THE DEVELOPMENT OF A RELATIONSHIP MARKETING FRAMEWORK THAT CAPTURES THE DELIVERY OF VALUE IN ENTREPRENEURIAL SMEs

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ABSTRACT

There are a number of environmental pressures facing SMEs and the high failure rates amongst young SMEs highlights the need for research to develop a framework that will permit SMEs to achieve growth with a minimal risk of failure. This research will show that both relationship marketing and entrepreneurship have significantly contributed to allowing entrepreneurial SMEs to pursue a low risk strategy of growth through pursuing a customer retention, development and targeted acquisition strategy. To understand the nature of entrepreneurial SMEs and the factors influencing growth.

The author cites literature that argues entrepreneurship is not an 'absolute' and thus believes that less entrepreneurial firms have the potential to learn from their more successful counterparts. Whilst this does offer some specific management suggestions, the author also recognises that the task is not an easy one, for the SME has not only to create an internal culture that is capable of embracing relationship marketing but one that also enables it to act in an entrepreneurial fashion. Despite these challenges the author will capitalise on the research findings to develop a framework for successfully adopting relationship marketing and entrepreneurial behaviour, to assist SMEs to overcome the hurdle of high failure rate amongst SMEs.

The research has focused on the business services industry, since this sector is experiencing the highest growth. In the main this sector covered printing, marketing services and computer services, and so would be offering clients both a pure service and a product / service mix. Additionally this sector because of its service nature would have a high contact with its customer base. A sampling frame was developed that resulted in identifying 102 SMEs in West Yorkshire (UK) that met the criteria for selection. An initial quantitative survey was administered that provided statistical evidence that entrepreneurial SMEs had a greater relationship marketing orientation. The results from the survey were further investigated through in-depth semi structured interviews to reveal a richer picture of the phenomenon.

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The qualitative chapters (9 – 11) revealed a number of very strong associations between categories. To represent these associations graphically the author used varying strengths of arrow line intensity to indicate the level of strength of association between the categories. The author used a consistent method (as highlighted in the table below) to highlight the intensity of association between two categories.

<u>Determining the strength of a link</u>

Criteria for selecting strength of arrow:	Strength of Link:	Intensity of arrow:	Graphical representation of Intensity of arrows	Percentage of SMEs that demonstrated the link
>= 15 SMEs demonstrated link	Extremely strong link	4 points		75% +
10-14 SMEs demonstrated link	Very strong link	2 points		50 - 70%
<= 9 SMEs demonstrated link	Modest link	1 point		44%

CHAPTER 1:
Introduction

1. Need for Study

This Chapter provides an overview of the dissertation. For those themes that are developed Full citations will be given in the succeeding chapters. The importance of SMEs (Small and Medium Sized Enterprises) and entrepreneurial activity has been acknowledged by both academics and Governmental agencies as being vital to the continued development and prosperity of the UK economy. Yet, despite two centuries of research into entrepreneurship, we are no closer to understanding the phenomena. Contemporary research, however, does reveal a symbiotic relationship between entrepreneurship and marketing and this is supported by the academic literature. Whilst previous evidence points to a relationship between marketing and entrepreneurship there is very little research that has investigated the particular interrelationship between relationship marketing and entrepreneurship. Therefore, the author aims to investigate this disparity through researching the relationship between the two fields and thus contributing to our knowledge and understanding of each of these domains.

Relationship marketing has been highlighted by many academics and practitioners as making a major contribution to our understanding and application of marketing in the service industry. The literature review on relationship marketing revealed eight specific elements that contribute to relationship marketing with a customer, namely: Customer Retention and Attraction; Communicating with Customers; Customer Satisfaction; Customer Service; Customer Loyalty; Customer Profitability; Customer Defection and Internal Marketing. Both the academic literature review and the empirical results revealed that because customer satisfaction is an ambiguous measure, it is better determined through focusing on the value that is being generated for customers. Consequently this research will focus on measures that SMEs have adopted to generate value through a relationship marketing approach.

The contemporary entrepreneurial literature proved to be more elusive in pinpointing any coherence in either the direction or the content of the domain. The author (taking note of precedence) adopted the position that entrepreneurial behaviour can be distinguished from non-entrepreneurial behaviour by measuring key characteristics of the behaviour of the company. Those behavioural characteristics to be measured were determined through conducting a thorough literature review that led to categorising the SME entrepreneurial orientation along six dimensions: Schumpeterian focus; Chell et al. entrepreneurial behaviour; stage of growth; organisational structure; type of planning; and, relationship marketing orientation. The author adopted the position that corroborated measures would provide a more robust and rigorous understanding of the behaviour of entrepreneurial SMEs.

1.1 Research Methods

Initially the author investigated several research methodologies and only after exhaustive literature and academic consultancy (see Appendix 2) did the author select a multimethod approach. This involved the preliminary design of a quantitative instrument that included an item pool of questions that were elicited from the literature review, to form part of a detailed survey research instrument (see Appendix 6). The questionnaire was administered to 102 targeted SMEs, of which 60 returned a completed questionnaire, from the business service industry in West Yorkshire. Business service SMEs were selected as this sector has seen the highest growth in the last decade. Stokes (1995, p.16) reveals that small firms are most active in the most dynamic sectors of the economy and so, therefore, would attract both entrepreneurial and non-entrepreneurial SMEs to the sector. The quantitative results confirmed the hypotheses and so a further twenty SMEs (both entrepreneurial and non-entrepreneurial) were selected for qualitative enquiry (see Appendix 7) to provide a greater insight into the subject area and corroborate the robustness of the initial findings.

1.2 Research Aims and Objectives

The author initially carried out a literature review into the reasons why SMEs fail and the results revealed a common theme throughout, namely 'overtrading' and 'lack of finances'. The author then went onto capture empirical data on SME failure by generating a list of questions and interviewing all the major banks to find out from small business managers the reasons why SMEs had failed. There was overwhelming agreement amongst the high street banks that overtrading and lack of finances had led to so many of their customers (SMEs) to fail (see Appendix 4). These problems are still a major problem for SMEs. The author recently contacted one other high street bank and questioned them on the reasons for SME failure. The results revealed that despite almost five years from the first interviews with banks on causes of SME failure, the same factors are still contributing to SME failure, namely overtrading and lack of working capital. Therefore the findings of this research are even more appropriate today to assist SMEs to overcome their limited resources and pursue a strategy that will allow them to achieve growth with minimal risk. An understandable and common objective of many entrepreneurial SMEs at some point in their life cycle is to grow their business, however many grow too quickly relative to their resource base whilst often tending only to measure their success in terms of those customers that they have obtained. The consequence of such behaviour is that they minimise the importance of their existing customers. Therefore, this research proposes that a prudent balance of marketing effort between winning new customers and holding onto old ones will prove instrumental in the growth of the entrepreneurial SME. Proponents of a relationship marketing strategy such as the Nordic School of Marketing and Berry (1983) see customer retention as an important area of planning and analysis. This research proposes that firms adopt a low risk strategy to growth by pursuing a policy of customer retention and development. By low risk the author means that the firm focus their finite resource base on the most appropriate and profitable customers.

The author has three objectives that they aim to achieve from the findings of this research project, namely:

1. Determine whether entrepreneurial SMEs pursue a relationship marketing strategy?
2. Determine how relationship marketing is being practised by SMEs

3. Develop a conceptual framework of relationship marketing that captures the delivery of value in entrepreneurial SMEs

The objectives were realised through the testing of two hypotheses:

H1: Entrepreneurial firms have a greater relationship marketing focus than non-entrepreneurial SMEs.

H2: Entrepreneurial SMEs are more aware of their customer needs than non-entrepreneurial SMEs.

1.3 Contribution of the Research

The author set out on this research project with the aim of contributing knowledge and understanding in three specific areas, to:

1. Advance our knowledge and understanding of relationship marketing and entrepreneurship.
2. Develop a framework for aiding SMEs to retain, develop and acquire customers.
3. Contribute to the relatively new field of the Marketing/Entrepreneurship Interface

The practical implication of this research is that it aims to develop and actualise a framework of small business growth and a number of tools in the context of relationship marketing and entrepreneurship. This firstly will contribute to the academic literature by formally bringing together growth, entrepreneurship and relationship marketing. Secondly, it is hoped, this will enable managers of entrepreneurial and non-entrepreneurial SMEs to pursue relationship marketing and entrepreneurship so that they can manage the inherent risk attached to growing their company.

1.4 Findings of Research Project

The empirical findings confirmed the research hypotheses and the corroboration of the results allowed the author to develop a number of frameworks and tools that would permit both entrepreneurial and non-entrepreneurial SMEs to pursue a more measured and less risk-averse way to pursuing growth. These tools are elaborated in more detail in Chapter 12. Additionally the findings permitted the author to synthesis the results to provide not only a greater insight into relationship marketing and entrepreneurship but also into their interaction.

1.5 Post Research Literature Review

Upon completing the analysis of the research instruments the author revisited the literature on relationship marketing and entrepreneurship and reviewed the community of scholars active in the field to determine current advances in the domain. The post-research literature review and analysis revealed substantial support for the author's findings and further statistical analysis of the marketing/entrepreneurial academic papers (Hills et al, UIC/AMA, 1995 – 2000) revealed overwhelming evidence for the importance of marketing competency, especially relationship marketing, in the success of entrepreneurial SMEs. The only new developments in the fields were related to the impact of the virtual domain and the development of tools to develop relationships with customers electronically. The entrepreneurial debate still remains in a nebulous state, however, a number of suggested structures to researching entrepreneurship have been proposed.

1.6 Organisation of Thesis

This thesis is composed of a further sixteen chapters that can be broken down into four themes (see Table 1)

Table 1. Themes of Research

Themes	Chapters	
1. Literature Review	Chapter 2	Development of Relationship Marketing
	Chapter 3	Key Aspects of Relationship Marketing
	Chapter 4	Internal Marketing
	Chapter 5	Entrepreneurship
2. Research Methodology & Instrument Analysis	Chapter 6	Research Methodology
	Chapter 7	Statistical Tests Used
3. Analysis of Empirical Data	Chapter 8	Survey Analysis
	Chapter 9	Qualitative Analysis of Responses to Customer Questions
	Chapter 10	Qualitative Analysis of Responses to Marketing Questions
	Chapter 11	Qualitative Analysis of the Efforts by SMEs to Improve their Internal Environment
4. Contribution to Knowledge	Chapter 12	Discussion of Findings and Recommendations proposed
	Chapter 13	Contributions of this Research

CHAPTER 2:
Development of Relationship Marketing

2 Introduction

The purpose of this chapter is to initially outline both the intellectual and the pragmatic roots of the changes that are occurring in marketing (Webster, 1992, p.1). Doubts are surfacing about the very basis of contemporary marketing. For example Brady and Davis (1993, p.17) and Mckenna** (1992, p.69) contend that traditional mediums have lost much of their credibility since an emphasis of producing, marketing, and advertising to a large homogeneous market is increasingly less effective. Especially where a plethora of product offerings have minimal differentiation in product features (Shani and Chalasani, 1993, p.58). Additionally, technology has impacted dramatically on the costs and capacity of transportation, travel and communication (Cram, 1994, p.5).

It was felt that it would be useful to distinguish between 'practitioners' and 'academic' contributions and this is done by attaching two asterisks (e.g. author**) to clearly indicate a practitioners contribution. This notation will be applied consistently in this and the next three Chapters.

Companies are now faced with unprecedented levels of international competition and technological change in industrial markets. McKenna** (1992, p.68) views the 1990s as a marketplace transformed and driven by technology, which of course he implies, means it changes rapidly. That's why McKenna** (1992, p.68) believes that the old school of marketing - "getting an idea, conducting market research, developing a product, testing the market and, finally, going to market - won't work anymore. It's too slow, it's unresponsive to customers' needs and it doesn't do a good enough job of differentiating your product from the mass of others in the market." Consequently, many companies are seeking to achieve competitive advantage and bring stability to their operations by forming strategic alliances with customers and suppliers. Devlin and Bleakley (1988, p.18), Webster (1992, p.9) and Millman and Wilson (1995, p.9) concur and see strategic alliances as a primary tool in developing the firm's core competence and competitive advantage.

Webster (1992, p.5) concludes that the purpose of these new organisational forms is to respond quickly and flexibly to accelerating change in technology, competition, and customer preferences. The question therefore remains as to how this can be achieved. Hence, this chapter will not only describe the changes that have been occurring in the evolution of the marketing philosophy but also review the current thinking of both academics and practitioners in their preference for promoting relationship marketing as an appropriate philosophy for today's dynamic environment to retain, develop and acquire customers. The first step then towards analysing this new approach to marketing is to review the shortfalls of the traditional approaches to marketing.

2.1 Changes in the Environment

One of the main reasons why traditional marketing approaches are facing difficulty today is that academics such as Webster (1992, p.1) and Brady and Davis (1993, p.18) have long advocated that the environment has changed so dramatically that marketers are simply not picking up the right signals any more. Shani & Chalasani, (1993, p.58) and the Marketing Guide (1993, p.24) have identified the key environmental pressures facing companies in the 90s to include:

- The growth of perceived product parity
- Increasing competition
- Rising customer sophistication combined with price sensitivity
- Reduced cost-effectiveness of traditional promotional media

Additionally, a number of other authors have also stated a myriad of other business challenges facing marketing:

• Organisational development processes (i.e. empowerment)	Sheth and Parvatiyar, 1995, p.408
• Growth of service economy	Barnes, 1989, p.12; Sheth and Parvatiyar, 1995, p.408
• Strategic alliances	Devlin and Bleakley, 1988, p.18; Webster, 1992, p.14; Millman and Wilson, 1995, p.9
• The importance of outsourcing is growing	Matthyssens and Bulte, 1994, p.74
• Lack of market growth	Denison et al., 1995, p.58-59
• Bespoke services/systems offered	Denison et al., 1995, p.58-59
• Time based competition (i.e. delivering services on time)	Denison et al., 1995, p.58-59
• Changes in technology	Cram, 1994, p.5; Sheth & Parvatiyar, 1995, p.408

Given this environment, it is vital that the marketing efforts of a company are directed towards building loyalty among existing customers as the cost of replacing an existing customer with a new one can often be as high as tenfold (Marketing guide, 1993, p.24). Webster (1992, p.10) advocates that the intellectual core of marketing management needs to be expanded beyond the conceptual framework of microeconomics in order to address more fully the set of organisational and strategic issues inherent in relationships. Denison and Mcdonald (1995, p.60) also attest that if marketing, as a discipline, does little to respond to this set of new challenges, there is real danger that marketing as a function will be marginalised or at the very least be slow to adopt to servicing unique customer requirements.

2.1.1 Traditional Marketing

The traditional marketing concept states that firms should investigate needs and wants in the market place. From their findings, they should develop market segments and products to serve those segments. Doyle (1995, p.26) has argued that the previous appraisal of segmentation and positioning strategies are now being questioned by many companies who have been hit by new competitors who have fundamentally reconfigured value chains through their entire channel. Furthermore, marketing theory has generally been orientated towards how to acquire customers - how to create transactions (Storbacka et al., 1994, p.22). This approach has been questioned by Gummesson (1987b, p.10; 1994, p.9) who believes that this approach to marketing "...is unrealistic and needs to be replaced".

Gummesson (1987b, p.10) and Gronroos (1996, p.6) view the present marketing concept as favouring an approach that was first postulated as early as the 1960s. Where the mass market is manipulated through a marketing mix, usually associated with the 4 Ps namely: product, price, promotion and place. Gronroos (1996, p.6) argues that "the philosophical foundation of the marketing mix and its Ps are not very well fitted to the competitive situation that has been emerging in most industries in the western world. The mass marketing and transaction orientation, along with the adversarial approach to customers and the functionalistic organisational solution inherent in the marketing mix approach, do not allow the firm to adjust its market performance to the demands of more and more customers today". This is because companies are either not aware of the unique needs of their customers' since no personal contact exists and/or the firm has not introduced processes/systems that would create a philosophical change in attitude towards the customers.

2.1.2 The Marketing Mix (4 Ps)

The marketing mix concept was first introduced by Neil Borden (1964), in the 1950's, where the marketing mix is a list of categories of marketing variables. Gronroos (1994b, p.5) argues that this way of describing a phenomenon is never valid as a list can never include all relevant elements and therefore it does not fit every situation and ultimately becomes obsolete.

2.1.3 Extension of 4Ps

Gronroos (1990b, p.5; 1994b, p.4; 1995, p.252) highlights a number of limitations with the 4Ps model, which included:

1. It was developed from empirical research on consumer-packaged goods and durables;
2. It was developed in North America, a marketing environment that in many aspects is quite different from Europe, e.g.
    - a huge domestic market;
    - a unique media structure;
    - a highly competitive distribution system.
3. The model has been applied to products for which it was never intended (e.g. the list has proved inadequate for services marketing)
4. The American model of the 4Ps is not entirely valid in European marketing practice (see point two);
5. The focus of the 4Ps has a tendency to focus on product orientation and marginalise market/customer orientation;
6. There is an implicit focus on acquiring customers.

There are a number of other deficiencies in the 4Ps concept namely that they suggest (see Dixon and Blois, 1983) that far from being concerned with the customers interest, the views implicit in the four P's is that the customer is somebody to whom something is done. Gronroos (1994b, p.6) suggests that "the usefulness of the four Ps as a general marketing theory for practical purposes is, to say the least highly questionable". Since managing the marketing mix means relying on mass marketing.

These criticisms, namely from the services marketing arena resulted in a number of modifications to the 4Ps framework. Booms and Bitner (1981) extended the 4Ps framework to include process, physical evidence and participants, which has gained widespread acceptance in the services marketing literature. Rafiq and Ahmed (1995b, p.13) have also demonstrated that there is a widespread acceptance of this 4Ps extension amongst academics. They surveyed the delegates of the 1992 MEG (Marketing Education Group) and EMAC (European Marketing Academy) conferences and the results suggested that the 7Ps framework has already achieved a high degree of acceptance as a generic marketing mix among academics.

Gummesson (1994, p.8) has tabularised the development of the 4Ps concept over the last 3 decades to highlight some of its deficiencies, the 4Ps have been expanded, as shown in Table 2.1.4 Where Judd (1987) suggests a fifth P (people), thereby regarding the marketing staff as a major marketing parameter. Booms and Bitner (1981) investigations into the service market resulted in the proposal of adding three "service Ps": participants, physical evidence and process to the original 4Ps. Kotler (1986) meanwhile suggested adding two more Ps to the 4Ps, political power and public opinion formation as part of his mega marketing concept. Finally, in an effort to supply a complete list, Baumgartner (1991) has proposed 15Ps.

Table 2.1.4: The marketing mix and proposed extensions of the 4Ps (Gummesson, 1994, p.8):

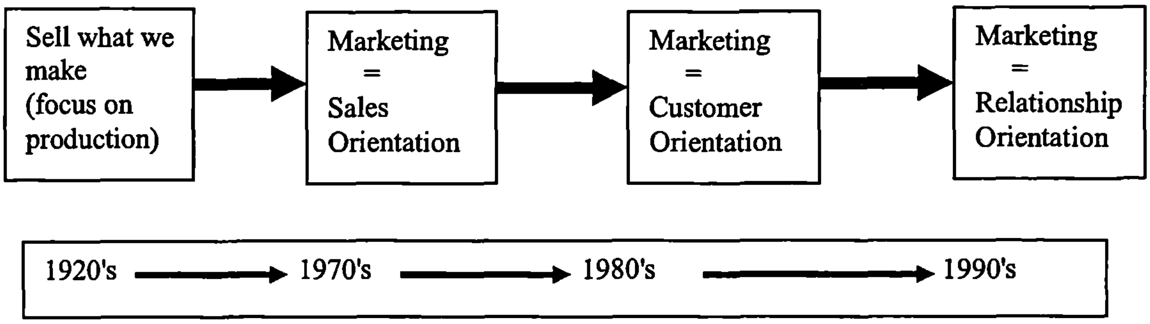
4Ps McCarthy (1960)	5Ps Judd (1987)	6Ps Kotler (1986)	7Ps Booms and Bitner (1987)	15Ps Baumgartner (1991)
Product	Product	Product	Product	Product / Service
Price	Price	Price	Price	Price
Promotion	Promotion	Promotion	Promotion	Promotion
Place	Place	Place	Place	Place
	People	Political power	Participants	People
		Public opinion formation	Physical evidence	Politics
			Process	Public relations
				Probe
				Partition
				Prioritise
				Position
				Profit
				Plan
				Performance
				Positive Implementations

The limitations of this model have become increasingly obvious as other Ps have been added in attempts to stretch the model to make it fit new marketing perspectives. Gronroos, (1990b, p.5) therefore, advocates that it would be much better to appraise the marketing activity afresh, and from this to create a more relevant definition.

2.1.4 The Evolution of Marketing

The question now begged is where is marketing now and how will it evolve in the future? Figure 2.1.5a charts the evolution of the marketing philosophy over this century. A common theme that seems to be running through the evolution of marketing stages is a personal effort to satisfy the customer better by getting closer in touch with the customer. The emerging marketing paradigm could thus be called relationship orientation (Aijo, 1996, p.14).

Figure 2.1.5a: Evolution of Marketing



Stage 1: Production Orientation

Stage 2: Sales Orientation

Stage 3: Customer Orientation

Stage 4: Relationship Orientation

As a marketing philosophy, the marketing concept is still valid: i.e. that a company should base its activities on the customers' needs and wants in selected target markets. However, Gronroos (1990b, p.6) argues that the standard way of transforming this concept into marketing in practice is usually production-orientated, because it starts from the firm and not from the market. Denison and Mcdonald (1995, p.70) contend that marketing in leading companies is now becoming adopted as a philosophy for everyone in the organisation. Consequently, they suggest that the leading companies of the 1990s will be market-led, responsive and flexible, organised around core processes that reflect the customers' preference, and with a high multi-skill base.

2.1.5 Services Marketing

As we have seen the development of a strong services sector has led to a review of the marketing philosophy, primarily because it did not meet the requirements of that sector. Barnes (1989, p.12) claims that as much as 70 per cent of national product in most countries of the developed world is accounted for by services. Furthermore, Ahmed and Rafiq (1995b, p.5) demonstrated that there is a growing consensus in the services marketing literature that services marketing is different from product marketing because of the nature of services.

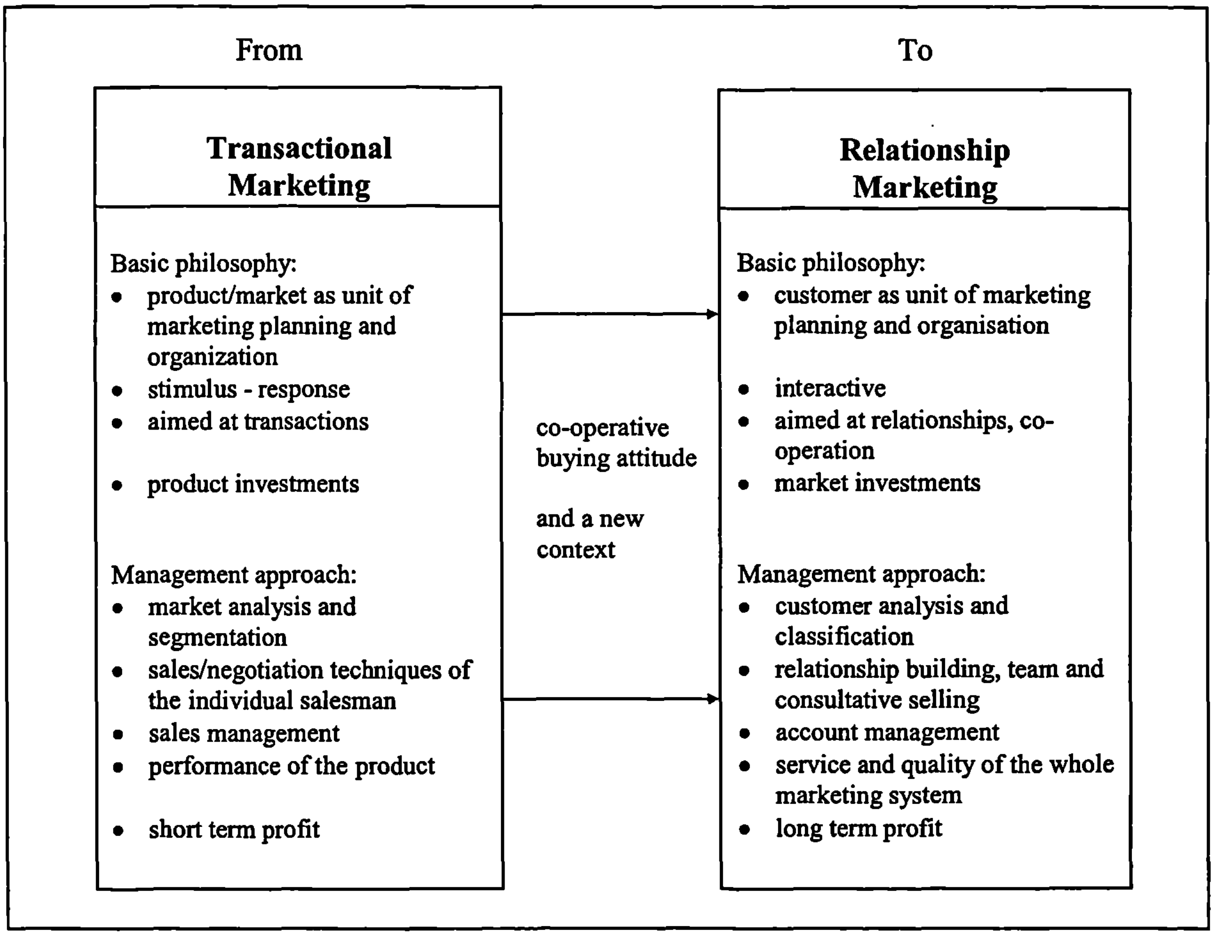
Service firms have always been relationship orientated since the nature of service businesses is relationship based. There is always direct contact between a customer and the service firm. This contact makes it possible to create a relationship with the customer, if both parties are interested in such a way of doing business (Gronroos, 1995, p.252). Therefore, service firms would normally, but probably not always, be better off by applying a relationship-type strategy (Gronroos, 1990a, p.9). Since service firms almost always have immediate contacts with their ultimate customers, sometimes on a regular basis (Gronroos, 1990a, p.9). Hence, it is argued that for companies to achieve success in a service environment they need to move away from the traditional transactional focus and embrace relationship marketing.

2.1.6 Transactional to Relationship

Given the increased importance of long-term, strategic relationships with both customers and suppliers, companies must now place increased emphasis on relationship management skills (Webster, 1992, p.14). Consequently, emphasis in marketing is moving from a transaction focus to a relationship focus (Berry, 1983, p.25; Christopher et al., 1991, p.8; Webster, 1992, p.7; Kotler, 1994, p.47).

Gronroos (1995, p.253) states that "the goal of transactional marketing is to get customers, whereas the goal of relationship marketing is to get and keep customers". Thus, keeping customers has become even more important (given that getting customers is the basis for having any customers to keep) because it is normally less expensive to make a satisfied existing customer buy more compared to the costs incurred in getting a new customer (Payne, 1994, p.31). Figure 2.16 shows that relationship marketing is not only a new philosophical attitude but implies a new management approach (Matthyssens and Bulte, 1994, p.79). This has been highlighted by Juttner and Wehrli (1994, p.57) who summarised the main distinctive differences, between the two approaches in Table 2.1.6

Figure 2.1.7: The Change in Marketing (Matthyssens and Bulte, 1994, p.78).



It can be seen from Table 2.1.6 that the main difference between transactional and relationship marketing is that transaction marketing of the 1980s placed the emphasis on the individual sale. Whereas relationship marketing in the 1990s, places the emphasis on individual customers and seeks to establish a long-term relationship between the customer and company. In an increasingly competitive business environment, Payne

(1994, p.29) argues that marketing should be seen as a total approach to business, where the customer is once again placed firmly at the centre of the company's strategic focus. Furthermore, relationship marketing is the opposite of transaction selling, it requires the focus on a long-term relationship and a series of transactions with the customer (Gengler and Leszczyc, 1997, p.24). These relationships are based on the company's knowledge of their customers' particular set of needs. The chief advantage is that the company knows how to meet its customers needs better than anyone else. Thus, the customers are less likely to be influenced by a slightly lower price bid from a competitor. This is due to the information that the company has collected about the timing, the quantity, the quality, and the custom features the customers' prefer (Baye, 1995, p.26) as well as the personal contact that has been developed.

Table 2.1.6: Differences Between Transactional and Relationship Approaches (Juttner and Wehrli, 1994, p.57)

	Transaction	Relationship
Objective	To make a sale (sale is end result and measure of success) Customer needs satisfaction (customer buys value)	To create a customer (sale is beginning and relationship end) Customer integration (interactive value generation)
Customer understanding	Anonymous customer Independent buyer and seller	Well known customer Inter-dependent buyer and seller
Marketers task and performance criteria	Assessment on the basis of products and prices Focus on gaining new customers	Assessment on the basis of problem solving competence Focus on value enhancing of existing customers
Core aspects of exchange	Focus on products Sales as conquest Discreet event (episodic perspective) Monologue to be aggregated customer base	Focus on service Sales as an agreement Continuing process (historic, holistic perspective) Individualised dialogue

2.1.7 The Marketing Strategy Continuum

The transactional-relationship focus has been described by Webster (1992, p.7) as a continuum (see Figure 2.1.7) in which the competitive forces in the global marketplace of the 1980s has forced many firms to move significantly along the continuum, to much stronger partnerships characterised with much greater interdependence. In this continuum a relationship marketing strategy represents one end of the continuum. Here the general focus is on building long-term relationships with customers (Gronroos, 1990a, p.9; 1994, p.10). While the strategy at the other end can be called transaction marketing (Jackson, 1985). In such a strategy the focus is on making one transaction or exchange at a time (Gronroos, 1990a, p.9).

Figure 2.1.7: Transactional-Relationship Continuum

The relationship marketing strategy continuum aims to deliver goods and services not through a series of discrete and casual transactions but instead through continuous delivery within the context of an ongoing relationship (Palmer, 1994, p.572). The Nordic School of Services promotes that marketing is more a management issue than a function and that managing marketing, or market orientated management as marketing is frequently called and normally has to be built on relationships rather than transactions. Consequently, building and managing relationships has become a philosophical cornerstone of the Nordic School of Service (Gronroos, 1996, p.7). However, Gronroos (1994b, p.10) has realised that developing enduring customer relationships, and achieving exchanges through a relationship marketing approach, is rather different as compared to achieving exchanges in isolated transactions through the use of the 'four Ps' of the marketing mix. Gronroos (1990a, p.8) has also argued that the adoption of relationship marketing by no means implies that the elements of traditional marketing mix variables would necessarily be of no, or even less, importance than before. Therefore, if a company is to consider entering into a relationship with a customer there are a multitude of considerations that need to be addressed before a relationship can be built. To realise what these factors may be it is necessary to understand the relationship marketing philosophy and all its tenets.

2.2 Development of Relationship Marketing Philosophy

Relationships between buyers and sellers have existed since humans began trading goods and services (Cram, 1994, p.1) since the idea of a business earning the customers' favour and loyalty by satisfying their wants and needs was not unknown to the earliest merchants (Gronroos, 1994, p.18). These relationships developed in a natural way over time as the buyer and sellers developed trust and friendships supported by quality products and services. Today these relationships have become "strategic" and the process of relationship development is accelerated as firms strive to create relationships to achieve their goals (Wilson, 1995, p.335).

Gronroos (1990a, p.8) contends that relationship marketing has emerged as an alternative, and complement, to the marketing mix approach. Which owing to its de facto focus on single exchanges or transactions is not considered fully applicable or financially viable to situations where the development of long term relationships are called for. This is further supported by Houston et al. (1987, p.10) who assert that "Good marketing management emphasises the building of long-term relationships." Therefore, it is widely recognised today that the development of effective marketing strategies requires companies to stay close to their customers (Simonson, 1993, p.77). Matthyssens and Bulte (1994, p.79) further assert that only companies that have developed sufficiently close relationships (structure and social) can call their marketing a success.

There have been two routes to the present-day relationship marketing (Aijo, 1996, p. 8; Matthyssens and Bulte, 1994, p.78). The first was a gradual realisation of the importance of relationships, initially in service marketing and partly in industrial marketing. A change in purchasing attitudes and behaviour leading to changes in marketing. In its earliest guises, relationship marketing focused simply on the development and cultivation of longer-term profitable and mutually beneficial relationships between a supplier and a target customer group (Peck, 1996, p.2). The concept quickly broadened to encompass internal marketing in acknowledgement that the successful management of external relationships was largely dependent on the alignment of supporting internal relationships (Flipo, 1986, p.7; Piercy and Morgan, 1991, p.91). The internal marketing philosophy will be covered in more detail in Chapter 4. The second route was through a transformation of business in general, due to rapid and radical changes in the environment (Webster, 1988, p.32). These changes resulted in an emphasis on service, close customer contact, and a holistic view of the parties and processes involved in marketing and business.

Sheth and Parvatiyar (1995, p.398) believe that the emergence of a relationship focus will provide a "refreshed and expanded self concept" to marketing. Their optimism stems from at least four observations: (1) relationship marketing has caught the fancy of scholars in many parts of the world; (2) its scope is wide enough to cover the entire spectrum of marketing's sub disciplines, including channels, services marketing, marketing research, customer behaviour, marketing communication, marketing strategy, international marketing and direct marketing; (3) like other sciences, marketing is an evolving discipline, and has developed a system of extension, revision and updating its fundamental knowledge; and (4) scholars who at one time were leading proponents of the exchange paradigm such as Kotler (1972), are now intrigued by the relational aspects of marketing.

While it may be argued that all organisations are service providers to greater or lesser degrees (Levitt, 1972, pp.41/2 see Gronroos, 1978, p.588), it is those firms that deliver services as their core "product" that would appear to have the potential to benefit most from the application of the concept of relationships (Sheaves and Barnes**, 1995, p.3). Treacy** (1995, p.18) findings have also revealed that customer-intimate companies don't pursue transactions with their customers they cultivate relationships (provided that the customers' wanted a relationship). These companies specialise in satisfying unique needs, which sometimes only they, by virtue of their close relationship with customers and their knowledge of them, recognise. Under the relationship marketing perspective firms view themselves as having an ongoing relationship with their customers, aimed at delivering extra value and generating multiple transactions over time (Gengler and Leszczyc, 1997, p.24). Cram (1994, p.28) stresses that for a relationship to exist both parties must be willing to participate in the rapport and see a benefit in the relationship. Since relationships need time to be built and need time to be maintained, they become central in strategic planning, both at the corporate and marketing level (Gummesson, 1987b, p.11).

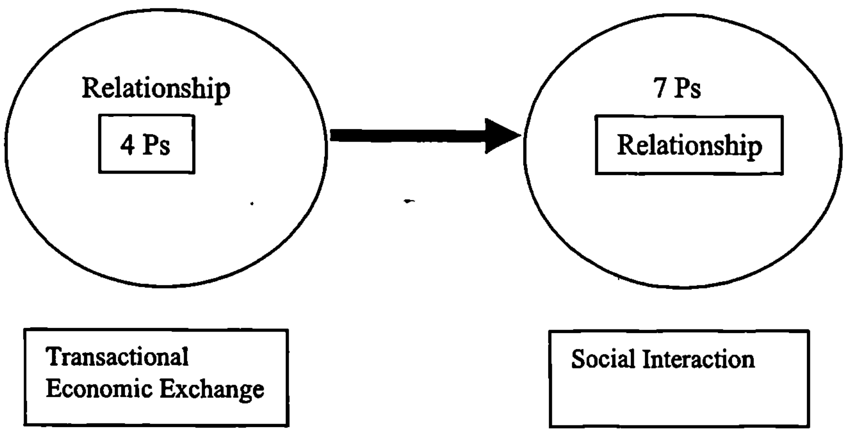
Relationship marketing is indeed a suitable name for the new marketing concept for it represents a holistic attitude to marketing (Gummesson, 1994, p.17). Aijo (1996, p.15) contends that relationship marketing may be needed for surviving and prospering in today's markets. Since more and more companies are finding themselves building personal relationships, consciously or unconsciously the concept must mean more to customers than merely ensuring regular contact or rewarding them for continued patronage. Sheaves and Barnes** (1995, p.24) point out that neither of these elements is in itself sufficient for a customer to feel that they have a relationship with the firm. Hence, Sheaves and Barnes** (1995, p.3) suggest that "the idea of establishing a relationship with a customer would appear likely to work best in situations where there is considerable interaction between customers and staff; where customers would have the opportunity to establish relationships which are not particularly different in form from those which they have developed with other people; family, friends, co-workers, etc...". Furthermore, Sheaves and Barnes** (1995, p.24) emphasise that managers must appreciate the fact that a relationship can not be one-sided and that no relationship exists unless the customer believes to exist.

2.2.1 Relationship Marketing as a New Paradigm

The main role and contribution of the Nordic School of Services and of Nordic authors in general has been in helping to extend the notion of relationship marketing from service marketing to general marketing (Aijo, 1996, p.11), indeed to the point where Gronroos (1994b, p.4; 1996, p.12), Gummesson (1994, p.5) and Harker (1999, p.15) have all defined relationship marketing as the new marketing paradigm.

The author has slightly modified a diagrammatic representation of the shift in the marketing paradigm as proposed by Gummesson (1994, p.9) and the interpretations are presented in Figure 2.2.1a The 4Ps and their extensions will always be needed, but the paradigm shift develops their role from that of being founding parameters of marketing to one of being contributing parameters to relationships, networks and interaction. Therefore, in a relationship marketing environment, the whole corporate culture must be devoted to serving the customer (Gengler and Leszczyc, 1997, p.24).

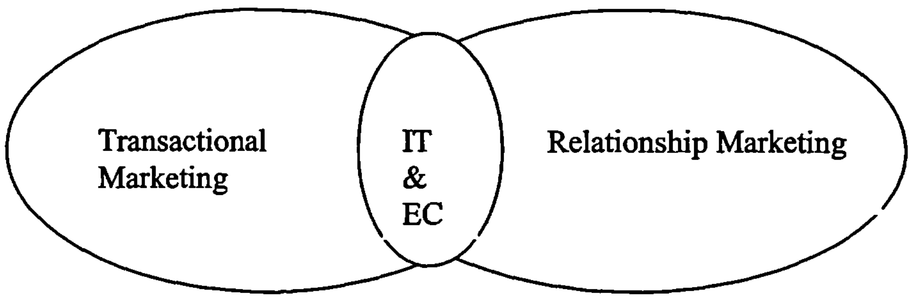
Figure 2.2.1a: The Current Marketing Mix (4Ps) Paradigm and the Future Relationship Marketing Paradigm (Gummesson, 1994, p. 9).



There is still much confusion amongst academics and practitioners as to whether relationship marketing represents a new paradigm or merely a strategic choice. Li and Nichols (2000, p.461) propose that relationship marketing when understood, as an alternative to transactional marketing is a strategic choice rather than a marketing paradigm. Furthermore, they go on to argue the appropriateness of the choice will depend on the nature of a particular exchange relationship. As a strategic choice, the major role relationship marketing plays is in integrating transactions into relations, structuring and maintaining relational exchanges, and designing and coordinating marketing activities.

Zineldin (2000, p.11) also argues that a complete paradigm shift has not occurred in marketing. Since studies show that in many companies transactional marketing is still relevant and practised often concurrently with relationship marketing. Zineldin (2000, p.15) proposes the term "Technologicalship marketing" (see Figure 2.2.1b) which he refers to as marketing based on technology tools by a firm to acquire and manage business relationships. Zineldin (2000, p.21) proposes that technologicalship marketing (relationship marketing based on IT) should incorporate everything from transaction marketing to relationship marketing.

Figure 2.2.1b: Relationships, IT, EC and marketing – "Technologicalship marketing"



Zineldin (2000, p.16) argues that technologicalship marketing is fundamentally different from relationship and transactional marketing, since it allows for different types of solutions in real time to customer requests. The author would question whether we really need a new term that incorporates the use of a tool (namely IT) into relationship marketing. For relationship marketing is a philosophy and it is the principles and people behind relationship marketing that help build customer loyalty not the technology. Rather the technology is merely a tool, albeit powerful, that can be employed to successfully communicate with several customers in real time and deliver the most appropriate valued service based on extrapolating information from databases. Hence the author would argue for a more qualified review of customers through triangulated data to help provide a greater depth of understanding of the potential of the customer.

2.2.2 Definition of Relationship Marketing

While many authors use the term "relational marketing" and "relationship exchange" which Blois (1998, p.261) argues often seem similar if not synonymous, few provide a definition of the term (Blois, 1996, p.161). Harker (1999, p.13) contends that the reason for the variety of differing opinions is two fold:

1. As an emergent perspective, relationship marketing has had only a relatively short lifetime in which to develop into a fully-formed paradigm;
2. Contributors to the development of relationship marketing theory are extremely varied, both in terms of socio-political heritage and academic background.

Examination of the development of the concept of relationship marketing suggests that, within the context of business-to-business marketing, the characteristic which is most commonly referred to is the intention of 'establishing a long-term relationship' (Blois, 1996, p.162; Blois, 1998, p.261). The argument being that:

- The activities that create commitment and trust take time and are costly to establish. Therefore, building relationships is an expensive process.
- Where relationship marketing exists, several departments within the supplier's and the customer's organisations usually interact with each other. This is an ongoing and costly process (although a necessary investment)
- However, the combined costs of the above factors are lower than the cost of obtaining a similar volume of sales through a series of discrete transactions.

The first neologism of this philosophy was cited by Berry (1983, p.25) who phrased the term "relationship marketing" and defined it as "attracting, maintaining and – in multi-service organisations – enhancing customer relationships". Building on Berry's 1983 definition Gronroos (1990f, p.138) adds the perspective of noncustomer partnerships, mutual benefit, promise keeping and profitability. He defines marketing as:

"Marketing is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfilment of promises"(Gronroos, 1990b, p.8).

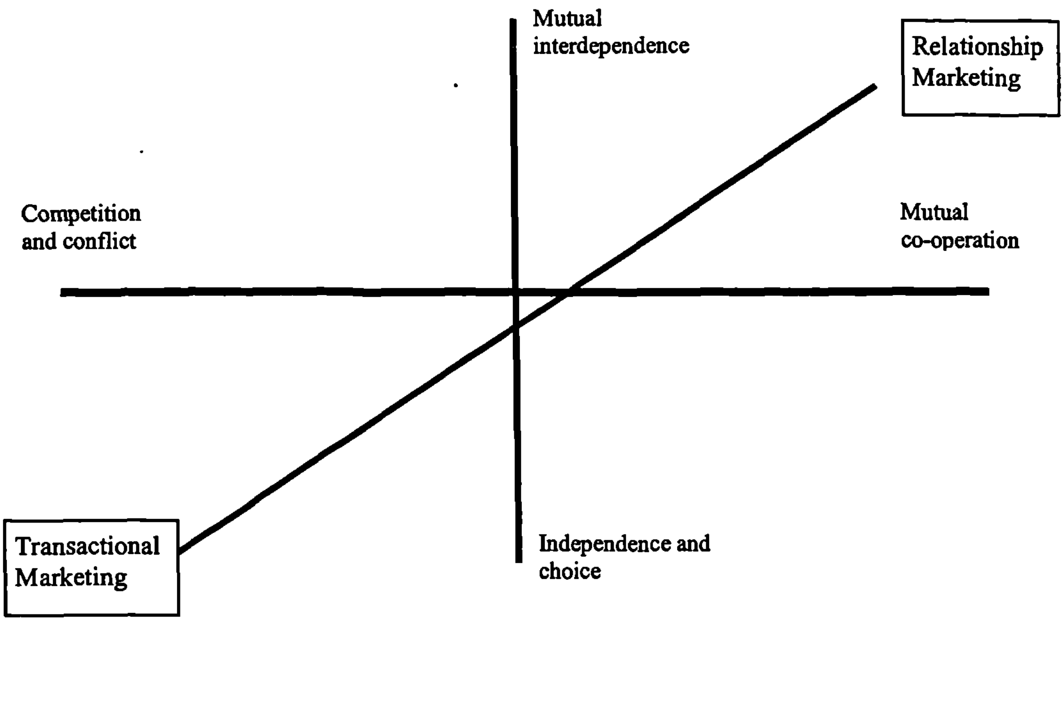
Reviews of the definition of relationship marketing suggest that there is little consensus regarding the definition (Morris et al., 1998, p.360; Zineldin, 2000, p.10). Although, there would appear to be some level of agreement in the underlying concept of relationship marketing, namely: relational exchange; extended time horizons; collaboration; customer retention and customer attraction. The main objective of marketing, then, is to go for enduring relationships with customers. Of course sometimes, and for some firms, short-term sales may be profitable (Gronroos, 1990b, p.8). Hence, Blois (1996, p.162) argues that long-term activity is based on the economics of the case. Furthermore, this new definition does not diminish the value of traditional elements of the marketing mix, such as advertising, pricing and distribution (Gronroos, 1990b, p.8). Additionally, Gronroos (1994b, p.8) points out that establishing a relationship can be divided into two parts: to **attract** customers and to **build** the relationship with that customer so that the economic goals of that relationship are achieved.

2.2.3 Purposes of Relationship Marketing

Relationship marketing attempts to involve and integrate customers, suppliers and other infrastructural partners into a firm's development and marketing activities (McKenna, 1991). An integrative relationship assumes overlap in the plans and processes of the interacting parties and suggests close economic, emotional and structural bonds among them. Sheth and Parvatiyar (1995, p.399) see it as reflecting interdependence rather than independence of choice among the parties and emphasising co-operation rather than competition and consequent conflict among the marketing actors (see Figure 2.2.3).

The purpose of relationship marketing is, therefore, to enhance marketing productivity by achieving efficiency and effectiveness. Several relationship marketing practices can help achieve efficiency, such as customer retention and the sharing of resources between marketing partners. Gummesson (1994, p.9) notes that relationships are seldom completely symmetrical; one party is often the stronger. These activities have the potential to reduce operating costs of the marketer. Therefore, greater marketing effectiveness can be achieved through encouraging targeted loyal and profitable customers to become involved in the early stages of the marketing program development and thus facilitating future marketing efforts of the company. Consequently, relationship marketing can better address the needs of the selected customers, making marketing more effective (Sheth and Parvatiyar, 1995, p.400).

Figure 2.2.3: Axioms of Transactional Marketing and Relationship Marketing (Sheth and Parvatiyar, 1995, p.400).



2.2.4 Evaluating the Need for a Relationship

Where a relationship does not exist, it is necessary to determine whether or not the customer might consider it to be beneficial if its existing interactions with a supplier are developed into a "relationship" (Blois, 1996, p.162). Where a relationship does exist, checks must be made regularly to determine whether or not the customer continues to perceive the relationship to be of value (Blois, 1996, p.163). For unless an individual customer's understanding of the advantages and disadvantages of a relationship are appreciated, the supplier may expend substantial sums of money in attempting to establish or maintain a relationship when the customer does not wish for one. In such circumstances, the customer might even be sufficiently irritated by a company's activities to defect. Awareness of, and sensitivity towards, these matters will allow the company to use its resources both economically and effectively. Blois (1998, p.262) therefore, proposes that a customer's view of the desirability of entering into a relationship will be affected by its perception of the likely size of the transaction costs involved. He further states that a customer will seek that form of relationship that it believes will minimise the need for them to incur high transaction costs.

There are situations, usually involving low-involvement when a swift and simple transaction approach is most appropriate and most valued by the customer. For some types of products and in some situations or for some types of customers a one-deal-at-a-time approach may be a good strategy. In other situations and for other types of products, long-term relationships building may be more appropriate (Gronroos, 1990a, p.8; Gummesson, 1994, p.17). Similarly Pine et al.** (1995, p.106) state that "not every customer would justify investment in a relationship." Since some customers may be profitable as transactional customers, even if they are not profitable as relationship customers. Therefore, it is reasonable to conclude that relationship marketing will not work for everyone in every situation (Palmer, 1994, p.573; Baye, 1995, p.26). A point that must not be overlooked is that relationship marketing is not a universal panacea (Peck, 1996, p.4). Thus certain companies may wish to mount dual strategies: relationship marketing for some market segments, transactional marketing for other segments (Berry, 1995, p.238).

Where a customer does not see entering into a relationship as advantageous, but the company believes from its point of view that it would be advantageous for there to be a relationship, Blois (1996, p.171) suggests that there are three options available to the supplier.

1. The supplier could take action to try to change the customer's evaluation of the situation.
2. The nature of the product offering could be changed.
3. The company could ensure that once it has assessed the likely responses of the customer, that it allocates only the appropriate level of resources to the relationship.

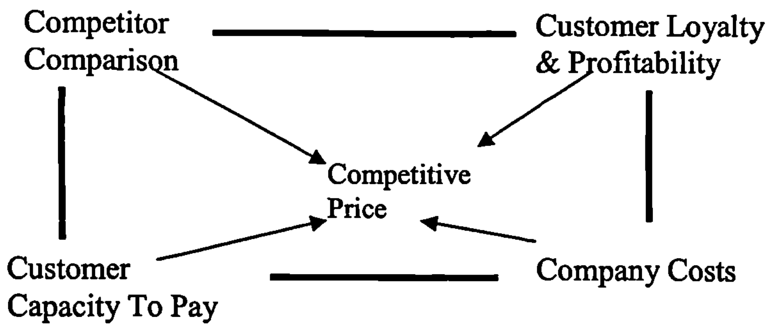
It follows that it might be appropriate for a firm to pursue a relationship marketing policy towards some of its customers, but that policy will be implemented in a variety of different ways relative to the identified needs of specific customers. These policies will be based on an assessment of the individual customer's expectations and the resources that the company believes it should allocate to the relationship, relative to its estimate of the value of each customer's likely business. Simultaneously, its strategy towards other customers may be based upon the recognition that they do not want to be involved in a relationship (Blois, 1996, p.171).

