‘entrepreneurial cognition’ differs from ‘managerial cognition’ (Allinson et al., 2000; Beugelsdijk & Noorderhaven, 2005). The following differences between the cognitive styles of entrepreneurs and managers have been identified in various studies.

- * Entrepreneurs have been said to exhibit more ‘alertness’ than do managers; entrepreneurs are less likely than managers to rely on conventional analysis when appraising opportunities and more likely to rely on their own subjective impressions (**Kaish & Gilad, 1991**).
- * Entrepreneurs typically operate intuitively, and their intuitive concepts are not necessarily articulated (Hill & Levenhagen, 1995).
- * Entrepreneurs are more likely to perceive equivocal business situations positively than are managers (Palich & Bagby, 1995).
- * Entrepreneurs use heuristics more extensively than do salaried managers (Busenitz & Barney, 1997).
- * Entrepreneurs are more innovative than managers in large corporations (**Buttner & Gryskiewicz, 1999**).
- * Entrepreneurs are more intuitive than are members of the general population and middle/junior managers (Allinson et al., 2000).
- * Entrepreneurs enjoy challenges, are willing to take great risks, and show more initiative than managers do (Malach-Pines et al., 2002).
- * Entrepreneurs are said to be more confident than salaried managers (Forbes, 2005).

In general, it is apparent that the decision-making style of entrepreneurs is regarded as creative, informal, and intuitive, whereas that of salaried managers is seen as formal, sequential, and structured (Carson, 1993). However, according to an empirical study by Malach-Pines et al. (2002), entrepreneurs and managers also share certain similarities—such as commitment, involvement, and energy.

Finally, it should be noted that Alvarez and Busenitz (2001) argued that greater attention should be paid to the cognitive processes of entrepreneurs, and Volkema and Gorman (1998) have called for more research into the effects of entrepreneurial cognitions on business performance.

2.2 Cognitive styles

A ‘cognitive style’ can be defined as a person’s preferred way of gathering, processing, and evaluating information (Allinson et al., 2000). Although several classifications of cognitive styles have been proposed, Jung’s (1946) ‘typology theory’ has been the basis of many schemes and instruments, the best known of which is the Myers-Briggs Type Indicator (MBTI) (Myers, 1962; Myers & McCaulley, 1985). The MBTI is widely used in business, psychology, education, and career counselling (Edwards et al., 2002), but it has nevertheless been the subject of some criticism. In particular, Wheeler et al. (2004) noted that the MBTI captures the *direction* of preference, rather than its *strength*. In a similar vein, other critics have noted that the MBTI is appropriate for sorting, but that it does not provide continuous measurement (Wheeler, 2001; Mendelsohn et al., 1982; Weiss et al., 1982).

The MBTI measures four dimensions of psychological preference: (i) extraversion/introversion; (ii) judging/perceiving; (iii) sensing/intuition; and (iv) thinking/feeling. These four dimensions of personality are integrated into a ‘personality typology’ of 16 personality types. The present study focuses on the last two of these—sensing/intuiting (for perception) and thinking/feeling (for judgment)—which have been described as the ‘basic’ Jungian mental functions of an individual (Gould, 1991; Stumpf & Dunbar, 1991). A typology of personality type, based on the dimensions of sensing/intuiting (for perception) and thinking/feeling (for judgment), consists of the following four groups of functions: (i) sensing–thinking (ST); (2) sensing–feeling (SF); (iii) intuiting–thinking (NT); and (4) intuiting–feeling (NF). These four types can be characterised as follows (Gould, 1991; Volkema & Gorman, 1998; Stumpf & Dunbar, 1991).

- * The ST personality type can be characterised as the epitome of the rational economic decision-maker about whom classical and neo-classical economists have theorised. People with an ST personality type try to make rational decisions logically and empirically.
- * People with an SF personality type make decisions more subjectively—based on personal values, rather than logic.
- * People with an NT personality type consider a wide range of possibilities—largely through imagination—and then assess them logically.
- * People with an NF personality type also consider a range of possibilities; however, they tend to ignore traditional methods and standardised procedures in favour of novel solutions.

It has been suggested that different cognitive styles among individuals—as characterised in terms of the dimensions of *perception* (sensing/intuiting) and *judgment* (thinking/feeling)—can explain variations in

decision-making processes and outcomes (Allinson et al., 2000; Hough & Ogilvie, 2005; Stumpf & Dunbar, 1991). For example, Volkema and Gorman (1998) have found that fundamental differences in perception and judgment can influence strategic decision-making and risk-taking. These, in turn, can affect economic phenomena, including business performance (Gould, 1991).