2.2.5 Multiple Levels of Relationship Marketing

Relationship marketing with customers may be viewed as occurring at various levels of commitment. These have been identified by Berry (1995, p.240) who describes three levels of relationship that each develop at different levels of commitment from the customer. Level one relationship marketing relies primarily on pricing incentives to secure customers' loyalty. Unfortunately, the potential for sustained competitive advantage from this approach is low because price is the most easily imitated element of the marketing mix (Berry, 1995, p.240). Turnbull and Wilson (1989, p.235) determined that it takes about a 10% price differential to cause a customer to switch suppliers in industrial markets.

Cram (1994, p. 150) suggests that there are three main factors influencing the price setting process (see Figure 2.2.5). These are listed as competitor comparison, customer capacity to pay and company costs. The author suggests that perhaps a fourth variable should be introduced into this equation, namely customer loyalty/discount. This factor is more in line with the relationship marketing ethos and subsequently rewards the most loyal and profitable customers.

Figure 2.2.5: The Price Setting Process



Cram (1994, p.152) advocates three rules of relationship pricing:

1. Share the benefits with your long-term customers;
2. Never use price as a promotional weapon;
3. Develop customer-based prices.

Level two relationship marketing relies primarily on social bonds. Where marketers try to capitalise on the reality that many service encounters are social encounters (Czepiel, 1990). This is further supported by Turnbull and Wilson (1989, p.234) who contend that bonding between a company and its customer is mostly at a social level where personal social bonds develop through subjective social interaction. Hence, individuals may develop strong personal relationships that tend to hold a relationship together. Wilson (1995, p.339) claims that companies and their customers who have a strong personal relationship are more committed to maintaining the relationship than less socially bonded partners. Social bonding involves personalisation and customisation of the relationship. Berry (1995, p.240) points out that this can be achieved through:

- Referring to customers by their name during transactions;
- Providing continuity of service through same representative;
- Augmenting the core service with educational (seminars) or entertainment activities

Berry (1995, p.240) further emphasises that social bonding can drive customer loyalty when competitive differences are not strong. Consequently, a social relationship may also prompt customers to be more tolerant of a service failure or give the company an opportunity to respond to competitor threats.

Level three relationship marketing relies primarily on structural solutions to important customer problems. When relationship marketers can offer target customers value-added benefits that are difficult or expensive for customers to provide, they create a strong foundation for maintaining and enhancing relationships (Berry, 1995, p.240). The structural bond that is created by the seller investing in technical support binds the customer to the seller. If the customer wishes to purchase the lower priced product, a substantial investment must be made to acquire the technical competence to replace the current supplier's technical assistance. This shelters the company from competitive price pressures in the medium sized customer segment (Turnbull and Wilson, 1989, p.235). Therefore, developing both social and structural bonds as well as maintaining a competitive price with key customers and segments will bind the important customers to a company and create substantial barriers to competition. Turnbull and Wilson (1989, p.237-8) emphasise that this can be accomplished by understanding what is valued in the relationship by these customers and then subsequently investing in building structural bonds. Consequently, Turnbull and Wilson (1989, p.238) advocate building joint investments in technology with large customers early in the product life cycle as this might reduce price competition in the mature phase. Speckman (1988, p.77) also stresses that mutual commitment to the future and a balanced power relationship are essential to the process.

2.2.5.1 Strength of a Relationship

To determine the strength of a relationship Schijns and Schroder (1996, p.70) posit that there is a *behavioural* (descriptive) and a *psychological* (attitudinal) dimension that can be distinguished in a relationship. From the behavioural point of view, indicators like *length* of the relationship, *recency, frequency, monetary value*, and *regularity* are used most often to get an idea of relationship strength. According to Liljander and Strandvik (1994, p.14), relationship length is usually considered as indicating some kind of strength. Additionally, Peelen et al (1989, p.10) state that "a higher frequency suggests a stronger relationship and that with respect to regularity, smaller variances indicate a stronger relationship." Schijns and Schroder (1996, p.70) assert that this is because of the increased predictability of future behaviour. However, the strength of a relationship can be derived only partly from behavioural variables, since they are only indicators (Hoekstra, 1993 p.81). Although, indicators and codes in fact say more about customer importance and value of the account to the company than about relationship strength. Therefore, if a customer is important and valuable, the relationship is considered to be strong (Hoekstra, 1994, p.20).

The quality or strength of a relationship, on the other hand, is determined also by customer perceptions, so a strong relationship is a relationship that is perceived as such by the customer. This depends on the attitude of the customer towards the relationship, which can not be derived from information stored in company databases (Schijns and Schroder, 1996, p.70). The relevance of measuring relationship strength is that it can be used to select those groups that demonstrate a higher propensity to be loyal to their supplier, product. The attitudinal strength can be determined by reviewing a number of characteristics of relationships namely commitment and trust. These characteristics will now be reviewed in more detail.

2.2.5.2 Commitment

One of the key factors that determines the success of a relationship is each individual's commitment to it. Morgan and Hunt (1994, p.22) identify that "...commitment and trust are "key" because they encourage marketers to (1) work at preserving relationship investments by co-operating with exchange partners, (2) resist attractive short-term alternatives in favour of the expected long-term benefits of staying with existing partners, and (3) view potentially high-risk action as being prudent because of the belief that their partners will not act opportunistically."

Rusbult and Buunk (1993, p.180) define commitment as "...a psychological state that globally represents the experiences of dependence on a relationship; commitment summarises prior experiences of dependence and directs reactions to new situations." Therefore, commitment represents a long-term orientation to the relationship, including a desire to maintain the relationship, both in good times and bad times.

2.2.5.3 Trust

The other factor that has received much attention in the literature on relationships is trust. Rempel, Holmes and Zanna (1985, p.95) reviewed several definitions of trust, including: "confidence that one will find what is desired from another, rather that what is feared." Although, trust is considered to be reciprocal and is also a perceptual concept; it is in the minds of both buyers and sellers (Dion et al., 1995, p.3). Dion and Banting (1988) found that trust had a positive influence on sales outcome. Additionally it has led to a buyer becoming more willing to inform a salesperson about future buying needs (Swan et al., 1988) and influences interaction and co-operation.

From a marketing point of view Sheaves and Barnes** (1995, p.18) argue that the development of trust and especially faith (the belief that the partner will act in a caring way in the future), should be a fundamental component of any marketing strategy that is undertaken. However, trust takes time to build, and can only be developed after repeat encounters with customers. According to Dwyer et al. (1987), relationships generally evolve. Since the relationships between two parties develop over time, the parties gain experience and learn to trust each other. Therefore, they increase their commitment in each other through investments in products, processes or people dedicated to the particular relationship, thus increasing their level of dependence. Therefore, through a series of positive encounters, a sense of trust in the organisation will evolve together with growing relationship commitment (Morgan and Hunt, 1994, p.24; Dion et al., 1995, p.2). A series of negative events will have the opposite effect. On the other hand, a combination of positive and negative interactions will leave the customer feeling unsure of the relationship, doubtful of its consistency, and vulnerable to the appeal of competitors (Bitner, 1995, p.248).

The high levels of trust that are characteristic of relational exchange enables parties to focus on the long-term benefits of the relationship, ultimately enhancing competitiveness and reducing transaction costs (Doney and Cannon, 1995, p.35). Employees play a vital role in creating trust between a company and its customers. Therefore, it follows that a trusted customer could be jeopardised by a company representative who proves to be dishonest or unreliable (Kelly and Schine, 1992, p.38). Conversely, Doney and Cannon (1997, p.35) contend that highly trusted salespeople can preserve customer commitment during difficult times created by management policies that appear contrary to the customer's best interests.

2.2.5.4 Other Factors Contributing to a Relationship

Many authors have also observed that certain other conditions must be met for a stable and positive relationship to exist. Duck (1991) for example, identified several essential elements of a relationship which included caring, support, continuity of service, loyalty, placing priority on the other's interest, honesty, trustworthiness, trust in the other, giving help when needed and working through disagreements. Sheaves and Barnes** (1995, p.17) further point out that there are an array of 'investment' resources that are linked to a relationship many of these include time, emotional energy, personal sacrifice, and other indirect investments, such as shared memories, mutual friends, and activities, etc. Ford (1980) found that personal interactions to be essential for the continuation of business relationships and that relationship failures could be traced back to interpersonal problems. This is further highlighted by Biong and Selnes (1995, p.486) who see that relationship marketing demands the establishment of established norms of redress. Hence, conflict handling is suggested as an important skill in relational commitment.

2.2.5.5 Switching Costs

As a relationship develops structural bonds are created over time as the level of investments, adaptations, and shared technology grows until a point is reached when it may be very difficult to terminate the relationship. Therefore, one of the means of increasing customer retention is to increase the customers' switching costs. Porter (1980, p.10) defined switching costs as the "one time costs facing the buyer of switching from one supplier's produce to another." Developing switching costs is a common strategy advocated to increase loyalty in industrial markets given that the information a company obtains about the customer may help lock in that customer. The greater the integration, the harder it is for the customer to go elsewhere (Macdonald, 1995, p.12). Thereby providing security and a reduction in uncertainty for the company. Although, Barnes (1994, p.565) suggests that "those who view relationship marketing as the 'locking-in' of customers through the erection of barriers to exit, are similarly defining a relationship as a continuous series of interactions, without reference to the deeper feelings which are generally associated with other human relationships." Therefore, relationships where both parties are engaged as willing participants are stronger than those were a customer is trapped in relationship because the switching costs are too high.

2.2.6 Relational Unrest

Much has been written about the positive nature of business relationships but very little focus has been given to the often cynical nature of these relationships. While previous research (see Blatterberg and Deighton, 1996, p.140) did advocate for a dual marketing strategy to compensate for the nature of relationships that customers merited. It now appears that customers with whom relationships are formed can have a negative influence on a company. Research conducted by Good and Evans (2001, p.550) advocated that there are times when these relationships don't work, especially when the company cannot match the demand requested from their customer(s), Good and Evans (2001, p.550) refer to this situation as relational unrest. Good and Evans (2001, p.558) propose that learning to forecast conditions of unrest will assist mangers to develop sophisticated tools that can assess the direction of the relationship (i.e. becoming stronger or weaker). Good and

Evans (2001, p.559) further go on to emphasise that the strategic choices available during unrest provide opportunities to understand the nature of relationship failure.

Chaston (2000, p.22) has also questioned the prudence of applying a relationship marketing or transactional marketing approach to two groups of customers. The first group of customers who are seeking a level of performance that would require an expensive bespoke solution and the second group of customers are on the other scale of the spectrum and search for a prices sensitive solution.

Integration with the customer's business can often mean being drawn further and further into a range of divergent customer activities, and further from the company's own core (Macdonald, 1995, p.12). Therefore, this could be a problem if companies try to form close relationship with every customer and try to satisfy all their needs thus resulting in a fragmented product range that becomes steadily divorced from any technological core. Additionally, the company runs the risk of being strategically subservient to its major customers. Macdonald (1995, p.22) also warns companies that there is also some danger in the complacent assumption that closeness to customers, and even considerable integration, guarantees knowledge of their business and that getting close to the customer makes strategic awareness less necessary.

Macdonald (1992, p.93; 1994, p.23) argues that the long term consequences of getting close to the customer may result in curtailed innovation. In that customers rely on external information from their suppliers and a reduction in their number and the integration of the remainder in the activities of the customers may well reduce the flow of ideas. Therefore, the firm considering getting close to their customers must seriously consider the degree to which it can, should, and will integrate with its customers' activities, and probably with those of others in the market. Macdonald (1994, p.24) realises that there are likely to be many strategic implications and it is critical that these are appreciated sooner rather than later.

2.2.7 Multifunctional Co-ordination

Craig (1990, p.22) and Doyle (1995, p.23) have discovered that a major barrier to success is the way that companies manage - or fail to manage - critical linkages among the diverse functions within the organisation and between the company and its customers. Therefore, as marketing spreads throughout the organisation, Gronroos (1990b, p.7) has realised that it is evident that marketing cannot be the total responsibility of a specialist function. Instead marketing must become an integral part of top management. Hence, effective marketing rests partially and importantly on the tasks performed by other functions. Shipley (1994, p.17) stresses "there is a strong necessity for close multi-functional co-ordination in order to adapt to environmental shifts to meet changing customer needs." Therefore, to facilitate relational development Millman and Wilson (1996, p.11) contend that companies must take the kind of multi-level multi-functional approaches which *transform* rather than merely *extend* traditional organisational structures / processes. Placing a high premium on co-ordination skills and teamwork.

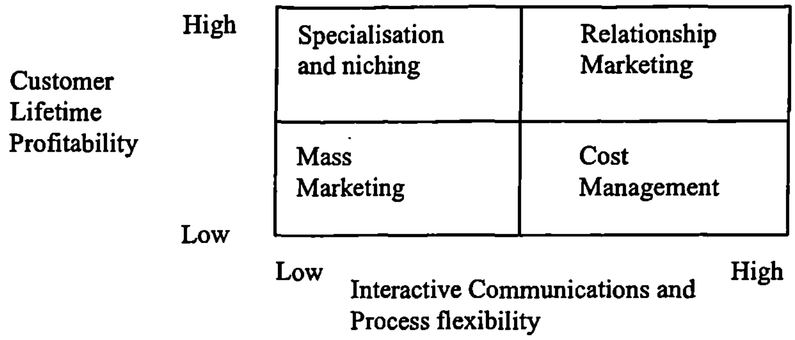
2.2.7.1 International Relationship Marketing

We have seen an ever-increasing adoption of loyalty programmes in the western hemisphere by various industries. The potential to apply this technique is global. Yau et al. (2000, p.1123) compared the relationship marketing orientation (RMO) with Marketing Orientation (MO) in terms of their impact on firms' business performance in three industrial markets in Hong Kong. The results revealed that relationship marketing orientation yields a significant impact on the determination of firms' output across all industries.

2.2.8 Positioning of Relationship Marketing

In terms of its position in relation to other strategic approaches in marketing Gordon (1998, p.144) positions relationship marketing as a strategy that gives the highest priority to customer lifetime profitability, communications and process flexibility (see Figure 2.2.8).

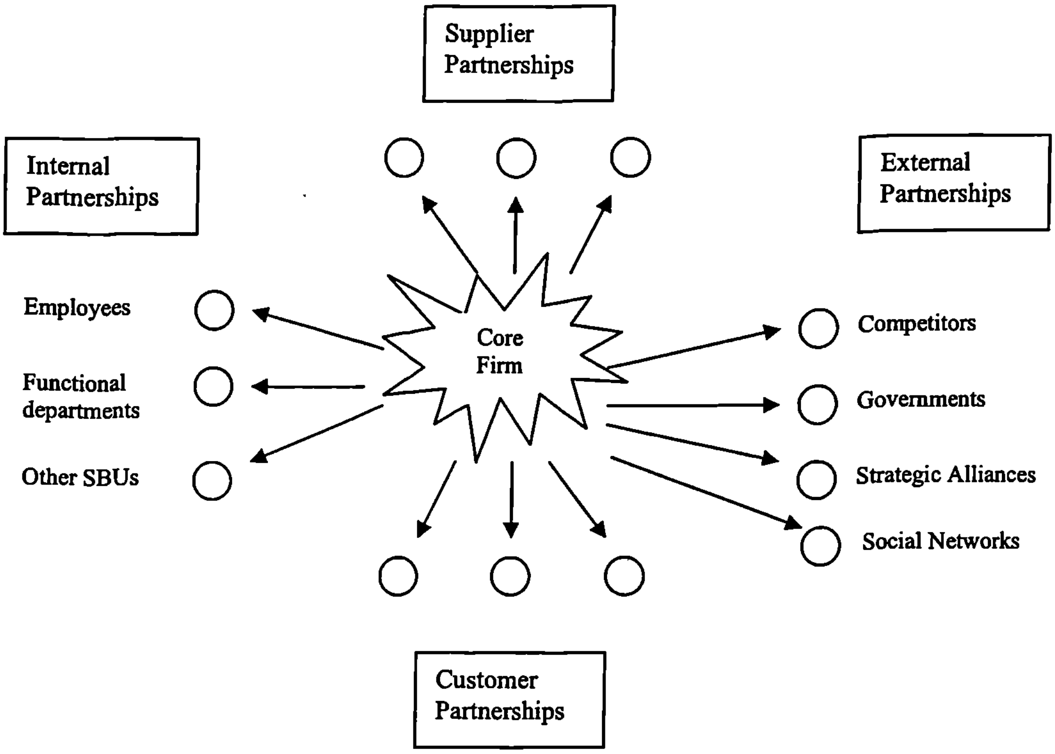
Figure 2.2.8: Positioning of Relationship Marketing



2.2.8.1 Framework for Relationship Marketing

Doyle (1995, p.34) proposes a general framework for relationship marketing (see Figure 2.2.8.1) which highlights four types of networks. These include partnerships with suppliers, partnerships with customers, external partnerships with competitors, strategic alliances and government and internal partnerships with stakeholders which include employees, functional departments and other SBUs (Strategic Business Unit). While this research recognises the importance of networks in relationship marketing with suppliers and other external parties. This research will primarily focus on a company's own and independent effort to retain, develop and acquire customers.

Figure 2.2.8.1: The Core Firm and its Partnerships (Doyle, 1995, p.34)



2.2.8.2 Relationship Marketing Strategy

To successfully implement relationship marketing companies need to understand the dimensions of the philosophy. The author proposes that the relationship marketing philosophy is a nexus of elements that collectively co-ordinated and successfully adopted by a firm can result in a sustained profitable relationship with customers. Leading ultimately to an impressive competitive advantage that allows companies to achieve growth with minimal risk. The following authors (see Table 2.2.8.2) have all proposed a number of elements that collectively contribute to the successful execution of a relationship marketing strategy.

Table 2.2.8.2: Elements that Contribute to Building a Successful Relationship Marketing Strategy

	Elements of a Relationship Marketing Strategy	Academics	Practitioners
1.	Customer Retention and Acquisition Strategies	Blattberg and Deighton, 1995, p.144	Reichheld and Markey (1992a, p.2)
2.	Understanding Customers (developing customer loyalty)	Cram, 1994, p.56; Evans and Laskin, 1994, p.440	Reichheld, 1996a, p.69
3.	Communicating with Customers (targeting)	Cram, 1994, p.56	Shapiro, 1992, p.6; Stacey, 1994, p.67
4.	Customer Service	Berry, 1983; Evans and Laskin, 1994, p.440; Peck, 1996, p.4	Potter-Brotman, 1994, p.53
5.	Customer Satisfaction	Evans and Laskin, 1994, p.440; Peck, 1996, p.4	Iabucci et al., 1994, p.93
6.	Profitability Analysis	Stone et al., 1996, p.677	Reichheld, 1996a, p.50
7.	Defection Analysis		Reichheld, 1996a, p. 251
8.	Internal Marketing	Berry, 1984; Cram, 1994, p.56; Evans and Laskin, 1994, p.440; Peck, 1996, p.4;	Stershic, 1994, p.22
9.	Networks	Gronroos, 1996, p.9; Doyle, 1995, p.34	

While various strategic frameworks have been promoted for relationship marketing, there appears to be a high degree of convergence amongst the various authors (Berry, 1984; Cram, 1994, p.56; Peck, 1996, p.4 and Reichheld, 1996a, p.20) regarding the elements that successfully contribute to the development of a relationship marketing strategy. These elements have been tabularised (see Table 2.2.8.2) into nine categories. Although, the ninth category of networks, whilst in itself an important field and recognised as such by the author as contributing to the field of relationship marketing will not be investigated. As this research is primarily concerned with only the dynamics of how companies retain, develop and acquire customers and with obtaining an understanding of their employee practices. Therefore, a divergence into investigating the role of other stakeholders (i.e. suppliers, trade agencies, governmental bodies, etc) and their contribution to a relationship with customers will completely divert the original proposal for this research. Consequently the author is focusing on the first eight elements that have been suggested by various academics and practitioners as contributing to building a relationship with customers.

2.3 Summary

This Chapter has highlighted the growing concern with the traditional concept of marketing for the service industry. A growing number of researchers globally have proposed that the relationship marketing philosophy is a more robust conceptual and practical approach to applying marketing successfully. It focuses on building a rapport with customers and understanding their requirements so that the firm may deliver products/services that are customer centric. The application of a relationship marketing philosophy requires the understanding of its dynamics. These have been detailed in Table 2.2.8.2 and will be discussed in more detail in Chapter Three.

Chapter 3:

Key Aspects of Relationship Marketing

3. Introduction

The literature review in Chapter 2 has clearly laid out those convergent influences that are bringing to fruition the seeds of relationship marketing planted over the last fifteen years. These emerging perspectives and trends in the field of relationship marketing include: targeting profitable customers; creating value added customer relationships; service value generation; customer loyalty; customer profitability analysis; customer and employee defection analysis and internal marketing. These key aspects of the relationship marketing concept will now be discussed.

The notation of attaching two asterisks (e.g. author**) to clearly indicate a practitioners contribution and distinguish it clearly from academic references has been applied consistently in this and the next two Chapters.

3.1. Customer Retention

In order for a firm to successfully embrace relationship marketing it needs to appreciate just why retaining customers is so important. Despite companies frequently acknowledging that existing customers are easier to sell to and are frequently more profitable than new customers, Payne's (1994, p.30) research reveals that many of them still devote more resources to attracting new customers than keeping those that already exist. It has been suggested by Page et al. (1996a, p.821) that one of the reasons for this behaviour is that the management team is still being evaluated and rewarded on the basis of new business gained. Hence, the allocation of capital for new resources is frequently done on the potential of these resources attracting new business. This results in the keeping of customers becoming subservient to the acquiring of customers, and accordingly, few resources are devoted to the activity.

There are three options available to firms to increase their market share: attract more new customers, do more business with existing customers, and thirdly reduce the loss of customers. By directing marketing resources to existing customers, relationship marketing directly addresses two of these opportunities: expanding relationships and reducing customer defections (Berry, 1995, p.244; Hanasotia and Wang, 1997, p.8). Additionally, Page et al. (1996a, p.821) suggest that keeping present customers and doing more business with them is generally a more efficient way of using resources. There has been a surge of interest in the area of customer retention by marketing managers in the past few years. Reynolds and Day (1995, p.555) and Payne (1994, p.29) contend that firms should exhaust all the possibilities of existing products in existing markets before attempting to exploit other opportunities. Barnes (1994, p.562) advocates that it has become widely accepted by many authors and progressive companies that it makes a great deal of sense 'exacta' in keeping existing customers happy, rather than devoting high levels of marketing effort 'expost' to the stemming of customer turnover. Particularly where every customer who leaves has to be replaced by a new one in order for the company to simply stand still. Ravald and Gronroos (1996, p.19) concur that the focus of marketing is shifting from the activity of attracting customers to activities which concern having customers and taking care of them. Many companies now sense that they may have focused too much time on building brand awareness and acquiring new customers, while neglecting the relatively small investment required to maximise the profit potential of their existing customer base (Brierly**, 1994a, p.25). Evidence from Buchanan and Gilles** (1990, p.523) reveals that while many companies spend a great deal of effort, time and money wooing new customers, surprisingly few take equal trouble to retain existing customers even though the rewards can be considerable. Therefore, for a customer retention programme to achieve maximum effect, companies must not only measure their retention rates but they must also communicate the results to all employee (Buchanan and Gilles**, 1990, p.524).

Jamieson** (1994, p.12) argues that in today's competitive world, the only meaningful strategies are those which place the highest priorities on building partnerships with existing customers given that new customers are difficult to win and often take years to become profitable. Whereas satisfied, existing customers, have years of revenue producing potential and are more likely to purchase new products and services than new customers. Furthermore, Buchanan and Gilles** (1990, p.524) assert that the most powerful, yet often overlooked, way to grow is to increase customer retention. Hence, they advocate that customer retention must become an essential element of British companies' drive to become world-class competitors (Buchanan and Gilles**, 1990, p.526).

The importance of adopting customer retention is even more acute in the small business sector since most firms have limited time, money and staff, and their resources must be devoted to customers who offer the best return. Reynolds and Day (1995, p.555) claim that the majority of very small firms can achieve most if not all of the growth they can handle, financially, without over trading and running into financial difficulties by properly exploiting the potential of their existing customer base. They advocate that it would be better to "cement" relationships with the existing customer base and in that way foster substantial long-term business.

Reichheld and Markey** (1992a, p.2) conclude that the key to productivity growth in the service sector is employee and customer retention and this requires managing toward zero defection of customers and employees. While it may be prudent to retain customers Reichheld** (1996a, p.43) also asserts that retaining customers does not necessarily mean that this will lead to improved company profitability, as some companies see no revenue growth from older customers. Furthermore, it is a waste of money to get repeat business from low margin customers as you may end up getting more repeat business from money-losing customers, which would obviously erode a company's profits. The key question, therefore, is not so much as how to retain customers but which ones to retain (Sherden**, 1995, p.15). This can be achieved by defining the company's targeted customers and what it is they value in terms of price, service, speed, etc. This is further supported by Collins** (1994, p.38) who suggest that "the best way to ensure repeat business is to focus on the right customers, meet their needs better than the competition and give them a reason to buy more." For it is simply not possible to build or maintain a healthy business without learning how to get the right customers (Reichheld**, 1996a, p.76). Additionally, Sherden** (1995, p.16) advocates that a customer retention program should tackle the following four issues:

1. Consistency (customers will return if their specific needs are fulfilled)
2. Excellent service (critical to retaining customers)
3. Employee retention (essential to retaining satisfied customers)
4. Retention tactics (offering discounts to customer who repeat business, extra service, etc)

Hence, growing a business can be framed as a matter of getting customers and keeping them so as to grow the value of the customer base. In these terms, setting a marketing budget becomes the task of balancing what is spent on customer acquisition with what is spent on retention (Blatterberg and Deighton, 1996, p.137). Although, Blatterberg and Deighton (1996, p.140) warn companies that the balance between acquisition and retention spending is never static and therefore managers must constantly reassess the spending points. Accordingly, locating customers, attracting them, and then managing the ongoing relationships are very different tasks. They require different kinds of market research, different cost analyses to calculate the return on investment, and different measures to monitor compliance. Consequently, Blattberg and Deighton (1995, p.144) recommend that once managers have determined the most appropriate ratio of acquisition and retention spending, they plan for each task separately.

3.2 Pareto Rule

Another reason for pursuing a customer retention policy is that research by Stone et al. (1996, p.676) has revealed that in most markets there is a 'Pareto 80:20' profile of customers. This is a situation whereby eighty per cent of a company's turnover is generated by twenty per cent of the company's customers. This situation provides a tremendous opportunity for companies to cultivate the other eighty per cent of their customers to generate more business for the company with minimal risk to achieving growth. Similarly, Wayland and Cole** (1994, p.23) state that most companies find that only a small percentage of their overall customer base is truly profitable and upon close scrutiny, many firms find that about 20 percent of their customers account for 80 percent of profits. Therefore, companies need to identify targeted existing customers with whom the company has the potential to increase business opportunities and subsequently minimise the risks of achieving growth.

3.3 Customer Acquisition

In most industries, except the financial services industries, new customers contribute to profits right away, but it still takes several new comers to compensate for the loss of a veteran (Reichheld**, 1996a, p.37). New customers' are the lifeblood of any business and most marketers agree that while it costs money to gain customers and profits come from existing ones, without new customers a business will soon have none at all (Weber**, 1996, p.20). Therefore, when the rate of new customer acquired is greater than the rate of loss of existing customers, the business will continue to grow. Hence, future cash flow is therefore determined by not only the economic paybacks of different types of customers, but also by the balance between the rates of attrition and acquisition of customers (Hansotia and Wang, 1997, p.8). Page et al, (1996b, p.626) assert that "existing customers are different from new ones in many ways, and these differences are important enough to merit separate and different marketing strategies." These have been illustrated in Table 3.3.

Table 3.3: Potential marketing mix differences for new and existing customers (Page et al., 1996b, p.626):

Marketing mix	New customers	Existing customers
Product and service design	Focus on differentiation; innovation; unique benefits.	Focus on product and service quality; people as part of the service product.
Pricing	Price to attract business	Price to retain customer, price cuts for loyal customer, opportunities for differentiation.
Sales	Selling process focuses on presentations, closing, etc.	Selling focuses on follow-up; problem solving; relationship building.
Advertising	Generate awareness	Reminder advertising; encourage loyalty.

Direct marketing	Attempt to build a database that differentiates customers on product, service, profitability, etc.	Reward profitable customer loyalty
Distribution	Channels geared to create new business.	Existing customers handled by separate outlets.

Reichheld** (2001, p.62) and Struass and Frost (2001, p.293) both confirm previous research that advertising is geared primarily to attracting new customers. While firms pursing loyalty focus primarily towards providing outstanding value to existing customers who consequently not only act as advocates for the firm but actively provide positive word of mouth for the firm.

To arrive at a decision concerning new-customer acquisition strategy, the key question should be: "whom should the company invite?". This question has been addressed by Hansotia and Wang (1997, p.9) who propose that companies base their new customer acquisition judgement on the prediction of the future net present value of the newly acquired customer. Furthermore, Hansotia and Wang (1997, p.18) recommend that companies look beyond responses to the actual behaviour of customers once they are acquired. Since the primary challenge is to identify and implement cost-effective strategies that will result in optimum repeat purchase behaviour over a prolonged period of time, rather than looking for short-term gains (Wang and Splegel, 1994, p.73). Therefore, Wang and Splegel (1994, p.74) highlight that it is important for marketers to begin to evaluate their customer acquisition methods in terms of the long-term value of the customers they attain given that the identification of the best strategies to attract the right type of customers is the first step in the development of ongoing customer relationships and loyalty. Finally, as retention rates are influenced by the type of acquisition strategy used to obtain customers, Wang and Splegel (1994, p.74) argued that new customers who are initially motivated by promotion offers may continue to purchase only if continued incentives with higher discounts are offered over time. While on the other hand, those customers who appreciate the value of the products and services offered, and are willing to pay for them upfront, may be more likely to become frequent and repeat customers.

3.4 Financial Gains of Retained Customers

Clearly, the economic consequences of losing mature customers and replacing them with new ones are not neutral (Reichheld**, 1996a, p.37). Since it is more costly and time consuming to cultivate and capture a new account than it is to retain an active one as many practitioner's have argued (Sherden**, 1994, p.43; Desatnick**, 1995, p.14; Pruden**, 1995, p.14). Many academics/practitioners put the cost of acquiring a new customer to between four and ten times more than retaining an existing customer (Desatnick, 1987, p.3; Marketing Guide, 1993, p.24; Sherden**, 1994, p.43; Bell**, 1996, p.5).

Increasing the rate at which customers are retained has a direct and dramatic impact on a company's profit (Marketing Guide, 1993, p.25) given that most companies find they need to spend far less to retain current customers than to replace them with new customers (Wang and Splegel, 1994, p.74). There are several reasons why retaining customers is so profitable (Payne, 1994, p.31, McDonald, 1994, p.31):

- Sales and marketing and set-up costs are amortised over a longer customer lifetime;
- Customer expenditure increases over time;
- Repeat customers often cost less to service;
- Satisfied customers provide referrals;
- Satisfied customers may be prepared to pay a price premium.

Payne (1994, p.31) contends that customer retention also helps predict the profitability of the company and is therefore an excellent management tool for considering the success of quality and customer service programmes. Srinivasan** (1996, p.7) further points out that both retaining customers, and increasing account penetration, have now become crucial for the successful growth of any business as existing customers require fewer marketing and operational expenses. They are also familiar with a company's product, range of services, sales force and distribution channels. By maintaining or increasing their account share, they become loyal customers and as Figure 3.4 shows there are a tremendous number of benefits associated with loyal and profitable customers. Alternatively, when a company loses a customer they not only lose the immediate cash flow of that customer, but also market share and the subsequent strengthening of competitors. Additionally customers that leave may disseminate their negative experiences to others. Therefore, customer retention and account penetration become critical to increasing sales, containing costs and generating high profits (Srinivasan**, 1996, p.8).

Reichheld** (1994b, p.3; 1996a, p.39) has demonstrated (see Figure 3.4) that loyal customers tend to produce large cash flow and profits. Dawkins and Reichheld** (1990, p.43), Reichheld** (1996a, p.33) and (Srinivasan**, 1996, p.7) have come to realise that raising customer retention rates by five percentage points could increase the value of the average customer by 25 to 100 percent. Additionally, Payne (1994, p.30) contends that even a 1% increase in customer retention could yield considerable improvement in profitability. While Jamieson** (1994, p.11) contends that there is ample evidence that a two per cent improvement on customer retention has the same impact on profit as ten per cent reduction in overheads.

Finally, the most effective and cheapest form of marketing is word-of-mouth recommendations (Gould**, 1995, p.16). These recommendations generated from loyal customers are likely to attract customers for the right reasons, that is, the value of the firms products/services (Reichheld**, 1996a, p.48).

Figure 3.4: Financial Benefits of Retaining Customers Reichheld** (1996a, p.39)

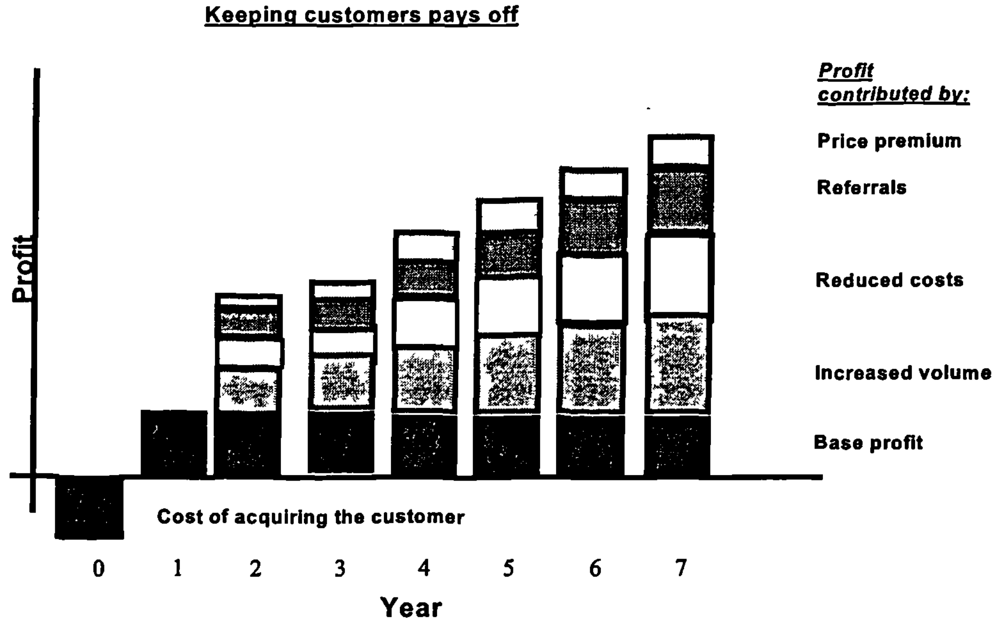


Figure 3.4 captures most of the important economic effects of customer loyalty, namely: acquisition cost, revenue growth, cost savings, referrals, and price premium (Reichheld**, 1996a, p.39). However as discussed before companies should be cautious in pursing a general retention policy for all its customers as this may be counter-productive. Stone et al. (1996, p.677) stress that the key to increasing profitability and competitive strength may be to get rid of customers who will never be profitable, and focus on recruiting and retaining high lifetime value customers.

Contemporary research (see Reichheld**, 2001, p.10) into the profitability of customers in a virtual environment (e-commerce sector - business to business) has revealed similar results to previous studies in traditional sectors (Reichheld**, 1996a, p.39). In that it cost considerably more to attract a customer initially but in future years the profit growth rate accelerated at an even faster rate. The research revealed customers not only continued to patronage the e-commerce provider but they also tended to consolidate their purchases with that supplier. Peripheral benefits included customer referrals and lower costs in serving the same customer over time. Chaston (2000, p.87) also confers the findings of Gronroos (1990a, p.10; 1994b, p.11) that "once you have gained the trust of the customer, then you can act as an entrepreneurial pricer because potential customers will have no qualms about accepting both your premium quality claim and your highly competitive price." Additionally, Chaston (2001, p.272) advocates that an approach to avoiding price wars is to shift the market sector away from being transactionally-orientated by attempting to build a relationship with individual customers.

3.5 Introduction to Customer Loyalty

Customer loyalty can be viewed as a company's effort to maintain continued customer patronage. This is proving imperative today as market competition now demands that companies continuously seek means to gain customer loyalty. This position is supported by Reichheld** (1994a, p.10) who sees marketing as suffering from a mid-life crisis from which he believes marketing can emerge from with new strength provided that it begins to see its role through the lens of loyalty and understands that the value of the firm is really in managing loyalty. Reichheld** (1996a, p.15) further highlights that building a highly loyal customer base cannot be done as an add-on. It must be integral to a company's basic business strategy. Gengler and Leszczyc (1997, p.27) claim that the fastest growing companies of the next decade will be those who establish and maintain a loyal base of customers. Therefore, introducing measures to generate customer loyalty is imperative if companies are to embrace the tenants of relationship marketing and survive in dynamically competitive markets.

3.5.1 Achieving Customer Loyalty

Market competition now demands that companies continuously seek means to gain customer loyalty since Kandampully (1997, p.92) claims that "customer expectations are continuously increasing, companies are now required to go beyond their primary need of satisfying the customer, to that of exceeding expectations to delight the customer." He further goes on to describe this delight factor as the company's ability to create a responsive relationship with the customer, and to demonstrate their ability to serve with loyalty. Subsequently, it is only by delighting the customer that firms will maintain superiority over their competitors, and ultimately prove capable of consistently offering competent, reliable and exceptional service. Thus requiring the company to pursue continuous improvements in the product/service, systems, processes, infrastructure, employee training, development, rewarding, etc. Kandampully (1997, p.93) emphasises that the absolute minimum prerequisites to achieve customer loyalty require the business to understand:

1. What the customer needs, and hence what they expect;
2. Those factors which help to strengthen the customer/company relationship;
3. The customer patterns of changing needs.

These three basic customer characteristics will assist firms to anticipate and act on behalf of their customers' needs and wants even before the customer has identified such a need (Kandampully, 1997, p.93). Although, this is assuming that the company can still provide the product/service at mutually financial benefit to both parties. Hence, Srinivasan** (1996, p.29) points out that loyalty for an industry is influenced by several market variables such as the degree of competition, the absence or presence of branded products and switching costs. While other pragmatic reasons for loyalty might include price, location of supplier (convenience), etc.

When looking for a customer loyalty programme designed to have a sustained effect on buying behaviour, the programme should first start by determining how many people in the customer universe are loyal, promiscuous or prospective (Marketing Guide, 1993, p.26). The company should then consider the following criteria (Marketing Guide, 1993, p.25):

- The programme should make customers feel valued and show that the company understands their needs and aspirations;
- Be capable of recognising and tracking different buying patterns;
- Not be capable of direct duplication by competitors
- Produce sustained changes in purchasing habits of customers;
- Make a genuine contribution to the company's overall profitability;

- Be funded from the incremental revenue generated as a result of the customer loyalty programme.

Srinivasan** (1996, p.31) offers companies an approach to achieving higher customer loyalty through specifically targeting and attracting loyal customers away from competition or by selecting new customers with deliberation. Another way to achieving higher customer loyalty is to lift the company's boundary relative to that of the competition by converting disloyal customers into loyal ones. Srinivasan** (1996, p. 32) advocates that the loyalty of existing customers can be increased by providing them with increasingly higher value. Creating value for customers builds loyalty, and loyalty in turn builds growth, profit, and more value. Reichheld** (1996a, p.3) argues that the only way to achieve sustainable improvements in performance is by building sustainable improvements in value creation and loyalty. Speckman (1988, p.76) states that "loyalty must be rewarded and commitment must be encouraged." Therefore, the key is to set rewards to encourage sustained changes in behaviour locking in existing loyal behaviour (Marketing Guide, 1993, p.26).

Finally, the term loyalty presupposes the establishment of trust and a long-term relationship; the only way to gain this trust and long-term relationship is by first offering it (Kandampully, 1997, p.94). Therefore, companies will need to commit themselves to their customers - a commitment to offer loyalty of service. Although, no matter how good, a loyalty programme cannot solve problems such as poor service or faulty goods and should not be adopted as a panacea for all corporate ills (Marketing Guide, 1993, p.24). Similarly, Cram (1994, p.112) states "*you earn loyalty, you cannot buy it.*" Therefore, the best customer loyalty programmes are a true reflection of company's ethos and culture (Marketing Guide, 1993, p. 26). This view is echoed by Reichheld** (2001, p.6) who's research into customer loyalty has revealed that the centre of gravity for business loyalty is the personal integrity of senior leadership teams and their ability to put the principles into practice. Therefore, to build loyalty you must first be loyal to others by allowing them the opportunity to build a relationship with you/your firm. Reichheld** (2001, p.17) proposes six principles of loyalty which encompass standards of Excellence, Simplicity, Honesty, Fairness, Respect and Responsibility (see Table 3.5.1). The author has contextualised Reichheld's findings into a framework based on his own research findings that enhance our understanding of customer loyalty

Table 3.5.1 Reichheld**'s Loyalty Principles

Reichheld's Loyalty Principles	Authors Research
Standards of Excellence	Quality standards, Service excellence pursuit
Simplicity	Organisational structure, communication (internal and external), small cadre of teams, Outsource all non-core competencies.
Honesty	Being truthful with all stakeholders (Integrity)
Fairness	Leadership in creating an environment that justly rewards both employees and customers
Respect	Creating an environment of meritocracy
Responsibility	Empowerment and accountability

Reichheld** (2001, p.97) asserts that "to build loyalty in today's highly competitive world, you and all your people must be capable of continuous change and adaptability to meet the needs of your partners". As can be seen from Table 3.5.1 the contemporary research confirms many of the author's own findings. The author has synthesised his findings to create a framework (see Figure 12.4 Chapter 12) that provides entrepreneurs and managers a lattice from which to achieve stratospheric loyalty.

3.5.1.1 Loyalty Metrics

A measurement problem currently exists in identifying a company's best customers and then how to retain them successfully (Moules, 1998, p.46). Delivering loyalty requires firms to adopt a series of metrics that truly reveal the loyalty of customers and other stakeholders. Reichheld** (2001, p.5) proposes that firms measure customer and employee retention rates and the financial consequences of their behaviour. Although, the problem with behavioural measurements is that they are not always a result of psychological commitment towards the brand (TePeci, 1999). The problem with attitudinal measurements is that one can have a positive image about a brand but not purchase it (Toh et al. ,1993). The third approach, composite measurement of loyalty, combines the first two dimensions to measure loyalty in terms of product preferences, frequency of purchase, recency of purchase and total amount of purchase (Wong et al, 1999). This approach has also been confirmed and advocated by Bowen and Chen (2001, p.213) since it provides a more holistic perspective of the actual degree of loyalty of the customer. Struass and Frost (2001, p.294) have also collated a series of metrics used in relationship marketing to assist manager to not only determine the effectiveness of their efforts but also to identify their most loyal and profitable customers. They summarise their findings in terms of importance:

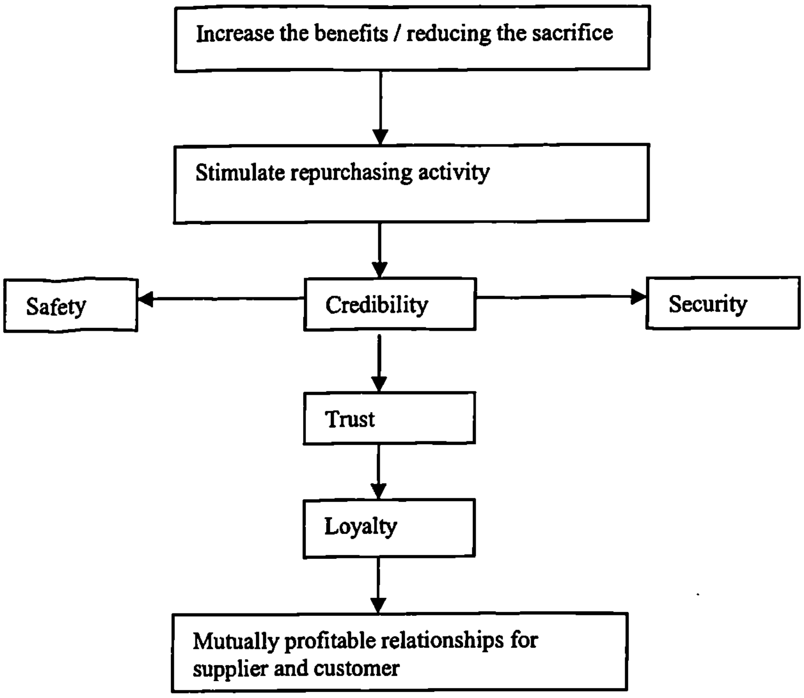
- Life time value of a customer (using net present value);
- Average order value (Sales/order size) – figure should rise to indicate loyalty of a customer;
- RCM analysis (recency, frequency, monetary) – to identify high value customers;
- Average annual sales growth for repeat customers over time;
- New customer acquisition cost;
- Current customer retention cost;
- Profits generated from current retained customers;
- Share of customer spending (pareto analysis);
- Percentage of customers who repeat purchase;
- Rate of customer recovery (i.e. who return after defecting)
- Referral revenue;
- Price premium (saving created by not having to offer price discounts).

3.5.2 Creating Customer Value

Reichheld** (1993, p.64) has demonstrated that when a company consistently delivers superior *value* and wins customer loyalty, market share and revenues go up, and the cost of acquiring and serving customers goes down. Hence, value is considered to be an important constituent of relationship marketing and the ability of a company to provide superior value to its customers is regarded as one of the most successful competitive strategies for the 1990s (Ravald and Gronroos, 1996, p.19). Consequently, by adding more value to the core product Ravald and Gronroos (1996, p.19) claim that companies are aiming to improve customer satisfaction to strengthen the ties between the companies to facilitate customer loyalty. Furthermore, any company attempting to provide competitive value to its customers needs to gain a thorough understanding of the customer's needs and the activities which constitute the customer's value chain. If it does not, the task of providing the right value to the right customers may culminate in a hazardous game, where the chances of winning the battle for customer loyalty are highly restricted (Ravald and Gronroos, 1996, p.23).

Marketing has to facilitate and maintain value-creating exchange processes that respond to individualised and fast-changing customer needs and wants, while simultaneously keeping in touch with the increasing cost pressures resulting from the increasing intensity of competition (Juttner and Wehrli, 1994, p.69). Although, the benefits both financial and non-financial should always be measured before undertaking such a programme of investment. Relationship marketing sees long-term relationships to customers as a stabilising element that supports the mastering of this challenge. Since the intensified information exchange within customer relationships provides a basis for personalised offerings and the long-term character contributes to the reduction of marketing costs per customer (Juttner and Wehrli, 1994, p.69). The essential purpose for a customer firm and supplier firm engaging in a collaborative relationship is to work together in ways that add value and / or reduce costs in the exchange between the firms (Anderson, 1995, p.348). Ravald and Gronroos (1996, p.25) have constructed a diagrammatic flow of how value can be created to achieve long-term relationships (see Figure 3.5.2a).

Figure 3.5.2a: The effects of value-adding strategies in a long-term relationship (Ravald and Gronroos, 1996, p.25).



Reichheld's** (1994d, p.4) research has revealed that cost reduction passed on to the customer in lower prices can increase value. Therefore, creating customer value must become the centre of the business strategy. For it is the value generating exercises that will ultimately contribute to sustained profitability. Reichheld** (1996b, p.57) has further discovered that one of the reasons so many businesses fail is that too much of their measurement, analysis and learning revolves around profit and too little around value creation. He states that "the key to customer loyalty is the creation of value. The key to value creation is organisational learning. And the key to organisational learning is grasping the value of failure" (Reichheld** , 1996b, p.69).

Reichheld** (2001, p.45) advocates that firms who currently enjoy a healthy customer patronage must not become arrogant and complacent by their current success. But instead recognise that the fuel of future growth will depend upon their diligence to continuously meet new challenges to proactively enhancing customer value. Reichheld** (2001, p.125) reveals that "customer value is determined through a complex formula that incorporates such factors as relative price, service, quality, reliability and convenience". Reichheld** asserts that firms should determine those factors most important to their target audience and to rigorously track the performance of these measures.

Lapierre (2000, p.125) has developed a number of measures that capture customer value specifically for the business-to-business service marketing field (see Figure 3.5.2b) based on an in-depth analysis of interviews and an extensive review of the literature.

Figure 3.5.2b Total Value Proposition

	Scope		
Domain	PRODUCT	SERVICE	RELATIONSHIP
Benefit (What the customer gets)	Alternative solutions Product Quality Product Customisation	Responsiveness Flexibility Reliability Technical Competence	Image Trust Solidarity
Sacrifice (What the customer gives)	Price		Time/effort/energy Conflict

3.5.3 Learning Relationships

Pine et al.** (1995, p.104) claim that a company that can cultivate learning relationships should be able to retain their business virtually forever, provided it provides a high quality customised product/service at competitive prices. Additionally, the more customers teach the company about their individual tastes, the more reluctant they will be to repeat that process with another supplier (Pine et al.**, 1995, p.106). Therefore, it pays to establish learning relationships albeit, only with a companies best customers'. Furthermore, Pine et al.** (1995, p.106) contend that as advances in information technology continue to drive down the cost of building learning relationships, it will make economic sense in many more businesses and for a wide spectrum of customers.

3.5.4 Loyalty and Profit

Reichheld's** (1994d, p.3) research findings have over the years shown that loyalty is inextricably linked to the creation of value. Where as a first order effect, loyalty reliably measures whether superior value has been delivered (i.e. they come back for more). After which loyalty initiates a series of second order economic effects, these include:

- Revenues and market share grow as the best customers are retained by the company, building repeat sales and referrals
- Cost shrink as the expense associated with acquiring and establishing relationships with new customers and replacing old ones declines
- Long term customers are much easier to serve as good working relationships have been built with loyal employees
- Employee retention increases, because job pride and job satisfaction increase. Increased productivity results from longer employee tenure, as employees become familiar with creating value for customers

Finally, as costs go down and revenues go up, profits go up (the third order effect). This provides the resources to invest in superior employee compensation and in new features / activities that enhance customer value, thus further increasing both customer and employee retention. In manufacturing as well as services, business leaders intuitively know that when customer loyalty goes up, profits do too (Reichheld**, 1993, p.64). According to data from various industries, more loyal customers are generally more profitable, for reasons pertaining to price, cost to serve, willingness to refer - or at least not to dissuade new prospects (Fay**, 1994, p.51). Therefore, understanding the economic effects of retention on revenues and costs allows companies with successful customer loyalty strategies to intelligently reinvest their surplus cash flows to acquire and retain high-quality customers and employees.

3.6 Communication for Relationship Marketing Development

Communication is the platform on which relationships are built. Wayland and Cole** (1994, p.23) point out that once companies understand who their customers are and which ones represent the greatest opportunity for a profitable relationship, their next challenge becomes applying the right marketing tools and levers to maximise the value of the individual relationships. Stacey** (1994, p.67) advocates that the newsletter vehicle allows companies a means of communicating with their targets on a regular basis, giving them information about the company and its products and services, as well as adding value to the relationship. Shapiro** (1992, p.6) points out that direct communication with decision-makers increases retention of a companies profitable accounts and creates chances to "cross sell" additional services as well as use the detailed feedback to find the best products/service for that customer (Pine et al.**, 1995, p.105). Additionally the company increases their chance of discovering dissatisfied users. Shapiro** (1992, p.6) also encourages companies to personalise all written communication with customers that are worth retaining.

3.6.1 Communicating To Develop Customer Knowledge

As the size of a company grows, relationship building based on personal contacts becomes more difficult to achieve. The need and ability to know customers has come about for two principal reasons (Palmer and Bejou, 1994, p.496):

1. Markets have become more competitive, resulting in good service alone being inadequate for a company to gain competitive advantage. For many categories of goods and services, customers seek superior ongoing relationships with their suppliers;
2. The emergence of powerful, user-friendly databases has enabled large companies to know more about their customers. Similarly, small firms are now taking advantage of Microsoft's Access database to hold a wealth of information on their customers.

Therefore, in learning relationships, Pine et al. (1995, p.103) state that individual customers teach the company more and more about their preferences and needs, giving the company an immense competitive advantage which makes it more difficult for competitors to entice customers away. Macdonald (1995, p.11) advocates that the reason for this is that companies that know their customer better allows the company to adapt the product and, to a lesser extent, process to match the customer's precise requirements. Morris** (1994, p.24) has provided companies with a list of prerequisites to managing a customer relationship, which include:

1. Solid record keeping of customer purchasing profiles
2. Quality information on customer satisfaction
3. Information accessible to key functional groups
4. Companies focus their resources and investment on profitable and loyal customers
5. Customer relationship management includes accounting for the cost of new customer acquisition, customer retention, and won/lost opportunities over time

By observing these conditions companies are in a superior position to manage customer relationships. Therefore, it is essential that companies develop information systems that allow the company to capture and determine the behavioural profile of a customer so that they may develop appropriate communications strategies.

3.6.2 Applying Information Technology to Develop Relationships

The role of information technology has revolutionised many business practices especially in the post-industrial or service economy given that most of the developed world is now entering a new information economy (Aijo, 1996, p.9). The information revolution is also slowly freeing the businesses and their customers from the constraints of time and place (Aijo, 1996, p.17). Hence, the marketplace of the future will undergo a technology driven metamorphosis - made possible by consensual databases, fax machines, e-mails, multimedia CD ROMS and the Internet/Intranet. This presents many challenges and opportunities for companies that are willing to take advantage of these resources, especially if these companies want to pursue relationships with their customers. Since this technology provides an abundance of rich information at the disposal of companies to determine not only the current behavioural purchases of a customer but also the predicted future value of that customer. Clieaf** (1996, p.57) sees the emerging high-speed computing and data storage technologies allowing marketers to develop sophisticated customer-marketing databases. That will allow companies to design customised products and services, optimise the allocation of financial marketing budgets and develop targeted promotions and communication strategies. Pine et al.**, (1995, p.106) suggest that a relationship database would allow a company to understand exactly who is buying what, when and why and use ideas that customers generated. This would undoubtedly aid the company to retain their most valuable customers.

The advances in information technology are making relationship marketing programs more affordable, feasible and powerful (Berry, 1995, p.243). This is supported by Gronroos (1995) who asserts that a major difference between relationship-oriented marketing organisations and transaction-orientated organisations is the content and maintenance of a customer information system. Since, in a relationship marketing situation the firm can build up an on-line, real-time information system (Gronroos, 1994b, p.12). Berry (1995, p.238) stresses that information technology enhances the practical value of relationship marketing by efficient performance of key tasks that include:

- Tracking the buying patterns and overall relationship of existing customers;
- Customising services, promotions, and pricing to customers' specific requirements;
- Co-ordinating or integrating the delivery of multiple services to the same customer;
- Providing two-way communication channels;
- Minimising the probability of service errors and breakdowns;
- Augmenting core service offerings with valued extras;
- Personalising service encounters as appropriate.

Stone et al. (1996, p.683) caution companies in their adoption of technology since this is only one part of the customer relationship. Many companies have come to realise that the starting point is to develop a comprehensive customer management strategy, which is right for the company and its customers. This would require investments in technology, processes and people to achieve the true benefits of relationship marketing. Therefore, companies need to exploit the information not only from technology but also from personal contact's to allow them to develop an accurate profile of their loyal and profitable customer audience.

3.7 Targeting Customers

Customers are obviously an essential ingredient of a loyalty-based system. Although, not all customers are equal (Cahill, 1997, p.10), therefore, companies need to target the "right" customers - not necessarily the easiest to attract or the most profitable in the short term but those who are likely to do business with the company over time. A "target market" is, at its most basic, simply the market or submarket (such as a segment) at which the firm aims its marketing message(s) (Cahill, 1997, p.10). The strategic application of segmentation reduces the competitive rivalry because there should be fewer competitors in any given segment; this should reduce downward pricing pressures. It reduces pressures from substitutes, because certain segments will not see a rival product as a substitute. Additionally it allows a firm to become the product of choice in a segment, even if the firm is relatively small (Cahill, 1997, p.11).

The tenets of target marketing can be applied to attracting profitable customers for relationship marketing. Finding loyal customers requires taking a hard look at what kinds of customers a company can deliver superior value to. If the analysis is done well, that customer segment will be fairly homogeneous, and that homogeneity improves the economics of serving the segment. Along with knowledge of which customers are likely to be loyal comes knowledge of which customers are not. Companies can then direct resources away from customers who are likely to defect and toward those likely to stay. Berry (1995, p.238) and Fay (1994, p.51) provide an indication of how this would be achieved by encouraging companies to both study and analyse their loyal and defection prone customers, searching for distinguishing patterns in why they stay or leave, what creates value for them, and who they are. Reichheld** (1993, p.66) points out that historical attrition rates can point the way to the most promising customer segments.

Therefore, it appears that some customers are more valuable than others, and if a company can identify these customers and methodically cultivate their loyalty, they will in turn provide the company with profit and growth. McDonald (1994, p.31) views an ideal customer to be of adequate size, have reasonable demands, and the potential for long-term purchase or use to allow the company to gain maximum utility of its marketing resources in attracting targeted customers.

Increasingly companies (see Reichheld**, 2001, p.85) and academics (Payne, 2001) are beginning to realise that carefully targeting customers will maximise customer value, corporate profitability and thus stakeholder value. Reichheld** (2001, p.85) cites Dell computers for their prudent customer acquisition strategy as a major factor contributing to their formidable growth. Hence, knowing which customers to target requires that companies look to customer management to resolve this problem. Stone et al. (1996, p.677) emphasise that this involves:

- Identifying which customers to acquire and retain and which to discourage;
- Developing marketing, service and IT policies to create the right relationships with different types of customers and prospects, and to require and retain the target customers.

Further research by Stone et al., (1996, p.677) shows that many of the companies who are adopting this approach are doing so as an act of faith, they are certainly not adopting this approach because of:

- A detailed analysis of current and expected lifetime customer profitability
- A searching analysis of customer service needs;
- What relationship customers want;
- A study of competitors' customers acquisition and retention policies;
- An Evaluation of how well existing methods of relating to customers meet their needs.

Companies need to be aware that some customers value the flexibility of switching between suppliers and will resist attempts to develop long term relationships, whilst others are simply unprofitable to service. It is, therefore, essential that companies identify those customers with similar associated needs through a "benefit segmentation" exercise (McDonald, 1994, p.31).

3.8 Service Orientation

Undoubtedly the most innovative and theoretically developed contributions to relationship marketing has come from services marketing (Berry et al., 1983; Gummesson, 1994, p.7). The service marketing literature has grown in importance since the mid 1970s with contributions from many directions, most notably the "Nordic School" of Northern Europe; France, UK and the USA (Gummesson, 1994, p.7). Service has long been an important factor in customer retention, and new research by Potter-Brotman** (1994, p.53) suggests its role is more critical than ever and will continue to grow throughout the 1990s. Research conducted by Innis and Londe** (1994, p.21) clearly indicated that customer service through its affect on purchase/repurchase intentions is important in the maintaining of customer loyalty.

The research conducted by Denison and Mcdonald (1995, p.64) has revealed that good marketing companies are coming to understand and define their roles in terms of customer service and support. Whereby, the whole process is driven by the desire to anticipate the service that customers will want next year and to provide it today (Denison and Mcdonald, 1995, p.65). The work of La Londe, Cooper, and Noordewier (1988, p.5) provides a good definition of customer service. "Customer service is a process for providing significant value-added benefits to the supply chain in a cost effective way" (1988, p.5). This is further supported by Berry et al. (1994, p.32) who see service as a key component of value that drives any company's success. Hence, marketing today for the excellent companies is now about customer service, whereby Denison and Mcdonald (1995, p.66) state that "the excellent companies are talking not just about satisfying present customer needs, but about anticipating the customer needs of the future and delivering them today."

Beaton and Beaton (1995, p.55) recognise that in service industries the quality of service is a critical factor in gaining competitive advantage. Conversely, the way in which a company treats its customers represents an important area for differentiating itself from the competition (Barnes, 1989, p.11). The differentiation comes through the provision of supplementary services (Barnes, 1989, p.13). In the case of companies, which market tangible products, these consist of elements of the sale, which would include for example, warranties, post-purchase service, delivery and credit. Although, a commitment to customer service cannot stop at the provision of an attractive array of supplementary service (Barnes, 1989, p.13). To be more competitive, firms need augmented products, which offer customers more than they think is needed or have come to expect. So that relationship marketing can provide a more intangible, but stronger, long-term customer benefit that may be difficult to match (Evans and Laskin, 1994, p.440).

Reynolds and Day (1995 p.563) contend that small firms can rarely compete on matters such as price but they can compete on service. They can use service to enhance their perceived value in the eyes of the potential and existing customers. They can use service to compensate for their lack of potential price competitiveness when compared to larger firms and use service as a tool to cement relationships with a view to building long-term repeat, sustainable business. Therefore, it can be seen that service is becoming a major competitive tool and basis for differentiation in most industries today (Aijo, 1996, p.13). Secondly, in order to be flexible and innovative in product development as well as in marketing, in the quest for customer retention and customer loyalty, most companies are forced to move ever closer to the customer. (Aijo, 1996, p.14)

3.8.1 Market Segmentation Of Services

Market segmentation is a process by which we divide the total heterogeneous group of customers into smaller, more homogeneous groups with similar needs and wants. Cram (1994, p.17) believes that the flexibility now exists where it is possible to create a segment of one person and this has been termed mass customisation (Pine et al**, 1995, p.105)

In the 1990's companies must increasingly deliver products and services that provide clear, differentiated value at the lowest possible cost and the highest possible quality (Craig, 1990, p.22). Hence, creating value-based customer segments allows a company to tailor marketing and sales strategies to the behaviours and needs of those customers who will provide the greatest lifetime value to the company, thus maximising revenue and profit growth (McDougall et al.**, 1997, p.9). Therefore, by developing specific services companies can generally improve the effectiveness of their performance in satisfying clients (Collins & Payne, 1991, p.266)

3.9. Introduction to Customer Satisfaction

The 1990s are emerging as an era for customer satisfaction in service industries. Customer satisfaction is important to all marketers, but especially to service marketers, because customers have fewer objective measures of quality for judging a companies production, which in turn will determine the likelihood of repurchase and ultimately, effect bottom-line measures of business of success (Iacobucci et al.**, 1994, p.93).

In any given business, the more satisfied the customers, the higher the retention rate (Marketing Guide, 1993, p.24). Although, a satisfied customer is not necessarily a loyal customer since Tanner (1996, p.130) found that product satisfaction is not related to a desire to participate in future decisions. Therefore, customer satisfaction is not enough anymore (Struebing, 1996, p.25). Kandampully (1997, p.93) claims that "services and products, deemed satisfactory by the customer today, will undoubtedly prove unsatisfactory to the same customer tomorrow." For with the array of choices that customers have, companies must go beyond satisfaction to win customers' loyalty. Hence, an important distinction that has developed in discussions of services is the difference between one's "core" product offering and one's "supplemental" (or sometimes, "value-added") services (Iacobucci et al.**, 1994, p.95). In studies of customer satisfaction in many industries, mangers are often surprised to find their customers are judging them "on the little things" (i.e. on the "supplementals"). There are good reasons for this phenomenon. First, customers assume the core offering will be of a high quality - it is a given and while a poor "core" will result in customer dissatisfaction, a good "core" execution is not sufficient for customer satisfaction. A supporting reason is that, within and across competitors, there is typically little variability in the core product offering. Hence, the customer needs additional information and actions to evaluate a firm (Iacobucci et al.**, 1994, p.95). Therefore, in order to get closer to their customers and satisfy customer needs, companies should be able to identify what their customers want (e.g. on the basis of surveys, focus groups, customers' complaints) and use these wants to guide the development of their strategies (Simonson, 1993, p.68).

3.9.1 Customer Satisfaction Techniques

According to Gale** (1994, p.309) gaining a mere 3% increase in improving customer satisfaction can increase annual return on investment (ROI) by at least 1%. Therefore, it would seem almost a necessity to monitor customer satisfaction. The traditional and most common measures of customer satisfaction and success were based on the company's market share and ad hoc customer satisfaction surveys. Gronroos (1994b, p.12) points out that market share statistics may give a false impression of success, as in reality the customers may actually be dissatisfied and consequently the image of the company is deteriorating. Furthermore, studies have indicated that only about one in twenty-six dissatisfied customers actually complains (Naumann and Shannon, 1992, p.48). Thus, the direct costs of dissatisfaction are attributed to only 4 percent of the dissatisfied customers! The other 96 percent, who remain dissatisfied, say nothing, at least not to the firm. A good portion of this "silent majority" speak with their actions - they simply take their business elsewhere. Conversely, negative word of mouth can have a ripple effect. Studies show that, on average, dissatisfied customers will tell seven to eight other individuals about their negative experiences (Naumann and Shannon, 1992, p.50). Hence, low customer satisfaction implies greater turnover of the customer base, higher replacement costs and due to the difficulty of attracting customer who are satisfied doing business with a rival, higher customer acquisition costs (Anderson et al., 1994, p.55).

Research conducted by Bain & Co. [Reichheld** (1993, p.71; 1994c, p.3; 1996a, p.237)] revealed that in business after business 60 to 80 percent of customers who defected had said on a survey just prior to defecting that they were satisfied or very satisfied with the service provided by the company. Furthermore, customer defection studies often indicate that customers who switched to the competition were satisfied - sometimes very satisfied - with the organisation they left (Hepworth and Mateus**, 1994, p.40; Jeffrey and Franco, 1996, p.17, Nelson, 2001, p.42). Jeffrey and Franco** (1996, p.17) urge companies not to assume that customers will stay with them just because they say they are satisfied. Richards** (1996, p.52) stresses that the core challenges facing businesses are:

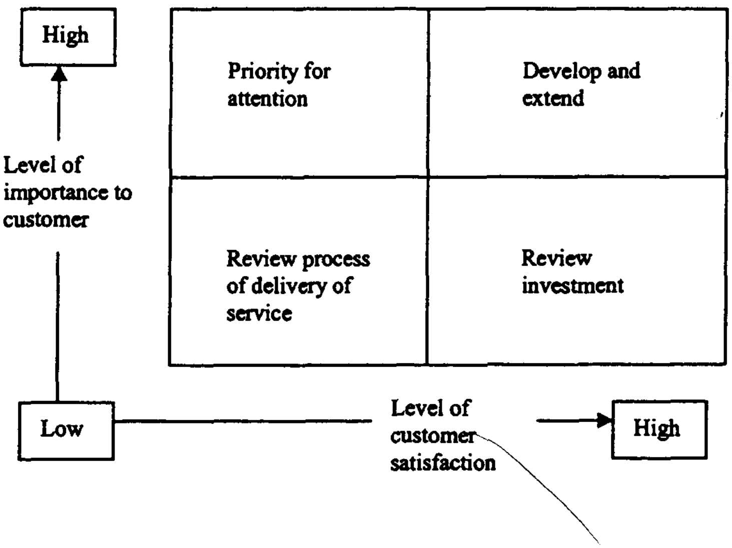
- To identify the causes of customer defection
- To determine the actual cost of fixing causes that may lead to customer defection.
- To maximise the return (both financial and non-financial) from investing in eliminating causes that influence customer defection.

Levitt (see Bell**, 1996, p.6) states that "One of the surest signs of a declining relationship is the absence of complaints. No one is satisfied that long. Either the customer is not being candid, or not being contacted." Therefore, 'aware' firms have taken such proactive steps as conducting regularly scheduled customer satisfaction surveys. Naumann and Shannon (1992, p.46) view this method as "after-the-fact" attempts to measure or deal with satisfaction or dissatisfaction. Consequently, such "after-the-fact" efforts are unlikely to result in significant and long-lasting improvements in customer satisfaction. Customers who describe themselves as satisfied are not necessarily loyal for competitors may have changed their offerings and the customer may have developed new requirements and begins to look for alternatives (Reichheld**, 1994a, p.2). Therefore, it doesn't pay to have satisfied customers - it pays to have loyal ones, provided that the loyal customers are generating profitability to the company (Hepworth and Mateus**, 1994, p.40).

3.9.2 Measuring Customer Satisfaction

Gould** (1995, p.18) offers a simple matrix (which the author has modified slightly) so that companies can follow a procedure to exceed their customers expectations in the most effective way for their business. The axes of Figure 3.9.2 plot the elements of importance of a specific attribute to customers against their level of satisfaction with that individual element. Looking at the top left quadrant, if something is highly important to a customer and they are not satisfied with it, then that must be the highest priority to fix. In the top right box, if they are satisfied, and it is important, the company should look at ways to further developing what could be their competitive advantage.

Figure 3.9.2: Importance versus satisfaction (Gould**, 1995, p.18)



Gould** (1995, p.19) does not believe customer satisfaction is the right measure. Rather he recommends companies should measure new customer satisfaction in terms of:

1. the number of word-of-mouth recommendations they generate;
2. the retention rate of the customer;

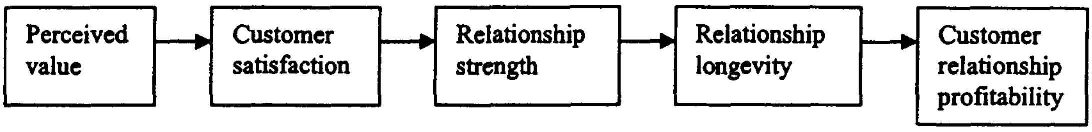
As these two measures will inform the company of whether their customers are satisfied. Reichheld** (1994a, p.2; 1996a, p.61) concurs that the only meaningful measure of satisfaction is repeat measure. Furthermore, the level of satisfaction among targeted customers is a good indicator of the level of quality of the products or services (Jones and Sasser's 1995, p.90). Consequently, the company that is really interested in getting feedback on customer satisfaction will measure customers' opinions on supplementary services (Barnes, 1989, p.15) as well as their purchasing behaviour to determine the customers level of loyalty commitment to the company. Based on this advice the author will focus on customer patronage and level of service provision to gauge the contentment of the customer.

3.9.3 Links between Customer Satisfaction, Profitability and Loyalty

The literature pertaining to relationships among customer satisfaction, customer loyalty, and customer profitability can be divided into two groups (Hallowell, 1996, p.28). The first, service management literature, proposes that customer satisfaction influences customer loyalty, which in turn affects profitability. Proponents of this theory include researchers such as Anderson et al. (1994), Gummerson (1993), and practitioners Reichheld and Sasser** (1990) who argue that improving customer satisfaction, and hence customer retention, can greatly enhance profitability and competitiveness (Buchanan and Gilles**, 1990, p.526). The second relevant literature stream is to be found in the marketing domain and it discusses the impact of customer satisfaction on customer loyalty (Hallowell, 1996, p.28). Both the service's management literature and the marketing literature suggest that there is a strong theoretical underpinning for an empirical exploration of the linkages among customer satisfaction, customer loyalty, and profitability (Anderson et al., 1994, p.63; Hallowell, 1996, p.28).

Storbacka et al. (1994, p.23) investigated the tentative relationship between customer satisfaction, customer retention, customer profitability and found it to be based on simplification that would create practical problems in many industries. He therefore, proposed that the sequence involves service quality leading to customer satisfaction, which leads to relationship strength, which leads to relationship longevity, which leads to customer relationship profitability (see Figure 3.9.3).

Figure 3.9.3: A Relationship Profitability Model Storbacka et al. (1994, p.23)



Storbacka et al. (1994, p.28) concluded that customer satisfaction is only one dimension in increasing relationship strength. Strong relationships can be dependent on perceived or contextual bonds that function as exit barriers. Another important aspect that Storbacka et al. (1994, p.28) advocated is that companies must consider that the importance of the relationship for each customer varies significantly given that some customers may be very committed to the relationship and for these customers the perceived satisfaction with the relationship is very important and vice versa. The findings of the research carried out by Anderson et al. (1994, p.63) indicate that economic returns from improving customer satisfaction are not immediately realised. That is because the efforts to increase current customers' satisfaction primarily affect future purchasing behaviour, and therefore the greater portion of any economic returns from improving customer satisfaction will also be realised in subsequent periods. This implies that a long-term perspective is necessary for evaluating the efficacy of efforts to improve quality and customer satisfaction.

3.9.4 Customer Satisfaction and Employee Involvement

As the relationships customers have with companies continues to widen, anyone who interacts with a customer is in a position either to jeopardise or to enhance the relationship (Potter-Brotman**, 1994, p.53). A satisfied customer will remain loyal to the company or brand, but the creation of satisfaction depends on the co-operation and commitment of employees (Barnes, 1989, p.11). The role of employees in satisfying customer needs will be discussed in chapter 3.

3.10. Traditional Accounting Method

The traditional accounting approaches to determine the financial viability of customers has proved to be unreliable and inadequate for relationship marketing since these accounting methods only take into account the value of the firm's existing assets and current income from previous transactions. These systems focus on current period costs and revenues and ignore expected cash flows over a customer's lifetime (Reichheld and Sasser**, 1990, p.106). Therefore, the economic consequences of loyalty have been systematically undervalued and under-managed. Since accountants have not yet developed a balance sheet that recognises the value of loyal customers (Reichheld**, 1993, p.70; 1996a, p.35) and employees (Reichheld**, 1994a, p.2). Even though they are a firms most important assets. Traditionally the best indicator of a customer's potential value was gleaned from analysing a customer's past behaviour or buying preferences and then forecasting that individual's future transactions by modelling them. Freid and Freid** (1995, p.40) do not believe that it is so simple, as it is not enough to use only the past to predict the future.

Because of this static, historical, and internal orientation, Hansotia and Wang (1997, p.8) claim that an accounting approach can only partially reflect the true worth of a business. They suggest that in order to capture a firm's future viability, the firm should be evaluated by its potential to generate cash flow both from its current and future customer base. This approach will be particularly useful to managers who are interested in understanding and measuring the financial effects of a firm's ongoing investment in its customer base. Tracking the benefits of loyalty requires new tools that go beyond traditional financial analysis (O'Brien and Jones**, 1995, p.77). Reichheld** (1996a, p.50) encourages companies to gather and analyse data on acquisition costs, base profit, revenue growth, operating costs, referrals, and price premium, all of which will allow a company to gain an accurate picture of the lifecycle profit patterns of their customers. Although, it is not enough to correlate customer tenure with annual purchases and then use the implied growth pattern for everyone. Reichheld**, (1996a, p.44) recommends that companies analyse the behaviour of defectors as well as that of loyal customers and then estimate growth separately for each customer segment that demonstrates a different underlying behaviour pattern. Furthermore, focused strategic campaigns and agile tactile actions require the ability to anticipate shifts in future customer values. To become truly proactive in capturing greater shares of future opportunities, companies must quantify the dynamics that affect their business and its customers. Measuring the patterns of past transactions is just the first step into uncharted territory where customer values are continually reshaped by forces in the economy, new technologies, and the thrusts of competitors. Therefore, by building a system to detect, measure and adapt to patterns of change, businesses can capture a greater "share of a customer" and increase profits. Freid and Freid** (1995, p.41) recommend that companies constantly monitor not only changes in the customer's buying patterns but also that they monitor changes in the external forces that continually reshape these patterns. These external forces include the economy, new technology, and competitive offerings.

Blois (1998, p.257) points out that costs are incurred when building and maintaining relationships and therefore the investment made into a relationship should be carefully evaluated. Some of the most basic information to monitor the profitability of a customer includes (Marketing Guide, 1993, p.25):

- Changes in frequency of purchase;
- Increases in value of purchase;
- Increase in total revenue;
- Number of rewards awarded;
- Running costs of the loyalty programme.

Once the company has an accurate picture of the true value of a customer, the company is in a position to calculate what it would be worth to increase their customer retention rate. Reichheld** (1996a, p.56) believes that this is the only realistic way of evaluating investments in customer acquisition and loyalty. Gould** (1995, p.17) also believes that the lifetime value of a customer is an important concept because if you extend the life of a customer relationship you increase sales. Although, some customers will have higher lifetime values because the insights they provide to the company may result in new capabilities that can be applied to other customers (Pine et al.**, 1995, p.113). Additionally, in relationship marketing where the objective is to develop and enhance long-term relationships, the time perspective is much longer. Gronroos (1990a, p.10) has demonstrated that the marketer does not plan primarily for short term results, but for results in the long run through enduring relationships with customers. Consequently, the profitability of single exchanges may even be negative in some cases.

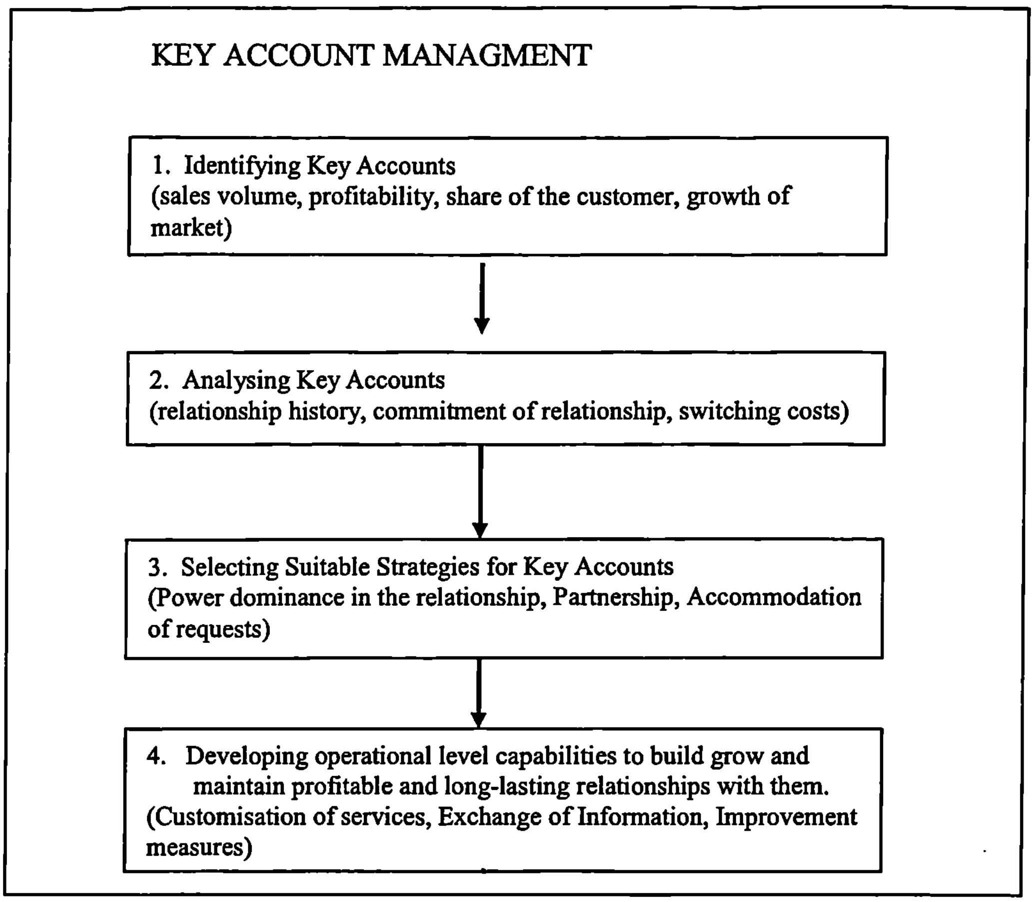
3.10.1 Share of the Customer

Attaining a high level of market share is one of the key objectives of most business organisations. Innis and Londe** (1994, p.5) claim that most firms associate a relatively high market share to ROI (Return On Investment) and profitability. Although, a new perspective in market share has been advocated by Peppers and Rogers** (1995, p.49) who see that the true success of relationship marketing will result from growth in the "share of the customer" the marketer can expect to achieve, and, not directly market share. Clieaf** (1996, p.55) concurs and states that "New age marketers will not measure success by market share or response rates. They will base success on such variables as how much of all their products a customer buys from their particular company (share of a customer); how profitable a customer is over the lifetime of a customer relationship; and how effective they have been at maximising revenues from customer segments with the highest profits potential". Peppers and Rogers** (1995, p.50) further contend that focusing on a share of customer, instead of overall market share, is probably the least expensive and most cost-efficient means of increasing overall sales - and market share.

3.10.2 Key Account Management

A more in-depth analysis of the customers would involve the successful adoption of what Millman and Wilson (1995, p.9) refer to as Key Account Management (KAM). This relies heavily on the ability / willingness of individuals to build close, long-term relationships. Millman and Wilson (1995, p.9) define a key account as a customer in a business-to-business market who is identified by a selling company as being of strategic importance. Therefore, if KAM is to be successful, there is an urgent need to develop reliable measures of performance and customer value which support strategic marketing decisions. Ojasalo (2001, p.201) proposes that successful Key Account Management (KAM) consists of four basic elements (see Figure 3.10.2): The author has elaborated on each theme to provide the reader an insight into the type of measurements required for each stage.

Figure 3.10.2 Elements of Key Account Management



3.11. Customer Defection

The final component of relationship marketing is a technique that attempts to make known the reasons why both customers and employees leave a company. Reichheld** (1996a, p.192) points out that this sheds light on two critical flows of value. First, a customer defection is the clearest possible sign of a deteriorating stream of values from the company to its customers. Second, increasing defection rates diminish cash flow from customers to the company.

Many companies suffer from customers' leaving and often the rate of customer attrition can be quite alarming. Therefore, it is incumbent on companies to invest in measures to determine why customers' and employees' leave the company. The information captured from these interviews can have a major consequence on how the company re-invests in new products/service/training/processes/communication channels/rewards/ etc to ensure continued customer and employee loyalty. Information often gleaned from these interviews can highlight weaknesses of the company and areas for improvement to maintain customer and employee retention. Reichheld** (2001, p.169) offers numerous examples of companies (e.g. Dell) who focus on defection rates as their causes to determine the success of a strategy.

3.11.1 Defection Rate

Reichheld** (1996a, p.251) suggests that the best measurement systems try to anticipate defections before they occur and so therefore proposes that companies track customer half-life - the time it takes for half the customers in an entering class to defect. Physicists use this measure to describe the decay rate of radioactive substances, and Reichheld** (1996a, p.251) claims that it works just as well for summarising the decay rate of a firm's customer inventory. Furthermore, he states that it works better than annual defection rates, because it seems to create a more urgent call for action. For if a company lowers its defection rate, the average customer relationship lasts longer and profits climb steeply (Reichheld and Sasser**, 1990, p.107). Furthermore, the company can use defection rates to clarify the characteristics of the market it wants to pursue and target its advertising and promotions accordingly (Reichheld and Sasser**, 1990, p.110).

3.11.2 Exit Interviews

Cram (1994, p.41) has identified that it is the information that defecting customers pass on which is the key to success. Since defecting customers are one of the best sources of market research available. Reichheld and Sasser** (1990, p.106) therefore, encourage companies to solicit feedback from defecting customers so that companies can ferret out their weaknesses. Page et al. (1996, p.627) have demonstrated that the benefits of understanding customer defections and their impact on company profitability have important implications for customer retention. Hence, companies that search for root causes of customer departure, and demonstrate the desire to learn from these customer departures can identify those business practices that need fixing, and as Reichheld**

(1996b, p.56) argues, can sometimes win back those customers that defected (provided they are the customers the company wanted to attract).

3.12 E-Customer Relationship Management

Nelson (2001, p.45) and Struass and Frost (2001, p.307) assert that the major drivers of relationship marketing in the future will be the new interactive platforms for customers (e.g. the Internet, WAP's, etc). Resulting in what he argues will be an exponential increase in mass personalisation. Reichheld** (2001, p.7) professes that "the Web can dramatically deepen relationships and effect enormous efficiencies. But little of this potential can be realised unless these relationships enjoy a high level of trust." Reichheld** (2001, p.8) further goes on to highlight that when customers trust online firms they are much more likely to share personal information. Thus allowing the firm the opportunity to form a more intimate relationship with these customers as well as customise their services to client preferences.

Reichheld and Schefter** (2000, p.106) and Reichheld (2001, p.1) both advocate that e-business models will collapse without the fusion of loyalty. There research into various e-commerce sectors revealed that many online customers exhibit a clear proclivity to loyalty and furthermore the rising profits from retaining customers is actually far greater in the virtual marketspace. Since customers tended to consolidate their purchases with one primary supplier, especially in the business-to-business sector. As well as the customers being a rich source of reference/ advocacy for the company. The combination of all these factors lead Reichheld and Schefter** (2000, p.107) to conclude that "the value of loyalty is often greater on the Internet than in the physical world". Reichheld** (2001, p.9) proposes that "the only possible source of sustainable competitive advantage in the new economy will be the bonds of loyalty you generate." Many successful Internet firms (Amazon, Dell, Cisco) sight their continued success to customer retention. Reichheld and Scheffer** (2000, p.113) and Reichheld** (2001, p.2) advocate that loyalty is an even more vital asset in the age of the Internet.

3.12.1 Virtual Communication

Reichheld** (2001, p.149) proposes that the Internet will revolutionise communication. Through its ability to communicate in real time with all constituents, to provide virtually unlimited access to vital information all the time. Nelson (2001, p.45) posits the view that "e-commerce allows real time marketing based on virtually 'all' the information available about customers at any point in time." The question that now begs to be answered is how do we achieve better communication in the virtual world? Reichheld** (2001, p.150) offers some insights by proposing that firms engage in open dialogues with stakeholders to build more trustworthy and consequently more productive relationships. Nelson (2001, p.46) argues that online communication can provide a greater magnitude of cost efficiency that offline direct marketing. Although, the Internet can never replace the face-to-face communication that allows us to attune ourselves to the non-verbal cues which account for 70% of communication (Anon). Reichheld** (2001, p.153) and Strauss and Frost (2001, p.302) both recommend that firms integrate their web communication with their other channels of communication in a manner that maximises the utility of each medium.

3.12.2 E-crm Targeting

Attracting any customer can be detrimental to the future financial prosperity of a company. E-commerce customer acquisition results reveal that 50% defect before their third anniversary (Reichheld and Schefter**, 2000, p.110). Hence, there is a need for new techniques to be developed for the virtual marketspace to ensure that only loyal and profitable targeted customers are being attracted by the company's campaign. The techniques to evolve are viral marketing and permission marketing. McKeown (2001, p.154) refers to viral marketing as a technique that can be used to create recommendations for the company and thus build a relationship. Siegal (1999, p.125) refers to permission marketing as a technique that provides a company the permission to contact its customers with specific information, thus creating a personal connection.

3.13. Internal Marketing

The success of relationship marketing is, to a large extent, dependent on the attitudes, commitment and performance of the employers (Matthyssens and Bulte, 1994, p.79). Hence, success on the external marketplace requires initial success internally in motivating employees and getting their commitment to the pursuit of a relationship marketing strategy. Relationship marketing is, therefore, highly dependent on a well-organised and continuous internal marketing process (Gronroos, 1996, p.12). This involvement of employees in the relationship marketing process will be discussed in more detail in Chapter Four.

3.14 Research Framework

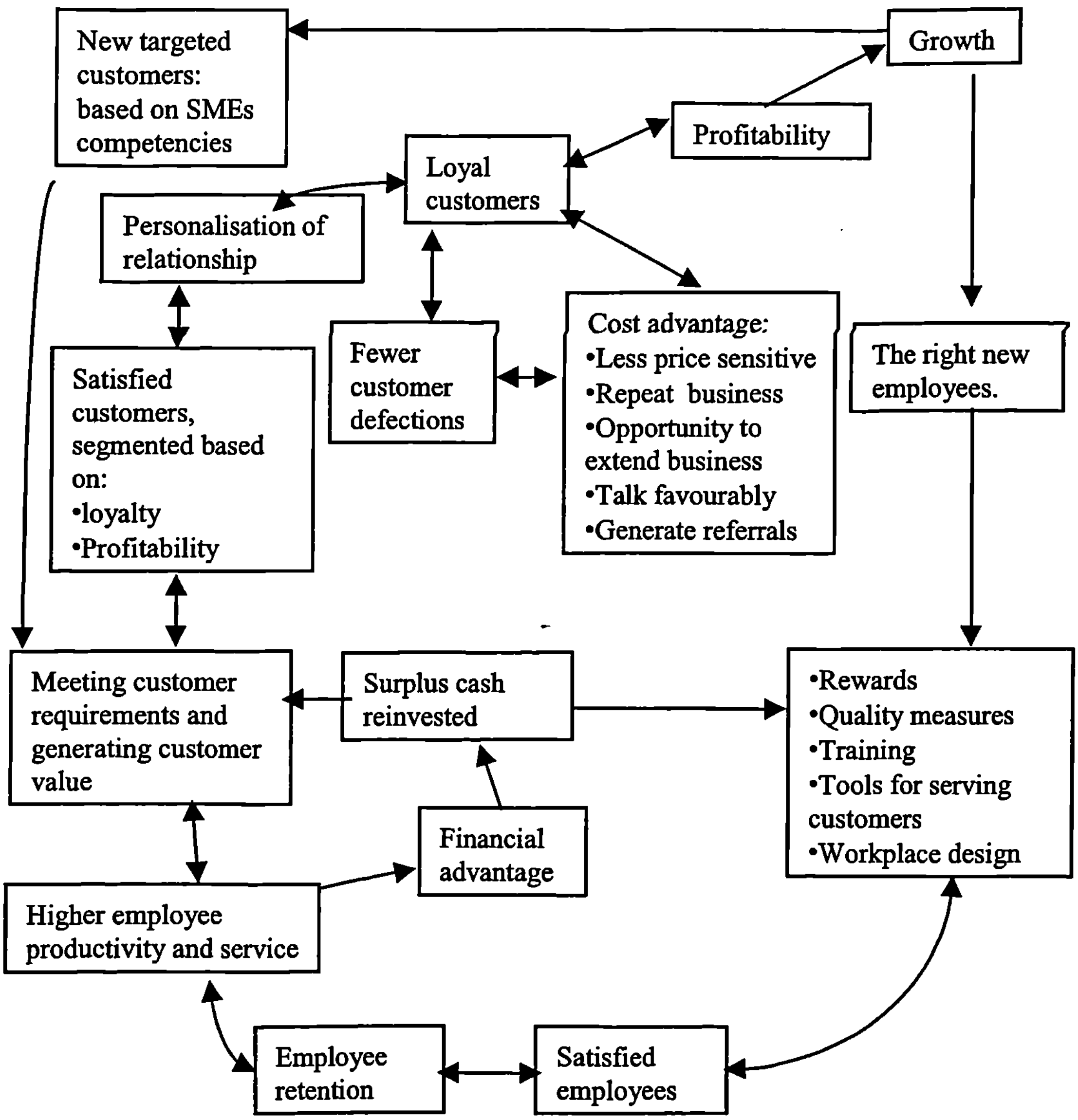
The literature review has provided the identification of key themes in relationship marketing as well as highlighting their interrelationship, which the author has highlighted in Table 3.14.

Table 3.14 Association between various relationship marketing themes

Theme 1	Theme 2	Authors
Retaining Customers	Leads to increase in profits	Marketing Guide (1993, p.25)
Loyal Customer	Lead to an increased cashflow	Reichheld** (1994b, p3; 1996a, p.39)
Loyal Customers	Targeted Customer Focus	Srinivasan** (1996, p.3); Cahill (1997, p.11); Reichheld**(2001, p85); Payne (2001)
Increased customer loyalty	Increased delivery of value	Speckman (1988, p.16); Evans and Laskin (1994, p.440); Srinivasan** (1996, p.32); Ravald and Gronroos (1996, p.19); Reichheld** (1996b, p.69); Reichheld**(2001, p.125)
Success of Loyalty Programme	Company Ethos	Marketing Guide (1993, p.26); Reichheld**(2001, p.6)
Targeted Communication	Loyal Customer	Shapiro** (1992, p.6); Reichheld**(2001, 85)
Metrics	Contribute to understanding and reducing customer attrition	Reichheld** (1996a, p.251); Reichheld**(2001, p.5); Struass and Frost (2001, p.294).
Loyal Employees	Financial and non-financial rewards	Gandz (1990, p.74); Reichheld** (1993, p.69); Reichheld**(2001, p.26)
Trained Employees	Satisfied Customers	Gronroos (1981, p.2); Potter-Brotman** (1994, p.53)
Internal quality of work	Satisfied Employee	Heckett et al. (1994, p.168)

The relationship between the themes (see Table 3.13) were the initial basis, for the author, to constructing a visual research framework (Dean et al.,1997, p.1159) see Figure 3.14.

Figure 3.14: Framework for customer retention, development and targeted acquisition.



3.15 Summary

This chapter has highlighted the various themes that contribute to developing a successful relationship marketing philosophy. The eight identified themes (as highlighted at the start of the Chapter) will be investigated in more detail through both a survey and in-depth interviews to assist the author in developing a comprehensive framework for aiding SMEs to achieve growth with minimal risk through pursuing a customer retention, development and much more measured acquisition programme. As well as identifying any significant differences in the relationship marketing orientation of entrepreneurial and non-entrepreneurial SMEs.

Chapter 4
Internal marketing

4. Introduction

This chapter will review the contemporary literature on internal marketing. The idea of internal marketing was first introduced into the academic literature in the early 1980's by Berry (1980, p.26). While a number of definitions (see Gronroos, 1985, p.41; Barnes, 1989, p. 11; Percy and Morgan, 1990, p.5; Ahmed and Rafiq, 1995a, p.35; Varey, 1995a, p.52) have been proposed over the years they all have a common theme of improving internal communication and customer focus amongst employees. Stershic** (1994, p.22) argues that companies that have successfully reorganised their companies have done so through embracing the practice of internal marketing.

Berry (1980, p.26) states that the objective of internal marketing is:

1. To employ and keep the best people,
2. To make them do the best possible job by applying the philosophy and practices of marketing internally to the internal market of employees.

Consequently, the premise of the internal marketing philosophy is that if management wants its employees to remain customer centric, then it must be prepared to invest in employees. That is, internal exchanges between the organisation and its employee groups must be operating effectively before the organisation can be successful in achieving goals regarding its external markets. This can be achieved by applying the marketing concept, originally developed for the company's external marketing, to the "internal market" as well (Gummesson, 1987, p.24). Hence, internal marketing can be defined as the promoting of the firm and its product(s) or product lines to the firm's employees. Green et al. (1994, p.5) stress that for this strategy to be successful, top level management must fully embrace the tenets of the philosophy. This would involve adopting appropriate reward mechanisms and structural changes to devolve power and achieve the true potential benefits to be realised from adopting internal marketing.

Academics have realised (see Collins and Payne, 1991, p.261; Greene et al., 1994, p.5) that in highly competitive markets such as the service sector, service quality is a critical determinant of a company's success. This is because the impression made by the individual providing the services is especially important given that customers have minimal cues for evaluating service quality. Flipo (1986, p.8) concurs by pointing out that "internal marketing is especially relevant in service firms because, in most of them, more than 50 per cent of the personnel face the customer directly." Therefore, internal marketing is the key to superior service and the result is external marketing success.

4.1 Definition of Service

Zeithaml and Bitner (1996) define services as "deeds, processes, and performances." Services are intangible in that they cannot be touched, seen and felt, but rather are intangible deeds and performances. Although, services may include a tangible report or in the case of employee training, tangible instructions materials. Service is vital for service firms since their core offerings comprise primarily of deeds and actions performed for customers to fulfil their requirements. Consequently relying on this simple definition Zeithaml and Bitner (1996, p.5) further go on to advocate that services are not only produced by service businesses but are also integral to the offering of many manufactured-goods producers. For example computer manufacturers offer warranties, maintenance contracts, and peripheral equipment.

4.1.1 Development of the Concept of Internal Marketing

The concept of 'Internal Marketing' has its roots in the 1980s push for quality in the services sectors through the examination and control of the service delivery mechanism, namely employees (Ahmed and Rafiq, 1995a, p.33). Initially the impetus behind the development of the internal marketing concept was the concern that because contact employees involved in services become involved in what is called interactive marketing, it is essential they are responsive to customers' needs. This is reflected in a statement by

Gronroos "the objective of internal marketing is to get motivated and customer conscious personnel" (Gronroos, 1981, p.237). Consequently Rafiq and Ahmed (1993, p.220) assert that "for effective service delivery it is not sufficient to have customer conscious employees, it is also necessary to have effective co-ordination between contact staff and background support staff." Hence, the internal marketing concept is also seen as a means of integrating the different functions which are vital to the customer relations of service companies (Gronroos, 1991, p.1).

4.1.2 Employees as the First Market

The internal marketing concept holds that employees are the first market for the service company (Sasser and Arbeit, 1977, p,61). Since so many people in service firms are engaged in marketing tasks, their behaviour influences the success of the company to a greater extent. Therefore, it is important to be aware of the *internal marketing task of service firms*, i.e. Gronroos (1978, p.594) advocates that "a service must first be successfully marketed to the personnel if it is to achieve success in the marketplace." The reason for this is because the way the employees of a company treat their customers will determine whether they come back to that company, these findings have been corroborated by Barnes (1989, p.13). Furthermore, Kotler (1972, p.50) when he proposed the broadening of the marketing concept was careful to define the limits of marketing by stating that "marketing consists of non-coercive actions to induce a response in another social unit." That is, the use of force or formal authority is not considered to be a marketing solution to a problem.

4.1.3 The Definition of Internal Marketing

The concept of internal marketing derives from the idea that each employee is a potential marketing resource that if utilised effectively can significantly contribute to the prosperity of the company. Gronroos (1985, p.41) first proposed a definition that set a boundary limited by the use of marketing like techniques in the internal context which:

"...holds that an organisation's internal market of employees can be influenced most effectively and hence motivated to customer consciousness, market orientation and sales mindedness by applying a marketing-like internal approach and by applying marketing-like activities internally" Gronroos (1985, p.41).

However, it is increasingly realised that the domain of internal marketing extends beyond the implementation of marketing programmes alone and that the ideas of internal marketing are appropriate for the implementation of any type of strategy within the organisation.

To provide some clarity on the definitional debate Rafiq and Ahmed (2000, p. 453) have again reviewed the literature on internal marketing to reveal five main elements of internal marketing. These are:

1. Employee motivation and satisfaction.
2. Customer orientation and customer satisfaction.
3. Inter-functional co-ordination and integration.
4. Marketing-like approach to the above.
5. Implementation of specific corporate or functional strategies.

Rafiq and Ahmed (2000, p.454) assert that no definition in the past comes close to fully satisfying these criteria. They advocate that "any proposed definition of IM needs to satisfy the listed criteria in order to be taken seriously, since the parameters proposed help to clearly define instances of IM." Hence, they propose the following definition:

"Internal marketing is a planned effort using a marketing like approach (4) to overcome organisational resistance to change and align, motivate and inter-functionally co-ordinate and integrate (3) employees towards the effective implementation of corporate and functional strategies (5) in order to deliver customer satisfaction (2) through a process of creating motivated and customer orientated employees (1)". (Numbers in brackets indicate the criteria listed above.) Rafiq and Ahmed (2000, p.454)

4.1.4 Other Definitions of Internal Marketing

Examination of the extant literature reveals a multiplicity of definitions and of approaches to internal marketing. Varey (1995a, p.52) defines internal marketing as "a process and mechanism for ensuring effective responsiveness to environmental changes, flexibility for adopting newly designed administrative arrangements efficiently, and continuous improvements in performance." Piercy and Morgan (1990, p.5) define the purpose of internal marketing as developing a marketing programme aimed at the internal marketplace in the company, that parallels and matches the marketing programme for the external marketplace of customers and competitors. The author has synthesised the previous definitions into identifying several underlying themes that are now being associated with internal marketing, namely:

- Cross disciplinary pollination;
- Customer consciousness;
- Employee motivation;
- Continuous improvement;
- Strategic alignment.