3 Empirical study

3.1 Background to the study

To investigate these matters further, the present study undertook a survey of Finnish entrepreneurs known as 'K-retailers'. K-retailers are semi-independent retail entrepreneurs who are the owners and managers of their retail businesses, and who invest considerable personal and financial resources in these enterprises. K-retail entrepreneurs are contractually linked to K-alliance, the largest retail organisation in Finland (Mitronen & Möller, 2003). K-retailers sell a range of products—including groceries, household goods, and speciality goods. These goods are offered to consumers through a variety of store formats—including small convenience stores, speciality stores, department stores, and large hypermarkets (Mitronen, 2002; Mitronen & Möller, 2003).

K-alliance is a contractually integrated strategic network (Powell, 1990). This network consists of Kesko and its subsidiaries operating in Finland and abroad, together with semi-independent K-retailers and their personnel. K-retailers are entitled to use the K-logo and other chain-marketing symbols, but each retailer is responsible for being proactive in taking advantage of local opportunities and for ensuring customer satisfaction and the profitable performance of his or her store. Managerial policies and processes at the store level—such as marketing and category formation—are the responsibility of individual K-retailers. K-retailers are also responsible for initial investments in their stores, and they accept ultimate financial risk in managing their operations (Mitronen, 2002; Mitronen & Möller, 2003).

3.2 Sample and data collection

The population for the study consisted of 1170 K-retailers. An Internet survey was conducted (using Webropol software) in May 2005. Having obtained the email addresses of all K-retailers in Finland through the good offices of the K-retailers' Association, an initial email was sent to each retailer describing the purpose of the study and requesting the retailer's participation. Approximately one week after the initial mailing, a second email directed the retailers to a website where a survey questionnaire

was located. A total of 247 K-retailers completed the survey; of these, 226 responses were satisfactory for data analysis. The overall response rate to the mailout was thus 19.3%. This can be considered satisfactory for the present analytical purposes. Respondents included food retailers (63%) and durable-goods retailers (37%).

The content of the questionnaire was determined on the basis of: (i) previous theoretical and empirical research into the cognitive styles of individuals; and (ii) several lengthy discussions with K-retailers and managers from Kesko. Before distributing the questionnaire, content validity was assessed by conducting a pre-test among five K-retailers. The objectives of the pre-test were to assess whether the questions were understood and to determine how long it took to complete the questionnaire. No unclear items were found.

3.3 Measures

3.3.1 Cognitive styles

As previously noted, the cognitive styles of respondents were conceptualised on the basis of Jung's (1921/1971) typology, as modified by the MBTI (Myers, 1962; Myers & McCaulley, 1985). The basic conceptual assumptions were: (i) that *perception* could be characterised as 'sensing' or 'intuiting'; and (ii) that *judgment* could be characterised as 'thinking' or 'feeling'. It was further assumed that these characteristics defined four personality types among the respondents—(i) sensing–thinking (ST); (ii) sensing–feeling (SF); (iii) intuiting–thinking (NT); and (iv) intuiting–feeling (NF).

The constructs were measured on five-point Likert-type scales ('1' = 'strongly disagree'; '5' = 'strongly agree'). For each of the constructs, scale scores were computed as the means of the individual items. If necessary, reverse scoring was done.

The following items were used to measure the *perception* (sensing/intuiting) construct:

- * 'My style of information-gathering is systematic and well planned';
- * 'I gather information frequently';
- * 'I gather information on my own initiative';
- * 'I do not collect information actively'; and
- * 'I collect information only when headquarters (of the chain) tell me to do so'.

Cronbach's alpha for the perception construct was 0.78, which confirmed the internal reliability of the construct (Nunnally 1978; Nunnally & Bernstein 1994).

The following items were used to measure the *judgment* (thinking/feeling) construct:

- * 'My style of interpreting information is analytical and rational';
- * 'I use a considerable amount of time to analyse gathered information';
- * 'I am capable of analysing collected information myself';
- * 'I use analysed information extensively in my decision-making';
- * 'I am critical of gathered information';
- * 'Decision-making would be very difficult without extensive information gathering';
- * 'I consider the interpretation of gathered information as being obsolete when it comes to decision-making'; and
- * 'The gathered information remains unanalysed'.

Cronbach's alpha for the judgment construct was 0.72, which confirmed the internal reliability of the construct (Nunnally 1978; Nunnally & Bernstein 1994).

The dimensions of perception and judgment were measured by creating two composite variables, which were based on the sum of the values of the individual items that operationalised the composite constructs of information-gathering (perception) and information-interpreting (judgment). The value range of the composite variable of perception varied from 5 to 25, whereas the value range of composite variable of judgment varied from 7 to 35.