It can be seen from the review of definitions that the ultimate reason for the motivating efforts of a company should be what Gronroos (1980a, p.16-17; 1981, p.3) describes as customer-consciousness and sales mindedness employees which Gummesson (1987, p.18) believes can be achieved through adopting an internal marketing philosophy. For it is internal marketing, that stresses that human resources are a key factor in the development and maintenance of a successful service business.

4.2 Two focuses of Internal Marketing

It has been suggested by MacStravic (1985), that internal marketing has two primary focuses. Firstly it complements the company's external marketing efforts and secondly it is directed at producing and maintaining a motivated and satisfied group of employees. The challenge to the marketer is therefore, to develop appropriate standards of service for each of the segments served by the firm (Barnes, 1989, p.13). The author will start with a review of the internal focus of the implications of internal marketing (i.e. how will it be applied).

4.2.1 Strategic Internal Marketing

The internal marketing concept can be implemented on two levels in the company; the strategic level and the tactical level (Gronroos, 1981, p.3). On the strategic level, internal marketing should create an internal environment, which supports customer consciousness and sales-mindedness among the personnel. Gronroos (1981, p.3) advocates that employees should have:

- Supporting management methods;
- Supporting personnel policy;
- Supporting policy of internal training and
- Supporting planning procedures.

4.2.2 Tactical Internal Marketing

Gronroos (1981, p.4) advocates the following prerequisites in order to effectively implement (at a tactical level) an internal marketing policy:

- Personnel are the first market of the service company;
- Employees must understand why they are expected to perform in a certain manner;
- Employees must accept the services in order to support them in their contact with the consumers;
- The service must be fully developed before it is launched;
- The internal information channels must work.

If managers and supervisors on every level, are not customer-conscious and sales-minded, then Gronroos (1981, p.4) argues that the rest of the organisation cannot be expected to be either. Therefore, he recommends continuous training for employees as being important.

The consequences of the lack of adoption of internal marketing in what Gronroos (1981, p.4) has termed the first market (i.e. internally) suggests that the company will have troubles in its ultimate market- the target customers. Therefore, Gronroos (1981, p.4) stresses that employees should be involved in the planning process and understand the company's plans if they are to be more enthusiastically implemented. The empirical evidence so far is promising, but the concept has, of course, to be developed further and, more comprehensive empirical tests are needed (Gronroos, 1981, p.6). Rafiq and Ahmed (1993a, p.223) have argued that firms apply the 7Ps framework to improve their internal marketing.

4.2.3 Employee Communication

Stershic** (1994, p.23) contends that "From a top-down perspective, employees need information on what is happening in the organisation so they can continue to perform their jobs with minimal disruption; they need to know how best to deal with customers during times of transition; and they need information on any new marketing or communications programs directed at customers." Furthermore using the bottom-up channel, employees also need to communicate to management, sharing their fears and concerns about change, providing relevant feedback from the customers they serve on a daily basis, and offering ideas on how to smooth the transition and improve service.

Dibb (1997, p 54) contends that internal partnerships are necessary to maintain the communication and flow of information between managers and departments required for these activities to be carried out. Furthermore, Dibb (1997, p.55) concludes that available evidence indicates that poor communication and flow of information between internal and external parties can cause marketing planning implementation problems.

4.2.3.1 Internal communication

Rafiq and Ahmed (2000, p.458) recommend that mangers adopt the appropriate marketing techniques for their organisation. Since not all marketing techniques can be applied without adaptation to the internal "market". Davis (2001, p.125) emphasises that the choice of communication speaks volumes about the relationship between management and employees. Davis suggests that "impersonal, one-way communication like memos, letters, company magazine, newspaper and videotapes often lack credibility in the eyes of employees." He argues that this type of media is consistent with directive controlling management. Davis (2001, p.125) advocates the position adopted by Larkin and Larking (1996) who assert that the most credible source of communication for most employees is one-to-one, face-to-face communication. Davis (2001, p.125) proposes that contemporary communication such as E-mail, Intranet are less intimate but have the advantage of speed. Although, the author cautions companies and mangers to be receptive to creating e-mail apathy among staff, especially if employees' are sent superfluous e-mails.

4.3 Empowerment

It is ironic that despite the fact that employees have the most frequent contact with a company's customer base that it is not until now that their potential has been unleashed, through internal marketing. Thus by providing employees with the status and involvement in decision making so that a company can introduce measures to maintain their customer focus and improve their service levels. Carson et al. (1995, p.24) argues that "money is useful in meeting security needs but less effective in meeting ego and social needs." Therefore, he contends that if employees are allowed more discretion in their work, it will allow them to meet their higher-order needs.

Gandz (1990, p.74) believes that empowering employees is one of the most promising approaches to help companies survive in a competitive arena. Empowerment means that management vests decision-making or approval authority in employees where, traditionally, such authority was a managerial prerogative (Gandz, 1990, p.75). In an empowered organisation the manager relinquishes responsibility, authority and accountability. Although, Cook and Macaulay** (1997, p.56) assert that empowerment is not about letting people go their own way without responsibility or agreed standards. They believe empowerment is about operating independently but against agreed values or guidelines. Gandz (1990, p.75) has identified six essential conditions for empowerment, these include:

1. Employees must be properly trained;
2. There needs to be a shared vision which must appeal to employees;
3. A set of shared values is needed - beliefs about the way things should be done, the standards of behaviour that are appropriate;
4. Benefits need to be shared;
5. Managers need faith in employees;
6. The overall culture of the organisation must support risk taking - mistakes should be viewed as learning experiences that signal the need for additional training.

Evans and Laskin (1994, p.442) have identified a host of benefits arising from empowering employees, these include:

- By doing something outside the norm, empowered employees can turn superficial contacts into long-standing relationships.
- Customers are more apt to perceive that organisations empowering their employees are truly committed to customer satisfaction.
- Highly motivated workers will flourish in this work environment.
- Giving employees more authority means less internal bureaucracy, because a firm does not need multiple levels of approvals

Hartline and Ferrell (1996, p.62) found that within the manger-employee interface the use of empowerment leads to both positive and negative employee outcomes. Their findings suggest that though empowered employees gain confidence in their abilities, they also experience increased frustration (conflict) in their attempt to fulfil multiple roles at the organisation's boundary. In addition to fulfilling the demands of their managers and customers, empowered employees take on added job responsibilities. For some employees, this situation could prove frustrating. Although this conflict leads to an increase in self-efficacy (employees belief in their ability to perform job-related tasks) as employees learn to cope with conflicting role demands, it also increases role ambiguity and indirectly reduces job satisfaction and adaptability. Therefore, Gandz (1990, p.75) believes that these complex relationships create a challenge for service managers to find ways to alleviate the role conflict associated with the empowerment of their contact employees. To acquire the skills to create good working relationships Cromie and Carson (1995, p.590) encourage entrepreneurs to:

- Understand others and accept the legitimacy of their position;
- Seek reasonable open discussion to resolve differences;

Further, they go on to contend that this can be achieved by acquiring the following essential skills to accomplish entrepreneurial goals (Cromie and Carson, 1995, p.590), namely:

1. Communication
2. Influence;
3. Persuasion;
4. Conflict resolution;
5. Negotiation;
6. Degree of flexibility;
7. Charisma.

4.3.1 Employee Training for Empowerment

Like any new technique Green et al. (1994, p.11) advocate that internal marketing must be supported by marketing programs such as training, collateral material, and information systems. Varey (1995a, p.52) asserts that in order for companies to deliver value to their customers both employees and managers need to better understand and respond better to internal decision processes. This can be achieved through introducing training and systems that improve the delivery of value to the company and ultimately to the external customer. Consequently, a well trained employee can, during the consumption process, respond to unforeseen customer wants in an unstandardised manner and create customer satisfaction, where normal procedures would have failed (Gronroos, 1981, p.2).

Biong and Selnes (1995, p.488) further suggest that sales aggressiveness is less effective for relational selling and that the more control the salesperson exerts within the relationship, the more negative the relational selling. Therefore, employees need to be trained to be empathetic towards advising and resolving customer problems. Read and Kliner (1996, p.24) emphasise that "training is important and necessary, but it is also costly." To ensure that the benefits exceed the cost, SMEs should ensure that the training is effective to maximise their return in the investment. Therefore, to ensure quality service, every person who interacts with customers in any way must have the appropriate skills to respond, efficiently and effectively to customer needs (Potter-Brotman**, 1994, p.53). Furthermore, the empowerment process will not succeed unless employees are provided with the training and development they need in their new roles. Cook and Macaulay's** (1997, p.59) experience suggests the following type of training:

- technical skills;
- interpersonal skills and influencing skills;
- customer handling skills; and
- problem solving.

4.3.2 Characteristics of an Empowered Organisation

Cook and Macaulay** (1997, p.56) have discovered that customer focused organisations which adopt an empowered approach have common characteristics (see Table 4.3.2).

Table 4.3.2: Contrast in management styles between delegation and empowerment

Delegation		Empowerment
Management decides what needs to be done to serve customer	vs	Individual decides what needs to be done to serve customer
Manager retains accountability	vs	Individual has accountability
Manager supervises output	vs	Manager acts as coach
Information is restricted	vs	Information flows freely
Individual is reactive	vs	Individual is proactive
Inward looking	vs	Outward looking

4.4 Applying Marketing Techniques to Internal Marketing

Gronroos (1990, p.12) argues that there is limited need for internal marketing in connection with a transaction marketing strategy, whereas a relationship marketing strategy requires a thorough and on-going internal marketing process. This is further noted by Green et al. (1994, p.8) who emphasise that in high-contact service industries, marketers need to be concerned with internal not just external marketing. Since internal marketing means applying the philosophy and practice of marketing to the people who serve the external customers so that the best possible people can be employed and retained and they will do the best possible work. Therefore, Green et al. see the phrase internal marketing as referring to, and concerning marketing to employees. Piercy and Morgan (1990, p.5; 1991, p.84) and Gronroos (1983a, pp.76-79) concur and suggest that the same techniques of analysis and communication which is used for the external marketplace should be adapted and used to market the company's plans and strategies to imported targets within the company. Here again it has been suggested that the internal marketing resources be allocated proportionate to the frequency and intensity of customer contact an employee has.

Rafiq and Ahmed (1993a, p.223) used the Booms and Bitner's (1981) extended marketing mix for services. That is, in addition to the traditional 4Ps of marketing (namely, Product, Price, Place and Promotion) Physical Evidence, Process, and Participants were also added. This is because the extended 7Ps marketing mix explicitly recognises inter-functional interdependence and the need for an integrated effort for effective service delivery.

4.4.1 Employee Satisfaction

Employee satisfaction has been defined as "a pleasurable or positive emotional state resulting from the appraisal of ones job or job experiences" (Locke, 1976, p.1300). Rust et al. (1996, p.63) advocate that improving employee satisfaction appears to be instrumental for decreasing employee turnover. Since long serving employees develop relationships with customers and provide a better service. Furthermore, Rust et al. (1996, p.63) assert that customers who receive better service express fewer complaints and thereby create fewer problems for employees. Employees in turn react more favourably to encounters with customers. These reactions result in better service, which again leads to higher customer satisfaction. For as one writer puts it, "....to have satisfied customers, the firm must also have satisfied employees." (George, 1977, p.91).

4.4.2 Employees and Customer Service

The effectiveness of a successful relationship is determined by each and every member of the firm and his/her ability to become genuinely service orientated. Kandampully (1997, p.94) advocates that employees will be required to go beyond their specified job tasks in order to anticipate and surpass customer expectations. Cram (1994, p.206) further elaborates on the employee impact on delivering a service by stating that "the differential advantage that competitors find it so hard to replicate is this service consistency, as a trained staff with a culture of service cannot be imitated so readily."

Potter-Brotman** (1994, p.53) advocate that organisations must teach employees that they are all service providers, and emphasise their vital role in customer retention. Since customers receive the best service under two conditions: when service providers are empowered to act on behalf of customers in a timely manner, and when the organisation has a system in place to listen and respond to customer information gathered by those closest to the customer - the service providers. Bell** (1996, p.6) concurs with this by stating "If all employees share the same picture of service greatness, their efforts and actions can be more in sync, thus delivering consistent service performance."

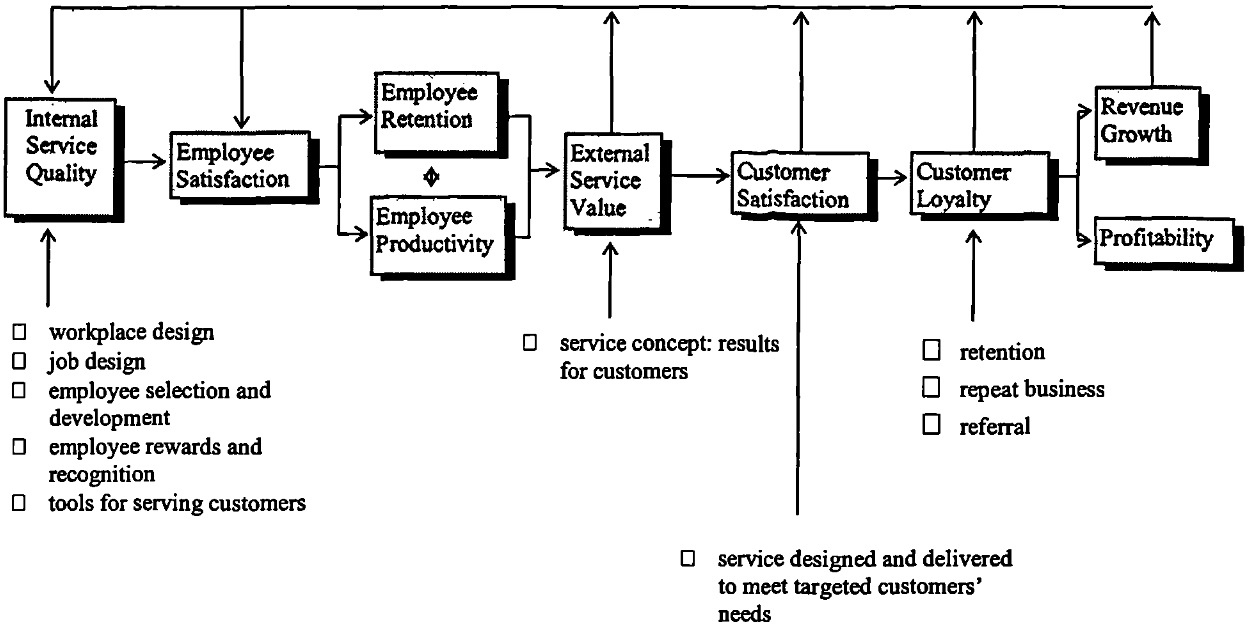
4.4.3 The Links in the Service-Profit Chain

Heskett et al. (1994, p.164) findings have revealed that top-level executives understand that in the new economics of service, frontline workers and customers need to be the centre of management concern. Therefore, successful service managers are now paying attention to the factors that drive profitability in this new service paradigm which include: investment in people, technology that supports frontline employees, revamped recruiting and training practices, and compensation linked to performance for employees at every level.

A growing number of companies know that when they make employees and customers paramount, a radical shift occurs in the way they manage and measure success. The new economics of service requires innovative measurement techniques. These techniques calibrate the impact of employee satisfaction, loyalty, and productivity on the value of products and services delivered so that managers can build customer satisfaction and loyalty and assess the corresponding impact on profitability and growth. In fact, Heskett et al. (1994, p.164) contend that the lifetime value of a loyal customer can be astronomical, especially when referrals are added to the economics of customer retention and repeat purchases of related products.

The service-profit chain (see Figure 4.4.3) establishes relationships between profitability, customer loyalty, and employee satisfaction, loyalty, and productivity. Whereby, Heskett et al. (1994, p.165) see profit and growth as being stimulated primarily by customer loyalty. Since loyalty is in turn a direct result of customer satisfaction and satisfaction is largely influenced by the value of services provided to customers, value is therefore created by: satisfied, loyal, and productive employees and employee satisfaction, which in turn, results primarily from high-quality support services and policies that enable employees to deliver results to customers.

Figure 4.4.3: The Links in the Service-Profit Chain (Heskett et al, 1994, p.165).



Heskett et al. (1994, p.168) asserts that the factor driving employee satisfaction is what he refers to as the *internal quality* of a working environment. This he believes contributes most to employee satisfaction. Internal quality is measured by the feelings that employees have toward their jobs, colleagues, and companies. The preliminary findings point increasingly to the ability and authority of service workers to achieve results for customers. Greene et al. (1994, p.12) concur that "organisations that deliver high-quality service increase or maintain market share and have a higher return on sales than do their competitors."

4.5 Benefits of Internal Marketing

Despite the investment that is required, the benefits which effective internal marketing can offer organisations seem well worth the effort. Dibb (1997, p.56) has identified the benefits to include a gradual reduction in barriers between different functional areas, encouragement of innovative ideas and even a possible source of competitive differentiation. Furthermore, Varey (1995a, p.52) emphasises that internal marketing can assist the organisation to match its responses to environmental change and to enhance its capability continuously. Cram (1994, p. 65) believes there are six benefits derived from staff continuity:

1. Role familiarity;
2. Colleague familiarity;
3. Product familiarity;
4. Customer familiarity;
5. Culture familiarity;
6. Adding value for the company.

Reichheld's** (1996, p.46) long standing research has demonstrated that motivated employees not only stay with a company longer but also create a cascade of benefits for the company in terms of getting to know their customers better, which leads to better service, building greater customer satisfaction, and further improving the relationship and the company's results. Other, benefits to accrue from adopting internal marketing include:

- Higher staff moral
- Improved internal environment;
- Lower attrition of staff;
- Greater contribution of ideas;
- Improved customer service;
- Improved productivity;
- Higher levels of loyalty and commitment from the employees;
- Enhanced customer focus;

4.5.1 Employee Retention

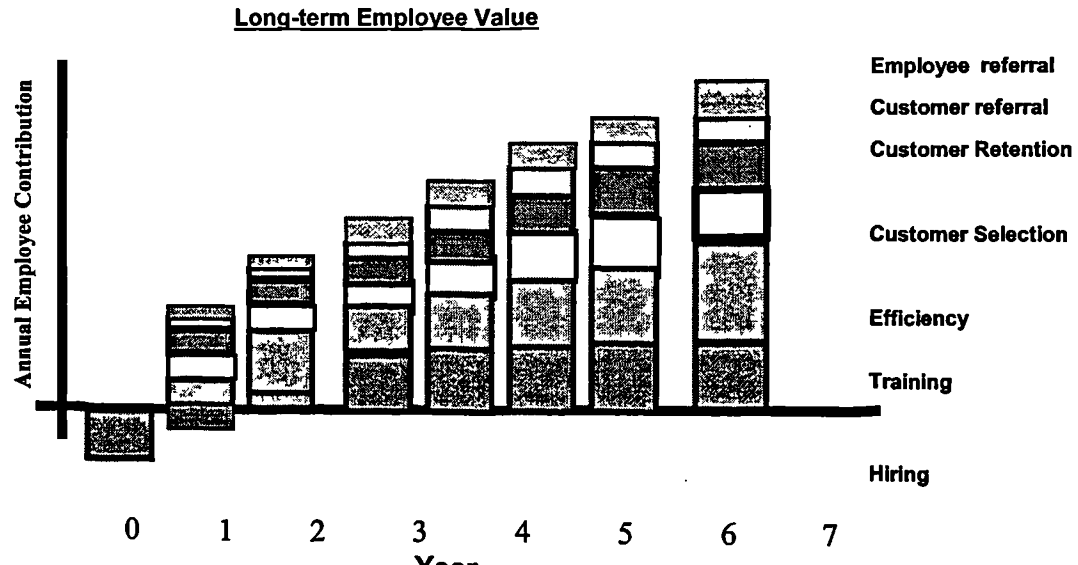
Berry and Parasuraman (1991, p.151) assert that "Service firms must focus attention and resources on attracting, developing, motivating and retaining qualified employees through job-products that satisfy their needs." Since motivated employees will enhance a company's image as many customers will assess the company primarily on the rapport they have with the company's employees. This is further evident from research by Bain and Co. [see Reichheld** (1993, p.68; 1996, p.97)] who contend that employee retention is an antecedent of customer retention.

Reichheld** (1993, p.68; 1996, p.97) and Desatnick** (1995, p.11) have discovered that employee loyalty affects new customer volume as well as retention. The practitioners agree that employees who are treated well, tend to treat customers well. Long-term employees can service customers better than newcomers can as it is with employees that the customer builds a bond of trust and expectations, and when those people leave, the bond is broken. Additionally, Reichheld** (1993, p.68) contends that customer retention can quickly offset higher salaries and other incentives designed to keep employees from leaving.

4.5.2 An Economic Model of Employee Retention

Bain and Co. have developed a generic model of the seven economic effects associated with employee loyalty (see Figure 4.5.2). Reichheld** (1996, p.100) argues that not all industries will show all seven, and the effects will vary in relative importance from one industry to another. Similarly getting employees to stay with a company longer won't necessarily produce superior returns, since Reichheld** (1996, p.102) argues that a lot of firms are loaded with dead wood.

Figure 4.5.2: Employee value (Reichheld**, 1996, The loyalty effect, p.100):



4.6 Recruiting Loyal Employees

Reichheld** (1993, p.68) writes, "Just as it is important to select the right kind of customers before trying to keep them, a company must find the right kind of employees before enticing them to stay." He suggests that companies analyse the cases of former employees who defected earlier and look for patterns in their behaviour. High employee turnover negatively affects service quality and customer retention, thus hurting profitability and further reducing resources available to invest in employees success (Berry, 1995, p.240). Reichheld** (1996, p.96) states that "The true cash-flow consequences of employee turnover far exceed most managers' intuitive estimates." Therefore, once a company has loyal customers Reichheld** (1996, p.91) encourages companies to reinvest a solid share of the cash flow surplus into hiring and retaining superior employees. To determine the calibre and quality of potential new employees Reichheld** (1993, p.69) emphasises that companies need look only to their existing loyal and productive employees to determine the attributes they are looking for in new candidates.

Research carried out by Reichheld** (2001, p.74) into the behaviour of loyalty leaders revealed that all loyalty leaders, in his research sample, list employee recruiting and selection among their most vital functions. For they recognise the effect that these employees will communicate about their company to other employees and customers. As well as realising the potential value these people could add to the capacity of the company.

4.6.1 Rewarding Employees

Reichheld** (1993, p.69) believes that employees won't stay and apply their knowledge unless they have an incentive to do so. Ceteris parabus, the best people will stay with the company that pays them the most. Therefore, Reichheld** urges companies to provide incentives in the form of higher salaries or bonuses and commissions that align the employees' self-interest with the interests of the company. Larkin and Larkin** (1996, p.96) concur with Reichheld** and claim that if you value customer service then recruitment, performance appraisals, promotions, and bonuses should be based on customer service performance. Research indicates that most learning takes place when the individual does something that results in a reward, or reinforcement, for what has been done (Mayo and Dubois, 1987, p.12).

Empirical research conducted by Reichheld** (2001, p.26) into companies who pursue a loyalty program has revealed that loyalty leaders have realised that loyalty is a two-way street. Consequently these firms have introduced financial remunerations that reward employees for their efforts to deliver a valued service to customers. Reichheld's** (2001, p.26) research has also revealed that these firms developed dynamic entrepreneurial teams with maximum responsibility, flexibility and accountability. Thus his research findings reveal that loyalty leaders utilise small teams as the molecular structure of their company's design. Hence, loyalty driven firms both financially reward and empower their employees to motivate them into delivering a superior valued service.

4.7. Employees and Trust

Trust has come to be valued as an asset in the 1990s, particularly because of changes in the competitive environment and the quest for higher and higher performance levels (O'Brien, 1995, p.40). Involving people more directly in improving competitive performance and trusting them in that exercise are vital to the success of the competitive firm. Therefore, O'Brien (1995, p.40) points out that involvement based on trust takes the working relationship beyond the simple contractual nature of work. It raises the prospect of a new quality of working life, which can be more meaningful and satisfying for employees and more profitable for the firm. O'Brien (1995, p.48) further suggests that people will begin to trust management on the basis of consistent and frequent information about how the firm is doing in the competitive environment. Therefore, sustaining trust may be built on the basis of competence, consistency and integrity and thus sustained as reputation.

O'Brien (1995, p.48) has identified several components to building trust in a firm. While neither definitive nor conclusive, these factors that O'Brien identified were observed repeatedly during her observations and interviews and tested to a limited extent in her quantitative survey. They include:

- Information and communication;
- Openness, fairness, and recognition, which encourages employee "voice";
- Reputation - based on competence, consistency and integrity.

Trust may lose or have its value temporarily suspended by management inconsistency and changed behaviour. The equity of trust may become more secure, given the development of confidence. With repeated use, it will grow. It gains value on the basis of consistency of performance, confidence and integrity. It becomes secure on the basis of reputation (O'Brien, 1995, p.52). Finally, the benefits of trust is that there is a reduction in direct monitoring, improved performance due to increased employee information and knowledge because of the development of trust (O'Brien, 1995, p.53).

4.8 Internal Marketing and External Marketing

Flipo (1986, p.7) emphasises that the marketing function has to deal at the same time with internal and external markets, and success in the latter is highly dependent on success in the former. In this regard Flipo (1986, p.12) suggests that when internal marketing does not exist, the differences between an ideal external marketing strategy and a realistic one may be very great, leading marketing managers to practices that may be seen by customers as abuses (non-legitimate powers). Thus companies that don't practice internal marketing could be involved in issues of ethical behaviour as employees may be asked to carry out tasks that may be perceived by customers as abusive. These are vital issues since Bejou et al., (1996, p.137) have shown that a salesperson's ethics and degree of customer orientation are important contributors to customer satisfaction.

Piercy and Morgan (1991, p.91) suggest that one contribution to improving market performance lies in the development of internal marketing strategies which parallel, reinforce and support external marketing strategies. Piercy (1995, p.29) views the external market issues and internal market issues mirroring one another, and being directly connected. In short, external customer satisfaction is both dependent on, and a contributor to, internal marketing satisfaction. Although, this is a complex relationship since Piercy and Morgan (1990, p.4) have realised that marketing success is often dependent on employees who are often far removed from the excitement of creating marketing strategies, namely: service engineers, customer service departments, production and finance personnel dealing with customers and so on.

As a result Piercy and Morgan (1990, p.5) urges companies to formulate and co-ordinate their internal and external marketing plans. Whereby, they see the effective application of the former providing a bridge between the formulation and implementation of the latter by creating knowledge, understanding, involvement and consensus for marketing strategy and plans. Piercy, (1995, p.30) offers a visual interpretation of the effective implementation of internal marketing despite referring to employees as internal customers (see Figure 4.8). He suggests that where there is high satisfaction with both internal and external customers, then the quality of the relationship will lead to synergy, while low satisfaction both internally and externally will have the opposite effect - alienation. The two other extremes represent a lack of focus on either the employees or customers.

Figure 4.8: Internal and External Customer Satisfaction (Piercy, 1995, p.30):

Internal Customer Satisfaction	External customer satisfaction: High	External customer satisfaction: Low
High	Synergy	Internal Euphori
Low	Coercion	Alienation

To achieve a successful internal market Piercy and Morgan (1990, p.5) suggest that the goals of the internal marketing plan are taken directly from the implementation requirements for the external marketing plan. Since know-how from external marketing can also be applied to the internal marketing (Gummesson, 1987, p. 18; Matthyssens and Bulte, 1994, p.80). The factors to be considered would include (see Holland**, 1994, p.23):

- Gaining the support of key decision makers for the company plans;
- Changing the attitude and behaviour of employees and managers who are working at the key interfaces with customers;
- Gaining commitment to making the marketing plan work and ownership of the key-problem tasks from those units and individuals in the firm, whose working support is needed;
- Managing incremental changes in the culture to making the marketing plan work.

4.9 Internal Resistance to Internal Marketing

The previous sections have highlighted the need for an internal marketing philosophy for external marketing success. Although, despite the empirical evidence highlighting the benefits of embracing internal marketing there is strong resistance to the philosophy, especially from other departments. Rafiq and Ahmed (1993a, p.229) amongst others argue that it is generally assumed, particularly by those in services marketing, that because of the word marketing in the phrase "internal marketing" that internal marketing ought to be undertaken by marketers. Varey (1995a, p.49) has similarly experienced some strong resistance to the use of the term "internal marketing" as it suggests that the mechanism of change management being described is the exclusive property of marketers.

The adoption of internal marketing may lead to conflict between marketing and human resources management and operations management and other directly affected departments. This is because it may be seen as an attempt by the marketing function to increase its influence within the organisation. Therefore, a number of authors (Barnes, 1989, p.12; Webster, 1992, p.14; Rafiq and Ahmed, 1993a, p.229; Holland** (1994, p.23) and Varey, 1995a, p.47; 1995b, p.54) have argued that internal marketing cannot and should not be the sole responsibility of any department but should instead be managed strategically. Such a policy avoids inter-departmental conflict and gives internal marketing the high level of managerial commitment, which is necessary for its effective implementation, and the achievement of high quality, customer-sensitive service delivery. Thus becoming part of everyone's job description and part of the organisation culture.

Barnes (1989, p.15) reveals that companies that make the most efforts to serve their customers have made their human resources departments part of the marketing team. Since they have realised that recruitment orientation, and training of personnel are critical if the company is to present the best level of service to their customers'. Subsequently, Holland** (1994, p.23) argues that if marketing is not fully integrated into a company's entire fabric, that company will never reach its full potential. Although, in certain circumstances, administrative action by the personnel function is much more likely to be effective than usage of marketing like devices (Rafiq and Ahmed, 1993a, p.228).

4.9.1 Internal Competitors

Shipley (1994, p.19) defines internal competitors as "all those personnel who through ignorance, inertia, intransigence or the pursuit of conflicting agendas raise barriers to change and effective external marketing activity." Hence internal opponents need to be shown that the marketing orientation offers bigger rewards than competing approaches to business. Just as external customers are won by providing differential advantage (superior to unique benefits), internal competitors must also be shown that adopting an external marketing focus provides additional benefits for them (Shipley, 1994, p. 19).

4.9.2 Working with other Functions

Shipley (1994, p.20) points out that a key element in building and sustaining cross-functional marketing co-ordination is for marketing specialists to establish strong working relationships with non-marketing specialists. To facilitate relational development Millman and Wilson (1996, p.11) contend that companies must take the kind of multi-level multi-functional approaches which *transform* rather than merely *extend* traditional organisational structures / processes. This places a high premium on co-ordination skills and teamwork. Similarly Hunt (1995, p.351) sees firms that adopt leaner and flatter structures and introduce cross-unit working relationships reap the benefits of successful execution of their strategies.

4.9.3 Employees as Customers

Gummesson (1987, p.28), Berry and Parasuraman (1991, p.272), Collins and Payne (1991, p.261), Stershic** (1994, p.23) and Piercy (1995, p.30) have all proposed the notion of considering the employee as an internal customer as a useful contribution for making internal marketing more efficient. Despite the initial popularity of the notion of the employee as an 'internal customer', a number of flaws in this proposition have recently started to surface. Rafiq and Ahmed (1993a, p.221) have put forward a number of potential problems with the current conceptualisations of employees as customers:

1. Unlike the external marketing situation, the "product" that employees are sold may in fact be unwanted by them or even possess negative utility;
2. Employees are unlikely to have a choice in the "products" which they can select;
3. Because of the contractual nature of employment, employees can in the final analysis be coerced into accepting "products" they do not want;
4. The notion of the "employee as customer" also raises the question as to whether the needs of external customers have primacy over those of the employees;
5. Finally, the financial cost of having satisfied employees could be considerable.

On the basis of the arguments outlined above, Ahmed and Rafiq (1995a, p.34) propose that a definition of internal marketing which avoids the contradictions cited above, has to drop the notion of "employee as a customer."

4.10. Creating a Learning Organisation

Bhide (1996, p.129) highlights that "when entrepreneurs neglect to articulate organisational norms and instead hire employees mainly for their technical skills and credentials, their company develops a culture by chance rather than by design. The personalities and values of the first wave of employees shape a culture that may not serve the founders' goals and strategies."

Gengler and Leszczyc (1997, p.24) emphasise that a relationship marketing orientation is emerging as central to designing organisational structure and strategy. Therefore, it is imperative that SMEs select employees that fit in with the company's culture of developing an environment that is customer-centric. This would ensure that relationship marketing is successfully adopted and practised to reap the benefits of growth through customer retention, development and acquisition.

Only through effective learning can an organisation consistently deliver value in an ever-changing world (Reichheld**, 1993, p.70). Since leading companies have discovered that by retaining their good employees, learning is unleashed and continuous improvements in productivity can be achieved (Reichheld and Markey**, 1992, p.2).

4.11 Management Style and Internal Marketing

The bulk of the research on internal marketing has focused on how marketing methods can be used to encourage internal stakeholders of a firm. Whereas little attention has been given to how internal marketing is affected by differences in management style and behaviour. Davis (2001, p.122) has constructed a Table (see Table 4.11) that shows the different management styles to internal influence and marketing.

Table 4.11 : Internal Marketing Mix

	Directive Controlling	Relationship Marketing
Performance planning and appraisal	Management dictates corporate goals and performance plans. Management evaluates employee performance.	Management and employees develop company goals and performance plans together. Employees evaluate their own performance.
Communication and information sharing	Closed, one-way communication. Restricted information sharing.	Two-way joint problem solving. Extensive information sharing.
Decision Making	Management makes decisions and issues orders.	Management reaches consensus and builds joint understanding.
Employee responsibility and involvement	Responsibility limited to the job description. Low involvement.	Employee participation, ownership and share of profits maximise involvement.
Relationship development	Management maintains impersonal relationships	Management and employees develop a partnership.

Davis (2001, p.124) declares that 'directive controlling' management would only achieve a recipe for failure if they tried to introduce a relationship marketing programme. Hence, quite clearly it can be seen from Table 4.11 that a relationship marketing approach requires managers to develop partnerships with employees. Managers would also need to develop an interactive dialogue to involve and motivate employees so that each is influenced.

4.12 Summary

The formulation and co-ordination of internal and external marketing plans has been urged, with the effective application of the former providing a bridge between the formulation and implementation of the latter by creating knowledge, understanding, involvement and consensus for marketing strategy and plans. Through the use of internal marketing a re-orientation can be achieved to improve the quality of service and provide a means of competitive differentiation. This will be achieved by investing in employees and supporting them with the appropriate systems and processes so that they can deliver a consistent value added service. Since satisfied employees will bring about cost reductions through less absenteeism, greater accuracy of work practices and greater flexibility. Internal marketing provides a philosophy through which management can realise the potential of its resident, and often under-utilised, intellectual capital. This in turn will effect the company profitability and allow the company to further gain a competitive advantage. The common themes that the literature has highlighted as contributing to the successful implementing of internal marketing include:

- Management creating a shared vision of the direction of the company;
- Empowering employees;
- Investing in appropriate financial and non-financial reward mechanisms;
- Promoting a service mentality;
- Offering training and advice to employees as opposed to directing tasks;
- Creating an environment of teamwork;
- Involving employees in the decision making process;
- Investing in systems, processes that facilitate employees to maintain a consistent service.

CHAPTER 5: Entrepreneurship

5. Introduction to Entrepreneurship

Entrepreneurship has played a central role in the industrial and economic development of many nations through encouraging entrepreneurs to pursue business growth and development to facilitate employment and the generation of economic prosperity (Chell and Adams, 1994, p.2). Therefore, it was only natural that entrepreneurship has been studied so vigorously throughout history. Arther H. Cole, the noted Harvard economist, after decades of research into this area, has gone so far as to state that "to study the entrepreneur is to study the central figure in modern economic development, and, to (his) way of thinking, the central figure in economics" (Cole, 1959, p.28). This is further highlighted by Miles and Arnold (1991, p.51) who argue that without entrepreneurship, business and society would be neither dynamic nor adaptive thereby resulting in stagnation. Entrepreneurship writers both in the popular press and the scholarly literature have generally extolled the importance of entrepreneurial activities and often implicitly assumed a positive relationship between entrepreneurship and performance. Morris and Sexton (1996, p.10) carried out a survey of industrial firms and the results revealed a positive relationship between entrepreneurship and company performance, this relationship encourages researchers to further investigate the field. Hence, the author proposes to contribute to our understanding and appreciation of entrepreneurship in small business service firms. Whereby a business service firm is one that provides any service to another firm. This research draws from literature and both quantitative and qualitative empirical research in order to identify the essential behaviour of entrepreneurial companies. Entrepreneurship can be viewed as a systematic part of business practice, for which there are guidelines for thinking and acting entrepreneurially, which contributes to the growth and prosperity of SMEs. To commence the research the author, after an exhaustive literature review, adopted both the Schumpeterian (1934) description of an entrepreneur that carries out new combinations and the Chell et al. (1991, p.71) framework of entrepreneurial behavioural characteristics to identify a more complete profile of SME entrepreneurial behaviour. These entrepreneurial characteristics will be reviewed in light of several other inter-related domains namely: the SMEs type of planning; stage of growth of SME; organisational structure and relationship marketing orientation to reveal a more holistic identify of entrepreneurial SMEs. To demonstrate why these other domains were selected we need to first review the history of entrepreneurship.

5.1 Entrepreneurial History

The term entrepreneur first appeared in the French language as early as the fourteenth century, it originated from the verb entreprendre, which has a meaning similar to getting things done (Elkjaer, 1991, p.805). It is generally agreed today (see Elkjaer, 1991, p.806) that Richard Cantillon (1680 - 1734) was the first well known economist to use the term entrepreneur as a concept in economic thought. His major work, "Essai sur la Nature du Commerce en General" was published in 1755, twenty years after his death. He defined the entrepreneur as the agent who purchased the means of production and brought them together into marketable products. The agent bore the risks of business enterprise, for it was to him that the profit or loss would accrue. After Cantillon it was Say (1767-1832) who conceptualised the role of the entrepreneur as an organiser and a leader in the productive and distributive processes, identifying him as one endowed with a rare combination of qualities: innovative skills, general good judgement and managerial skills. Say also recognised that risk and uncertainty bearing were an integral although not central part of the entrepreneur's function. Risk and uncertainty were not defined in the usual financial sense, for the notable distinction that Say made was between the entrepreneur as a bearer of psychic risk and uncertainty, as opposed to, the capitalist as a bearer of financial risk and uncertainty (see Pridavka, 1979, p.170). During the same period Baudeau (1730-92) promoted the notion of the entrepreneur as an innovator. His idea was that of a person who invents and applies new techniques in order to reduce his costs and thereby raise his profits (see Chell et al., 1991, p.13).

By the early part of the twentieth century it was becoming increasingly clear that the entrepreneurial factor was vital to economic analysis. Schumpeter (1934) is credited with coming up with one of the most sweeping breakthroughs on entrepreneurial theory to date. He was probably the first major economist of the Twentieth Century to go back to Say and reconstruct the neo-classical view of economics. Joseph Schumpeter (1934) suggested that the entrepreneur is a dynamic, proactive force - an endogenous factor (see Chell et al., 1991, p.22). Schumpeter (1934) sees the entrepreneur as an endogenous force that serves as a primary motivator of the capitalistic process. His influence comes to bear whether or not there are exogenous factors affecting the economy. Both Schumpeter (1934) and Kirzner (1973) have popularised the theory of the entrepreneur this century. They use the term entrepreneur to stress the reality of economic dynamics. One perspective of the entrepreneur is an explicit placing of the entrepreneur in both the analysis of economic market dynamics and the interplay between markets and hierarchies. In this connection, a common understanding of the entrepreneurial function is both a demanding and a complex issue.

Schumpeter (1934) considers entrepreneurship as the process by which the economy as a whole goes forward. It is something, which disrupts the market equilibrium. Its essence is 'innovation'. Schumpeter (1934) argues that the market system has a tendency towards change and the entrepreneur plays a crucial role in this market system change. Furthermore, Schumpeter argues that innovation develops from entrepreneurship. He writes that 'the carrying out of new combinations we call 'enterprise'; the individuals whose function is to carry out them out we call 'entrepreneurs' (1934, p.74). Schumpeter (1934, p.66) details what he understood by entrepreneurs innovating through 'new combinations' that result from:

1. The introduction of a new product - or of a new quality of good.
2. The introduction of a new method of production
3. The opening of a new market.
4. The conquest of a new source of supply.
5. The carrying out of the new organisation of any industry.

One of Schumpeter's basic contributions was to broaden the concept of the entrepreneur by including not only those independent businessmen in an exchange economy who carry out new combinations, but also dependent employees of a company, such as mangers. Schumpeter (1934, p.78) contends that "everyone is an entrepreneur only when he actually carries out new combinations, and loses that character as soon as he has build up his business, when he settles down to running it as other people run their business." Another important contribution Schumpeter (1949, p.75) made dealt with risk and the entrepreneur. The distinction between the capitalist and the entrepreneur, first made by Say, was clarified and reinforced by Schumpeter when he noted that the entrepreneurial function did not have anything to do with the providing of capital. This was the function of the capitalist and the "(money) risk obviously falls on the owners of the means of production.... hence never on the entrepreneur as such" (Schumpeter, 1949, p.75).

Schumpeter (1934) argues that economic growth occurs through a process whereby the "old" structures, products, processes, organisations are continually changed by new innovative activity. His theory of economic development was based on "new" combinations or innovation. He believed that innovation was the central characteristic of the entrepreneurial endeavour. His emphasis on this point is revealed in his declaration that one behaves as an entrepreneur only when carrying out innovations. In Schumpeter's free market system it is the entrepreneur who implements these new combinations. Schumpeter's (1934) new combinations are the result of innovative thinking and actions of a special class of individuals rather than the reactions to spontaneous and discontinuous economic change.

Schumpeter (1934) argued it was the entrepreneur who, as opportunity costs increased, moved economic resources away from inefficient and obsolete activities and into new, more profitable and efficient ones. He called this the dynamics of disequilibrium, where the entrepreneur's ability to innovate to ever changing market conditions was claimed as the driving force in capitalism. Schumpeter (1961) distinguishes between two types of changes: continuous and discontinuous. Innovations that produce continuous change are regarded as continuous innovations. By contrast, changes, which disrupt the economy from its equilibrium state and result in disequilibrium, are considered to be discontinuous and the innovations responsible for such discontinuous change are regarded as discontinuous innovations. Schumpeter (1961) regards only discontinuous innovations as contributing to entrepreneurship because only discontinuous innovations result in new combinations of the means of production. For Schumpeter (1961), an essential condition for entrepreneurship is that the innovations be disruptive and disturb the prevailing equilibrium.

The theories outlined so far assumed that the entrepreneur responded to an outside force that impacted upon the market system. Economists have been inclined to assume that the market for goods precedes and directs the entrepreneur, when in fact the reverse is just as true. The point to be made is that entrepreneurship and economic growth simply cannot be reduced to economic models, for this subordinates the higher level of creative activity to a lower level of measurement and exchange of material products and factors of production. Kirzner (1973) suggests that entrepreneurship is the consequence of innovations designed to exploit the opportunities afforded by disequilibrium. Whereby, both continuous and discontinuous innovations may be regarded as contributing to entrepreneurship. Kirzner insists that the entrepreneur facilitates the adjustment process that assists market movement toward ever changing levels of equilibrium, which he defines in the traditional classical economic model as that "state in which each decision correctly anticipates all other decisions" (Kirzner, 1979, p.110). He contends that the problem is that knowledge is never complete or perfect in a dynamic economy and thus markets are in perpetual disequilibrium. It is this disequilibrium that gives rise to the entrepreneur. For it is this state of change and disequilibrium that facilitates entrepreneurs to continually discover new opportunities. Thus there is movement toward equilibrium as entrepreneurial activity exploits these newly discovered opportunities. Hence the entrepreneur makes a profit where resources have been previously misallocated or used inefficiently, he tends to bring the economy toward equilibrium. Kirzner notes "markets are continually being pushed away from equilibrium by changes in the environment and brought back by entrepreneurial pressures" (1982, p.274). His argument is that the entrepreneur has a superior knowledge of market imperfections that he uses to his advantage. Kirzner (1973) argues that the entrepreneur is exploiting information asymmetries in markets that are by their very nature in disequilibrium. This is a fundamental shift in approach to Schumpeter who views the entrepreneur as destroying an equilibrium situation. While the Kirznerian entrepreneur is operating in a market assumed to be in disequilibrium, and therefore their role is to exploit the informational imperfections and to bring the market to eventual equilibrium.

Kirzner (1979, 1985) arrives at a synthetic view of the entrepreneur as one who incorporates alertness to opportunity, knowledge of means and willingness to bear uncertainty, but also one who manifests the will to pierce uncertainty through the discovery process. This discovery process involves alertness to others' errors and failures to see and exploit existing opportunities, but also alertness and ability to make innovations that widen future opportunities. From this perspective, the entrepreneur is an opportunity identifier who has the ability to spot under priced products or factors of production in particular markets in anticipation of disequilibrium profit opportunities. Kirzner's entrepreneur need not have capital or innovative capabilities, but he must posses keen judgement. Casson (1982, p.23) also presents the idea that the entrepreneur is someone who specialises in taking judgmental decisions about the co-ordination of scarce resources. Such that entrepreneurs make different decisions because they have 'different perception of the situation' (Chell et al., 1991, p.24) as a result of different information or interpretation. The entrepreneur is therefore a person whose judgement differs from that of others. Kirzner notes, "In the market context entrepreneurship is evoked by the presence of as yet unexploited opportunities for pure profit. These opportunities are evidence of the failure of market participants, up until now, to correctly assess the realities of the market situation" (Kirzner, 1985, p.52). Thus, Kirzner posited information and information-seeking behaviour as the central tenets of entrepreneurial alertness (Busenitz, 1996, p.35). Kirzner explains the value of entrepreneurship as 'corrective' to unexploited profit opportunities arising from the misallocation of resources which result in 'social waste'. The misallocation arises from imperfect knowledge. Therefore, "the entrepreneurial function is to notice what people have overlooked" (Kirzner, 1982, p.273). While one could argue for either a Schumpeterian or a Kirznerian position, such a distinction would be incongruent, for what they both highlighted of equal interest to researchers is the behavioural characteristics of entrepreneurs.

5.2 Opportunities

There is general agreement that entrepreneurs perform the function in society of identifying opportunities and converting them into economic value (Schumpeter, 1934; Kirzner, 1973, 1985; Carland et al., 1984, p.358; Gartner, 1988). According to Kirzner (1973) entrepreneurs find and exploit opportunities by taking advantage of economic disequilibria by knowing or recognising things that others do not. Although, at the present time very little is known about the process of opportunity recognition. Herbig et al. (1994, p.37) contend that entrepreneurs view change as normal and healthy, always searching for change, responding to it, and exploiting it as an opportunity. Herbig et al. (1994, p.38) further goes on to emphasise that "entrepreneurs themselves do not consciously innovate; they seek opportunities. These opportunities are those that larger firms either ignore, seek not to produce, or cannot physically create." Bygrave and Hofer (1991, p.14) define the entrepreneur as "someone who perceives an opportunity and creates an organisation to pursue it." Therefore, the obvious question then becomes what is an opportunity. This has been addressed by Olson (1986) who proposed that entrepreneurs are opportunistic decision makers spending much time and considerable energy identifying opportunities. He defined opportunistic decision making as including: (1) innovation, (2) creation, (3) profitable venture identification, and (4) emphasis on effectiveness. Gartner, (1994, p.28) emphasises that "whether an opportunity is indeed an opportunity can only be known after the opportunity has occurred." Therefore, he goes on to conclude that one cannot determine "economic opportunities that create value" until after the fact. Carson et al. (1995, p.150) point out that "entrepreneurs are seen to have a vision of how things not only are but how they might be and are sensitive to the windows of opportunity that are opening and are likely to remain open long enough to be usefully exploited. The starting point for opportunities ultimately is what customers want and the marketplace want; successful entrepreneurs understand this."

5.2.1 Risk Taking

Early definitions and many of the current definitions contain the term "risk taker" (Soloman and Winslow, 1988, p.163). Whilst much research (Kilby, 1971; Brockhaus, 1982) has proposed that a fundamental characteristic of entrepreneurship is their tendency to take risks, contemporary authors (Timmons et al., 1985) question this idea, for they advocate that entrepreneurs take calculated risks or as Bhide (1994, p.150) reveals successful entrepreneurs don't take risks blindly. However, Arther Lipper III (1985), the publisher of Venture Magazine, has pointed out that in his view, entrepreneurs begin their own ventures because they wish to avoid "taking the risk" of their success being dependent on other's evaluations; that is, performance appraisals, recommendations or promotion decisions made by others in hierarchical organisations. Therefore, they avoid the risk of their future success being dependent on how they "fit in with someone else's idea performance." Foster (1986, p.30) also rejects the characterisation of the innovative entrepreneur as a risk-taker for the simple reason that in the competitive dynamic environment of modern capitalism, "not innovating is even riskier [than innovating]."

A study undertaken by Brockhaus (1980, p.519) on the risk taking propensity of entrepreneurs of new ventures revealed that the level of risk taking propensity does not distinguish new entrepreneurs either from mangers or from the general population. Brockhaus further goes on to state that his study found that the entrepreneurs had a propensity for moderate levels of risk, which is similar to the general population. Hence, Brockhuas (1980, p.519) reveals that "earlier studies concerned with the entrepreneurs' risk taking propensity may have correctly found the majority of entrepreneurs to have a tendency toward moderate levels of risk, but they may have failed to recognise that this same characteristic is also true of the population in general" (1980, p.519). Therefore, Brockhaus argues that this preference of seeking moderate levels of risk is not necessarily a distinguishing characteristic. He further points out, as a note of caution, that his study dealt with entrepreneurs of new ventures, therefore, it is possible that the risk taking propensity of established entrepreneurs might differ from that of a new entrepreneur. This difference may occur for several reasons. First the process of being an entrepreneur may increase the desire for moderate levels of risk, thus causing a larger percentage of established entrepreneurs to appear to be moderate risk takers. Furthermore, those entrepreneurs who have a propensity for low or high levels of risk may tend to cease to be entrepreneurs at a greater rate than do those who have a propensity for moderate levels of risk. Although, Carland et al. (1984) suggest that risk-taking is a characteristic of business ownership and not of entrepreneurship per se. According to Meredith et al. (1982, p.25):

"Entrepreneurs avoid low-risk situations because there is a lack of challenge and avoid high-risk situations because they want to succeed. They like achievable challenges."

Churchill and Muzyka (1994, p.15) emphasise that "successful entrepreneurs go to great lengths both to reduce uncertainty by research and to reduce risk by passing it on to others whenever they can. Thus, rather than saying entrepreneurship involves risk, we should say that entrepreneurship involves uncertainty." The results from the various research studies all seem to point to the fact that the entrepreneur is not a risk taker. Therefore, Chell et al. (1991, p.43) proposes entrepreneurs adopt risk minimisation strategies that rest on:

1. seeking and being aware of information
2. the ability to devise imaginative solutions and problems; and
3. supreme confidence in the solution and hence the decision.

5.2.2 <u>The Relationship Between Entrepreneurs and Innovation</u>

A clear theme in many of the entrepreneurial definitions is innovativeness; whether it is driven by the uncertainty of the economic environment, or is the product of a dynamic actor, innovation is commonly viewed as the key to continuous entrepreneurship. In the entrepreneurship literature, innovation is coupled with its ability to create economic value (Churchill and Muzyka, 1994, p.13). Hebig et al. (1994, p.39) posit that "a high correlation exists between the creation of new firms and innovation potential." This is supported by Richardson** (1994, p.71) and Stokes (1995, p.34) who view the term 'entrepreneur' as almost synonymous with 'innovator'. Whereby, an invention is essentially a creative idea and an innovation takes advantage of that creative idea to create a new product/service, process, market, etc. Thus, innovation is about doing something new or differently, where the consequences result in some change in the social system (Carson et al., 1995, p.151). Although, it should be noted that entrepreneurs are not necessarily innovative, for they may take advantage of an existing product/service and apply the product / service in a way better / different from the original provider. Hence the entrepreneur recognises the opportunity of an existing product/service better than the people who made the invention. The success of the innovative idea will be dependent upon the company's resources, employee commitment, customer acceptance, and value to existing product / service range, etc. Schumpeter (1934) and Kirzner (1985) both stress the importance of innovation in entrepreneurship. Although, a distinction has been made by Sashi and Lazer (1991, p.204) who contend that continuous innovations may be characterised as Kirznerian entrepreneurship, discontinuous innovations as Schumpeterian entrepreneurship. They conclude that in order to satisfy customers and implement marketing strategies that require entrepreneurial action will require either continuous or discontinuous innovation (Sashi and Lazer, 1991, p.211). The notion of innovation coupled with organisation creation and profit seeking in the market sector were ideas also promoted by the Harvard Entrepreneurship Centre.

5.2.3 Harvard Entrepreneurship Centre

If we look back over the last century the first centre for investigating the complex conceptual problems of entrepreneurship was by a notable group of academics that included Joseph A. Schumpeter, Arther Cole and Alfred D. Chandler at Harvard University. The centre made a serious effort to deal with the theoretical and empirical problems of entrepreneurial research from an economic, sociological and historical perspective. One point that the centre participants agreed upon was that the search for real entrepreneurs was futile. They recognised the utility of theoretical "entrepreneurial types" in economic and sociological theory. But in the real world they felt that attempting to identify individuals as "entrepreneurs" was a waste of time. Cole (1969) after many years of investigation revealed that, "My own personal experience was that for ten years we ran a research centre in entrepreneurial history, for ten years we tried to define the entrepreneur. We never succeeded. Each of us had some notion of it - what we thought was, for his purposes, a useful definition. And I don't think you're going to get farther than that" (Cole, 1969, p.17). Accordingly, the centre participants concentrated on searching for entrepreneurial activities within organisations and the relationships with such firms and the society of which they are a part (Aitken, 1963). Although, Cole's early doubts about whether the entrepreneur could be defined has not stopped researchers from attempting to do so.

5.2.3.1 Three Dimensions of Entrepreneurship

The three main entrepreneurial dimensions that the centre held views on were - economic innovation, organisation creation and profit seeking in the market sector. This is also supported by Hornaday (1992, p.17) who contends that entrepreneurship is best understood as residing within a conceptual space bounded by three dimensions (i.e. economic innovation, organisation creation and profit seeking in the market sector). Taken together, these three dimensions offer a promising effort to describe the domains of entrepreneurship. He claims there is support for these dimensions in the literature:

1. Economic Innovation

The idea of change in the economic system through entrepreneurial activity is deeply rooted in the work of Schumpeter (1934) who described entrepreneurial change as innovation, meaning change that broke the "circular flow" of economic equilibrium by introducing "new combinations". Schumpeter stressed that "entrepreneurial innovation" encompassed all activities necessary to make innovation commercially viable. Although, a review of the literature shows that while economic innovation is a necessary aspect of entrepreneurship, it is not sufficient to fully bound entrepreneurial activity.

2. Organisation Creation

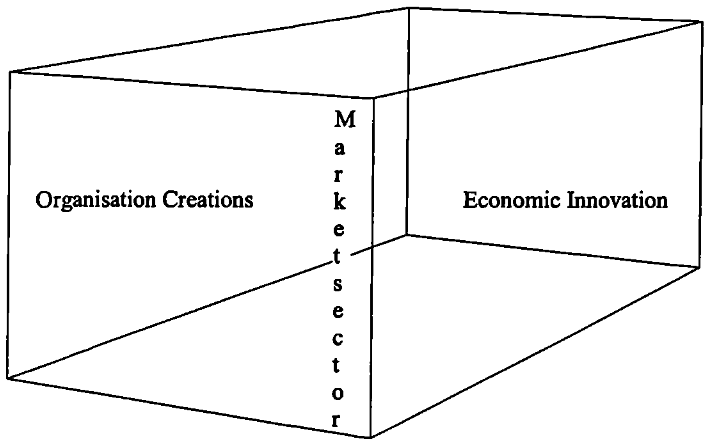
A second functional description of entrepreneurship that emerged from the work of the centre is organisational creation. While Schumpeter notes that new combinations could be carried out by existing commercial enterprises, he argues that "new combinations, as a rule, embodied, as they were, in new firms which generally do not arise out of the old ones but start producing beside them" (Schumpeter, 1934, p.66). This view is also supported by Gartner (1988, p.11) who advocates that "entrepreneurship is the creation of organisations. What differentiates entrepreneurs from non-entrepreneurs is that entrepreneurs create organisations, while non-entrepreneurs do not". Hence, Gartner (1989, p.62) asserts that entrepreneurs are identified by a set of behaviours which link them to organisation creation.

3 Profit Seeking in the Market Sector

The functional definitions of economic innovation and organisational creation make no reference to the environment in which entrepreneurship occurs. Therefore, Cole's (1959, p.7) assertion that entrepreneurship takes place within the market sector of society where profits can be gained by entrepreneurial activity has considerable historical support. Since one of the characteristics of the market sector is profit making. This is supported by Schumpeter (1934, p.79), Kirzner (1983, p.164) and Casson (1982, p.25) who assert that profits are an important incentive to entrepreneurship. When the profit seeking in the market sector is combined with the economic innovation and organisational creation, profit seeking in the market sector becomes the third dimension. Although, it should be noted that while most entrepreneurial definitions attribute the motives of entrepreneurs to be financial, this is not always the case as in the public sector entrepreneurial behaviour may arise for non-financial reasons.

Hornaday (1992, p.17) has represented the concept of the three dimensions of entrepreneurship as a diagrammatic cube (see Figure 5.2.3.1). In which he stresses that entrepreneurship is not an absolute, dichotomous concept, where a single dimension excludes or includes a particular activity. Instead, it is a relative state where activities may exhibit greater or lesser degrees of entrepreneurship. Hornaday (1992, p.18) states that "to locate the area of entrepreneurial activity, judgement must be used to determine a particular activity is 'enough' along the economic innovation scale, is doing 'enough' organisation creation, and is 'enough' in the profit seeking market sector. The term 'enough' implies a subjective judgement or valuation." Despite Hornaday's (1992, p.18) indication of subjective judgement by entrepreneurs, this author contends that the study of entrepreneurial SMEs in society will contribute not only to academic knowledge but will also help many young SMEs to learn from their successful growth behaviour.

Figure 5.2.3.1: Entrepreneurship Three Dimensions



While these dimensions show considerable support in the entrepreneurial literature. A more comprehensive review of the literature, in the next section, will demonstrate a myriad of entrepreneurial characteristics many of which complement previous research efforts.

5.3 Defining Entrepreneurship

A historical review of the field of entrepreneurship has identified various characteristics of entrepreneurs. Scholars for the last two-hundred years have continued to disagree as to the precise definition of the term "entrepreneurship" (Pridavka, 1979, p.167; Carland et al, 1984, p.358; Soloman and Winslow, 1988, p.163; Carland et al., 1988, p.33; Gartner, 1989, p.47; 1990, p.16; Merz and Weber, 1991, p.161). The study of entrepreneurship has long been entangled in theoretical controversies that have diverted efforts to define the entrepreneurial experience. Carland et al. (1988, p.36) posit that "few classification schemes are exclusive and/or exhaustive, especially those involving complex human behaviour". Therefore, it is quite apparent that there is currently, no single definition of "entrepreneur" that has been uniformly accepted in the literature. Research carried out by

Carland et al. (1984, p.356) and Miles and Arnold (1991, p.51) reveal a myriad of characteristics of entrepreneurship. These are presented in Table 5.3.

Table 5.3: Characteristics of Entrepreneurs (Carland et al., 1984, p.356; Miles and Arnold, 1991, p.51)

Carland et al. (1984, p.356)		
Date	**Author(s)**	**Characteristic**
1848	Mill	Riskbearing
1917	Weber	Source of formal Authority
1934	Schumpeter	Innovation, initiative
1954	Sutton	Desire for Responsibility
1959	Hartman	Source of Formal Authority
1961	McClelland	Risk taking, Need for Achievement
1963	Davids	Ambition; Desire for Independence, Responsibility, Self Confidence
1964	Pickle	Drive/Mental; Human Relations, Communication ability; Technical knowledge
1971	Palmer	Risk Measurement
1971	Hornaday & Aboud	Need for Achievement; Autonomy; Aggression; Power; Recognition; Innovative / Independent
1973	Winter	Need for Power
1974	Borland	Internal Locus of Control
1974	Liles	Need for Achievement
1977	Gasse	Personal Value Orientation
1978	Timmons	Drive/Self-Confidence; Goal Orientated Moderated Risk Taker; Internal Locus of Control; Creativity / Innovation
1980	Sexton	Energetic/ Ambitious; Positive Reaction to Setbacks
1981	Welsh & White	Need for Control; Responsibility Seeker; Self Confidence / Drive; Challenge Taker; Moderate Risk Taker
1982	Dunkelberg & Cooper	Growth Orientated; Independence Orientated; Craftsman Orientated
Miles and Arnold (1991, p.51)		
1983	Miller and Friersen	Aggressiveness, Innovative New Products, Novel solutions, Emphasis on Research and Development
1984	Foxall	Opportunity Seeking
1985	Ginsberg	Aggressive, Seek Novel Solutions, Innovative New Products and Distribution
1987	Morris and Paul	New Product Introductions, Risk Taking, Aggressive, Active Opportunity Scans, Growth Orientated, Pragmatic, Compromising
1989	Covin and Slevin	Innovative, Aggressive, Proactive

A clear theme in all these definitions is innovativeness; whether it is driven by the uncertainty of the economic environment, or is the product of the entrepreneur, innovation is commonly viewed as the key to continuous entrepreneurship. The literature review reveals that different people have defined entrepreneurship in different ways at different times and employing different methodologies. It is now becoming apparent that several fundamental problems of a methodological nature exist. Chell et al. (1991, p.69) emphasise that they include a lack of an agreed definition, and conceptualisation, of the entrepreneur as well as the absence of an accepted paradigm. To integrate these different attributes into a comprehensive definition of the entrepreneur is difficult, if not impossible. Therefore, research carried out by Carland et al. (1984, p.356) poses the questions: Are the characteristics listed in Table 5.3 those of entrepreneurs, of small business owners, or a mixture that may, or may not, be capable of demonstrating the entrepreneurial function of economic development. Carland et al. (1984, p.357) and Stokes (1995, p.34) propose that the main differentiation between entrepreneurs from non-entrepreneurial managers and in particular, small business owners is innovation. They argue that "the entrepreneur is characterised by a preference for creating activity, manifested by some innovative combination of resources for profit" (Carland et al. 1984, p.357). Similarly Carland et al. (1984, p.358) pointed out that small business-owners are concerned with securing an income through the business that will meet their immediate needs and those of their family. This is also supported by Chell et al. (1991, p.5) who concluded that small business owners are not innovators, nor are they interested in growth of the business per se.

The debate over the distinction between an entrepreneur and a small business owner-manager is established and on-going. Economic theories by Schumpeter (1934) and Kirzner (1973) make a clear distinction between the strategic decision-making activities of an entrepreneur compared with the more routine tasks performed by a manager. Stokes (1995, p.29) points out that "the term owner-manager is commonly used to describe those involved in running a small business." Although, Stokes (1995, p.30) does caution readers that owner-managers are not an homogeneous group which can be easily classified, or expected to behave in a certain way. Stokes (1995, p.34) reveals that innovative activity has been revealed to be a hallmark of entrepreneurship, but not necessarily the owner-manager. Carland et al. (1984, p.358) suggest that the critical defining characteristics of entrepreneurs are innovative behaviour and the ability to think and operate strategically in pursuit of their goals of business profitability and growth. They offer the following definitions for small business ventures, entrepreneurial ventures and the entrepreneur:

Small Business Venture: A small business venture is any business that is independently owned and operated, not dominant in its field, and does not engage in any new marketing or innovative practices.

Entrepreneurial Venture: An entrepreneurial venture is one that engages in at least one of Schumpeter's five categories of behaviour: that is the principle goals of an entrepreneurial venture are profitability and growth and the business is characterised by innovative strategic practices.

Entrepreneur: An entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth. The entrepreneur is characterised principally by innovative behaviour and will employ strategic management practices in the business.

Gartner (1989, p.61) argues that the Carland et al. (1984, p.358) definitions, while attempting to achieve greater precision, actually increase the ambiguity in what is already a definitional dilemma. He questions the validity of the methodology that Carland et al. (1984) used to arrive at their definitions, Gartner argues out that Table 5.3 which is itself based on the past research on the characteristics of entrepreneurs that Carland et al. (1984, p.356) used, is flawed for two reasons: firstly not all the research was empirical, and secondly, and more importantly, as Carland et al. point out, the research samples were by no means homogeneous. Gartner (1989, p.62) is concerned that "once we are tempted to view the entrepreneur, the manager, the small business owner, etc., as states of being, we become embroiled in trying to pin down their inner qualities and intentions." In response to Gartner's criticisms Carland et al. (1988, p.36) point out that Gartner uses the words "I believe" several times in his article, and it is important to keep in mind that he is espousing his beliefs and opinions, not axioms about the entrepreneurial process. Furthermore, Carland et al. (1988, p.38) stress that researchers must be careful never to propose any action which would close or deter pursuit of knowledge. Chell et al. (1991, p.5) have also challenged the definitions of Carland and his colleagues (just as Gartner) and argues that they are full of pitfalls. In that:

1. It is assumed that both entrepreneurs and small business owners are founders;
2. The definitions proposed for distinguishing between the motives of the entrepreneur and small business owner does not bear close scrutiny. The implication being that entrepreneurs in developing their businesses, are not primarily pursuing their personal goals, whereas small business owners are;
3. It is unclear where the small business owner stands with regard to the profitability of the business;
4. The assertions the business be a 'prime source of income' and 'consume the majority of one's time and resources' for small business owner and not for the entrepreneur need justification.

Gartner's (1990) own research that involved a Delphi study to define entrepreneurship demonstrated that there is no agreement on a definition of entrepreneurship. He concluded that researchers must continue to spend time making "explicit what we are talking about when we talk about entrepreneurship" (Gartner, 1990, p.28). In other words, Hornday (1992, p.12) claims that everybody can use the term in any way they choose, so long as they provide some kind of definition. Gartner (1989, p.48-57) review of entrepreneurial definitions revealed that:

1. many (and often vague) definitions of the entrepreneur have been used (in many studies the entrepreneur is never defined);
2. there are few studies that employ the same definition;

3. lack of basic agreement as to "who an entrepreneur is" has led to the selection of samples of "entrepreneurs" that are hardly homogeneous;
4. A startling number of traits and characteristics have been attributed to the entrepreneur, and 'psychological profile' of the entrepreneur assembled from these studies would portray someone larger than life, full of contradictions, and, conversely, someone so full of traits that they would have to be a sort of generic "Everyman".

Gartner (1989, p.47; 1990, p.16) reveals that recent reviews of the entrepreneurship literature have found few changes in this dilemma in the sixteen years since Cole's statement. Gartner, (1994, p.26) contends that "entrepreneurship is difficult to define, and entrepreneurs and entrepreneurial activities are often difficult to identify and study because the phenomenon, itself is complicated, equivocal and large." Although, Gartner, (1994, p.31) argues that if one is to talk about entrepreneurship, they should both offer a definition and recognise that a definition can never be definitive. Similarly, Bygrave and Hofer, (1991, p.13) assert that "in the absence of a universally accepted scientific definition of an entrepreneur, it is the responsibility of every researcher to state clearly what is meant when the term is used." However, Bygrave and Hofer, (1991, p.14) also note that "since scholars have been unable to agree upon a definition of an "entrepreneur" in the 75 years or thereabouts since Schumpeter produced his seminal piece on entrepreneurs, we would be unwise to attempt to produce an authoritative definition in such a short work."

5.3.1 Entrepreneurial Activity

Thompson (1999b, p.293) has extended previous research conducted by Chell et al. (1993, p.17) on identifying the spectrum of entrepreneurial activity. Thompson's research proposes to introduce a few new members to the entrepreneurial spectrum where at one extreme we have excessive entrepreneurial behaviour, which is referred to as "cowboy" and at the other extreme we have the traditional administrator. Thompson (1999b, p.293) argues that entrepreneurship is a balance of managing risk and managing opportunity (see Figure 5.3.1).

Figure 5.3.1 Entrepreneurship, Opportunity and Risk

<table>
<tr><td>Opportunistic / Crisis Prone</td><td>Crisis Averse / Managing Opportunity</td><td>Missing Opportunities / Crisis Prone</td></tr>
<tr><td>Over Emphasis</td><td>Charismatic Role</td><td>Under Emphasis</td></tr>
<tr><td colspan="3">Cowboy — Adventurer Entrepreneur — Entrepreneur — Entrepreneurial Manager — Manager — Bureaucrat/ Administrator</td></tr>
<tr><td>Under Emphasis</td><td>Architectural Role</td><td>Over Emphasis</td></tr>
<tr><td>Unnecessary Risk Taking</td><td>Risk Managing</td><td>Risk Averse</td></tr>
</table>

5.3.2 Review of Contemporary Literature on Entrepreneurship

Research on entrepreneurship is gaining in pace as the number of journal publications on the subject is increasing at an average annual growth rate exceeding 40 per cent in most years (Knight et al., 1995, p.10). Dean and Day (1995) and later Day and Reynolds (1996, 1997, p.112) analysed the contents of 195 papers published between 1987 and 1994 of the Research at the Marketing/Entrepreneurial Interface Conferences/Proceedings in order to identify the entrepreneurial categorisations used. The authors did not want to over categorise such that the subtleties in the definition would be lost, since they agreed that much of the interest lies in these subtleties. As shown in Appendix Eleven as little structure as possible has been imposed on the paper definitions and the 'bespoke' heading is used to capture often small variations in approach and, hence, to suggest the diversity in this work. The analysis revealed 195 separate definitions of the entrepreneur (see Table 5.3.2).

Table 5.3.2: Contemporary Definitions of Entrepreneurs

Summary			
Bespoke	31	Innovation	11
Competence distinctiveness	1	Network relationship	1
Corporate entrepreneurship	2	New product development	8
Create	12	None	71
Emerging	2	Not applicable	19
Entrepreneurial consumers	3	Opportunity	4
Growth	8	Organisational	6
high tech	5	Strategic	3
Information/disequilibrium	5	Technology	3
		Total	195

From their research into entrepreneurship Day, Dean and Reynolds (1998, p.828/9) offer three cautions. Firstly we still have little overall consistency in the defining of the term 'entrepreneur', perhaps given the nature of the entrepreneurial act that is not in itself surprising. Secondly that search has been long and is still continuing. The third caution is that if entrepreneurship is considered to be a unique attribute, and one in scarce supply, then this research could only report the good but not transferable practices of the successful SME. It would thus have no practical advice to offer those SMEs who do not practise such behaviour; and, presumably offer nothing of interest to those already practising this behaviour. However, fortunately the authors take the view proposed by authors such as Drucker (1986) that entrepreneurial behaviour, at least to some degree, can be practised by all. This is also supported by the work of Timmons (1989) who according to Chell et al. (1991, p.46) offers one of the most comprehensive approaches to understanding entrepreneurship to date. For the models that he has developed would appear to assume that:

1. External factors are influential in shaping the entrepreneurial concern and the ability of the entrepreneur to be successful.
2. The salient characteristics of the entrepreneur are primarily interactive skills (social and cognitive), most of ***which can be learnt.***
3. The entrepreneurial type can be distinguished from other organisational types, such as managers, promoters, etc, by their personal attributes and behaviours shaped by different role and job demands.
4. Successful types may be distinguished from unsuccessful types of entrepreneur.

Consequently, this research proposes that the entrepreneurial skills and behaviours can be nurtured, developed and acquired and that it is possible to improve the mortality rate of SMEs by pursuing a low risk approach to achieving growth through the entrepreneurial adoption of a customer retention, development and acquisition strategy programme. Therefore, one of the aims of this research is to encourage SMEs to take on the best practices to allow them to achieve growth. Hence, to facilitate a change in their behaviour it is prudent to study the behaviour of both successful entrepreneurial and non-entrepreneurial SMEs so that the author can identify those behaviours that have been instrumental in SME growth. Merz and Webber (1991, p.161) contend that this approach seems to offer more promise for developing entrepreneurship because it attempts to identify those critical behaviours and skills instrumental to new firm foundation and as the author argues continued prosperity. The implication is that the necessary skills once identified can be learned to contribute to SME growth.

5.4 Undertaking Entrepreneurial Research

Over a decade ago Low and MacMillan (1988) proposed a structure that researchers should follow when investigating entrepreneurship. Davidsson et al. (2001, p.5) have reviewed their structure and recommended a number of proposals that are highlighted in Table 5.4

Table 5.4 Undertaking Entrepreneurial Research

Low and MacMillan's Review	Davidsson et al. (2001) Findings (10 years on)
1. The purpose of the research	There seems to be growing consensus among influential scholars in the field of entrepreneurship that research must become more theory driven, taking advantage of progress made in other disciplines.
2. The choice of theoretical perspective	Entrepreneurship, however narrowly defined, will be best informed by multiple theories and disciplines.
3. The focus of the phenomena to be investigated	There is a greater need for the understanding of entrepreneurs' learning processes that is studied in conjunction with performance assessment.
4. The level or levels of analysis	To find new ways of capturing the contribution of all kinds of new enterprise creation, not just focus on new, independent small firms.
5. The time frame of analysis	There is a need for further longitudinal entrepreneurship research.
6. The methodologies used	Ethnographic case studies and study of other actors in the entrepreneurial creation are needed

The structure highlighted in Table 5.4 provides a foundation from which to increase our understanding in any of the schools of thought on entrepreneurship.

5.4.1 Schools of Thought on Entrepreneurship

Although entrepreneurship had its beginnings in economic thought, it no longer plays a major role in orthodox economic theory (Jennings, 1994, p.77). Despite the multitude of entrepreneurial characteristics proposed by researchers from a myriad of disciplines, Cunningham and Lischeron (1991, p.46) argue that research activity seems to fall within six schools of thought, each with its own underlying set of beliefs:

Assessing Personal Qualities:

1. The 'Great Person' School of Entrepreneurship
2. The Psychological characteristics School of Entrepreneurship

Recognising Opportunities

3. The Classical School of Entrepreneurship

Acting and Managing

4. The Management School of Entrepreneurship
5. The Leadership School of Entrepreneurship

Reassessing and Adapting

6. The Intrapreneurship School of Entrepreneurship

Cunningham and Lischeron (1991, p.55) emphasise that as these schools of entrepreneurship address a range of entrepreneurial perspectives each of the schools might provide insights into different aspects of the phenomenon. Similarly, Day and Reynolds (1996) in Table 5.4.1a suggest that there are a number of perspectives from which one can address definitions of the entrepreneur.

Table 5.4.1a: Perspectives of Entrepreneurship

1	Trait	Search for common traits of successful entrepreneurs	Lacks predictive power & tends to produce 'larger than life' profiles.
2	Personality	Search for a definitive entrepreneurial personality	Superior to trait and can handle complex psychological dimensions
3	Behavioural	Focusing on what they do not what they are	Superior to trait and compatible with the better economic definitions
4	Competencies	The entrepreneurs have equal but different competencies to non-entrepreneurs, managers or others operating in a large firm environment	Multidimensional
5a	Economic Compliant	That entrepreneurs have a different attitude to risk/uncertainty; innovation/disruptions, and exploit informational asymmetry	Separate mainstream economic schools - Knight, Schumpeter, Kirzner

5b	Economic Compliant-synthesis	As above but synthesising more than one broad school of thought e.g. Omura	Drawing from more than one school and taking a holistic viewpoint
6	Strategic Management Compliant	If entrepreneurship is valuable then larger firms will seek to gain from its application (intrapreneurship). The nature of the relationship between entrepreneurship & strategic management.	Growing importance in strategic management literature.

Stevenson and Jarillo (1990, p.18) have divided the plethora of studies on entrepreneurship into three main categories: what happens when entrepreneurs act: why they act; and how they act (see Table 5.4.1b). The first position reveals the results of entrepreneurial action as they were investigated by economists such as Schumpeter and Kirzner. The second point may be termed the 'psychological/sociological' approach as founded by McClelland (1961), here the work focuses on the individual, their background, values, motivation, etc. Finally, how entrepreneurs act can become the centre of attention. In this case researchers analyse the characteristics of entrepreneurial management and how entrepreneurs are able to achieve their aims, irrespective of the personal reasons to pursue those aims.

Table 5.4.1b: Contributions of disciplines to entrepreneurship Stevenson and Jarillo (1990, p.21)

Line of inquiry	Causes	Behaviour	Effects
Main question	Why	How	What
Basic disciplines	Psychology, sociology	Management	Economics
Contributions	Importance of individual		Entrepreneurship is the function by which growth is achieved.
	Environmental variables are important		Distinction between entrepreneur and manager

Longenecker and Schoen (1975, p.26) observe that the contemporary discussions of entrepreneurship took either one of two directions - the entrepreneur as a person or entrepreneurship as an activity performed by entrepreneurs. Initially the author investigated the possibility of undertaking a psychological approach to understanding the entrepreneur. The literature review and personal interviews with academics (see Appendix 1) revealed that this approach would be futile and the author was encouraged by many of these colleagues to adopt a behavioural approach to studying entrepreneurship. Reasons for why this approach to investigating entrepreneurship will become apparent when the literature on both personality and behavioural approaches to understanding the dynamics of entrepreneurship is next reviewed.

5.4.2 Personality Traits

The trait approach suggests that individuals are predisposed to entrepreneurship by virtue of their personalities or environmental contexts, and that unless one is born with the right mix of characteristics, there is little that can be done to alter them. This leads Chell et al. (1991, p.54) to assert that there are two main problems with the trait approach, the first is due to the equivocal nature of the findings all purporting to measure various traits assumed to be characteristics of the entrepreneurs. The second is that the trait theory has been subject to considerable criticism. Chell et al. (1991, p.32) point out that the personality theorist is solely concerned with the individual or actor, with an attempt to measure the characteristics which that person brings to a situation. A practical problem with personality is that a person may make trait attributions on the basis of scant evidence and thus arrive at biased judgements as to the nature of the personality. Therefore, to redress this bias multiple observations across a variety of situations conducted by more than one person would be required to begin to measure the consistent nature of any one individual's personality. Despite these attempts at developing profiles, for every successful entrepreneur that matches the prescribed personality traits, there is at least one person who is successful in business who does not match such a profile. Hence the ability of personality to discriminate entrepreneurs is extremely limited. This diversity results from research that has been conducted using a multitude of samples of owner-managers at different stages of development. Chell et al. (1991, p. 36) argue whether personality can really be viewed as residing exclusively within the individual since it is also a product of social processes resulting from observer and self-observer perspectives.

Literature reviews reveal that there is a limited agreement about the personality and psychological characteristics of the entrepreneur. Several authors have criticised attempts to identify and measure the personality traits of the entrepreneur using conventional psychological techniques, for they argue that:

1. Character traits are at best modalities and not universalities, since many successful and unsuccessful entrepreneurs do not share the characteristics identified (Stenvenson and Sahlman, 1989, p.103-104);
2. The studies of life paths of entrepreneurs often show decreasing 'entrepreneurship' following success (Stenvenson and Sahlman, 1989, p.103-104);
3. The ability to attribute causality to many statistically significant common characteristics is seriously in doubt (Stenvenson and Sahlman, 1989, p.103-104).
4. There is an apparent inability to differentiate clearly between entrepreneurial small business owners and equally professional executives in established organisations (Carson et al., 1995, p.51);
5. The emphasis is on identifying the key trait that is most characteristic of the entrepreneur (Stokes, 1995, p.35; Carson et al.,1995, p.51);
6. Trait theories need to recognise that entrepreneurship is a dynamic, constantly changing process as the business grows and this has implications for the entrepreneurial personality (Stokes, 1995, p.35; Carson et al.,1995, p.51);
7. Trait theorist's advocate that one either already has entrepreneurial traits or one has not, as a result of one's upbringing and a lifetime's influence from education, religion, socialisation and culture, which are developed in one's formative years (Stokes, 1995, p.35; Carson et al., 1995, p.51).

Gartner (1989, p.48) believes that "the attempt to answer the question 'Who is an entrepreneur?' which focuses on the traits and personality characteristics of entrepreneurs, will neither lead us to a definition of the entrepreneur nor help us to understand the phenomenon of entrepreneurship." Furthermore, Chell (1994, p.271) points out that the rejection of the trait paradigm that occurred in leadership theory is now occurring in entrepreneurship research. Therefore, based on these argument the author decided not to purse a trait approach in trying to identify entrepreneurial characteristics.

5.4.3 Behavioural Perspective

Gartner (1989, p.57) advocates that research on the entrepreneur should focus on what the entrepreneur does and not who the entrepreneur is, and that is important if we wish to better understand, teach, and do research into this increasingly important subject (Churchill and Muzyka, 1994, p.16). Merz and Webber (1991, p.161) contend that the behavioural approach seems to offer more promise for developing entrepreneurship because it attempts to identify those critical behaviours and skills instrumental to new firm foundation. The implication is that the necessary skills once identified can be learned.

Most contemporary authors would accept that a behavioural definition of the entrepreneur (they are what they do) rather than a trait approach (they are as we describe them, for instance - male or female; energetic, etc.) is the more meaningful (Day, Dean and Reynolds, 1998, p.832). Therefore, this research defines the entrepreneur from a behavioural perspective. Day and Reynolds (1995) stress that a behavioural definition must acknowledge the entrepreneurial function is a discontinuous and not continuous activity, since very few businessmen or companies are constantly entrepreneurial over their lifetime. Additionally they advocate that there needs to be a clear recognition of what is an entrepreneurial action. This particular question has been addressed by Chell et al. (1991, p.71) who provided the author with an insight into the behavioural characteristics of UK entrepreneurs, which will be discussed in the next section.

5.5 Chell's Entrepreneurial Research

Chell et al. (1991, p.6) conclude that "the absence of an agreed and universally accepted definition combined with conceptual obfuscation has impeded entrepreneurship research." Pridavka (1979, p.172) has noticed that today the literature on entrepreneurship examines different areas of specialisation. He further points out that entrepreneurs are mentioned as if they could all be brought together and classified as one homogenious group. Consequently, Pridavka (1979, p.174) advocates that researchers embrace a more narrow and precise definition of the term as it is to be used in their work, without losing sight of the various other characteristics and functions of an entrepreneur. Gartner (1988) similarly argues that if an entrepreneur is not defined explicitly then studies will be difficult to compare, as well as perhaps being incompatible and so hamper the understanding of SMEs. Therefore, the author will use the Chell and Adam (1994, p.1) definition of a entrepreneur. They have argued that the objectives of entrepreneurial activity may be thought of as:

"the identification of an opportunity in conditions of uncertainty, its development and resourcing, for the sake of a greater gain, usually identified as a profit or some other tangible benefit which accrues to the individual, the group or organisation" Chell and Adam (1994, p.1).

The research conducted by Chell et al. (1991, p.6) assumes that entrepreneurs can be distinguished from other business owners and that those key characteristics can be identified. This PhD adopts a similar position and takes advantage of Chell's research to identify the differences between entrepreneurial and non-entrepreneurial SMEs. It is proposed that the former are highly innovative individuals who own and manage, and may have founded, an enterprise. The latter group own and manage a business, and may have founded it, but they are neither creative nor innovative as individuals. Furthermore, Gartner (1989, p.62) stresses that "as long as we adhere to the behavioural approach and view entrepreneurship as something one does and not who one is, then we can more effectively avoid the Carland et al. type definitional dilemmas."

Chell et al. (1991, p.71) in their research identified the key defining characteristics of entrepreneurs which distinguish them from owner-managers. The portfolio of defining characteristics of entrepreneurs from non-entrepreneurs will be used to help the author to identify significant differences in behaviour between entrepreneurial and non-entrepreneurial Business Service SMEs through a quantitative survey. The entrepreneurial characteristics that Chell and her colleagues propose include the entrepreneur:

1. Being alert to business opportunities
2. Being proactive (i.e. they take initiative to control events rather than react to them)
3. Being highly Innovative (products and services)
4. Using a variety of finances (short and long term financing)
5. Striving for the best (to develop the business)
6. Having elaborate business networks (to enhance the visibility of company)
7. Having a high profile image (to establish the reputation of the company)
8. Needing a lot of stimulus (as they become bored easily)
9. Being adventurous (they create situations which result in change)

Chell et al. (1991, p.71) and Chell and Haworth (1993, p.17) suggest that a particular blend of these characteristics determines the categorisation of the business owner into four basic level categories. They define these categories as Entrepreneur, Quasi-entrepreneur, Administrator and Caretaker. The quasi-entrepreneur has many, but not all, of the characteristics in common with the entrepreneur. The prototypical administrator is reactive rather than proactive, they are moderately innovative and they may take opportunities, but not regardless of current resources, while the caretaker is not innovative and purely reactive to market changes. The categorisation of various intensities of entrepreneurial orientation have also been proposed by Stevenson et al. (1989) who conceive of a spectrum of business behaviour which ranges entrepreneurial at one extreme, personified in the form of 'promoter', and administrative at the other extreme. Sashi and Lazer (1991, p.205) also distinguish degrees of entrepreneurship ranging from across a continuum from pure bureaucracy at one end to pure entrepreneurship at the other end. Whereby, pure bureaucracy would connote the absence of innovation while pure entrepreneurship would require discontinuous innovation. They further go on to advocate that in between these two extremes would fall the intermediate types of entrepreneurship represented by continuous and dynamically continuous innovations. It should also be noted that the behavioural characteristics of the business owner can change during the life course of the SME (Chell et al., 1991, p.73).

Chell and Haworth (1993, p.21) advocate that the study of entrepreneurs from non-entrepreneurs on the basis of one characteristic will prove futile to distinguish entrepreneurs. Since there are a set of interacting characteristics that require simultaneous investigation. Therefore, this research proposes to categorise SME entrepreneurial orientation along six dimensions: Schumpeterian focus, Chell et al. entrepreneurial behaviour, stage of growth, organisational structure, type of planning and relationship marketing orientation. The Schumpeterian (1934) new combination focus and Chell et al. (1991, p.71) entrepreneurial behaviour have already been discussed (see Section 5.1 and 5.5 respectively). So we will now review the other dimensions contributing to SME entrepreneurial orientation, namely, stage of growth; type of planning; SME organisational structure and relationship marketing orientation.

5.5.1 Stage of Growth

Carland et al. (1988, p.36) emphasise that there is tremendous disparity in the purposes, experiences and impacts of firms that are created and die every year therefore, it is clear that they are not a homogeneous group. Therefore, to understand the concept of entrepreneurship, researchers must recognise that factors prior to, during and after the launching of a new venture, which all have effects on the performance of that venture. Hence, Carland et al. (1988, p.36) advise researchers not to isolate research efforts on only part of the whole. Consequently, this research will also highlight other factors that contribute to SME growth.

Davis et al. (1985, p.35) treat small business as a dichotomous variable (vs large business) although, not all small firms are of the same size, or stage of development, growth rate, etc. Since people move in and out of being entrepreneurial over time (see Figure 5.5.1a), therefore the operational aspects of size should be operationalised for analytical purposes. Chell et al. (1991, p.61) point out that there is no one universally agreed upon model of the stages of business development. Since the numbers proposed have been highly variable and the principle focus of these models has been primarily upon the types of problems encountered and the consequent behaviour of the business-owner (Steinmetz, 1969, p.30; Greiner, 1972, p.40; Lewis and Churchill, 1983; Scott and Bruce, 1987, p.45). This lack of consensus regarding a stage model has led some researchers to reject the approach as futile. However, the models promoted by Eggers et al. (1994, p.136) based on their extensive research and experience have a great deal of simplicity and attractiveness to both researchers and practitioners. Therefore, as the research was more interested in determining the current stage of the SME growth development, the Eggers et al. (1994, p.136) model was appropriate both for its visual simplicity and conceptual content in allowing the author to determine the stage of growth of the SME (see Figure 5.5.1b).

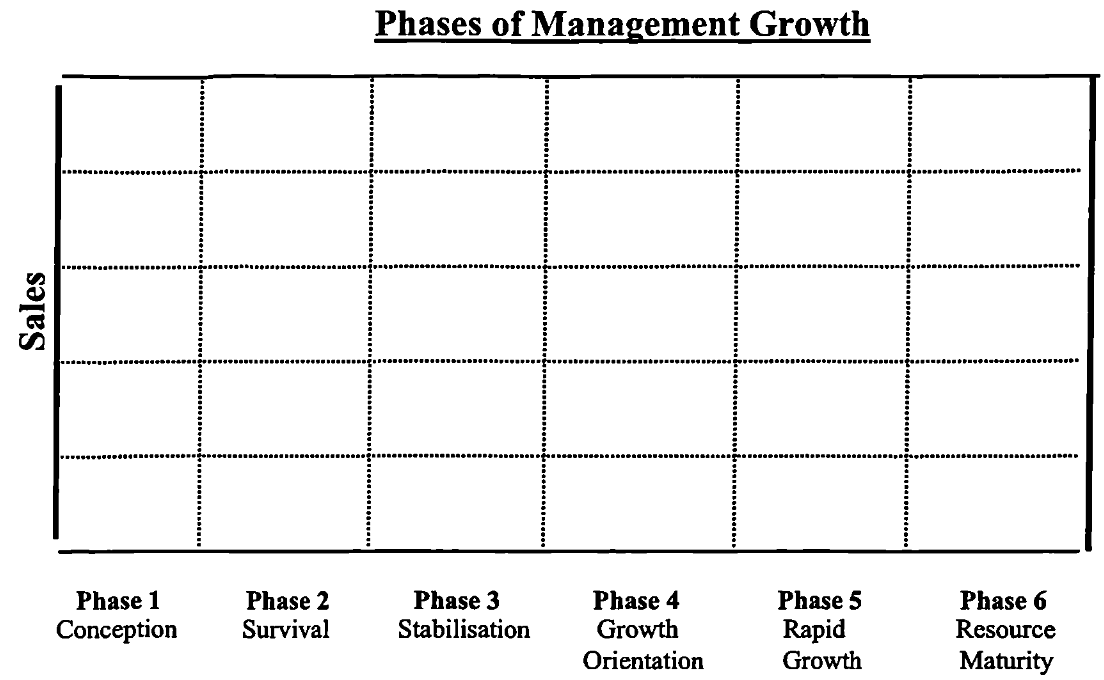
Figure 5.5.1a: Characteristics of SMEs over their life cycle

Early stage of Business:		Later stage of Business:
Innovative	→	Conservative

The author used the Eggers et al. (1994, p.6) model of small business growth (see Figure 5.5.1b) in the qualitative interviews not only to ask the SMEs to identify what stage of growth they were currently in but also take advantage of the visual nature of the model to assist the respondents to identify:

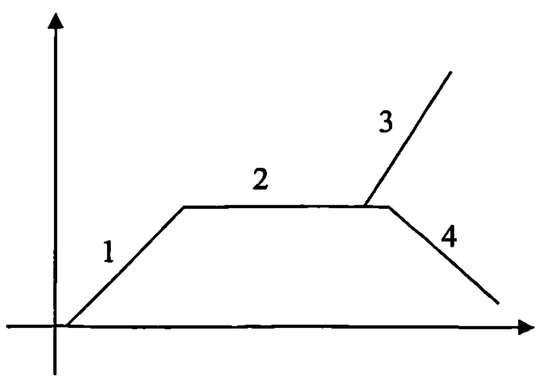
(a) What factors impeded growth;
(b) What internal factors influenced growth;
(c) What external factors influenced growth;

Figure 5.5.1b: Phases of Management Growth



As for the quantitative survey, the Chell et al. (1991, p.70) framework for categorising SME growth was employed and this involved the SMEs selecting one the following options to indicate their current growth position. Chell et al. (1991, p.70) identified these stages as: steady growth from the start (1), plateauing (2), rejuvenating (3) and declining (4). These four positions were also cognitively very easy to interpret (see Figure 5.5.1c) and upon which to adopt a stance, therefore appropriate for a quantitative survey.

Figure 5.5.1c: Categories of Growth



The two approaches to identify SME stages of growth were appropriate for each type of research instrument. The findings from both research instruments would also reinforce the view that entrepreneurial SMEs were achieving higher growth than non-entrepreneurial SMEs as well as highlight other factors that contributed to the growth of the SME.

5.5.2 Planning in SMEs

SMEs were classified into Proactive (entrepreneurial) and two non-entrepreneurial categories Reactive and Informal. The SMEs were asked firstly in the mailed questionnaire to categorise their planning style. The planning categories used were gleaned from initial literature reviews that were then pilot-tested with several SMEs and refined to capture the main differences in the SMEs planning style. The several categories of types of planning (see Table 5.5.2) that were identified were later merged into 3 main planning types based on their similarity and analysed in SPSS.

Proactiveness suggests a forward-looking marketplace leader who has the foresight to act in anticipation of future demand. Venkatraman (1989, p.949) defines proactiveness as "seeking new opportunities which may or may not be related to the present line of operations, introductions of new products and brands ahead of competition, strategically limiting operations which are in the mature or declining stages of life cycle." Therefore, proactiveness is a response to opportunities, proactiveness involves taking the initiative in an effort to shape the environment to one's own advantage. Hence, a proactive nature was adopted by the author to identify entrepreneurial SMEs. This view is supported in the entrepreneurial literature (see Chell et al., 1991, p.71). A reactive planning style is one where the SME reacts to market changes and so was employed to identify non-entrepreneurial SMEs. Similarly an Informal planning style is one in which no formal planning structures exist or the planning may exhibit eclectic behaviour, thus was also categorised as non-entrepreneurial. The type of planning selected is often apparent from the type of organisation structure that exists within the company. Therefore, the author will also identify the type of organisational structure existing in entrepreneurial and non-entrepreneurial SMEs.

Table 5.5.2: Types of SME Planning

	Type of Planning	Merged Categories
1.	Ad hoc	1. Informal Planning
2.	Informal	
3.	Conservative	2. Reactive Planning
4.	Reactive	
5.	Adapting to circumstances	
6.	Proactive	3. Proactive Planning
7.	Taking advantage of circumstances	

5.5.3 Structure

Carson et al. (1995, p.66) infer that because small firms thrive in changeable environments and that by definition, the volume of output is small, they can view them as 'generalists' who tend to produce custom-built products and because of changing customer needs, one batch of products may not be like the other. Consequently these small firms need flexible, multi-skilled personnel and general purpose machinery that can produce a range of products. He argues that the organisational consequences of these realities are clear. Small firms have non-sophisticated, flexible and organic organisational structures, which exhibit few of the characteristics of the bureaucratic organisations. While this may be the case for very small firms it has been argued by Scott and Bruce (1987) that after the first few year of trading when small SMEs start to experience growth they adopt both more formal management and embrace structural changes.

Covin and Slevin (1989) argue that the measurement of the entrepreneurial style of firms will yield more reliable results than attempts to measure the entrepreneurial style of individuals. Therefore, they contend that to be effective, entrepreneurial management style must be matched with an organic organisational structure (see Figure 5.5.3). For example a conservative management style would be reactive to market changes as opposed to the proactive stance taken by an entrepreneurial management style (Day, Dean and Reynolds, 1998, p.832). Slevin and Covin (1988, p.4) state that "In general, an organic organisation is more adaptable, more openly communicating, more consensual, and more loosely controlled... the mechanistic organisation tends to be much more traditional, more tightly controlled, and more hierarchical in its approach". Covin and Slevin (1988) were able to demonstrate that increases in entrepreneurial activity in organic firms were related to firm performance. Furthermore, the performance of the congruent versus the incongruent firms were significantly different, the congruent firms outperforming the others. Russell and Russell (1992, p.642) stress that "a relatively decentralised structure is likely to provide a context in which more ideas are generated than a centralised one." Furthermore, Russell and Russell (1992, p.653) concluded that in their sample, those organisations characterised by entrepreneurial norms also tended to have decentralised structures. Therefore, it is argued that entrepreneurial SMEs will also have decentralised/organic structures.

Chaston (2000, p.6) highlights a drawback with the Covin and Slevin (1988) tool for assessing the degree of entrepreneurial behaviour a firm exhibits in that "a potential drawback of the tool is the implicit assumption that non-entrepreneurial firms do not take risks, are not innovative and /or are not proactive." Hence, it can be inferred that SMEs should recognise that an entrepreneurial style is more important than the organicity of structure of the firm. Chaston (2000, p.230) advocates that an "entrepreneurial organisation is one which seeks to review structures and processes frequently in order implement adaptive actions capable of exploiting newly emerging opportunities." Mills (2001, p.2) advocates that creating the right organisational structure will assist a company to identify opportunities as well as develop effective strategies. He goes on to argue that an inappropriate structure will lead to unimaginative and timid strategies that will miss out on opportunities.

Figure 5.5.3: Organisational structure and management style

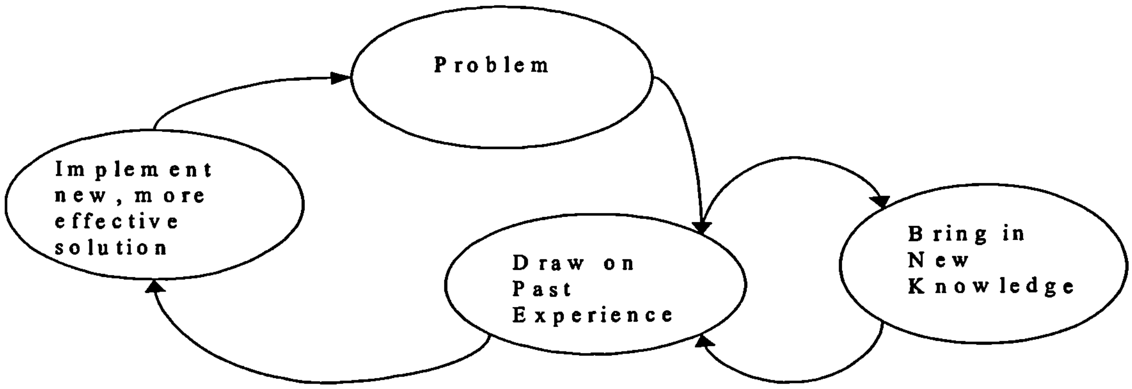
Management Style	Organisational Structure	
	Mechanistic	Organic
Entrepreneurial	Pseudo-Entrepreneurial	Effective Entrepreneurial
Conservative	Efficient Bureaucratic	Unstructured Unadventurous

5.5.3.1 Learning and Entrepreneurship

Chaston (2001, p.249) advocates that one of the few pathways to competitive advantage capable of retaining customer loyalty is a company's ability to acquire and apply knowledge through the process of adopting a generative approach to organisational learning. Chaston (2000, p.233) highlights that "a common thread linking various streams of research on relationship marketing is that the philosophy should be perceived as being more complex than transactional marketing because it requires all employees to exhibit a higher level of competence in managing interactions with customers."