3.3.2 Business performance

The 'business performance' of the K-retail entrepreneurs was posited as the ultimate dependent variable in the structural equation modelling. Although there is controversy about the meaning of the term 'business performance' (Venkatraman & Ramanujam, 1986; Morgan & Strong, 2003), contemporary practice combines accounting-based measures with market-based measures to generate a multifaceted construct of business performance (Morgan and Strong, 2003). In the present study, which focused on the performance of retail entrepreneurs' at the store level, business performance was measured in terms of: (i) gross margin (%); and (ii) operating margin (%) (McGoldrick, 2002). The respondents were requested to supply this information in the survey. These two measures are generally used in K-alliance to assess business performance among K-retail entrepreneurs.

4. Findings

4.1 Cognitive styles and marketing decision-making

The first objective of the study was to classify the cognitive styles of the respondents with respect to marketing decision-making (covering such matters as sales and sales promotion, store-specific product selection, and pricing) in terms of the dimensions of *perception* (sensing/intuiting) and *judgment* (thinking/feeling). The cognitive styles of the food retailers (n = 155) and the durable-goods retailers (n = 91) were considered separately. The results are shown in Tables 1 and 2 respectively.

Take in Table 1 about here
Table 1: Cognitive styles of food retailers

Take in Table 2 about here
Table 2: Cognitive styles of durable-goods retailers

As can be seen in the tables, it was not possible to classify all of the respondents into ‘pure’ personality types according to their cognitive styles of perception and judgment. As a consequence, ‘hybrids’ were also defined in both dimensions, as follows.

* *Perception*: according to the value of the style of information-gathering, the categories were defined as follows: 5–11 ‘predominantly intuiting’; 12–18 ‘hybrid of intuiting and sensing’; 19–25 ‘predominantly sensing’.

* *Judgment*: according to the value of the style of information-interpreting, the categories were defined as follows: 7–15 ‘predominantly feeling’; 16–24 ‘hybrid of feeling and thinking’; 25–35 ‘predominantly thinking’;

As can be seen in Tables 1 and 2, the hybrid type was the most common cognitive style of both the food retailers (30.9%) and the durables retailers (42.1%). However, with regard to marketing decision-making at the store level, it was apparent that the majority of both groups of retailers based their decisions on the systematic gathering of information and rational interpretations of that information. Only one of the respondents (a food retailer) represented a pure ‘intuiting–feeling’ type; none of the durables retailers came into this category.

Most previous studies of entrepreneurship have suggested that entrepreneurs are more ‘intuitive’ and more ‘feeling-dominant’ than are salaried managers (Malach-Pines et al., 2002; Allinson et al. 2000;

Alvarez & Busenitz, 2001). If so, the results of the present study indicate that the cognitive styles of most of the K-retailers were ‘managerial’, rather than ‘entrepreneurial’.

4.2 Cognitive styles and business performance

The second objective of the study was to investigate the effects of the cognitive styles of the respondents on their business performance. For this purpose, one-way ANOVAs tested the dependent variables of gross profit (%) and operating profit (%) against the independent variable of cognitive style. The results are shown in Table 3.

Take in Table 3 about here
Table 3: Effects of cognitive styles on business performance

As can be seen in Table 3, the results were as follows:

- * no statistically significant relationship was found between the cognitive styles of the K-retailers and their business performance (as measured by either variable);
- * average gross profit and average operating profit were significantly higher among the durable-goods retailers than among the food retailers ($p = 0.00$); and
- * there were well-performed and poorly performed retailers in both the food and consumer-durables groups, but none of the studied cognitive styles predicted better business performance than any other.

In summary, in terms of business performance, no cognitive style could be identified as being better than another.

5. Discussion

The first finding of significance in the present study is that most of the studied K-retailers demonstrated the cognitive style of a salaried manager, rather than that of an ‘entrepreneur’. It is apparent that most of these K-retailers did not possess entrepreneurial intuition-dominant cognitive features—even though ‘entrepreneurship’ is claimed by K-alliance to be a central value and success factor in its contractual arrangements with retailers.

In seeking an explanation for this paradox, two logical alternatives present themselves:

- * the respondents in the present study might have been *inherently* 'managerial' (rather than ('entrepreneurial')); and/or
- * the respondents in the present study might have *become* 'managerial' (rather than ('entrepreneurial')).

With regard to the first, it might be that K-alliance (for various reasons) attracts and recruits only persons who have an inherently 'managerial' cognitive style.