Research carried out by Ballantyne (2000, p.276) into internal marketing has led him to conclude that "the common denominator in all internal marketing perspectives is knowledge renewal." This is achieved through knowledge generation (the discovery of new knowledge for internal use) and knowledge circulation (diffusion of knowledge for the benefit of all stakeholders). Ballantyne goes on to argue that knowledge renewal allows the circulation of new knowledge. Chaston (2000, p.233) also advocates the importance of exploiting organisational learning in order to orchestrate the activities of all employees within an entrepreneurial organisation to ensure that the company's client receives a valued service experience. This will require employees to become involved in acquiring a much broader range of competencies to take advantage of relationship marketing orientation. Chaston's (2000, p.237) provides us with a framework to assist entrepreneurial firms to develop employee learning through focusing on a double-loop learning schema (see Figure 5.5.3.1); which seeks to draw in new knowledge as the basis for enhancing the effectiveness of their problem solving activities. In relation to value entrepreneurial firms appear to be biased towards seeking to add value to those dimensions of the value chain concerned with offering greater value to the customer. This supports the author's own findings on value focus in entrepreneurial firms.

Figure 5.5.3.1: Double-Loop Learning



5.5.3.2 Internal Entrepreneurship

The author supports the proposal first advocated by Drucker (1985, p.25) that managers/entrepreneurial owners should seek to stimulate entrepreneurial behaviour across all areas of the company by fostering the philosophy that all employees have the potential to 'search for change, respond to it, and exploit it as an opportunity'. Chaston (2000, p.149) proposes that "the best place to start is to encourage all employees to develop an orientation towards seeking to break the time and process managing conventions that currently act as barriers to productivity with their task role." Chaston (2000, p.150) further goes on to argue that once an entrepreneurial orientation begins to be reflected in changing internal practices, it would seem only natural that the employees be allowed to contribute to the way the company interacts with its external business environment. Chaston (2000, p.178) has found that highly successful entrepreneurial firms "exhibit a management style orientated towards involving the entire workforce fully in all key decisions and who place heavy emphasis on the continued development of all employees as a critical component in sustaining the ongoing success of their organisation."

5.5.3.3 Culture and Entrepreneurship

Deshpande et al. (1993) indicated in their study that market and entrepreneurial-orientated cultures outperform those that are more internally or hierarchically orientated. Lee and Peterson's (2000, p.415) investigation into the culture and entrepreneurial orientation of a country revealed that using Hofstede's (1980) and Trompenaars (1994) cultural dimension that a culture that is low on power distance, weak in uncertainty avoidance, masculine in nature and individualistic will engender a strong entrepreneurial orientation. Hence a strong entrepreneurial orientation will ultimately lead to increased entrepreneurship and global competitiveness. This has been confirmed by Liu and Shi's (2000, p.151) whose investigation into the vitalising of Chinese State Owned Enterprises (SOEs) suggested that "the constructs of "customer orientation" and "entrepreneurial orientation" may be reflected in the Chinese SOEs' context with confidence". Lee and Peterson (2000, p.409) confirm that a society's culture and influence of Macro environmental facts (PESTLEC) will influence the degree of entrepreneurial orientation of that society.

5.6 Relationship Marketing Orientation

Traditionally it was suggested (McCarthy and Perreault, 1984) that a marketing orientation implies the goals of satisfying customer needs while meeting company objectives. While this is still applicable, marketing has evolved in the last decade and paradigm shifts have occurred in the adoption of new techniques and tools to achieve customer satisfaction and organisational goals. Davis et al. (1985, p.32) and Carson et al. (1995, p.145) inform us that from a marketing perspective there are three broad constraints that SMEs face when marketing, these are:

1. Limited resources (finance, etc)
2. Little, or no, specialist expertise (managers may be generalists rather than specialists)
3. Limited impact (the impact of the SME geographically is likely to be limited due to their size)

Therefore, one has to question seriously whether the marketing concept in its traditional conception can be transferred to small firms. Carson et al. (1995, p.146) argue that the marketing mix in many SMEs will often be described under the heading of the four Ps (product, promotion, place and price). They believe that this general use of the marketing concept is both wasteful and inappropriate for SMEs to function effectively. Carson et al. (1995, p.86) encourage SMEs to embrace a form of marketing that extends beyond its general concepts. Therefore, what emerges is a unique style of marketing, which does not conform to formal marketing techniques but is appropriate for the SME. Carson et al. (1995, p.87) have realised that a marketing advantage of SMEs is their closeness to the customer and their flexibility to respond to customer needs to take advantage of opportunities. Additionally, to become a successful entrepreneur Bhide (1994, p.153) believes that entrepreneurs require the ability to attract, retain and balance the interests of investors, customers, employees and suppliers. Therefore, the marketing approach that the author is advocating to facilitate the growth in SMEs whilst minimising the risk of growing is relationship marketing. Cromie and Carson (1995, p.590) also contend that relationship building and maintenance is a crucial aspect of the work of entrepreneurs and marketers. Since "entrepreneurs and marketers need the willing co-operation of their personal contacts to gather the information they need and to assist with the production of goods and services. Relationship building is particularly important in the modern era because entrepreneurs have limited influence over others." They contend further that a good working relationship is a means to the end of creating a superior business. Thus it is argued that the entrepreneurial SME will have a greater (relationship) marketing orientation than their less entrepreneurial counterpart. This will be seen through the key components of any relationship marketing strategy - customer retention and development. Although, despite the tremendous benefits of pursuing a relationship marketing strategy it may not be appropriate to some firms whose composition of customers are purely transactional, additionally the company may not have the necessary resources to pursue these policies to generate value for their customers. In carrying out a company strategy Bhide (1996, p.126) recommends that entrepreneurs must examine three areas - resources, organisational capabilities, and their personal roles - to evaluate their ability to carry out their strategies.

Carson et al. (1995, p.83) contend that "it is fair to assert that since many SMEs are owner-managed, their marketing activities must be shaped and influenced to a large degree by the lead entrepreneur." He notes that SME entrepreneurs are well-known for their propensity to seek new opportunities. In the context of SME marketing such dimensions manifest themselves in terms of an entrepreneur thinking creatively about marketing issues given that marketing is all about being customer centric, opportunity-focused and proactive. Carson et al. (1995, p.83) and Narvin and Slater (1990) showed that companies with a strong marketing focus performed better. Similarly research carried out by Egge (1989) and Hills (1985) points to the importance of the entrepreneur's marketing experience in the ultimate success or failure of a new venture (see Egge, 1991, p.49). Hence, marketing plays an important role in impacting on the success and failure of small firms (Carson et al. 1995, p.86; Chaston, 1997, p.814). This is supported by Chell and Haworth (1993, p.19) who found that many of the behaviours that defined the entrepreneur and quasi-entrepreneur, were consistent with a strong marketing orientation. Chell and Haworth (1993, p.20) found that in their sample "that the companies that might be termed successful had business owners with both high entrepreneurial and high managerial profiles, and who exhibited considerable marketing strength and expertise". These SMEs tended to be:

- Proactive in pursuing their customers
- Aware of the competition
- Those who strove to maintain or increase their market share
- Those who pursued a marketing strategy throughout the development of the business
- Were responsive and anticipated change in demand

Miles and Arnold (1991, p.49) point out that a marketing orientation implies that a firm should focus on its customers and an entrepreneurial orientation suggests that a company must constantly seek to exploit the dynamics of their macroenvironment and task environments. They conducted an empirical investigation to evaluate the interrelationship between the marketing orientation construct and the entrepreneurial orientation construct. Their results revealed that marketing orientation and entrepreneurial orientation were found to be correlated in manufacturing companies. Morris and Paul (1987, p.256) also investigated the marketing orientation of entrepreneurial firms and discovered that entrepreneurial firms also tend to be more marketing orientated. Morris and Paul (1987, p.257) recommend that "the skills of those in marketing need to reflect the entrepreneurial dimensions of innovation, risk-taking, and proactiveness. Marketers must not only have the insights necessary to understand customers, but to further translate developments in the technological, economic, social, regulatory, and competitive environments into commercially viable product and service concepts." Therefore, entrepreneurship needs to take a proactive approach to developing marketing campaigns that are truly customer centric. Hills and LaForge (1992) also posited that the marketing discipline is critical for entrepreneurial research since it focuses on markets and customer needs and wants. Therefore, the author advocates that a relationship marketing philosophy will allow companies to truly satisfy customer needs while at the same time allowing the company to achieve its goals of growth and profitability. Day, Dean and Reynolds (1998, p.831) feel that a study which looks at relationship marketing in the context of an SMEs entrepreneurial behaviour will yield interesting insights for the relationship marketing debate. Thus the research focuses on both the relationship marketing and the entrepreneurial behaviour of the SME.

To add further support of the importance of marketing to the success of entrepreneurial SMEs the author decided to review all the conference papers in the Marketing/Entrepreneurial Conference proceedings from 1995 to 2000 (see Hills et al, 1995-2000).

5.6.1 Entrepreneurial Behavioural Characteristics

There is still a definitional dilemma on what is an entrepreneur and the authors previous research (see Section 5.3.2) on reviewing the entrepreneurial literature revealed quite a divergence of opinions. Therefore, the author decided to review the conference papers in the Marketing / Entrepreneurial Interface proceedings from 1995 to 2000 to identify if there was any communality of behavioural characteristics of entrepreneurial SMEs.

The results in Table 5.6.1 clearly reveal that the overriding behavioural characteristic of entrepreneurial SMEs is there Marketing Competency. The author defines Marketing competency as "the entrepreneurs ability to understand the customer needs (through customer intelligence mainly derived through a personal contact), market needs and then to subsequently employ the right blend of marketing tools to communicate a clear value proposition that endears the right customers and contributes to establishing the brand identity of the SME."

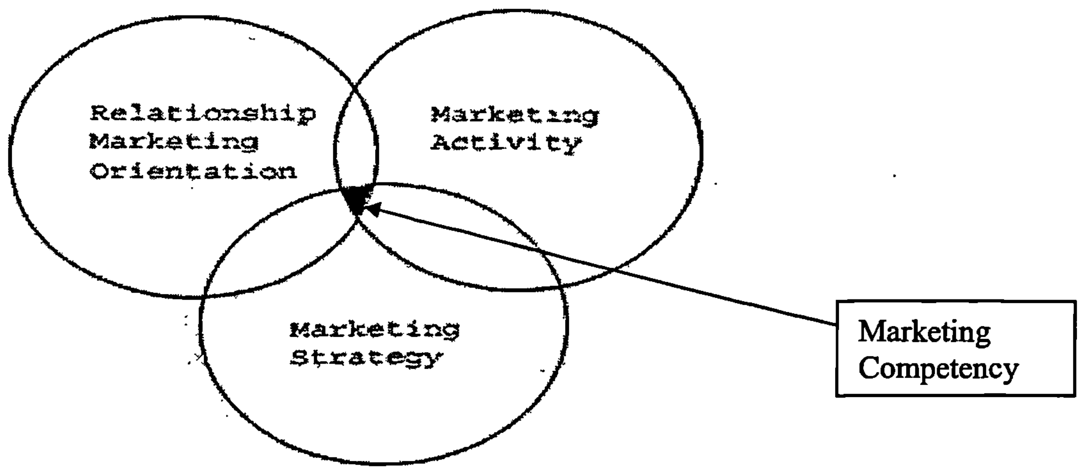
Table 5.6.1 Review of all the Conference Papers (1995 – 2000)

Category	CountOfCategory
Marketing Competency	51
Bespoke	30
Opportunity	22
None	16
Network Relationship	14
Innovation	14
Growth	13
High Tech	11
Tripartite Definition	7
New Product Development	7
Competence Distinctiveness	6
Create	4
Internationalisation	3
Risk Taking	2
Personality Traits	1
Total Number of Papers Reviewed	201

5.6.2 Marketing Competencies

Quite clearly the review of the marketing/entrepreneurial conference papers (see Hills et al. 1995 – 2000) has shown that marketing competency is a major factor that many researchers have continually referred to as being associated with the success of entrepreneurial firms. It was also interesting to discover in the analysis that marketing competency was the most cited behaviour for each year of review. The author further investigated the nature of the marketing competencies to reveal three main themes that are represented as a Venn diagram in Figure 5.6.2.

Figure 5.6.2 Marketing Competency



The author has elaborated on each of these interrelated themes in Table 5.6.2

Table 5.6.2 Characteristics of Marketing Competency

Marketing Competency	Actual marketing activity
Marketing activities	This includes many traditionally associated techniques of marketing behaviour such as: Marketing mix: Communication; selling; pricing, market research
Relationship marketing orientation	Is a commitment to the needs of the customer, hence the author would classify relationship marketing under this theme. Additionally the company must be aware of their competitors and macro environment as well as other stakeholder considerations. Hence, the company would be gathering marketing and customer intelligence.

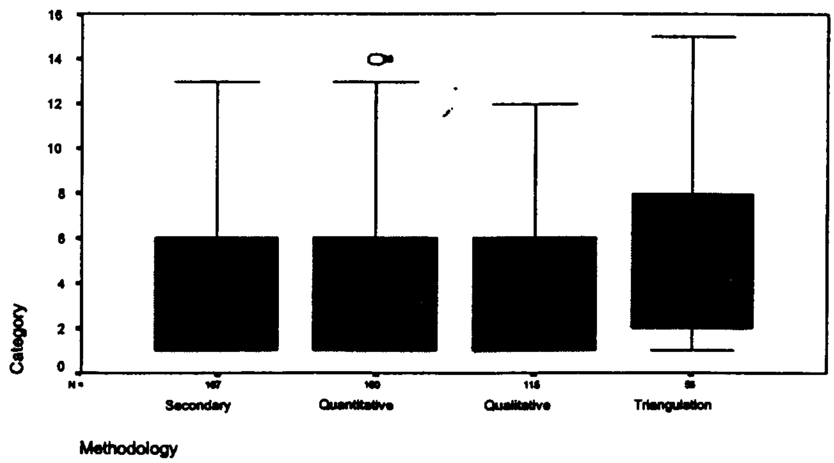
Marketing Strategy	Developing a vision that allows the company to distinctively add value so as to facilitate greater customer attraction, retention and development

5.6.3 Further Analysis of Entrepreneurial Research

The author created a database to capture the year of the article, characteristic of the SME, methodology employed to conduct the research and region the research was carried out. The author's research was duplicated by his supervisor so as to limit any bias and improve the reliability of the results. The data was then exported into SPSS to reveal a number of interesting results that provide us with a greater insight into not only entrepreneurial research but also aid us to understand the characteristics of an entrepreneurial SME.

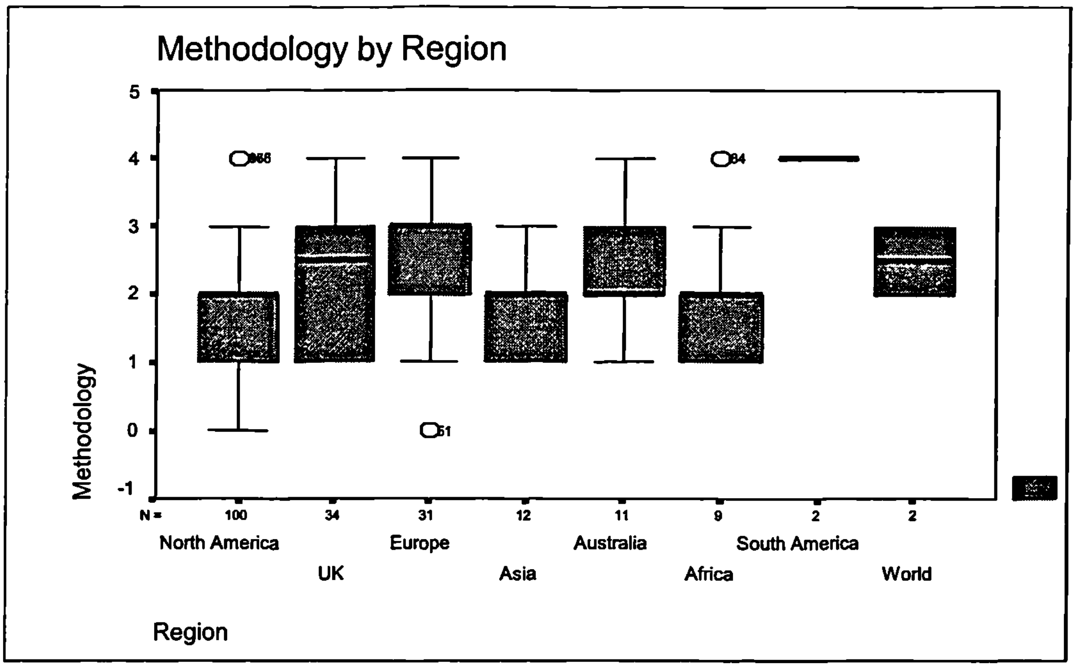
Crosstabulation of 'research methodology employed' and 'average number of behavioural characteristics identified' revealed that the qualitative and triangulated approaches both lead to a richer identification of characteristics of entrepreneurial SMEs (see Figure 5.6.3a). This research finding is supported by Carson and Gilmore (2000) who conclude that qualitative and complementary techniques can provide a rich portrait of the phenomena under study.

Figure 5.6.3a Methodology Employed and Characteristics Identified



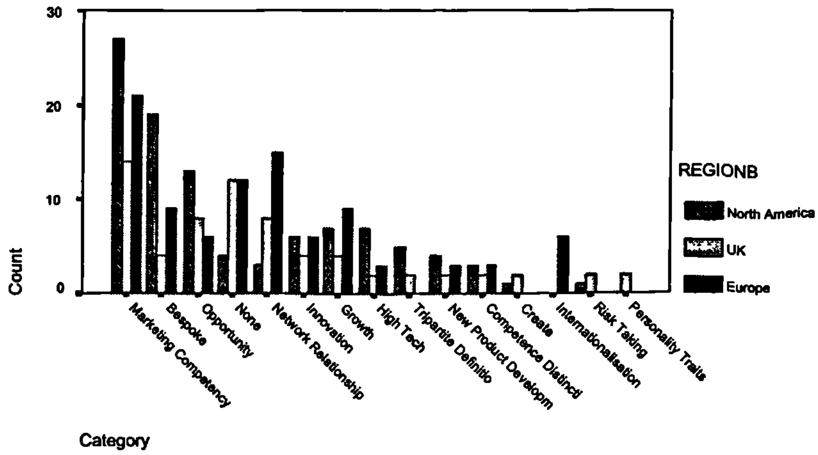
If we look at the preferred methodology by Region, we see that the Americans prefer quantitative research studies while the Europeans prefer a qualitative approach to studying entrepreneurial SMEs (see Figure 5.6.3b)

Figure 5.6.3b Methodology by Region



If we investigate the main characteristics proposed by the various academics it can be seen (see Figure 5.6.3c) that the Americans are promoting that entrepreneurial firms have a stronger marketing competency, are opportunistic and in the high tech sector. Whereas the Europeans highlight that entrepreneurial SMEs show more Networking skills and are venturing into global markets. The marketing competency from American Entrepreneurial SMEs seems a natural aptitude from a country, which has revolutionised and been at the forefront of marketing in the Western hemisphere in the last century.

Figure 5.6.3c American and European Promotion of Entrepreneurial Characteristics



The research findings from the conference proceeding support and corroborate the important role of relationship marketing to contributing to SME success.

5.7 Marketing / Entrepreneurship Interface

Historically, Davis et al. (1985, p.31) provide evidence to indicate that "marketing academics have almost entirely neglected investigations at the small enterprise/marketing interface." This neglect has changed over this last decade as the interface between marketing and entrepreneurship has received considerable attention in recent years (Knight et al. 1995, p.3). Traditionally, marketing and entrepreneurship have generally been perceived as two distinct areas of study (Shaw and Carson, 1995, p.714). The notion that marketing and entrepreneurship are not one and the same is found in the work emanating from the University of Illinois at Chicago / American Marketing Association and latterly the Academy of Marketing, Symposia (Hills et al, 1995). Evidence has been produced that suggests that marketing and entrepreneurship are interrelated (Morris and Paul, 1987, p.256; Miles and Arnold; 1991, p.49) as well as influencing company performance (Covin and Slevin, 1988, 1989). These studies raise the possibility that being marketing orientated and entrepreneurial are part of the same underlying business philosophy and Morris and Lewis (1995, p.42) propose that "entrepreneurship plays an instrumental role in affecting the evolution of marketing both at the societal and organisational level." Morris and Paul (1987, p.258) have pondered over whether they are equally co-related or one is dominant. It is the author's proposition that they are interlinked and both influence and drive each other, rather than one being dominant in the relationship. This view is supported by Carson et al. (1995, p.8) who state that "The marketing function is the organisation's interface between its internal systems and its customers; it is the bridge between the organisations perspective and the market and customer perspective. This external focus is a natural dimension of entrepreneurship, since entrepreneurship is essentially about exploiting the market." Therefore, marketing captures information that allows entrepreneurs to determine the opportunity to create innovative new methods/techniques to serve customer needs. Once these new products/services/processes are developed it is marketing's role to promote these benefits so that customers are aware of the measures the company has undertaken to create customer value and is by its actions listening and acting upon customer requests and thereby remaining customer-centric. Hence, marketing facilitates growth, since growth relies on new sales either from new products or new customers. Therefore, entrepreneurial behaviour such as innovation is compatible with marketing philosophies.

Shaw and Carson (1995, p.714) point out that for firms to grow and survive, new sales or either new products or new customers are needed both of which are marketing led dimensions. Similarly the entrepreneurial activities such as innovation, creativity and idea generation are all fundamentally inherent to and compatible with marketing philosophies. Consequently they argue the importance of marketing within entrepreneurship is inherent. Therefore, it would seem obvious from this perspective that entrepreneurship is just good marketing. Additionally, there is growing evidence that entrepreneurship should be treated as a major conceptual dimension within the marketing discipline. Hisrich (1992, p.44) highlights several reasons for the importance of the relationship between marketing and entrepreneurship:

1. Marketing must be used appropriately by the entrepreneur to launch the new business successfully;
2. Many entrepreneurs have a limited understanding of marketing;

3. Entrepreneurs are often poor planners and managers, frequently under-estimating the time and effort needed to accomplish a marketing task.

Hisrich (1992, p.47) concludes that an understanding of the importance of the marketing / entrepreneurial relationship should decrease the number of product and firm failures. Several authors (Sashi and Lazer, 1991, p.206; Omura et al., 1994, p.161; Geursen, 1998, p.6) have put forward conceptual frameworks of the marketing / entrepreneurial interface which will now be reviewed.

5.7.1 Omura Marketing / Entrepreneurship Interface

Omura et al. (1994, p.161) have used the economic literature to develop a framework to distinguish marketing processes from entrepreneurial processes (see Figure 5.7.1a). The framework proposed delineates the domain of the entrepreneurial process, the marketing process and the interface between the two. The framework acknowledges the work of Kirzner (1985, p53) who developed the notion of entrepreneurial discovery which consists of perceived and unperceived opportunities for sellers. Perceived needs are those that have been identified by sellers or suppliers and are comprised of exploited needs and underexploited needs. In contrast, unperceived needs are those that have not yet been identified by suppliers. Unperceived needs are comprised of unexploited needs and those that have yet to be created. Unexploited needs are needs that arise from market evolution but have not been recognised by market suppliers. In essence, unexploited needs exist in the market but have yet to be discovered.

Figure 5.7.1a: Marketing / Entrepreneurism Interface (Omura et al., 1994, p.165)

		Market Conditions: Continuous	Market Conditions: Discontinuous
Discovery	Perceived Needs	Traditional Marketing	Strategic M/E
	Unperceived Needs	Opportunistic M/E	Pure Entrepreneurism

The Omùra et al. (1994, p.165) approach has parallels with the work of Sashi and Lazer (1991, p.202) who examined the links among entrepreneurship, marketing strategy, and innovation. Sashi and Lazer (1991, p.205) presented the types of entrepreneurship in a matrix with markets as the horizontal dimension and products as the vertical dimension. They drew a distinction between continuous and discontinuous innovation. Sashi and Lazer (1991, p.206) imposed Marshallian (no innovations) and Kirznerian (continuous innovation) and Schumpeterian (discontinuous innovation) scenarios onto an Ansof (1965) matrix (see Figure 5.7.1b).

Figure 5.7.1b: Sashi and Lazer (1991, p.206) Grid

Existing Products	Marshallian/Kirznerian Entrepreneurship	Kirznerian/Schumpeterian Entrepreneurship
New Products	Kirznerian/Schumpeterian Entrepreneurship	Schumpeterian Entrepreneurship
	Existing Markets	New Markets

A more dynamic model of the marketing / entrepreneurial interface has been proposed by Geursen (1998, p.6) who puts forward a model that indicates a strong and very direct interface link between the customer and entrepreneur whereby the process is dynamic and constitutes a highly proactive interface. He notes that the entrepreneur does not act confidently on innovation in isolation but continuously uses direct customer contact as a prime reference point for market relevance correction (see Figure 5.7.1c). The model indicates how the direct relationships between customer and the firms prime decision-maker functions.

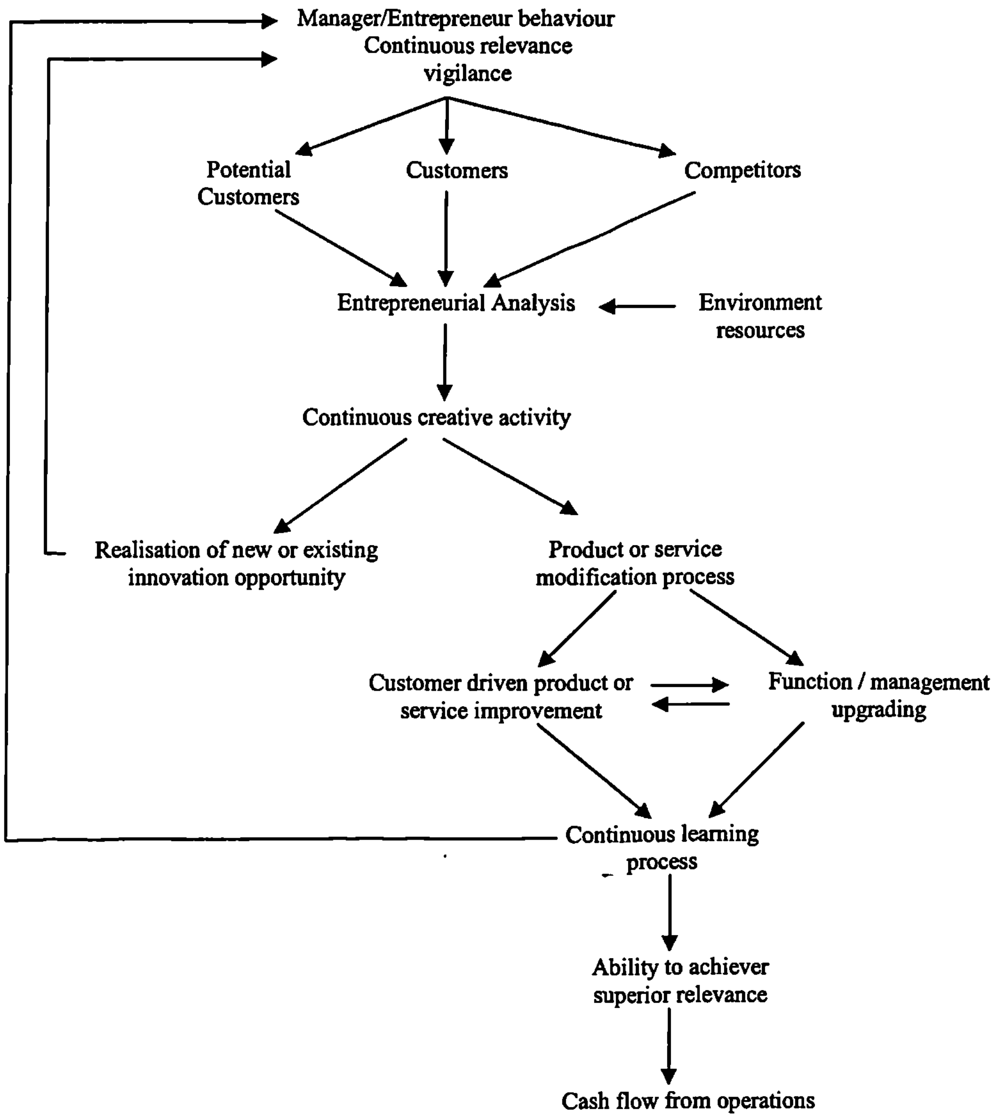
An important aspect of the marketing / entrepreneurship relationship is the role of the customer interface. Hisrich (1992, p.45) and Hogarth-Scott et al. (1996, p.18) emphasis that smaller companies have more direct interface with their current and potential customers than larger companies thus allowing them an opportunity to establish improved relationships with customers, especially when only a few customers account for the majority of the company's revenue. Gill (1985) in a longitudinal study of the problems facing small firms reported that locating and retaining customers has a major impact on performance. Similarly this author advocates that the adoption of a entrepreneurially orientated relationship marketing strategy can greatly improve our understanding of those critical behaviours that influence SME growth. The definitions of relationship marketing have already been discussed in Chapter 2 and the entrepreneurial definition was discussed in Section 5.5.

One main commonality between marketing and entrepreneurship is their customer orientation (Hisrich, 1992, p.44). Additionally both are driven and affected by environmental turbulence. Hills (1994, p.7) asserts that market opportunity analysis, new product development, the diffusion of innovation, and marketing strategies to create growing firms are at the heart of both marketing and entrepreneurship. Gardner (1994, p.35) also argues that entrepreneurship brings innovation successfully to market and therefore significantly influences marketing.

Gardner's (1991, p.3) research explores the interface between marketing and entrepreneurial behaviour. The interface is defined as "that area where innovation is brought to market." Carson et al. (1995, p.148) have also identified the key issues in the marketing/entrepreneurship interface to include opportunity focus, innovation and change. Hence, the author contends that synergy is achieved when the SME develops products/services/processes through entrepreneurial and relationship marketing vision to create a company that is customer centric. Hence, the relationship marketing / entrepreneurial interface assists SMEs to:

- Identify opportunities;
- Create innovation (new products/services/processes);
- Build personal contact's with customers;
- Create added value service;

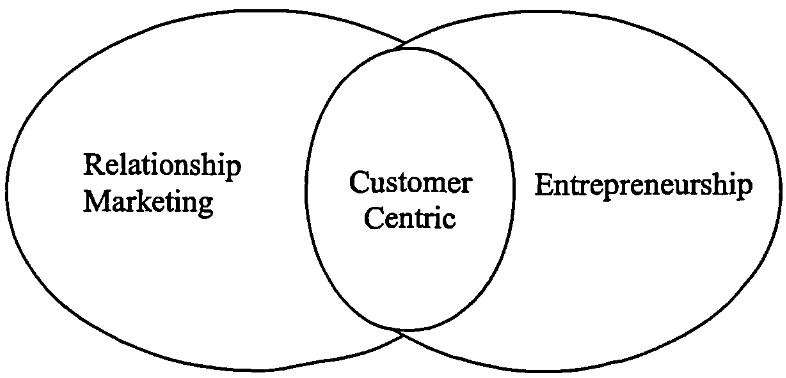
Figure 5.7.1c: Entrepreneur Market Relevance Model (Geursen, 1998, p.6)



5.7.2 <u>Customer-centric relationship marketing / entrepreneurial Interface</u>

As SMEs start to achieve growth and systems are introduced that formalise many of the initial informal process and procedures, the 'esprit' of entrepreneurship can be diminished by the formality of structures now in place. The relationship marketing / entrepreneurial interface may now start to move in opposite directions, although the author advocates that relationship marketing can save the entrepreneurial flair that was initially evident in the SME. For relationship marketing encourages SMEs to become customer-centric and exploit avenues of new opportunities thereby creating a symbiosis between the two domains. In that relationship marketing allows SMEs the opportunity to take advantage of propriety knowledge both within the company (intellectual capital of employees) and with customers to create innovative products/service that add value to the relationship. Since both entrepreneurship and marketing are concerned with developing innovative products/services/processes this enables the SME to become truly customer-centric (see Fig. 5.7.2). Although, Carson et al. (1995, p.154) warn of the determination of staying too close to customers, as this can make the company a prisoner of its current customer base and thus making the customer the only real innovator in the relationship. Therefore, marketing could potentially be out of step with the practice of entrepreneurship. Consequently, the author further advocates that SMEs need to ensure that they are attracting a targeted base of new customers that will complement the SMEs skills as well as allow it to seek new opportunities to meet customer needs as well as SME growth. This customer retention, acquisition and development strategy needs to be complemented by the company's commitment to employee empowerment (especially for front-line staff – who have immediate contact with customers). So that the intellectual capital within the SME is unleashed to help contribute to the continued growth and sustained value added services that maintain customer patronage.

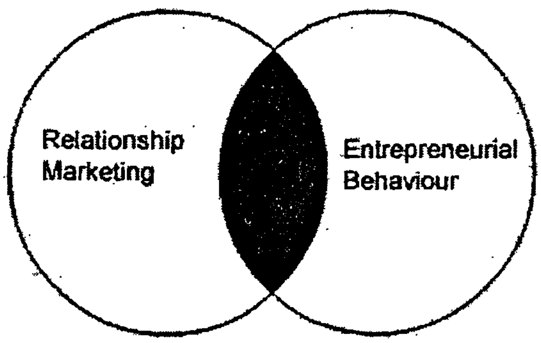
Figure 5.7.2: Customer Centric Interface



5.8 Research Hypotheses

As this research is also concerned with the entrepreneurial behaviour of SMEs and there is countless empirical evidence that highlights a relationship between entrepreneurship and marketing (Webster, 1981; Morris and Paul, 1987; Hills, 1987; Miles and Arnold, 1991). That has recently been reconfirmed by other scholars (Bescherer and Maurer, 1997; Knight, 1999, p.26; Day, Dean and Reynolds, 1999, p.834). Hence, the author proposes that due to overwhelming evidence pointing to the marketing competency of entrepreneurial SMEs. The author will focus on the marketing orientation of SMEs and more specifically it is proposed that due to the close personal contacts created in the service sector that entrepreneurial SMEs will by their very opportunistic nature be more aware of their customer needs through a relationship marketing orientation (see Figure 5.8).

Figure 5.8 Relationship between Relationship-marketing and Entrepreneurship



Since very little research exists on the interrelationship between relationship marketing and entrepreneurship in the service sector and in the UK. The author proposes to contribute to our understanding and knowledge of this evolving field by proposing the following hypotheses:

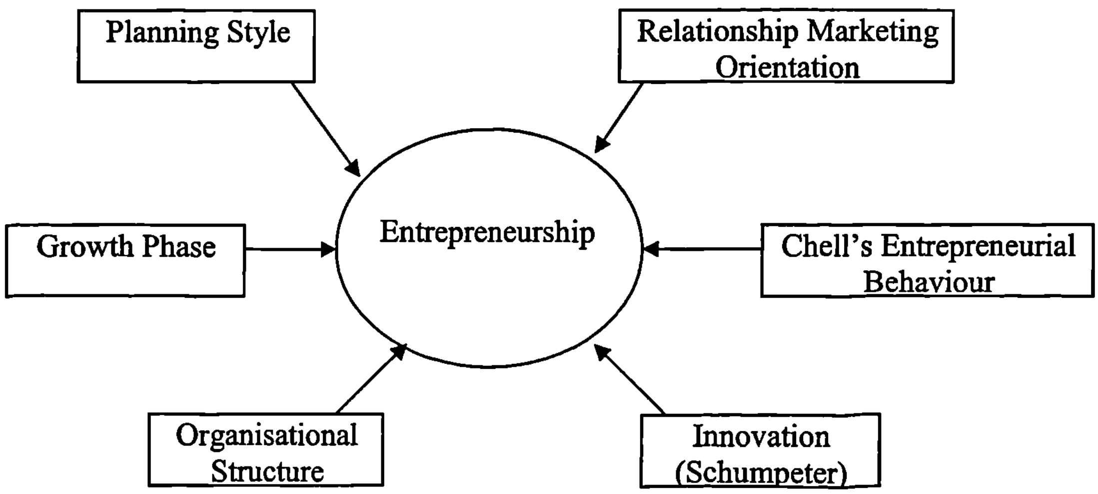
H1: Entrepreneurial firms have a greater relationship marketing focus than non-entrepreneurial SMEs.

H2: Entrepreneurial SMEs are more aware of their customer needs than non-entrepreneurial SMEs.

5.9 Summary

Entrepreneurship is crucial to the long term survival and growth of SMEs operating in competitive environments. Although, the precise definition of entrepreneurship has eluded even the most brilliant of academics it has been proposed that a behavioural study on entrepreneurship will reveal a greater insight into the phenomenon. To facilitate a change in the behaviour of SMEs, it is prudent to study the behaviour of both entrepreneurial and non-entrepreneurial SMEs in the one industry. If one can identify those entrepreneurial behaviours that have successfully contributed to SME growth such results could be used to assist new firms to nurture these skills and thus improve their mortality. This research recognises that entrepreneurship does not work in isolation and therefore proposes to categorise SME entrepreneurial orientation along six dimensions: Schumpeterian focus, entrepreneurial behaviour, stage of growth, organisational structure, type of planning and relationship marketing orientation (see Figure 5.8). Finally a study which looks at relationship marketing in the context of an SMEs entrepreneurial behaviour should yield interesting insights for the relationship marketing/entrepreneurial debate.

Figure 5.9 Entrepreneurial Research Framework



CHAPTER 6:
Research Methodology

6 Research Question

The starting point for any research work is the identification and definition of a research question (i.e. the purpose of the research project). From this state, the researcher must consider the type of study that is appropriate for attempting to reach an understanding of the research problem. Additionally, it is important to consider the design of any research project whilst at the problem definition stage, so as to ensure that the method chosen is capable of reaching the desired research objectives. This requires that the researcher select a method, which is capable of collecting useful data and also of providing appropriate analytical tools from which consistent, relevant, significant, and valid conclusions can be drawn. Therefore, the starting point for the development of an appropriate methodology involved a lengthy literature review on the research topic to review appropriate methods that may be selected to answer the research questions. These methods were later discussed with fellow academics for their suitability for this particular research project (see Appendix 2).

6.1 Literature Review

The literature published on the research topic was an obvious first step that provided an excellent background to the research. Over 100 separate publications on the topic of relationship marketing had been published by early 1994. Additionally, over 50 articles dealing with the various aspects of both defining and quantifying entrepreneurship were reviewed. The author continued to review contemporary literature on the research topic, well after the methodology and techniques had been finalised. This allowed the author to maintain awareness of the theoretical and practical developments in the field. At the early stages of exploring a problem, theory building is necessary and finally at the other end of the research process, the researcher is in a position to contribute knowledge to the evolving disciplinary framework. The early literature reviews aided with developing a tentative hypothesis and gain a general insight into the research subject and its salient dimensions that would need to be investigated. Additionally secondary data was crucial in deciding on what further research was needed in the area.

6.1.1 Industry Selection

One of the first pieces of advice, offered to the author, was to focus on one industry. This was later suggested by the research committee at Huddersfield University, the 1995 MEG doctoral forum and at the 1996 Babson Doctoral Colloquium. Additionally, the academic panel at the 1996 Babson Doctoral colloquium encouraged researchers to confine their studies to one industry as the advantages are innumerable, given that results elicited from one industry are more likely to prove to be more reliable and valid.

On conducting any research the researcher is limited by time and resources available and a multi-industry approach would prove difficult to achieve with the amount of detailed information needed to answer the research question in the time allowed. Therefore, after reviewing the contemporary literature on the subject, methodological papers and discussions with various 'expert' methodology academics (see Appendix 1 and 2) it was decided that the author would focus on just one industry, namely the business service industry. This particular industry has seen the highest level of growth in the last decade and therefore this would allow the author to identify both the entrepreneurial and the relationship marketing behaviour of the enterprises. This research was interested in SMEs that had more than a single annual contact with their customer, therefore financial services were not considered appropriate at this stage of the development of a framework for SME growth. The choice of the region was purely pragmatic in terms of cost (travel), time to complete the research and the reputation of the University established in the region.

An initial review of literature on SMEs revealed an alarming high rate of failure for SMEs in the first three years of trading (DTI, 1994). Since one of the aims of the research is to aid small firms to avoid failure, it would seem more prudent to focus on firms who had already overcome the initial problems of survival. Therefore, one other criteria in determining the SME sample was that they must have been trading for more than three years.

6.1.2 Sampling Criteria for Survey

The author used the DTi definition of a Small and Medium Sized company in which they defined the company as having any where between 10 and 99 employees. Further research from the DTi (1994) revealed that most SMEs failed in the first 3 years. Therefore this research will focus on those SMEs that have already overcome the initial hurdles of survival. The service industry was selected because it has been the highest growth industry. The region selected was based on practical reasons that the University had established a reputation in the region and secondly it would facilitate travel. In summary the criteria used to select an SME was:

- Employees more than 10 but less than 99
- Trading for more than 3 years
- Industry: Business Services
- Region: West Yorkshire
- Non-financial services

The above criteria was used to search the Lotus onesource CDROM as well as the West Yorkshire Chamber of Commerce Directory. The search results revealed 102 SMEs that met the criteria. The pre-qualifying selection criteria would later aid the author to determine more confident statistical differences between the various types of SMEs due to their commonalties within the industrial sector.

6.1.3 Exploratory Interviews with Expert Academics

The author initially contacted academics specialising in the field of marketing/entrepreneurship to gain an insight into the field and methodological approaches to studying the domain, they were identified from literature reviews and recommendations from the author's supervisor. Initially all the academics (see Appendix 1) that were within a commutable distance were contacted over the telephone and arrangements were made to visit them.

At the meetings with the selected academics they were informed that the author had not, as yet, formed any concrete methodological preference or research focus. The academics interviewed discussed and explained, at great length, the advantages and disadvantages of the methodological frameworks they applied to their research(s) and whether they had any comments about the suitability of current methodological approaches to the authors research problem. Many of the academics interviewed agreed that a hybrid methodology that incorporated both a quantitative survey and qualitative interviews would provide complementary and richer data.

Assistance was also provided by a number of academics at the University of Huddersfield, especially by the Department of Social Science who provided invaluable guidance, for the author, to construct a methodological framework and reliable research instruments. Colleagues in the Computing & Mathematics Department assisted the author in developing the skills to both design and analyse a questionnaire. Furthermore, colleagues in the Social Science department aided the author in both developing a research technique to collect salient qualitative data and then later assistance was provided on techniques on analysing both the quantitative and qualitative data.

6.1.4 Exploratory Research Instruments

At the start of the research the author made a list of possible research methods and data source options (techniques) - including those techniques that were later rejected. There is a major distinction between method and technique. Method refers to a philosophical approach to answer the research question. While technique is referred to by Oppenheim and Abraham (1992 p.6) as "being concerned with measurement, quantification and instrument building and with making sure that our instruments are appropriate, valid and reliable." The author selected a positivistic methodological approach that incorporated both quantitative (survey) and qualitative (in-depth interviews) techniques to explore the research problem. The reason for selecting this philosophical approach will now be discussed.

6.1.5 Research Methods

Bryman (1988, p.5) contends that both 'quantitative research' and 'qualitative research' have been viewed as competing views about the ways in which social reality ought to be studied, and as such they are essentially divergent clusters of epistemological assumptions. Carson and Coviello (1996, p.23) also encourage researchers to combine 'the most suitable research methods from the social sciences at specific and appropriated stages of the research'. Cahill (1996, p.18) argues that qualitative follow-up interviews can serve to flesh out the results, making it possible for the researcher to gain further insight into the findings. Bryman (1988, p.48) also contends that the use of interviews and questionnaires may also enhance the scope and breadth of the participant observation research. While Jick (1979, p.603) argues that "the use of complementary methods is generally thought to lead to more valid results."

Bryman (1988, p.131) contends that quantitative and qualitative research may be perceived as different ways of examining the same research problem. Thus by combining the two, the researcher's claims for the validity of their conclusions are enhanced if they can be shown to provide mutual confirmation. Mason (1996, p.149) has also argued that "different methods and data sources are likely to throw light onto different social or ontological phenomena or research questions." Therefore, mutual confirmation, whilst desirable, is not necessarily the primary objective of employing multiple methods. Since the author is concerned with understanding not only significant behaviour but the reasons behind this behaviour in SMEs. So that he may develop a coherent framework of the research findings.

6.1.6 Differences in Quantitative and Qualitative Research

Stainback and Stainback (1988, p.8) examined the quantitative and qualitative paradigms across a number of dimensions (Table 6.1.6) which highlighted the complementary benefits that a combined research design offers. A combination of qualitative and quantitative approaches will therefore combine discovery and verification, understanding and prediction, validity and reliability within the research design (Jarrat, 1996, p.7).

Table 6.1.6 Summary of differences in Quantitative and Qualitative Research

Dimension	Quantitative Paradigm	Qualitative Paradigm
Purpose	Prediction and Control	Understanding
Reliability	Stable - reality is made up of facts that do not change	Dynamic - reality changes with changes in people's perception

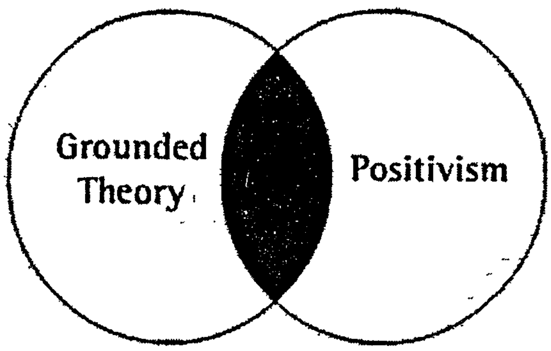
Viewpoint	Outsider - reality is what quantifiable data indicate it to be	Insider - reality is what people perceive it to be
Values	Values free - values can be controlled	Values bound - values will impact on understanding the phenomena
Focus	Particularistic - defined by the variables studied	Holistic
Orientation	Verification	Discovery
Data	Objective	Subjective
Instrumentation	Non-human	Human
Conditions	Controlled	Naturalistic
Results	Reliable	Valid - the focus is on design and procedures to gain real, rich and deep data
Source: Stainback and Stainback (1988, p. 8)		

Based on the methodological arguments for encouraging the integration of both qualitative and quantitative techniques, the author formulated an explicit proposition about the topic to be investigated and designed a research methodology that incorporated both a survey and in-depth interviews. Oppenheim and Abraham (1992, p.6) asserts that "the need for an appropriate research design arises whenever the researcher wishes to generalise from their findings, either in terms of the frequency or prevalence of particular attributes or variables, or about the relationships between them." The philosophical method selected will now be discussed in more detail. Starting with the 'quantitative' approach which is often associated with a positivistic approach.

6.1.7 <u>The Positivist Position</u>

The idea of positivism is that the social phenomenon exists externally, and that its properties should be measured through objective methods, rather than being inferred subjectively through sensation, reflection or intuition (Easterby-Smith et al., 1991, p.22). Bryman (1988, p.17) believes that "quantitative research is conventionally *believed* to be positivist in conception and orientation." Hence, the author developed a quantitative research instrument (namely a survey) so that numerical analysis (statistics) could be employed to objectively determine any significant differences in the relationship marketing and entrepreneurial behaviour of SMEs. The author recognises that there is much overlap between the two research philosophies (see Figure 6.1.7). Hence the need for both a quantitative survey and qualitative in-depth semi structured interviews. To allow the author to gain a greater understanding of the research area and thus develop more appropriate tools and constructs of the phenomenon.

Figure 6.1.7 Overlap Between the Research Philosophies



6.1.8 Reasons for Selecting Qualitative Techniques

Bryman (1988, p.69) contends that qualitative research allows the researcher to see through the eyes of the people being studied. Mason (1996, p.46) also asserts that "qualitative interviews may add an additional dimension, or may help the researcher approach their questions from a different angle, or in greater depth." Hence the author realised that the qualitative techniques would allow the author to deal with complex issues relating to understanding the reasons of specific relationship marketing and entrepreneurial behaviour that would otherwise be very difficult to analyse with the quantitative research instruments.

6.1.9 Problems With Qualitative Research

Three central facets of problems with qualitative research have been identified by Bryman (1988, p. 72) as including:

1. The ability of the investigator to see through other people's eyes and to interpret events from their point of view;
2. The relationship between theory and research in the qualitative tradition; and
3. The extent to which qualitative research deriving from case studies can be generalised

Therefore, adopting a triangulation methodology assisted the author to overcome some of these problems that can be encountered with pursuing a purely qualitative approach.

6..2 What is triangulation?

Triangulation is broadly defined by Denzin (1978, p. 291) as "the combination of methodologies in the study of the same phenomenon" where multiple viewpoints allow for greater accuracy.

6.2.1 Introduction to Triangulation

It is now recognised by a number of academics (Jick, 1979, p. 604; Bryman, 1988, p. 142; Robson, 1993, p. 383; Dey, 1993, p.4) that research requires a partnership and there is much to be gained from collaboration rather than competition from different methods. While it now seems prudent to adopt a multimethod research approach there are a number of barriers (e.g. time and cost) to the integration of quantitative and qualitative research. Bryman (1988, p. 154) claims that "it is not easy to detect the ways in which quantitative and qualitative research can be fruitfully amalgamated, since, when they are used in tandem, the products of such blending are not directly recognisable." Therefore, Bryman (1988, p. 159) suggests that researchers address two questions. First, do quantitative and qualitative studies yield consistent findings? This question has some relevance to the issue of triangulation. Secondly, irrespective of whether results are consistent or inconsistent, are they *really* addressing the same issues? Since caution is necessary to ensure that the two sets of results are not in fact addressing different issues (Bryman, 1988, p. 170). Mason (1996, p. 5) also contends that "the key to integrating methods of any description is to establish what you are trying to achieve and to understand the implications of combining approaches which may have different forms of analysis and different ways of constructing social explanations."

Therefore, before the author started the research the following objectives were explored to justify the selection of a multimethod approach:

- Quantitative information would allow the author to explore the different relationships between the themes;
- Quantitative findings would highlight significant relationships differences between the variables/themes;
- Each theme would answer a specific question of the research hypothesis;
- The statistical findings from the quantitative data would allow the author to view the phenomenon from different perspectives;
- The qualitative findings would corroborate the quantitative findings and thus enhance validity and reliability through triangulation. Additionally, the qualitative findings would add a new perspective to the quantitative findings.

6.2.2 Benefits of Triangulation

Carson and Coviello (1996, p. 52) state that "a multimethod methodology has been built on the very practical need for the researcher to develop the "best" possible methodologies for their specific research problem." Furthermore, there is a growing amount of support for the use of a multimethod research approach that combines the use of quantitative and qualitative research methods within the same study (Jick, 1979, p. 604; Bryman, 1988, p. 142; Robson,1993, p. 383). The advantages include developing or extending theory and testing its application as well as providing a complete picture of a phenomenon, indicating that the joint approach draws on the respective strength of each method. Consequently based on the literature review of the work carried out by Jick (1979, p. 604); Bryman (1988, p. 142) and Robson (1993, p. 383) a number of advantages of using the triangulation of methods can be identified, these include:

- The combination of methodologies in the study of the same phenomenon;
- Testing for the reliability, validity and generality of research findings;
- Encouraging the maximum utilisation of the data at ones disposal by producing greater density of coverage of the area;
- Developing or extending theory and testing its application;
- Drawing a richer picture of the phenomenon.

Triangulation provides researchers with several other important opportunities.

- It allows researchers to be more confident in their results (Jick, 1979, p. 608).
- Triangulation can stimulate the creation of inventive methods, new ways of capturing a problem to balance with conventional data-collection methods (Jick, 1979, p. 608).
- Helps the researcher discover a new dimension of a phenomenon (Denzin, 1978, p. 295)
- Triangulation can potentially generate "holistic work" or "thick description" (Jick, 1979, p. 609).

The three broad reasons why the author employed both quantitative and qualitative techniques were:

1. Enabling confirmation or corroboration of each of the techniques via triangulation
2. Elaborating or developing analysis, to provide richer details
3. Initiating new lines of thinking through attention to surprises of paradoxes. Turning ideas around, thus potentially providing fresh insights.

Based on the above, a survey and in-depth interview schedule were selected as the most appropriate research instruments. These would enable the author to generate results to construct a general framework that encapsulates both the theoretical and practical dimensions of the processes, structure, environment and policies of the various types of SMEs under investigation in relation to a customer retention, development and acquisition strategy.

6.2.3 Arguments Against Triangulation

Triangulation could be considered to be problematic because Mason (1996, p.149) argues that "different methods and data sources are likely to throw light onto different social or ontological phenomena or research questions." Therefore, Mason (1996, p.149) argues that "the researcher is highly unlikely to be able straightforwardly to use the 'products' of different methods or sources to corroborate each other." At its best, Mason (1996, p. 149) contends that "the concept of triangulation - conceived as multiple methods - encourages the researcher to approach their research questions from different angles, and to explore their intellectual puzzles in a rounded and multi-faceted way." Furthermore, she argues that "this does enhance validity, in the sense that it suggests that social phenomena is more than one-dimensional, and that the research has accordingly managed to grasp more than one of those dimensions." Jick (1979, p. 607) also emphasises that "the divergence of the quantitative and qualitative data can often turn out to be an opportunity for enriching the explanation."

6.3 Research Method and Technique Selection

The research *design* selected is the basic plan of the research, and the logic behind it is that it makes it possible and valid to draw more general conclusions from the design. Research design is concerned with making the research problem researchable by setting up the study in a way that will produce specific answers to specific questions. Thus, the research design will inform the author of the sample that will be drawn, what sub-groups it must contain, what comparisons will be made.

A multimethod research method was used that would employ two different but complementary research instruments. To determine the reliability and validity of these instruments in generating appropriate and rich data. The author posed himself the following questions:

- What data sources and methods of data generation are potentially available or appropriate?
- What can these methods and sources feasibly tell the author?
- How or on what basis does the author believe they could do this?
- Which of the author's research questions could they help to address?

Therefore, based on these questions, a process of reviewing methodological literature, discussing the research techniques with experienced fellow colleagues and pilot interviews. The author was finally in a position to make a logical and appropriate methodological selection (see Table 6.3) that would allow the author to collect the necessary data to answer the research questions with both reliability and validity.

Table 6.3: Research Technique Selection

Research question	Data sources and methods	Justification:
Entrepreneurial SMEs are more relationship marketing orientated	Survey Interviews	Survey will provide statistical evidence Interviews will provide greater interpretation of why
Entrepreneurial SMEs have a greater awareness of their customer requirements	Survey Interviews	Surveys will provide statistical evidence and interviews will provide explanations of how they have achieved this

The results from each research instrument will allow the author to construct a framework of the 'contribution of a relationship marketing strategy to SME growth'. The logic for selecting these research instruments was that:

1. Each technique would provide evidence (either statistically or through showing general preferences of entrepreneurial or non-entrepreneurial SMEs) of the behaviour of the SMEs. Thereby contributing to knowledge;
2. The data from the techniques would provider the author with a richer insight into the dynamics of the relationship marketing and entrepreneurial behaviour of the SMEs (e.g. determining the relationship marketing and entrepreneurial differences between the entrepreneurial and non-entrepreneurial SMEs).

A diagrammatic representation of the methodological structure of the techniques is represented in Figure 6.3

Figure 6.3: Research Methodology Framework

Hypothesis:

1. Entrepreneurial firms have a greater relationship marketing focus than non-entrepreneurial SMEs.
2. Entrepreneurial SMEs are more aware of their customer needs than non-entrepreneurial SMEs.

Findings from Hypotheses will contribute to Research Objectives

Literature Review

Elicitation of Questions from literature review for Research Instrument

Design of Research Instruments (R.I.)

Academic advice sought to focus research and methodology

Focused Target Group, based on the following criteria:

1) Region: West Yorkshire
2) Industry: Business Services (Computing / Printing companies)
3) Employees >10 but less than 100
4) Non-Subsidiary of another company
5) Trading at least 3 years
6) Non-financial service

Exploratory Pilot Testing was carried out on 5 randomly selected SMEs from the business service industry to test the saliency of the Research Instruments:

- Qualitative Interview Schedule
- Quantitative Interview Schedule

Analysis of Pilot results

Questionnaire tested for:

- Wording
- Layout & design

Refinement of **research instrument** after **experiential learning** from interviews & relationship marketing and methodological literature review.

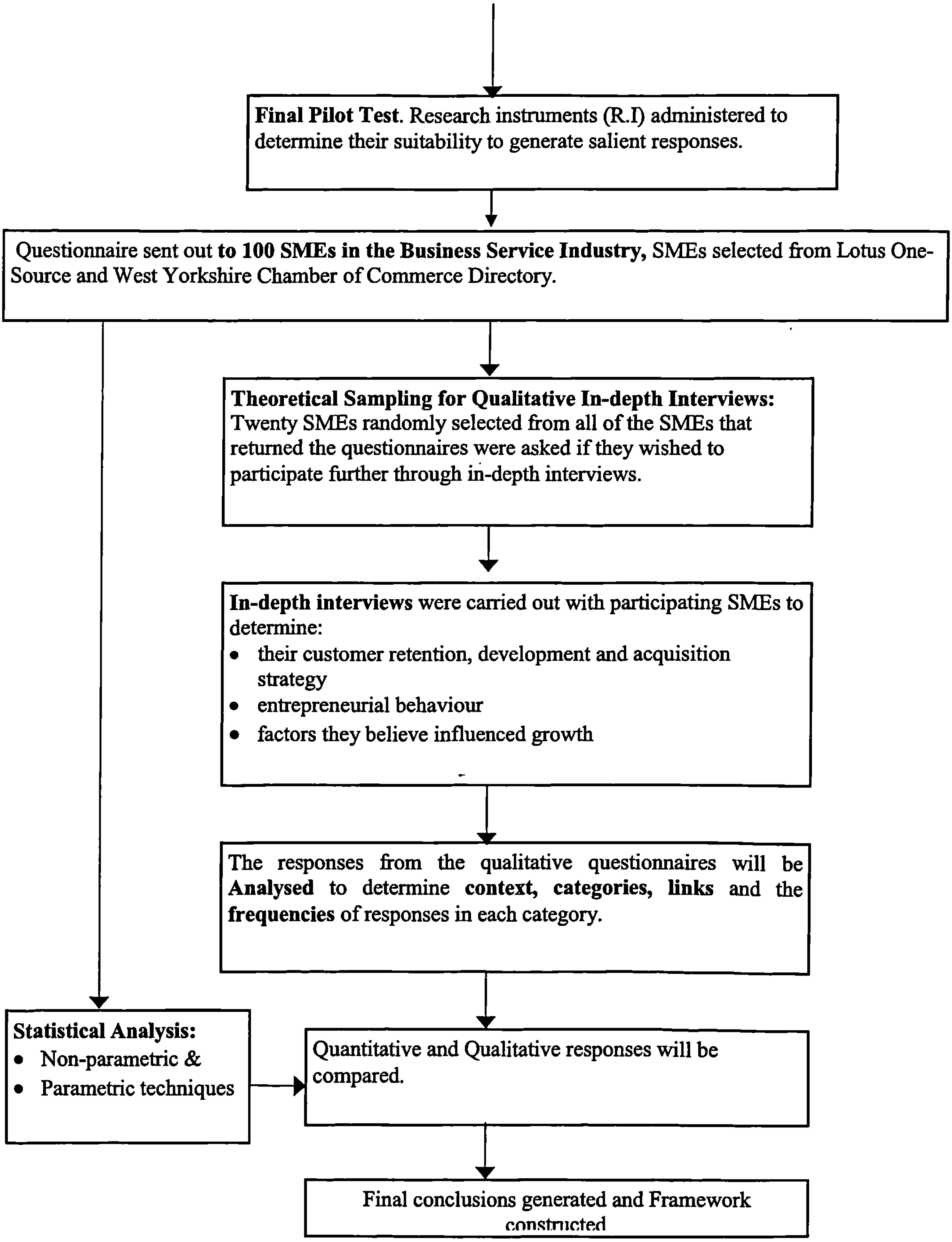
Re-testing of R.I. through a Group Discussion with 12 marketing managers to determine saliency of research instruments.

Questionnaire tested for:

- Wording
- Layout & design

Refinement of **Research Instruments:**
(Fellow Academics consulted on refinements)

- Quantitative Questionnaire (Survey)
- Qualitative Interview Schedule


Final Pilot Test. Research instruments (R.I) administered to determine their suitability to generate salient responses.
Questionnaire sent out **to 100 SMEs in the Business Service Industry,** SMEs selected from Lotus One-Source and West Yorkshire Chamber of Commerce Directory.
Theoretical Sampling for Qualitative In-depth Interviews: Twenty SMEs randomly selected from all of the SMEs that returned the questionnaires were asked if they wished to participate further through in-depth interviews.
In-depth interviews were carried out with participating SMEs to determine:
• their customer retention, development and acquisition strategy
• entrepreneurial behaviour
• factors they believe influenced growth
The responses from the qualitative questionnaires will be **Analysed** to determine **context, categories, links** and the **frequencies** of responses in each category.
Statistical Analysis:
• Non-parametric &
• Parametric techniques
Quantitative and Qualitative responses will be compared.
Final conclusions generated and Framework constructed

6.4 Stages of Research

After reaching a decision as to the most appropriate methodological approach to address the research problem. The author decided to develop nine stages that would allow him to investigate the research proposals. The nine steps identified are:

Stage 1: Identifying Research problem and objectives (Hypotheses)
Stage 2: Interviews with major banks to determine reasons for SME failure
Stage 3: Pilot testing of exploratory research instruments (Survey and Interview)
Stage 4: Refinement of Research instruments
Stage 5: Contact SMEs and Administer Survey
Stage 6: Analysis of Survey results (using SPSS)
Stage 7: Qualitative in-depth interviews.
Stage 8: Analysis of qualitative transcripts
Stage 9: Exploration of both qualitative and quantitative findings to construct a sequentially visual conceptual framework

The Quantitative research instruments were designed after an exhaustive literature review on relationship marketing, consultancy with fellow active scholars in the field and pilot testing of the research instrument. The nature of the level of measurement and the use of statistical tests in discussed in Chapter 7.

6.5 Research Constraints

There are two constraints for this research.

1. The research is only concerned with small and medium sized enterprises (SMEs) within West Yorkshire
2. The research is focused on one industry, namely business services, although this sample has excluded financial service SMEs.

To ensure that the data generated for the quantitative instruments is reliable and valid the author addressed a number of issues, which will now be discussed.

6.6 Measurement

Research measurement is the process by which the author tests hypotheses and theories. The ideal study would be designed and controlled for precise and unambiguous measurement of the variables of interest. Since attainment of this ideal is unlikely, the author recognised the sources of potential error and tried to eliminate, neutralise, or otherwise deal with them. There are four major error sources, which may contaminate results. These are the respondent, the situation, the measures, and the instrument.

In terms of eliminating respondent errors, all respondents went through a qualifying selection process before being selected. Many respondents were both sent the questionnaire and then later selected for in-depth interviews to allow the author to capture a richer understanding of the phenomenon. The measures employed were reviewed by several expert academics for their suitability to capture salient information and allow the author to use advanced statistical and qualitative analysis techniques. Finally, extensive pilot testing was conducted to help the author eliminate or at the very least minimise any potential errors that could occur with the research instrument.

6.7 Reliability and Validity of Questions

Reliability and Validity are technical terms, and to some extent the two terms also overlap and are interconnected (Oppenheim and Abraham, 1992, p.144). Reliability refers to the purity and consistency of a measure, to repeatability, to the probability of obtaining the same results again if the measure were to be duplicated (Moser and Kalton, 1993, p.353). While validity refers to whether the questions, item or score measures what it is supposed to measure (Oppenheim and Abraham, 1992, p.144; Bryman, 1988, p.28).

6.7.1 Validity

Despite the growing number of concepts of validity, which are mentioned in the research literature, there are only two major forms; external and internal (content) validity.

6.7.2 External Validity

The external validity of research findings refers to their ability to be generalised across persons and settings and times. A researcher will need to know whether the conclusions of a study are transferable to other contexts and how far can they be '*generalised*'? It is important to note that a conclusion may have low external validity even though its internal validity is high. As the purpose of this research was to carry out a very focused study the question of validity was of greater concern than generalisability. Therefore, both the region and industry were focused to ensure greater validity.

6.7.3 Case Selection Error

Threats to external validity arise mainly from case selection error. The way cases are sampled, chosen, or self-selected for the research will limit generalisability if these cases are not representative of the population of interest. Extreme care was taken to avoid this occurring using an SME selection criteria (see Figure 6.3). The commitment of the Marketing Director was secured early on to provide a legitimate requirement for all SMEs to participate in the survey.

6.7.4 Internal Validity

Internal validity is the extent to which differences found with a measuring tool reflect true differences among those being tested. The difficulty being that one does not usually know what the true differences are. Therefore, what the real question is '*how can one determine validity without direct confirming knowledge*'? This has been approached by organising the answer according to the types of internal validity which fall into four major forms (see Table 6.7.4) of different types of validity (Moser and Kalton, 1971, p.356; Oppenheim and Abraham, 1992, p. 162):

Table 6.7.4 Internal Validity

Validity	Measures adopted
content validity (which seeks to establish that the items or questions are a well-balanced sample of the content domain to be measured	the elicited questions were solicited from a thorough literature search in the field of relationship marketing
concurrent validity (which shows how well the test correlates with other, well-validated measures of the same topic)	The findings of the survey are concurrent with contemporary findings.

predictive validity (which shows how well the test can forecast some future criterion)	Longitudinal studies will be required to further validate the findings. Post literature results to corroborate results
construct validity (which shows how well the test links up with a set of theoretical assumptions)	The findings concur and contribute to many of the theoretical positions of relationship marketing and entrepreneurial behaviour

Although the four forms of validity have been discussed separately, they are interrelated, both theoretically and operationally.

6.7.5 Reliability

Reliability in essence relates to the notion of consistency. A measure is reliable to the degree that it supplies consistent results. Although reliability contributes to validity, it is not a sufficient condition for validity. Reliability is concerned with estimates of the degree to which a measurement is free of random or unstable error and is much easier to assess than validity. Reliable instruments need to be robust whereby they work well at different times under different conditions. The researcher needs to be sure that the measuring instrument will behave in a fashion which is consistent with itself; that a very high proportion of the score on every occasion is due to the underlying scale variable, with a minimum of error (Oppenheim and Abraham, 1992, p.159). Therefore, to measure reliability the author used the *internal consistency* method, usually associated with Cronbach's Alpha coefficient. This methods yield reliability measures in the form of correlation coefficients (Oppenheim and Abraham, 1992, p.160). Cronbach's alpha is based on the average correlation of variables within each construct, an acceptable measure for Cronbach's alpha is above .6 (Nunnally, 1970). The reliability factor of many of the ordinal groups was above .6. Hence, the results from the questionnaire are both reliable and their validity is further confirmed by the results of the in-depth semi-structured qualitative interviews.

6.7.6 Generalisation

Researchers who employ experimental designs are preoccupied with problems of generalisation too. This topic is often referred to as the problem of external validity, which denotes the extent to which findings can be generalised beyond the experiment (Bryman, 1988, p. 36). The researcher does not propose to generalise the findings beyond the selected industry, region and time frame of the research project.

To add further reliability and validity to the quantitative finding the author also carried out Qualitative semi in-depth interviews to not only corroborate quantitative findings but also contribute to theory development.

6.8 Introduction to Analysing Qualitative Data

This section will highlight the sequence of steps that the author followed in order to analyse the qualitative data generated from the qualitative interviews and then subsequently draw conclusions. The first step in this sequence of understanding and analysing qualitative data is to identify what we mean by qualitative data. Qualitative research has become a fashionable term to use for any method other than the survey: unstructured interviewing and the data produced usually includes field notes, interview transcripts, etc. Dey (1993, p.10) asserts that qualitative data deals with meanings where meanings are mediated through language and action. Miles and Huberman (1994, p.1) and Dey (1993, p.14) describe qualitative data as a source of well grounded, rich descriptions and explanations of processes in identifiable local contexts. That are more likely to lend to lead to serendipitous findings and to the new integration's. Dey (1993, p.14) emphasises that "this form of research rejects the positivist 'sins' associated with survey methods of investigation" and thus he argues that qualitative data is 'more valid' than quantitative data. Another distinction sometimes drawn between qualitative and quantitative methods is that the former produces data which are freely defined by the subject rather than structured in advance by the researcher (Patton, 1980). However, it is difficult to draw such a sharp divide between these methods. As observations may be more or less 'structured' without falling clearly into one type or another. Therefore, Dey (1993, p.15) asserts that "even the most non-directive interviewer must implicitly 'direct' an interview to some extent if it is to cover certain topics within the time available."

One major feature of qualitative data is that it focuses on naturally occurring, ordinary events in natural settings so that the researcher has a strong handle on what "real life" is like. Miles and Huberman (1994, p.10) proclaim that "another feature of qualitative data is its richness and holism with strong potential for revealing complexity; such data provide "thick descriptions" that are vivid, nested in a real context, and have a ring of truth that has a strong impact on the reader." Dey (1993, p.52) also confirms that one of the main benefits of qualitative analysis is that it can enrich the descriptions of the empirical world and sharpen the conceptual tools.

6.9 Steps to analysing Qualitative Data:

Dey (1993, p.53) and Miles and Huberman (1994, p.9) both promote a sequence of steps to aid researchers to analyse qualitative data. The author found both techniques restrictive and constructed their own framework based on a comprehensive review of techniques to analyse qualitative data and advice from colleagues (see Appendix 2) experienced in qualitative analysis. The processes developed are shown graphically in Figure 6.11. While the display presents the sequence of steps sequentially, the process of arriving at the results was far from sequential. Since on many occasions the antecedent steps would have to be referred to for extracting meaning from the current process. This iterative form of experiential learning, by the author, facilitated the analysis and generation of a richer, more in-depth understanding of the qualitative transcripts.

6.10 Theoretical Sampling of Qualitative Interviews

Mason (1996, p.83) contends that both sampling and selection are strategic elements of qualitative research if appropriately conceived and executed. Mason (1996, p.94) states that "a researcher's capacity to make generalisations on the basis of their analysis, and the way in which you will be able to do this, will be crucially influenced by the strategy you have adopted for sampling." Therefore, (Mason, 1996, p.157) contends that the sampling strategy should provide an important backdrop against which the researcher 'read' and interprets their data.

Representative sampling may not be the most cost effective and efficient way either to generate data that will address the research questions of the study, or to develop analysis or theory. Mason (1996, p. 91) argues that "the pursuit of representativeness often requires the construction of very large samples that make the use of qualitative data generation methods very time consuming and costly." Bertaux and Bertaux-Wiame (1981) claim that the social process under scrutiny dictates the size of a sample. According to Bertaux and Bertaux-Wiame, you sample until you reach theory saturation point, that is until you know that you have a picture of what is going on and can generate an appropriate explanation for it. This point is reached when your data stops telling you anything new about the social process under scrutiny. This method has been criticised for being ad-hoc and unsystematic, as it raises the question of when does the reader know when saturation point has been reached. Mason (1996, p.97) therefore argues that your sample size should help you understand the process, rather than to represent (statistically) your population. The author agreed with Mason (1996, p.97) and opted for a theoretical sample. In its more general form, theoretical sampling means selecting groups or categories to study on the basis of their relevance to the research questions, the researchers theoretical position and analytical framework, the researchers analytical practice, and most importantly the explanation or account the researcher develops. Mason (1996, p.94) states that "theoretical sampling is concerned with constructing a sample that is meaningful theoretically, because it builds in certain characteristics or criteria that help to develop and test the theory and explanation."

6.10.1 Number of SMEs Selected for Interviewing

Of the sixty companies that responded to the Questionnaire ten were randomly selected for Interviewing. Both entrepreneurial and non-entrepreneurial SMEs were selected as this would permit comparisons. The results were analysed after interview and the findings discussed with fellow colleagues (see Appendix 2). The results revealed that the author had not yet achieved a complete repertoire of responses from the SMEs since new categories and codes were still being identified after transcribing the tenth interview. So it was agreed to interview another 10 SMEs (both entrepreneurial and non-entrepreneurial). The author reached data saturation after the 14^{th} Interview but continued interviewing all twenty SMEs selected (7 Proactive, 7 Reactive and 6 Infomal). It would later transpire that the extra interviews only added bulk to the data analysis and not to any theoretical proposition.

6.11 Analysing the Qualitative Data

Although, the steps involved in analysing the qualitative transcripts presented in Figure 6.11 and in Appendix 8 are displayed sequentially. This was not the actual process followed for on many occasions the author would double back and verify the previous steps before commencing to the next stage of the analysis. Thus allowing the author to experientially develop a spiral of learning to approach a 'closer' understanding of the context and meaning of the generated data. Finally arriving at conclusions drawn from months of analysing and conceptualising the true meaning of the interview transcripts.

Figure 6.11 Author's Analytic Steps to Analysing Qualitative Data

STEP 1:
Literature review of research area conducted to develop potential questions for the interview schedule

STEP 2:
Literature review of qualitative methods

STEP 3:
Expert advice sought for the construction of questions for an interview schedule

STEP 4:
Theoretical Sample selected and SMEs interviewed randomly

STEP 5:
Exploratory pilot testing of interview schedule

STEP 6:
Qualitative findings analysed to determine whether questions were suitably phrased for generating salient responses

STEP 7:
Refinement of interview schedule

STEP 8:
Additionally questions added to the interview schedule based on quantitative findings

STEP 9:
Academic advice sought again to determine the suitability of the research instrument and methods for analysing the results

STEP 10:
Interviews commence with managing directors and marketing managers

STEP 11:
Interview schedule refined after first 2 interviews - Further questions added (e.g. leading questions)

STEP 12:
Taped interviews transcribed by the researcher and secretariat

STEP 13:
Preliminary analysis

STEP 14:
All transcripts now manually analysed (memos written). The quotes are cut from the transcripts, using scissors, and placed on a prepared analysis sheet of paper to facilitate manual analysis

STEP 15:
Qualitative analysis involves first sorting out the SMEs by type of planning and then writing more memos in the transcripts which is then preceded by coding (categorisation) of transcripts to identify type and location of quotes

STEP 16:
Index of codes (categories) established

STEP 17:
Majority of transcripts coded and evaluated on the basis for further splicing or splitting

STEP 18:
Links between themes and categories identified and strength of association determined

STEP 19:
Results displayed using both tables and graphical displays

STEP 20:
Steps 15 to 19 are carried out once again this time with a computer to both verify manual results and also identify any further contributions to the analysis

STEP 21:
Conclusions drawn from the results (verified by colleagues)

6.12 Achieving Confidence in the Qualitative Analysis

Dey (1993, p.232) suggests that if one explanation promises to have a more acceptable practical import than another, then ceteris paribus the researcher may be more inclined to adopt it. Therefore, practical import cannot be separated from value judgement, since the author must consider who will benefit (or suffer) and why.

To ensure the researcher protects themselves from prejudices, they must advance a 'null hypothesis' that no relationship exists, unless they can show otherwise 'beyond' reasonable doubt (Dey, 1993, p.234). Additionally because of the practical implications of the research the author will therefore insist on a higher level of confidence in his conclusions. Therefore, to eliminate any preconceived judgements Dey (1993, p.234) offers some suggestions to the researcher that were considered so as to determine each explanation on the basis of:

1. Credibility (frequency of quotes)
2. Coherence (clarity of categories – Internal homogeneity)
3. Empirical scope (evidence)
4. Conceptual scope (theory development)
5. Practicality (applicability of findings)

As stated in the previous sections, that author minimised any bias in the research instruments and the data generated by consulting fellow colleagues (see Appendix 2) throughout every stage of this research project (from preliminary pilot design to final generation of conclusions). Additionally the transcripts were reviewed by several colleagues, to ensure that the author's analysis was credible.

6.13 Reliability

Reliability is sometimes measured by observing the consistency with which the same methods of data collection produce the same result. Reliability is therefore being conceptualised in terms of how reliable, accurate and precise the research tools or instruments are, and this in turn is being judged by the consistency with which known instruments produce certain 'measurements' (Mason, 1996, p.145). Therefore, it can be argued that the research instrument displayed a high degree of reliability as there is a high degree of consistency in the categories generated from the entrepreneurial and non-entrepreneurial SMEs on their relationship marketing behaviour SMEs. Additionally, the preferences and intensity of behaviour by the entrepreneurial SMEs further confirms and provides a richer picture to the findings in the quantitative survey.

6.14 Validity

Mason (1996, p.147) contends that there are two ways to demonstrate validity:

1. Demonstrating that the research instruments will generate data relating to the themes that are being researched. The findings revealed tremendous data highlighting evidence on the agreement and differences in relationship marketing behaviour between the entrepreneurial and non-entrepreneurial SMEs for each of the themes.

2. The second method refers to interpreting the data. The author employed rigorous analytical techniques as suggested by (Dey, 1993, p.53; Miles and Huberman, 1994, p.9). This allowed the author to formulate conclusions based on the empirical scope of the research and the conceptual frameworks created.

Mason (1996, p.150) argues that researchers need to state the basis on which they interpret a piece of dialogue from an interview. Therefore, for each particular theme in the research, the author categorised all similar quotes, for that particular question in the theme, into one category and based on what was said by the entrepreneurial and/or non-entrepreneurial SMEs the author merely summarised the preferences and what was stated in these categories. The frequency of each category for each section theme was displayed in a matrix style table from which the author was able to determine the generalisability of the result over all the SMEs. Since the frequencies of each category, which were displayed in ascending order, indicated the level of agreement by the sample for a particular behaviour.

Dey (1993, p.228) defines a valid account as "one which can be defended as sound because it is well grounded conceptually and empirically. If it doesn't make sense, then it cannot be valid. If it fails to account for the data, then it cannot be valid." Therefore, to produce a valid account, the researcher needs to be objective. This refers to the process, of which a valid interpretation is the product. This involves taking account of evidence without forcing it to confirm to the researcher's wishes and prejudices, and accepting the possibility of error. Dey (1993, p.229) suggests that there are three related ways in which the researcher can minimise the risk of error and misinterpretation of the evidence. One is to entertain rival interpretations of the data. How successfully the researcher can do this depends on his imagination. Another is to suspend judgement as long as possible. A third is to refrain from judging between rival interpretation until the researcher can chose one 'beyond reasonable doubt'. Entertaining different explanations is a way of keeping an open mind. Therefore, it is suggested that the best approach to evidence is to avoid developing ideas 'prematurely'. Consequently until the author was thoroughly familiar with all the evidence they avoided forming any preconceived ideas. The author instead developed various frameworks that evolved over a year and were refined in light of completing the analysis of the qualitative data, previous contemporary literature on the subject and logical connections that the author observed and could surmise from the transcripts.

6.15 Generalisable

Mason (1996, p.6) contends that qualitative research should produce social explanations which are generalisable in some way, or which have a wider resonance. Therefore, the commonality of frequency of certain categories in various themes by the entrepreneurial and non-entrepreneurial SMEs pointed to a high degree of agreements, amongst the SMEs on their relationship marketing behaviour. Although, this does not necessarily mean that the findings identified are characteristic of the entire UK population of business service SMEs or for that matter SMEs in different industrial sectors will demonstrate the same behaviour. This will require further research to identify the national characteristics and commonalties of service SMEs.

CHAPTER 7: STATISTICAL TESTS USED

7. Choosing an Appropriate Statistical Test

Associated with every statistical test is a model and a measurement requirement, where the test is valid under certain conditions and the model and a measurement requirement specify those conditions. Hence, the author initially reviewed the criteria for selecting parametric or non-parametric methods for analysing the survey data. The merits of both methods will now be discussed to evaluate their appropriateness for analysing the level of data in the questionnaire.

7.1 Parametric Methods

The most powerful tests are parametric tests, which have the strongest or most extensive assumptions underlying their use. Siegal and Castellan (1988, p.20) assert that when research data is analysed by a parametric test, that test will be more powerful than any other. In Normal-theory-based tests, such as the t test and analysis of variance, the equality of population assumes that the data comes from populations that have the same variance. If this assumption of homogeneity of variance is not met, the statistical test results may not be valid (Siegal and Castellan, 1988, p.35). Although, before a parametric test can be used the requirements for the research data must be appropriate for that test. Siegal and Castellan (1988, p.20) and Wright (1997, p.131) therefore, offer the following conditions that must be satisfied if parametric statistics are to be employed:

- The observations must be independent
- The observations must be drawn from normally distributed populations
- The variables must have been measured in at least an interval scale, so that it is possible to interpret the results.
- In the case of analyses concerning two groups, the populations must have the same variance.

The meaningfulness of the results of a parametric test depend on the validity of the above assumptions (Aaker et al, 1995, p.457). Proper interpretation of parametric tests based on the normal distribution also assumes that the scores being analysed result from measurement in at least an interval scale (Siegal and Castellan, 1988, p. 33). Although, a number of studies have been carried out (see for example Boneau, 1960; Games and Lucas, 1966) to test whether the stringent requirements for parametric tests were truly necessary. A number of samples where the statistics used to analyse them were drawn from populations that were not normally distributed and of equal variance. The results revealed that the samples did not differ from samples that were drawn from populations, which did not violate these conditions. Therefore, it was concluded that tests, which are able to withstand these violations, are robust. One exception to this general finding was where both the size of the samples and variances were unequal, although some have argued that this exception applies even with equal sample sizes (Wilcox, 1987). Another exception was where both distributions of scores were non-normal. Bryman and Cramer (1997, p.118) suggest that in such circumstances, it may be prudent to compare the results of a non-parametric test with those of a parametric test.

There are a number of authors that have suggested that parametric tests can be carried out with ordinal data as the conditions required to meet the criteria for using parametric tests have been strongly questioned. It has been suggested that as far as the level of measurement is concerned, parametric tests can also be used with ordinal variables since tests apply to numbers and not to what those numbers signify (see for example, Lord, 1953). Bryman and Cramer (1997, p.57-58) argue that when the number of categories is considerably greater than four or five categories. The case for treating them as interval variables is more compelling. Since these variables are assumed to have similar properties to 'true' interval variables. Labovitz (1970) goes on further in suggesting that almost all ordinal variables can and should be treated as interval variables. He argues that the amount of error that can occur is minimal, especially in relation to the considerable advantage that can accrue to the analyst as a result of using powerful techniques, which are relatively easy to interpret. Finally the widespread use of the parametric test on ordinal data has been well documented in many psychological and sociological variables such as attitudes (Bryman and Cramer, 1997, p.118).

The researchers who question the validity of the results of using parametric tests when all the assumptions are not met argue that firstly that the suggested conditions for carrying out parametric tests, with the possible exception of the assumption of equal variances, are ordinarily not tested in the course of the performance of a statistical analysis. Rather, they are assumptions which are accepted, and their truth or falsity determines the accuracy and meaningfulness of the probability statement arrived by the parametric test (Siegal and Castellan, 1988, p.21).

When the assumptions constituting the test are, in fact, not met, then the test may not be valid, i.e., a test statistic may fall in the rejection region with a probability greater than (α). It is even difficult to estimate the extent to which a probability statement varies because of the inappropriate application of the test (Siegal and Castellan, 1988, p.21). Additionally if the measurement is weaker than the interval scale, then by using the parametric test, the researcher would "add information" and, thereby, create distortions (Siegal and Castellan, 1988, p.35). Moreover, assumptions, which must be made to justify the use of parametric tests usually, rest on conjecture and hope, for knowledge about the population parameters is almost invariably lacking. Although, some empirical evidence has been gathered to show that slight deviations in meeting the assumptions underlying parametric tests may not have radical effects on the obtained probability levels, there is no general agreement as to what constitutes a "slight" deviation. Furthermore, slight deviations in more than one factor or assumption may have major consequences, as the performance rapidly deteriorates when these assumptions are inappropriate (Siegal and Castellan, 1988, p. 21).

Due to the overwhelming scientific evidence reviewed it was decided not to use parametric tests on the level of data that the survey had elicited. Since many authors argue (Siegal and Castellan, 1988, p.35; Oppenheim, 1992, p.200) that ordinal data does not represent real equal distances. Furthermore the variances in the sample population were too high and for some population distributions a nonparametric statistical test is clearly superior in power to a parametric one (Wright, 1997, p.133). Finally, unlike parametric tests, there are nonparametric tests that may be applied to data measured in an ordinal scale, and others to data in a nominal or categorical scale (Siegal and Castellan, 1988, p. 34). Hence the author applied non-parametric tests to his survey data.

7.2 Nonparametric Statistics

Nonparametric statistics may be viewed as the collection of statistical methods that either (i) do not relate to specific parameters (the broad definition) or (ii) maintain their distributional properties irrespective of the underlying distribution of the data (distribution-free methods). The field of nonparametric statistics became properly established in the 1940's (see Friedman 1940, Mathisen 1943, Wilcoxon 1945, Mann and Whitney 1947, and Hoeffding 1948). Although, isolated developments took place prior to that (e.g., Pearson 1900, Spearman 1904, Kolmogorov 1933, Friedman 1937, Kendall 1938, Smirnov 1939). The first textbook devoted to nonparametric methods (Siegel 1956) is often credited with bringing recognition to nonparametrics as a subfield of statistics, while Wolfowitz (1942) is given credit for coining the term now used to name this area (see David 1995). Application of non-parametric statistics is ubiquitous in nearly every discipline (Coakely, 1996, p.1), reflecting the increasing activity in the field.

A nonparametric test is based on only very general conditions and none regarding the specific form of the distribution from which the sample is drawn. Certain assumptions are associated with most nonparametric tests namely, that the observations are independent (Siegal and Castellan, 1988, p.34). Nonparametric tests do not require a stringent set of criteria, they are therefore generally more robust (Coakely, 1996, p.3; Wright, 1997, p.133) in that the tests operate well across a wide variety of distribution. Consequently a number of advantages of nonparametric statistical tests have been suggested by Siegal and Castellan (1988, p. 35), namely:

- If the sample size is very small, there may be no alternative to using a nonparametric statistical test unless the nature of the population distribution is known exactly;

- Nonparametic tests typically make fewer assumptions about the data and may be more relevant to a particular situation. In addition, the hypothesis by the nonparametric test may be more appropriate for the research investigation;
- Nonparametric statistical tests are available to analyse data which are inherently in ranks **as well as data whose seemingly numerical scores have the strength of ranks**;
- Nonparametric methods are available to treat data, which are simply classificatory or categorical , i.e., are measured in a nominal scale. No parametric technique applies to such data;
- There are suitable nonparametric statistical tests for treating samples made up of observations from several different populations. Parametric tests often cannot handle such data without requiring us to make seemingly unrealistic assumptions;
- Nonparametric statistical tests typically are much easier to learn and to apply than are parametric tests. In addition their interpretation often is more direct than the interpretation of parametric tests.

7.3 Procedure for Confirming Hypothesis

After selecting a particular method for analysing the data, the next question is invariably which specific tests should be selected for confirming the hypothesis. Siegal and Castellan (1988, p.7) recommend that to reach an objective decision as to whether a particular hypothesis is confirmed by the data, we must have an objective procedure for either rejecting or accepting that hypothesis. Objectivity is emphasised because one important aspect of the scientific method is that one should arrive at conclusions by methods that are public and which may be repeated by other competent investigators. Hence, the author followed the recommended procedure to confirm hypothesis. The procedure followed involves several steps:

1. State the null hypothesis (Ho) and its alternative (H1). Decide what data to collect and under what conditions.
2. Choose a statistical test for testing (Ho) – see Table 7.3.1

3. From among the several tests which might be used with a given research design choose that test, the model of which most closely approximates the conditions of the research in terms of the assumptions on which the test is based.
4. Specify a significance level (∝) and sample size (N)
5. On the basis of the above, define the region of rejection for the statistical test. It is standard practice in statistics to reject Ho at <.05 significance.
6. Collect the data. Using the data obtained from the sample(s) compute the value of the test statistic. If the value is in the region of rejection, the decision is to reject (Ho); if that value is outside the region of rejection, the decision is that Ho cannot be rejected at the chosen level of significance.

7.3.1 The Choice of Statistical Test

The field of statistics has developed to the extent that we now have, for almost all research designs, alternative valid statistical tests, which might be used to reach a decision about an hypothesis. The author followed recommended guidelines for applying statistical tests (see Table 7.3.1) as suggested by Aaker et al. (1995, p.458); Kinnear and Gray (1996, p.75); Puri (1996, p.22) and Bryman and Cramer (1997, p.116), based on the level of measurement of the data:

Table 7.3.1 Statistical tests applied to the analysis of the questionnaire:

Type of Data: (Level of measurement)	Statistic Applied	Reason for selecting Statistic:
Nominal	Chi-square	Test for the independence of the samples
Nominal	Chi-square (phi)	Tests the level of association of two variables (in 2x2 table)
Nominal	Chi-square (Cramers V)	Tests the level of association of two variables (in 3x2 (+) table)
Nominal	Crosstabs	Determines frequency's
Ordinal	Descriptives	Determines frequency, means and standard deviations
Ordinal	Compare Means	Compares means of different samples

Ordinal	Kolmogrov-Smirnov	Compares distributions of different samples
Ordinal	Kruskal-Wallis	Compares the mean ranking of three or more samples
Ordinal	Spearman' rho	Measures the correlation between two variables

7.3.2 Interpreting Significant Correlations

To interpret the results of the Spearman correlation the author developed their own guidelines for interpreting the correlation coefficients (see Table 7.3.2) to describe the intensity of the correlation's between two variables.

Table 7.3.2: Description of Intensity of Correlation's and other Associations

Correlation Coefficient Value	Description
.3< =value <.39	Modest
.4< =value <.49	Good
.5< =value <.59	Strong
.6< =value <.69	Very strong
value >=.7	Extremely strong

7.3.3 Boxplot

A boxplot is a graph summarising the distribution of a set of data values. The upper and lower ends of the centre box indicate the 75th and 25th percentiles of the data, a line across the box indicates the median. The outliers represent single cases whose score is an extreme value, the number alongside the * and 0 are the case numbers. The box plots provided a visual representation of the median values of ordinal data for the entrepreneurial and non-entrepreneurial responses.

7.4 Types of Errors

There are two types of errors, which may be made in arriving at a decision about Ho. The first, Type I error, involves rejecting the hypothesis Ho when it is, in fact, true. The second, Type II error, involves failing to reject the null hypothesis when , in fact, it is false. Whenever a hypothesis is being tested, the probability that either of these errors will occur can be calculated. The probability of a Type I error i.e. rejecting Ho when it is true, is written as $\propto$. The probability of a Type II error, i.e. not i.e. rejecting Ho when it is false, is written as β.

Wright (1997, p.238) recommends that if there is no reason to expect any differences between the effects of either type of error, then it is usual to fix $\propto$ at either the 0.05 or 0.01 level (in this research project $\propto$ was set at 0.05). Although, if we wish to reduce the possibility of both types of errors, we must increase the sample size (Siegal and Castellan, 1988, p.10). Since the author achieved a high response rate and attained a high level of reliability of the questionnaire, both types of errors have been reduced.

7.5 Measurement

When a social scientist talks about measurement, they usually mean the assigning of numbers to observations in such a way that the numbers are amenable to analysis by manipulation or operations according to certain rules. The purpose of this analysis by manipulation is to reveal new information about the objects being measured. By carrying out this manipulation of the numbers the social scientist obtains new information about the objects (Siegal and Castellan, 1988, p. 23). Consequently the author established three clear levels of measurement (see Table 7.5)

Table 7.5 Levels of Measurement

Type of variable	Description
Nominal	A classification of objects into discrete categories
Ordinal	The categories associated with a variable can be rank-ordered. Objects can be ordered in terms of a criterion from highest to lowest.
Interval	With 'true' interval variables, categories associated with a variable can be rank-ordered, as with an ordinal variable, but the distances between the categories are equal.

7.5.1 Sources of Measurement Difference

The ideal study should be designed and controlled for precise and unambiguous measurement of the variables of interest. Since attainment of this ideal is unlikely, the researcher must recognise the sources of potential error and try to eliminate, neutralise, or otherwise deal with them. Much potential error results from bias (systematic) while the remainder occurs in an erratic fashion (random). There are four major error sources, which may contaminate results. These are the respondent, the situation, the measures, and the instrument. Each will now be reviewed to demonstrate how the author minimised the errors.

7.5.2 The Respondent as an Error Source

These may be typical opinion differences, which arise from respondent characteristics and include employee status, ethnic group, social class, etc. Others of less obvious nature include factors such as fatigue, boredom, anxiety, and impatience which may all have an affect on the respondents ability to respond accurately and fully. To overcome this type of error each respondent was individually contacted, to ensure they possessed the information to answer the survey questions. On verifying the respondents credentials the nature of the research would be explained, as well as the length of questionnaire and suggested time to complete it to overcome any errors resulting from the respondent. Finally all respondents were sent an initial summary of the purpose of the research project to encourage participation.

7.5.3 Situational Factors

Any condition that places a strain on the respondent can have serious effects; e.g. If the respondents feel that anonymity is not assured, they may be reluctant to express certain feelings. All respondents were guaranteed anonymity.

7.5.4 The Measure as an Error Source

The interviewer can distort responses by rewording, paraphrasing, or re-ordering questions. Incorrect input of data is an obvious source but errors may be further introduced at the data analysis stage by incorrect coding, careless tabulation, and faulty statistical calculation. To overcome these concerns the questionnaire was pilot tested on two separate occasions to determine the respondents comprehension of the questions and the style and layout of the questionnaire. The results from both pilot studies were used to refine the layout and wording of the questions. The data from the returned questionnaires was typed in by two separate typists so as to verify data entry. The coding was verified by an independent academic, who had several years of experience in the design and analysis of questionnaires. Finally the statistical tests selected were recommended by many authors in the field of statistical analysis and the selection was further verified by consulting academic colleagues specialising in statistical analysis (see Appendix 2).

7.5.5 Instrument as an Error Source

The use of complex words and syntax beyond respondent comprehension is a typical example of a defective instrument, which may cause distortion. Leading questions, ambiguous meaning, mechanical defects (i.e. inadequate space for replies, poor printing, spelling mistakes) suggest a range of problems. The printing quality of each questionnaire was individually checked for quality consistency and detailed instructions were provided for each question. The layout of the instructions and question wording were all based on the recommendations of the pilot studies and academic advice (see Appendix 2).

7.6 Characteristics of Sound Measurement

A good measurement tool should be an accurate indicator of what the researcher is interested in, measuring as well as being easy and efficient to use. There are two major considerations the author observed when evaluating the measurement tool; these were validity and reliability and have been described as: "validity indicates the degree to which an instrument measures what it is supposed or intended to measure" (Oppenheim and Abraham, 1992, p.160). While "reliability refers to the purity and consistency of measure, to repeatability, to the probability of obtaining the same results again if the measure were to be duplicated" (Oppenheim and Abraham, 1992, p.144). These two qualities and how the author achieved them in their measurement procedures were discussed in Chapter Six.

CHAPTER 8: Survey Analysis

8. Introduction

This chapter will discuss the statistical findings of the survey questionnaire. The mailed questionnaire contained 181 questions categorised into eight sections (see Figure 8 below). The questions were elicited from the literature search into both relationship marketing and entrepreneurship. The first section involved capturing general information on the profile of the SME that included determining: number of years trading, number of employees, number of product/service lines, geographical coverage of sales, etc. and their planning style. This was followed by the entrepreneurial behaviour and growth performance section. The final six sections of the questionnaire concentrated on relationship marketing themes, and sought to identify the extent to which the SME pursued key relationship marketing activity, namely: competitor analysis, customer focus, customer segmentation, profitability analysis, maintaining loyal staff and customer defection analysis.

Figure 8 Sections of the Survey Questionnaire

Section 1: Profile of SME	Section 2: Growth and Entrepreneurial behaviour of SME
Section 3: Competitors Analysis	Section 4: Customer Profiling
Section 5: Customer Segmentation	Section 6: Customer Profitability analysis
Section 7: Loyal Staff Analysis	Section 8: Customer Defection Analysis

The SMEs in the sample were classified as entrepreneurial or non-entrepreneurial by reference to the nature of their planning. This approach has well established antecedents in the entrepreneurship literature. Hence, Proactive SMEs in the sample were classified as entrepreneurial while the Reactive and Informal SMEs were classified as non-entrepreneurial respectively. The results, from the survey analysis, will be presented in two formats: the first displaying the frequency of responses to the nominal questions and the second format highlighting the statistically significant findings (i.e. significant correlation's or differences). The frequency counts and statistical analysis will be presented from the perspective of the entrepreneurial SMEs (since it will become apparent from the findings that entrepreneurial SMEs have a significantly greater relationship marketing orientation). The results will be displayed in descending order of chi values or correlation coefficients. Frequency and percentage values to questions will also be discussed and the author will highlight the general preferences (or tendencies) of the entrepreneurial and non-entrepreneurial SMEs. These general tendency comments are not statistically significant, merely the author's interpretation of frequency data. A summary will be presented at the end of each section, highlighting the main findings. To commence the analysis the author will recap the purpose of the mailed survey questionnaire, which was to:

- identify the significant differences in the entrepreneurial orientation of the entrepreneurial and non-entrepreneurial SMEs
- determine the significant differences between entrepreneurial and non-entrepreneurial SMEs, in terms of their relationship marketing strategy
- identify the main characteristics of a relationship marketing strategy as practised by entrepreneurial SMEs
- contribute to knowledge in the field of relationship marketing and entrepreneurial SMEs

The data was analysed using SPSS and the statistical tests employed were based on the level of measurement of the data (see Chapter 7). Since most of the questions were either of a Likert scale dimension (ordinal data) or categorical responses (nominal data) non-parametric statistics were used. Chi-square (Cramers V or Phi) statistics were used to test for the strength of association between categories, whilst Kruskal-Wallis was used to determine the significant difference between the entrepreneurial and non-entrepreneurial SMEs. The reliability of the responses were verified by using Cronbach's Alpha. The correlation coefficients for variables within each section revealed an acceptable level of Cronbach's Alpha greater than 0.6.

8.1 General Profile of SMEs

This section, of the survey questionnaire, aimed to solicit general information on the SME, which included:

- Number of years trading
- Principle market for main product group
- Market share for main product group
- Number of different products
- Turnover of Company
- Number of employees

The general profile of the SMEs (entrepreneurial and non-entrepreneurial in Table 8.1a) reveals that Entrepreneurial SMEs have:

- been trading slightly longer than non-entrepreneurial SMEs
- a wider geographic dispersion of customers
- a higher market share for their main product group
- a higher annual turnover
- significantly higher number of employees working full time

Table 8.1a: SME Background Details by Entrepreneurial and Non-Entrepreneurial Classification

[ ] median value	Entrepreneurial orientation	Non- entrepreneurial orientation		
	Proactive	**Reactive**	**Informal**	**'n'**
Number of SMEs in each planning category	26	24	10	60
Number of years trading (mean value)	[14] 23	[14] 20	[15] 17	57
Principal market for main product/service line	UK	Regional/UK	Regional	60
Number of different products /service lines offered (number and range of response)	6-10	6-10	11-20	55
Stated % market share for main product / service line (mean value)	11-20 %	6-10 %	6-10 %	60
Annual turnover (£m) (range)	1- 6	0.5- 1	0.5 - 1	59
Number of full time employees	[52] 74	[30] 35	[21] 34	59
Number of part time employees	[3] 6	[2] 7	[1] 2	39
Customer defections reported as % loss to customer base (mean response)	5.74	5.83	7.45	50

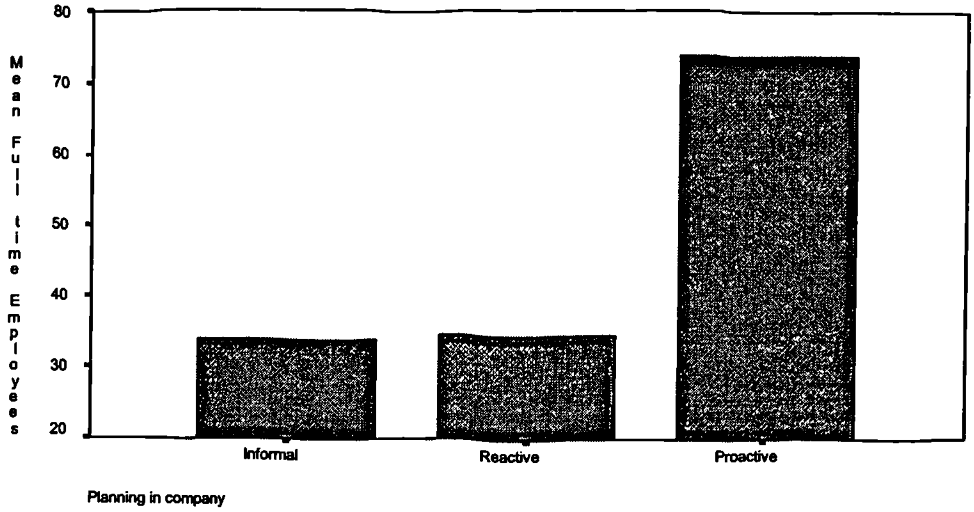
◊ The majority of the SMEs had multiple owners and were first generation businesses still run by the founders (rather than inherited or purchased as a going concern)
◊ In the sample the number of proactive SMEs was 26, reactive - 24, and informal - 10.
◊ Proactive are the most entrepreneurial, informal the least entrepreneurial and reactive an intermediate case.