With regard to the second, it might be that the governance mechanisms of K-alliance might have an effect on the way in which K-retailers' gather, process, and evaluate information. In particular, the following aspects of control and coordination in the alliance might have such an effect: (i) chain contracts and trading contracts; (ii) manuals of practice; (iii) systems of training; and (iv) new retailer recruiting process. Of these, the most important is the existence of chain contracts and trading contracts between Kesko and individual K-retailers (Mitronen, 2002; Mitronen & Möller, 2003). These contracts, together with manuals of practice, might limit the operational autonomy of K-retailers, such that they are not able (or not allowed) to utilise their intuition and creativity when making their marketing decisions (Tuunanen & Hyrsky, 2001). If so, this would be in accordance with the view of Knight (1984), who contended that the existence of entrepreneurial intuition-dominant cognitive features is related to degree of entrepreneurial autonomy. The systems of training in K-alliance might also play a role by teaching K-retailers to adopt an analytical style of gathering and interpreting information.

To ascertain whether these respondents were inherently 'managerial' and/or whether the control and coordination mechanisms of K-alliance cause them to adopt a cognitive style more akin to a 'manager', it would be necessary to study the recruiting policies and governance arrangements (formal and informal) of K-alliance in greater detail. In particular, it would be necessary to assess the actual degree of autonomy accorded to K-retailers in making independent marketing decisions.

The other result of significance in the present study was that there was no clear relationship between the cognitive styles of the respondents and their business performance. This could be explained by the existence of other factors not considered in the present study. These could be independent variables that directly explain the business performance of the retailer or mediating variables that influence the relationship between cognitive style and business performance. For example, the store location of a given K-retailer, or the existence of local competition, might explain business performance better than any cognitive factor. It is also possible that the governance arrangements of the K-alliance might determine business performance to a greater degree than do cognitive styles.

6. Conclusions

The present study has investigated the presumed entrepreneurship of a group of semi-independent retailers who have contractual arrangements with K-alliance, the largest retail organisation in Finland. The purpose of the study was to investigate: (i) the cognitive styles of these retailers with respect to marketing decisions at the store level; and (ii) whether the cognitive styles of the retailers affect their business performance.

The study revealed that the K-retailers under investigation did not constitute a homogeneous group in terms of cognitive style. This result is in accordance with the findings of Forbes (2005), who found that entrepreneurs are not cognitively homogeneous. In the present study, all four of Jung's (1946, 1971) personality 'types' were found among the food retailers, and all but one ('intuiting/feeling') were found among the group of durables retailers. In addition, 'hybrid' personality types that could not be classified in any of Jung's (1946, 1971) 'types' were also apparent among both food and durables retailers.

The majority of the respondents utilised 'sensing' (rather than 'intuiting') and 'thinking' (rather than 'feeling'). It can thus be concluded that most of the K-retailers demonstrated a 'managerial' form of cognition, rather than an 'entrepreneurial' form of cognition. This might be due to the K-alliance recruiting people who have an inherently 'managerial' cognitive style, or it might be due to the governance arrangements of the K-alliance inhibiting entrepreneurial cognitive styles.

With respect to cognitive types and business performance, the results revealed no statistically significant relationship between the cognitive styles of K-retailers and their business performance. There are several possible explanations for this finding. In particular, other factors—such as location and local competition—might affect the business performance of K-retailers. Moreover, a relative lack of operational autonomy among K-retailers might explain why their cognitive styles were apparently unrelated to business performance.

With regard to future research, the management systems of contractually integrated retailing organisations could be taken into account in assessing the relationship between retailers' decision-making styles and their business performance. In addition, conceptual and qualitative empirical studies are needed to obtain a clearer understanding of the cognitive styles of retail entrepreneurs. In particular, there is a need to create a comprehensive framework that takes into account contextual factors (such as

location and local competition) and the structural characteristics of retailing organisations (such as control and coordination mechanisms). Qualitative studies could reveal issues that would enable more thorough operationalisation of concepts linked to the personality of entrepreneurs in the retailing context.

From the managerial point of view, the interesting issue is the degree of autonomy of contractually integrated retailers. Although entrepreneurs with a high degree of autonomy might be more highly motivated, more independent-minded, and more creative than retailers with little independence, they probably lose some potential efficiency because of their unwillingness to seek and accept advice (Knight, 1984). It can therefore be argued that retailers who belong to a large retailing group or alliance should be prepared to accept less autonomy for their own benefit, as well as that of the alliance as whole. However, if the control is too strict, entrepreneurial drive and creativity among the contractually integrated retailers will diminish (Tuunanen & Hyrsky, 2001). In this regard, Kaufmann and Eroglu (1998) have contended that a healthy retail format is one that evolves over time in accordance with changes in market demand and other conditions. Differences in tastes, income, media habits, and so forth reduce the benefits of extensive standardisation and justify adaptations and creativity at the local level.

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