Using Non-Parametric statistics the author was able to determine whether any significant differences existed between the entrepreneurial and non-entrepreneurial SMEs. The results in Table 8.1b reveal that there is a significant difference in terms of number of full time employees and this is further supported by Table 8.1a which shows entrepreneurial SMEs have almost twice as many full time employees than non-entrepreneurial SMEs (see also Fig. 8.1b).

Table 8.1b Kruskal Wallis test for employment difference in SMEs:

Q-No.	Questions	Chi	Sig.
Q9	Full time employees	6.510	.039

Figure 8.1b: Average number of full time employees in each SME:



8.2 Experience of the Owner-Managers before starting Venture

Entrepreneurial and non-entrepreneurial SMEs were asked whether the owner-manager had any experience of the business before starting the venture. Cross tabulating the results revealed that 77.8 % of the owner-mangers of entrepreneurial and non-entrepreneurial SMEs had some experience of the business before they started the venture. The survey questionnaire also used two other descriptors to determine whether SMEs were privately owned or owned by several individuals and also whether the SMEs were newly created or inherited or bought. The crosstabluation of entrepreneurial and non-entrepreneurial SMEs with the two previous descriptors revealed that:

- the majority of entrepreneurial and non-entrepreneurial SMEs, especially the entrepreneurial SMEs, in the sample were owned privately by many owners. While the rest were privately owned by an individual.
- Almost 85% of the entrepreneurial and non-entrepreneurial SMEs were newly created, while the other 15% were either bought or inherited.

8.3 Schumpeterian Difference between entrepreneurial and non-entrepreneurial SMEs

The author will initially review the general frequency of agreement amongst the entrepreneurial and non-entrepreneurial SMEs to their Schumpeterian past and intended future behaviour (see Table 8.3a).

Table 8.3a Differences in the responses of each of the SMEs

		Percentage of SMEs who responded positively to the questions			
		Ent.	Non-Entrepreneurial		
Q-No.	**SMEs Schumpeterian focus:**	Proactive	Reactive	Informal	Cases
Q17	Will create a new product / service	92	77.3	88.9	56
Q11	Created a new product / service	88.5	68.2	87.5	56
Q19	Will open a new market	81	78.3	75	52
Q13	Opened a new market	80	59.1	37.5	50
Q14	Captured a new source of supply	71.4	78.3	55.6	53
Q20	Will capture a new source of supply	66.7	73.9	55.6	53
Q12	Developed a new method of production	59.1	54.5	40	54
Q18	Will develop a new method of production	54.5	66.7	50	51
Q15	Created a new industry	18.8	5.3	0	43

The results in Table 8.3a show that entrepreneurial and non-entrepreneurial (Informal) SMEs agree on the first three measures of intended future and past Schumpeterian behaviour, namely:

- Will Create a new product/service;
- Created a new product/service in the past year;
- Will open a new market;.

The results in Table 8.3a reveal that both entrepreneurial and non-entrepreneurial (Informal) SMEs are committed to innovative behaviour that will facilitate new products/service and open up new markets for them. Entrepreneurial SMEs have a tendency to show a greater agreement with these policies. The author will now crosstabulate the Schumpeterian variables to determine any associations between them (see Table 8.3b).

Table 8.3b: Schumpeterian Variables associated with other Schumpeterian Variables.

Q-Nos.		Questions:		Phi	Sig.	Cases
Q11	Q17	Create a new product / service	Create a new product / service in the future	.82514	.00000	55
Q14	Q20	Create a new source of supply	Capture a new source of supply in the future	.73262	.00000	52
Q12	Q18	Develop a new method of production	Develop a new method of production in the future	.64238	.00001	50

Table 8.3b shows a significantly very strong association between creating a new product / service in the past and intended future. There is also a significantly very strong association between capturing a new source of supply in the past and intended future. Table 8.3a highlights that entrepreneurial and non-entrepreneurial (Informal) SMEs show a higher agreement with these significant associations.

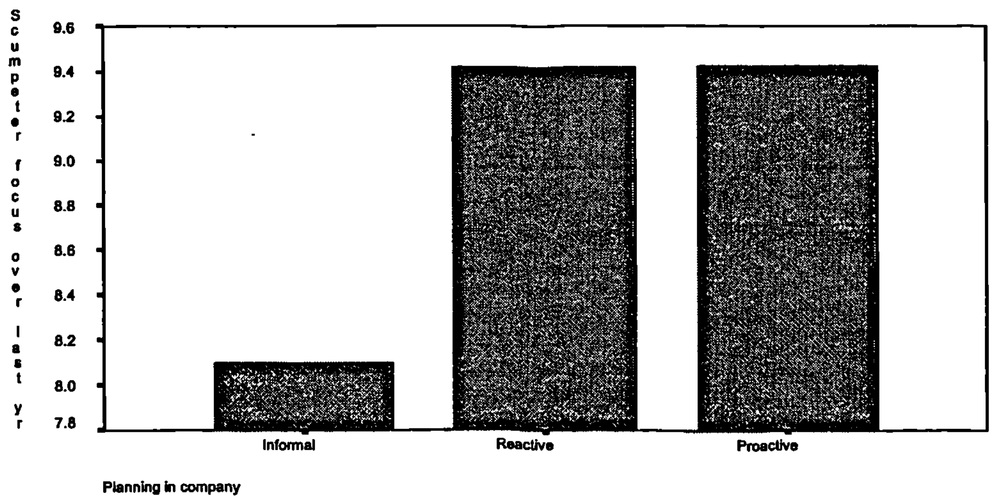
To determine whether there was any significant difference in the way entrepreneurial and non-entrepreneurial SMEs responded to the nominal Schumpeterian categories – the following analysis was carried out. Responses for each nominal question had initially been coded 1 for No and 3 for Yes, to facilitate data entry for each nominal question. The responses to each Schumpeter variable were summed to allow the author to use the Kolmogrov Smirnov statistical analysis to determine whether there were any differences in the pattern of data entry by the entrepreneurial and non-entrepreneurial SMEs. The author then created two new variables Q210 and Q211 to store the summed values of the entrepreneurial and non-entrepreneurial responses to previous and intended future Schumpeterian behaviour of the nominal coded questions. Since these new variables (Q210 and Q211) now have the value of a rank, Siegal and Castellan (1988, p.35) contend that they can be considered as ordinal scales. Since, a higher number suggests a greater focus to pursuing Schumpeterian categories. The Kolmogrov Smirnov one-sample test (see Table 8.3c) revealed that there is a significant difference in the responses from the entrepreneurial and non-entrepreneurial (Reactive) SMEs.

Table 8.3c Kolmogorov-Smirnov one sample test

Question	Variable	K-S test	Significance	Cases
Q210	Schumpeterian focus over last year	2.3607	.0000	60
Q211	Future Schumpeterian Focus	2.4099	.0000	60

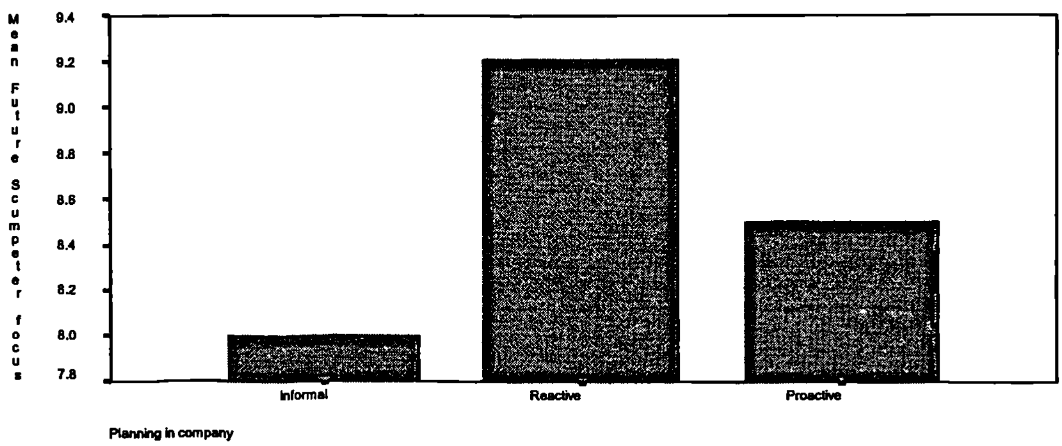
The results in Figure 8.3a are an aggregate of all the summed nominal questions relating to past Schumpeterian behaviour. The analysis of the results (see Figure 8.3a) reveal that entrepreneurial and non-entrepreneurial (Reactive) SMEs have had a significantly greater focus on the Schumpeterian factors than non-entrepreneurial (Informal) SMEs in the last year.

Figure 8.3a Schumpeterian Focus Last Year



The results in Figure 8.3b are an aggregate of all the summed nominal questions relating to intended future Schumpeterian behaviour and the graph reveals that Non-entrepreneurial (Reactive) SMEs are significantly more committed to pursuing Schumpeterian behaviour in the future.

Figure 8.3b Intended Future Schumpeterian Focus



8.3.1 Summary of Schumpeterian Section

The main findings of this section reveal that the entrepreneurial and non-entrepreneurial (Reactive) SMEs have, in the past, significantly attached greater importance to creating a new product / service, opening new markets and capturing a new source of supply. While the entrepreneurial SMEs have shown their intent to continue to pursue Schumpeterian behaviour. One of the reasons why non-entrepreneurial (SME) may be significantly more likely to show a focus on these factors, in the future, is that the entrepreneurial SMEs may be consolidating their growth and therefore diligently not pursuing further rapid growth that could jeopardise their finite resources.

8.4 Entrepreneurial Orientation of SMEs

This section aims to determine the SMEs entrepreneurial orientation. The entrepreneurial orientation of the SME is determined through the entrepreneurial behaviour prevalent in SMEs as identified by Chell et al. (1993, p.71) which includes:

- Being alert to business opportunities
- Proactive (i.e. they take initiative to control events rather than react to them)
- Highly innovative (products and services)

- Use a variety of finances (short and long term financing)
- Strive for the best (to develop the business)
- Have elaborate business networks (to enhance the visibility of company)
- Have a high profile image (to establish the reputation of the company)
- Need a lot of stimulus (as they become bored easily)
- Adventurous (they create situations which result in change)

The entrepreneurial and non-entrepreneurial SMEs were asked to indicate their degree of agreement to the above listed behaviour on a rank scale of 1 to 9. To commence the analysis of the results the author first determined how reliable the category of questions for entrepreneurial behaviour were in soliciting responses from the SMEs. The author employed Cronbach's alpha to determine the reliability of the item pool of questions relating to entrepreneurial behaviour (see Table 8.4a).

Table 8.4a Reliability analysis results for entrepreneurial behaviour

Variables	Category	Reliability
Q23 - Q31	Entrepreneurial Behaviour	.7234

The results from Table 8.4a reveal that the scale is reliable, thus the author can be confident with the responses which can now be analysed more closely using the Kruskal-Wallis statistical test to indicate the significant differences and indicative preferences between entrepreneurial and non-entrepreneurial SMEs. Table 8.4b indicates all the questions for which there was No significant difference between the entrepreneurial and non-entrepreneurial SMEs.

Table 8.4b Entrepreneurial Behaviour of SMEs:

					Mean Ranks		
					Ent.	Non-Entrepreneurial	
	Questions	Chi-Square	Sig.	Cases	Proactive	Reactive	Informal
Q24	Proactive	5.4199	.0665	60	36.13	26.77	24.80
Q23	Alert to business opportunities	2.9080	.2336	60	34.12	26.50	30.70
Q28	Has elaborate business networks	2.8499	.2405	59	33.46	29.40	22.80
Q26	Uses a variety of finances	2.6094	.2713	59	34.10	27.52	25.70
Q27	Strives for best	2.1443	.3423	60	33.56	26.90	31.20
Q29	Is a high profile image maker	1.7541	.4160	59	33.38	27.90	26.60
Q30	Needs a lot of stimulus	.8795	.6442	57	28.35	31.15	25.60

The mean ranking for the entrepreneurial SMEs in Table 8.4b highlights that entrepreneurial SMEs show a greater tendency to focus on:

- Proactive behaviour;
- Being Alert to business opportunities;
- Using a variety of finances;
- Striving for the best;
- Establishing elaborate business networks;
- Having a high profile image.

7.4.1 <u>Correlation's between entrepreneurial behaviour variables</u>

Table 8.4.1a Correlation of Alert to business opportunities behaviour

				Corr. coeff.	Sig.	Cases
Q23	Q24	Alert to Business opportunities	Proactive	.6748	.000	60
Q23	Q25	Alert to Business opportunities	Highly Innovative	.5822	.000	60
Q23	Q27	Alert to Business opportunities	Strives for best	.5158	.000	60

Table 8.4.1a shows a significantly very strong relationship between a company being alert to business opportunities and being proactive, innovative, and striving for the best. Further analysis (see Table 8.4.1b, 8.4.1c and 8.4.1d) reveal that entrepreneurial SMEs are not only significantly more innovative but they also have a tendency to be more proactive, alert to business opportunities and strive for the best.

Table 8.4.1b Correlation of Proactive and Highly innovative behaviour:

				Corr. coeff.	Sig.	Cases
Q24	Q25	Proactive	Highly innovative	.6159	.000	60

Table 8.4.1b shows a significantly very strong relationship between proactive and highly innovative behaviour. These behaviours are significantly more evident in Entrepreneurial SMEs.

Table 8.4.1c Correlation of Highly Innovative behaviour:

Q25	Q31	Highly Innovative	Needs a lot of stimulus	.4785	.000	60
Q25	Q27	Highly Innovative	Strives for best	.4575	.000	60
Q25	Q29	Highly Innovative	High Profile image maker	.4482	.000	59

Table 8.4.1c highlights some significantly modest relationship between highly innovative behaviour and needing a lot of stimulus, striving for the best and being a high profile image maker. These results highlight that highly innovative behaviour is also influenced by other behaviour. From the results in Table 8.4b we can see that entrepreneurial SMEs show a greater tendency to exhibit these entrepreneurial behaviours.

Table 8.4.1d Correlation of Elaborated business networks behaviour:

Q28	Q29	Elaborate business networks	High profile image maker	.6314	.000	59

Table 8.4.1d shows a significantly very strong relationship between having elaborate business networks and a high profile image. The results in Table 8.4b reveal that entrepreneurial SMEs show a greater tendency to exhibit these behaviours.

8.4.2 Entrepreneurial Significant Differences

The main significant differences between the entrepreneurial and non-entrepreneurial SMEs are highlighted in Table 8.4.2

Table 8.4.2 Significant Differences in Entrepreneurial Behaviour

					Ent.	Non-Entrepreneurial	
		Chi-Square	Sig.	Cases	Proactive	Reactive	Informal
Q25	Highly innovative	10.6952	.0048	60	38.35	26.25	20.30
Q31	Adventurous	7.4683	.0239	60	37.38	26	23.40

The Kruskal-Wallis statistics in Table 8.4.2 reveal that entrepreneurial SMEs are significantly more:

- Innovative
- Adventurous

A comparison of the distribution of the scores for each SME are presented in Figure 8.4.2a and Figure 8.4.2b which presents the boxplots for the entrepreneurial variables.

Boxplots (see Figure 8.4.2a & 8.4.2b) of the responses from the entrepreneurial and non-entrepreneurial SMEs to entrepreneurial behaviour questions reveal the visual differences in the medians of the various SMEs. The X axis represents the planning in the company while the Y axis represents the median values of the non-entrepreneurial (Informal and Reactive) and entrepreneurial (Proactive) SME responses.

Figure 8.4.2a Entrepreneurial SMEs are significantly more innovative

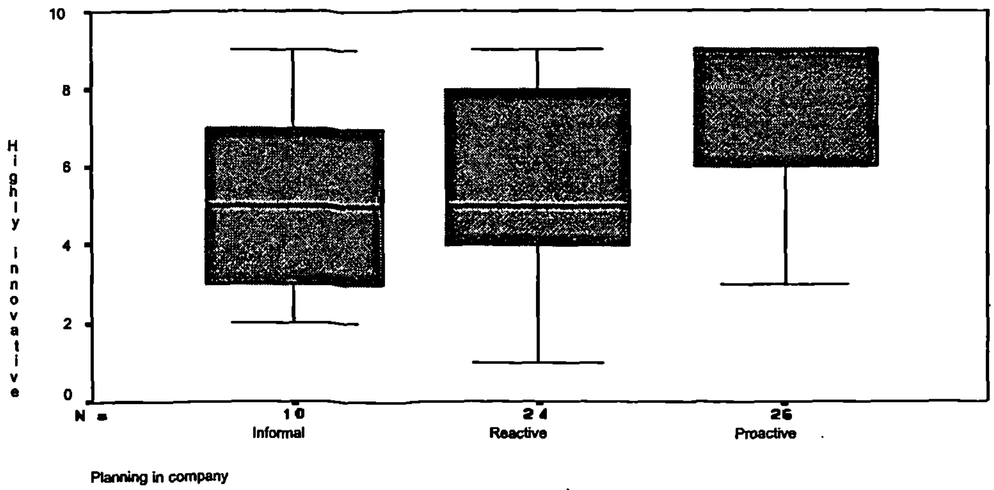
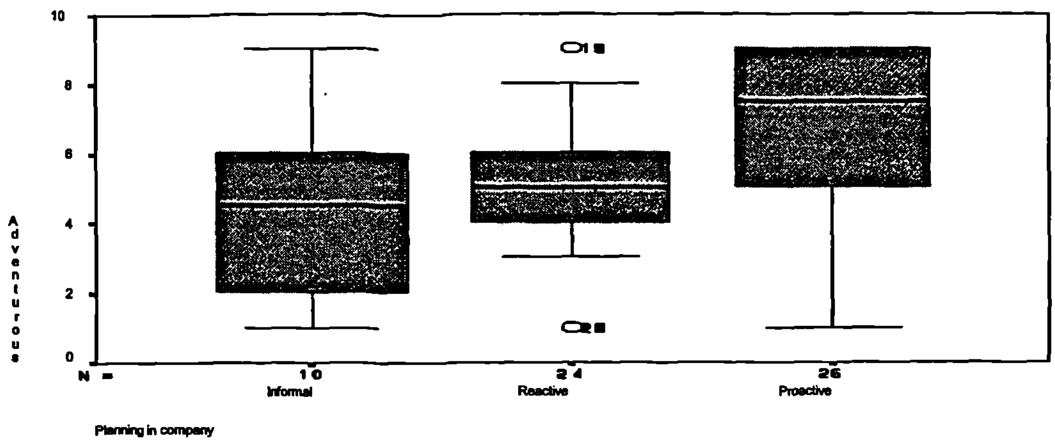


Figure 8.4.2b Entrepreneurial SMEs are significantly more Adventurous



8.4.3 Summary of Entrepreneurial Behaviour

The statistical results, of this section, show that entrepreneurial SMEs are significantly more innovative and adventurous and show a greater tendency to pursue other entrepreneurial behaviour especially being proactive; alert to business opportunities; using a variety of finances; having elaborate business networks; striving for the best and creating a high profile of the company. Additionally the correlation results reveal that there is a strong relationship between these entrepreneurial behaviours, which are pursued to a greater degree by entrepreneurial SMEs.

8.5 Differences in the Growth of entrepreneurial and non-entrepreneurial SMEs

The section also focused on determining the SMEs

- growth in last 3 years
- means of financing growth
- organisational structure

As stated earlier a number of new variables were created to permit the author to conduct Kolmogrov Smirnov statistical tests that determine any differences in data entry from various group (in this case entrepreneurial and non-entrepreneurial SMEs). A new variable Q221 was created to store the summed values of growth over the last 3 years. Table 8.5 reveals that there is a significant difference in the way the SMEs responded to growth in last 3 years. Further analysis showed that entrepreneurial SMEs had significantly experienced greater growth in the last 3 years than non-entrepreneurial SMEs (see Figure 8.5). This is further confirmed by the results in Table 8.6a, which reveal that entrepreneurial SMEs have indicated a greater tendency to have increased its assets, customers and employees in the last 3 years

Table 8.5 Kolmogorov-Smirnov results highlighting the significant differences in the SMEs

Q-No.	Variable	K-S	Significance	Cases
Q221	Growth in last 3 years	4.9058	.0000	60

Figure 8.5: Entrepreneurial Growth in last 3 years

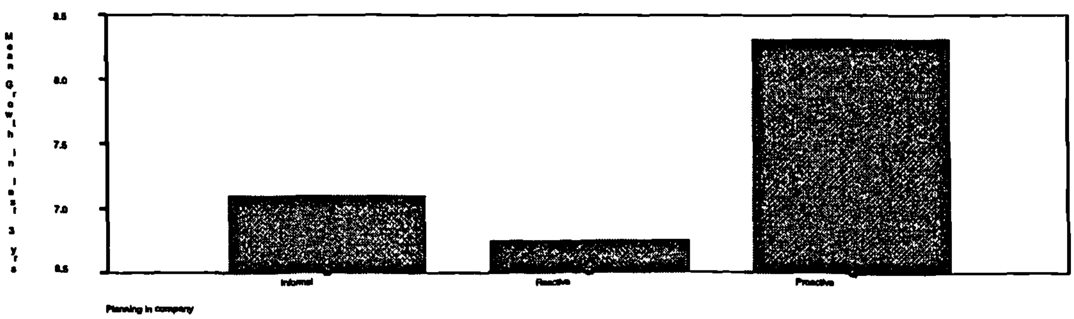


Table 8.5a Increase in Assets, Customer and Employees:

		Percentage of SMEs who responded positively to the questions			
		Ent.	Non-Entrepreneurial		
Q- No.	Question	Proactive	Reactive	Informal	Cases
Q49	SME has increased assets in last 3 years	88.5	82.4	77.8	52
Q48	SME has increased customers in last 3 years	88.5	82.6	70	59
Q47	SME has increased employees in last 3 years	88.5	66.7	70	60

Table 8.5b: Factors associated with Growth Variables

Questions				Sig.	Phi.	Cases
Q48	Q181	Increase in customers	Exit interviews carried out with employees	.00042	.47581	55

Table 8.5b reveals that an increase in the number of customers is significantly associated with 'exit interviews' being carried out with all employees. Entrepreneurial SMEs responded more to carrying out exit interviews with all employees. The literature review on exit interviews highlight that they allow a company to determine ways of improving its existing processes, services, training and employment selection process to ensure that the company remains focused on customer and employee requirement.

Table 8.5c Growth variables associated with other growth variables:

Q-Nos.		Questions		Phi	Sig.	Cases
Q47	Q48	Increase in number of employees in last 3 years	Increase in number of customers in last 3 years	.63180	.00000	59
Q47	Q49	Increase in number of employees in last 3 years	Increase in number of assets in last 3 years	.46814	.00074	52
Q48	Q49	Increase in number of customers in last 3 years	Increase in number of assets in last 3 years	.40909	.00318	52

Table 8.5c shows that there is a significantly strong association between an increase in the number of employees and an increase in the number of customers. This is to be

expected for if an SME is to maintain its growth and increases its customer base it will require an appropriate investment in resources (namely employees) to ensure that they maintain their standard of service and productivity for the expanding customer base. Earlier results in Table 8.2 show that entrepreneurial SMEs have significantly increased their number of employees, and as further statistical findings will reveal entrepreneurial SMEs lose anywhere between 2-30% fewer customers each year.

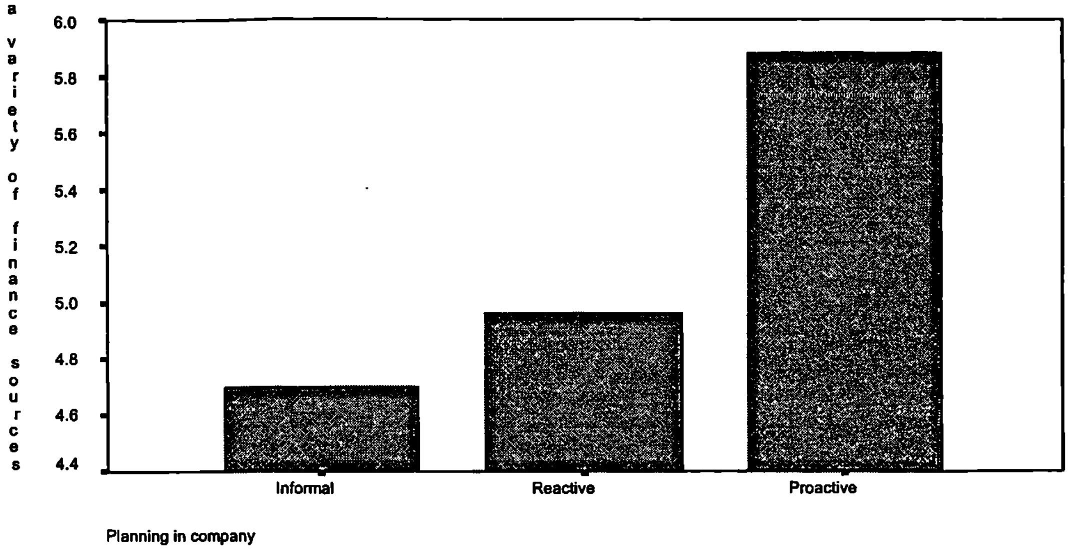
Table 8.5c further reveals a significantly good association between an increase in the number of customers and an increase in SME assets. This is a fairly evident association since an increase in customers' would require a company to increase its asset base (if capacity was already at its maximum) to ensure that service quality was not jeopardised.

Table 8.5d Financing of Growth:

		Percentage of SMEs who responded positively to the questions			
		Ent.	Non-Entrepreneurial		
Q-No.	**SMEs finance growth through:**	Proactive	Reactive	Informal	Cases
Q39	Growth financed by bank overdrafts	66.7	70	71.4	48
Q41	Growth financed by long term loans	56.3	31.3	37.5	40
Q40	Growth financed by short term loans	46.7	62.5	71.4	38
Q42	Growth financed by seeking partners	25	15	0	47

Table 8.5d shows preferences by the various SMEs for financing their growth. The results reveal that entrepreneurial SMEs place a greater emphasis on both short and long term financing as a means of growing their company. This behaviour is further supported by Figure 8.5d, which reveals a higher tendency by entrepreneurial SMEs to use a variety of finances.

Figure 8.5d: SMEs using a variety of finances



From the literature review the author identified four stages of growth, namely:

1. Steady growth from the start
2. Rejuvenating growth
3. Reached a Plateau
4. Declining growth

These stages of growth were compared with the various planning types (entrepreneurial vs non-entrepreneurial) and the results suggest that entrepreneurial SMEs have been achieving steady growth from the start of the business. Earlier results showed that entrepreneurial SMEs have achieved the highest growth compared to non-entrepreneurial SMEs in terms of assets, customers and employees (see Table 8.5a)

8.5.1 Summary of Growth Section

The main findings of this section reveal that entrepreneurial SMEs have significantly achieved greater growth in the last 3 years. This has allowed the entrepreneurial SMEs to increase their employee base to maintain their level of productivity and service. The financing of this growth has predominantly been secured through various financial means. Finally entrepreneurial SMEs have shown a greater tendency to adopt an organic structure within their companies.

8.6 Associations between the SMEs and relationship marketing variables

There are a number of relationship marketing variables which both entrepreneurial and non-entrepreneurial SMEs pursue.

Table 8.6 Association between SME type of planning and Relationship Marketing variables

		Questions	Planning in Company	Cramers V	Sig.	Cases
Q59	Q45	SME analyses behaviour of competitors customers	Entrepreneurial and Non-Entrepreneurial SMEs	.52376	.00053	55
Q179	Q45	SME analyses its customer defection rates	Entrepreneurial and Non-Entrepreneurial SMEs	.49249	.00112	56
Q148	Q45	SME has calculated cost of losing a customer	Entrepreneurial and Non-Entrepreneurial SMEs	.44907	.00478	53
Q150	Q45	SME tracks salary of employees who have contact with customers	Entrepreneurial and Non-Entrepreneurial SMEs	.44045	.00531	54
Q157	Q45	SME recruits employees from competitors	Entrepreneurial and Non-Entrepreneurial SMEs	.40174	.01218	54
Q170	Q45	New employees have contact with some customers	Entrepreneurial and Non-Entrepreneurial SMEs	.35948	.03706	51
Q154	Q45	SME has introduced profit sharing	Entrepreneurial and Non-Entrepreneurial SMEs	.34380	.03060	59

Table 8.6 shows the statistical results of the Cramer Coefficient, which measures the degree of association between entrepreneurial and non-entrepreneurial SME planning and various relationship marketing variables. A number of relationship marketing variables display a significantly strong relationship with SME planning. Further analysis will reveal that entrepreneurial SMEs have a greater tendency to pursue each of the relationship marketing behaviours highlighted in Table 8.6.

8.6.1 Differences towards a Relationship Marketing focus from Entrepreneurial and non-entrepreneurial SMEs

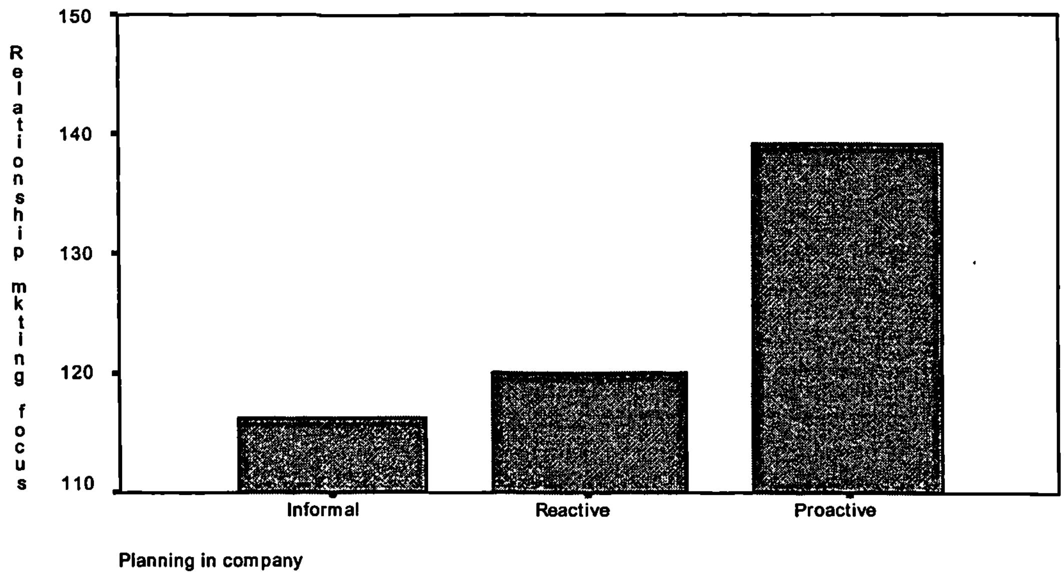
As stated earlier new variables were created after the survey had been administered and the results collected. To determine whether entrepreneurial and non-entrepreneurial SMEs had a greater focus on relationship marketing. A new variable (Q201) was created that held the summed values of the entrepreneurial and non-entrepreneurial SME responses to relationship marketing questions.

Table 8.6.1a Kolmogorov-Smirnov results highlighting the significant differences in the SMEs

Q-No.	Variable	K-S test	Significance	Cases
Q201	Relationship marketing focus	1.5545	.0159	60

The Kolmogorov-Smirnov statistical test (see Table 8.6.1a) shows that there is a significant difference in the response behaviour of entrepreneurial and non-entrepreneurial SMEs. Further analysis into the average (numerical) response of the SMEs reveals (see Figure 8.6.1a) that entrepreneurial SMEs have significantly responded more positively to pursuing more relationship marketing characteristics. Thus confirming hypothesis One that entrepreneurial SMEs have a significantly greater relationship marketing orientation.

Figure 8.6.1a: Entrepreneurial SMEs showing greater relationship marketing focus:



8.6.2 Summary of Relationship Marketing Focus

As stated earlier and confirmed by the Kolmogorov-Smirnov test (see Table 8.8.1a) entrepreneurial SMEs have a significantly greater tendency to exhibit relationship marketing behaviour. The statistical results of each relationship marketing category (i.e. the six relationship marketing sections of the questionnaire) will now be presented. The results for each table, in each section, will be presented in descending order of Chi values (as this shows the strength of the relationship or degree of difference, depending upon the statistical test applied). Since the entrepreneurial SMEs have shown a significantly greater tendency to exhibit relationship marketing behaviour. Each response table (i.e. a table in which no statistical tests have been carried out but merely display the percentage responses by the entrepreneurial and non-entrepreneurial SMEs to a specific question) will be ordered in descending (highest entrepreneurial frequency response) order.

8.7 Competitor Section Analysis

This section will aim to identify whether SMEs analyse their competitors.

Table 8.7a SME responses to the Competitor Section of the Survey

		Percentage of SMEs who responded positively to the questions			
		Ent.	Non-Entrepreneurial		
Q	Questions	Proactive	Reactive	Informal	Cases
Q60	SME can distinguish between major and minor competitors	88.5	87	88.9	58
Q58	SME is aware of how much business customers carry out with competitors	87.5	71.4	62.5	46
Q61	SME has determined cost advantage to customers from purchasing from the company	78.3	63.6	37.5	53
Q59	SME analyses behaviour of competitors customers	70.8	22.7	11.1	55

The responses of Table 8.7a reveal that both entrepreneurial and non-entrepreneurial SMEs can distinguish between major and minor competitors. Although, if we look closely at the percentage responses then the results suggest that entrepreneurial SMEs show a greater tendency for questions 58,61 and 59.

Table 8.7b: Competitor category variables associated with other competitor variables

Questions				Phi	Sig.	Cases
Q58	Q59	SME knows how much business their customers carry out with competitors	SME analyses behaviour of competitors customers	. 44721	.00375	42

Table 8.7b shows that there is a significantly good association between SMEs knowing how much business customers carry out with competitors and the SME analysing the behaviour of its competitors customers. This evidence suggests that SMEs are more aware of the degree of multiple sourcing by their customers. The results in Table 8.7a indicate that entrepreneurial SMEs have a greater tendency to carry out such analysis.

Table 8.7c: Competitor Section Questions associated with other Relationship Marketing section Questions

Questions				Phi	Sig.	Cases
Q61	Q138	SME knows switching costs for customers	SME has calculated cost of providing all service	.64870	.00001	48
Q59	Q179	SME analyses behaviour of competitors customers	SME analyses trends to understand customer defection	.52586	.00013	53
Q59	Q112	SME analyses behaviour of competitors customers	Segmentation by Purchasing behaviour	.52298	.00893	25
Q61	Q150	SME knows switching costs for customers	SME tracks the salary of employees who have contact with customers	.51210	.00039	48

Table 8.7c highlights a number of significantly strong associations between the competitor category variables and other relationship marketing variables. Further analysis in this Chapter will show that entrepreneurial SMEs have indicated that they have a greater tendency to focus on these relationship marketing variables.

The associations reveal that entrepreneurial SMEs (as they showed a greater tendency to exhibit this behaviour):

- have determined the cost of providing all the services to a customer and therefore know the switching costs for that customer if they were to move to competitor;
- analyse trends of customer defection and also the trends of customer defection of competitors' customers. Allowing the SME to determine whether their defection rate is above or below the industry average;
- determine the behaviour of their competitors customers and measure the success of its own customer segments in terms of their purchasing behaviour;
- realise that it is not sufficient to only know the switching cost of its customers but also to know the switching costs of its employees.

8.7.1 Summary of Competitor Category

The main findings of this section reveal that entrepreneurial SMEs place a greater emphasis on analysing the behaviour of their competitors in terms of analysing their customers and determining how much business their customers carry out with their competitors. Additionally the associations of the competitor variables with other relationship marketing variables reveal that entrepreneurial SMEs are aware of the switching costs for their customers, know whether their customer defection rates are above or below industry averages, measure the success of their customer segments in terms of their purchasing behaviour compared to their competitors customer segments and review the salary of employees who have contact with customers to ensure their loyalty is maintained in providing a high level of service to maintain customers.

8.8 Customer Category

This section will aim to determine:

- How regularly SMEs communicate with their customers and the benefits derived from communicating with them
- Factors that increase customer loyalty
- Improvements from close relationships with customers
- SMEs awareness of customer needs

Table 8.8a Mode of Communication with Customers

		Percentage of SMEs who responded positively to the questions			
		Ent.	Non-Entrepreneurial		
Q-No.	Questions	Proactive	Reactive	Informal	Cases
Q63	Communication via the telephone	100	100	100	58
Q64	Communication via personal contact	100	100	90	59
Q62	Communication via a newsletter	63.2	28.6	33.3	49
Q65	Communication via seminars	40	13.6	22.2	51

Table 8.8a highlights many of the communication tools that entrepreneurial SMEs have a greater tendency to use, namely:

- telephone contact
- personal contact
- newsletters

Questions 65 reveals that many of the entrepreneurial SMEs also carry out seminars.

Table 8.8b SMEs focus when Soliciting Views from Customers

		Percentage of SMEs who responded positively to the questions			
		Ent.	Non-Entrepreneurial		
Q-No.	Questions	Proactive	Reactive	Informal	Cases
Q94	SME solicits view on service levels	96.2	95.8	100	59
Q93	SME solicits views on product benefits from customers	96	94.7	71.4	51
Q92	SME solicits views on product features from customers	60	88.9	66.7	52

Table 8.8b shows that there is general agreement amongst the entrepreneurial and non-entrepreneurial SMEs on focusing on both service levels and product benefits when soliciting views from their customers.

Table 8.8c SME responses to Various Customer Section Questions

		Percentage of SMEs who responded positively to the questions			
		Ent.	Non-Entrepreneurial		
Q-No.	Questions	Proactive	Reactive	Informal	Cases
Q97	SME knows who are its loyal customers	100	100	80	57
Q99	SME knows which customers have the potential to grow	100	94.4	87.5	49
Q100	Customers refer business to potential customers	100	100	100	50
Q103	SME knows whether customers talk favourably about the product / service	100	90.9	87.5	53

Q102	Referrals are better prospects	86.4	94.4	66.7	49
Q105	Most profitable customers receive consistent level of service	83.3	90.9	70	56
Q101	SME knows how many new customers were referred	70.8	72.7	50	54
Q108	SME tracks purchase frequency of main customers	66.7	50	60	56

Table 8.8c highlights the main agreement amongst the entrepreneurial and non-entrepreneurial SMEs in that they are all aware that their customers refer business to new potential customers. The subtle differences between the entrepreneurial and non-entrepreneurial SMEs is that the entrepreneurial SMEs have a greater tendency to know which customers' have the potential to grow (Q99), know whether customers talk favourably about their products and services (Q103) and finally track the purchase frequency of their customers.

Table 8.8d Customer knowledge Behaviours that need Attention

		Percentage of SMEs who responded to the questions			
		Ent.	Non-Entrepreneurial		
Q-No.	Questions	Proactive	Reactive	Informal	Cases
Q106	SME knows how customers preferred to be contacted	48	40.9	66.7	56
Q107	SME has a database on customer preferences	40	21.7	55.6	57
Q98	SME has an accounting system to analyse loyal customers	19.2	16.7	10	60

Table 8.8d highlights the areas that entrepreneurial and non-entrepreneurial SMEs need to focus on to improving their knowledge of customers, namely:

- Being aware of how customers prefer to be contacted;
- Building a database repository holding key information on customer preferences;
- Developing an accounting system to analyse loyal customers;

Table 8.8e Customer category variables associated with other Relationship Marketing section questions.

Questions				Phi.	Sig.	Cases
Q108	Q112	SME tracks purchase frequency of main customers	SME measure the success of each customer segment by purchasing behaviour	.64588	.00124	25
Q105	Q152	Most profitable customers receive a consistent service	Employee retention leads to higher productivity	.41258	.00620	44

There is a significantly very strong association between two customer category variables and other relationship marketing variables. The associations in Table 8.8e highlight that both entrepreneurial and non-entrepreneurial SMEs:

- track the frequency of purchase of main customers and measure the success of that category of segmented customers in terms of their purchasing behaviour.
- realise that employee retention has not only led to higher productivity but also to most profitable customers receiving a consistent level of service. This association highlights the importance of retaining employees.

8.8.1 Importance of Communicating with Customers

The literature review revealed a number of variables that were prominent in highlighting the importance of communicating with customers. Therefore, the SMEs were asked to rank their responses, from a range of 1 to 9, which indicated their degree of agreement with these variables. To commence the analysis the author first determined how reliable the category of variables for importance of communicating with customers were in soliciting the responses from the SMEs. The reliability statistic used was the Cronbach's alpha which will we used for all ordinal questions in a category.

Table 8.8.1a Reliability Analysis for Importance for Communicating with Customers

Variables	Category	Reliability
Q87 – Q90	Importance of communicating with customer	.6351

The results in Table 8.8.1 reveal that the responses for the factors of importance of communicating with customers are reliable. The responses will be analysed using Kruskal-Wallis statistics to determine the significant differences between the entrepreneurial and non-entrepreneurial SMEs to highlight their indicative preferences.

Table 8.8.1b Importance of communicating with customers:

					Mean Ranks		
					Ent.	Non-Entrepreneurial	
	Questions	Chi-Square	Sig.	Cases	Proactive	Reactive	Informal
Q87	To determine how the relationship is doing	.9017	.6371	60	32.63	29.56	27.20
Q88	To solicit other business	.5534	.7583	60	31.60	30.81	26.90

The results in Table 8.8.1b show that there is no significant difference between the behaviour of entrepreneurial and non-entrepreneurial SMEs to communicating with customers. Although, if we review the mean ranks of the entrepreneurial and non-entrepreneurial SMEs then we can see that entrepreneurial have a greater tendency to:

- determine how the relationship is doing
- solicit other business

Table 8.8.1c Correlation's of importance of Communicating with Customers

				Corr.	Sig.	Cases
Q90	Q87	To determine customer needs	To determine state of relationship	.3611	.005	60
Q90	Q88	To determine customer needs	To solicit other business	.3407	.008	60

Table 8.8.1c highlights that there exists a significantly modest relationship between SMEs communicating with their customers to determine their needs and also determining the current state of the relationship and soliciting other business. Entrepreneurial and non-entrepreneurial SMEs (Reactive) show a greater tendency towards this behaviour (see Table 8.8.1b and Table 8.8.2).

Table 8.8.1d Other correlation of communicating with customers

				Corr.	Sig.	Cases
Q89	Q88	To ask for referrals	To solicit other business	.3674	.004	60

Table 8.8.1d highlights that there is also a significantly modest relationship between SMEs communicating with their customers to solicit other business and also to ask for referrals. Entrepreneurial and non-entrepreneurial SMEs (Reactive) significantly exhibited this behaviour (see Table 8.8.2).

8.8.2 Significant Differences of Reasons for Communicating with Customers

Table 8.8.2 Significant Differences of Reasons for Communicating with Customers

					Ent.	Non-Entrepreneurial	
	Questions	Chi-Square	Sig.	Cases	Proactive	Reactive	Informal
Q89	To ask for referrals	10.2506	.0059	60	32.29	35.06	14.90
Q90	To determine customer needs	9.0651	.0108	60	37.52	25.48	24.30

Table 8.8.2 shows that there is a significant difference in the importance of communicating with customers. The results reveal that entrepreneurial SMEs and non-entrepreneurial (Reactive) SMEs significantly communicate with their customers to ask for referrals (see Figure 8.8.2a. Additionally entrepreneurial SMEs also significantly communicate with their customers to determine their customer needs (see Figure 8.8.2b).

Figure 8.8.2a Mean ranking of Entrepreneurial and Non-entrepreneurial SMEs to communicate with customers to ask for referrals

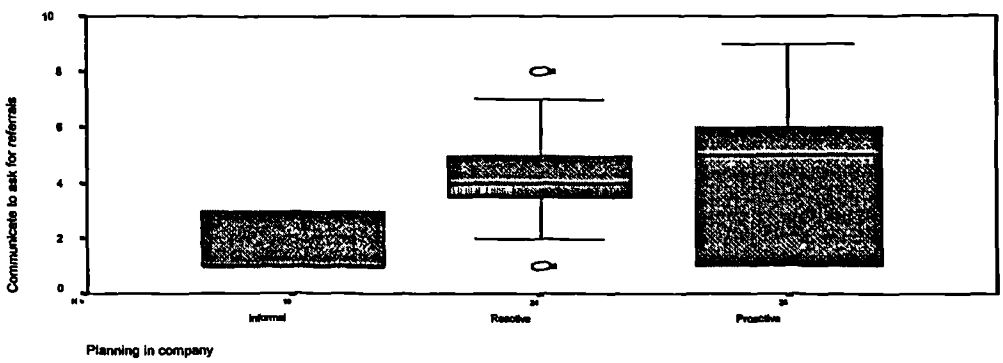
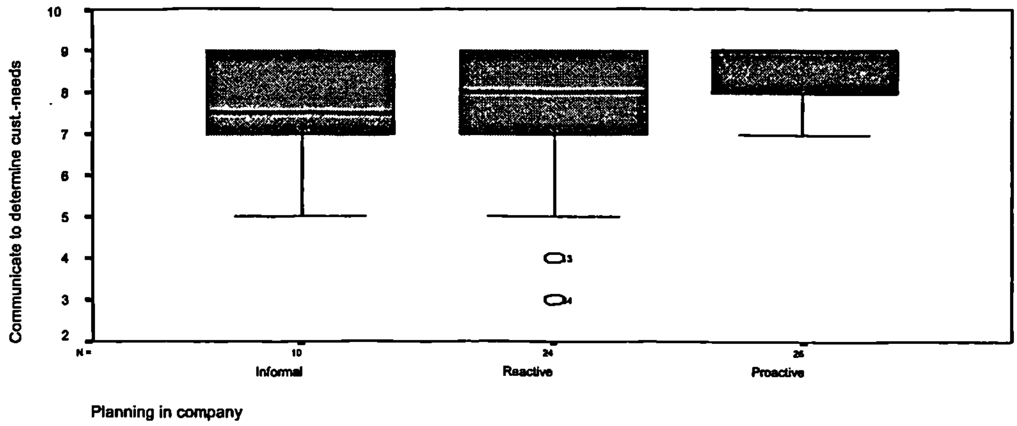


Figure 8.8.2b Entrepreneurial SMEs significantly communicate more with their customers to determine their needs.



8.8.3 Summary of Customer Communication Section

The main findings of the customer communication questions reveal that entrepreneurial SMEs use a variety of communication mediums that include personal contact, focused newsletters and seminars. All SMEs indicated a preference for soliciting views on service levels and product benefits when communicating with the customer. The frequency responses reveal that entrepreneurial SMEs are aware of who are their most loyal advocates and which customers have the potential to grow. The associations of the customer section communication questions with other relationship marketing questions revealed that entrepreneurial and non-entrepreneurial SMEs track the purchase frequency of their main customers and have realised that employee retention not only leads to higher productivity but also to the most profitable customers receiving a consistent service.

The main findings of the mean ranks and boxplots reveal that entrepreneurial SMEs significantly communicate more with their customers to not only determine their needs but also to ask for referrals. Additionally entrepreneurial SMEs show a tendency to also communicate to determine how the relationship is doing and also solicit other business. There are also significantly modest relationships between these variables.

8.9 Factors that increase customer loyalty

The literature review revealed a number of variables that were prominent in highlighting factors that increase customer loyalty. Initially reliability analysis was conducted on the category which revealed a very low reliability (i.e. the SMEs differed too much in their opinions on factors that increase customer loyalty) see Table 8.9a.

Table 8.9a Reliability Results for factors that increase customer loyalty

Variables	Category	Reliability
Q67 – Q71	Factors that increase customer loyalty	.1879

The results in Table 8.9a reveal there is a wide disparity of responses from the entrepreneurial and non-entrepreneurial SMEs to most of the ordinal questions in the loyalty category. Although, using Kruskal-Wallis statistics we can still analyse the questions to determine the indicative preferences for entrepreneurial and non-entrepreneurial SME.

Table 8.9b Factors that Increase Customer Loyalty

					Mean Ranks		
					Ent.	Non-Entrepreneurial	
	Questions	Chi-Square	Sig.	Cases	Proactive	Reactive	Informal
Q67	Empowering employees	2.9487	.2289	57	32.75	24.59	28.94
Q69	Consistent service	.1300	.9371	60	31.04	30.29	29.60
Q70	Reliable delivery	3.5985	.1654	59	31	31.96	22.90
Q71	Offering extra services	1.0810	.5825	58	32	27.34	27.75

The results in Table 8.9b reveal that there are no significant differences between entrepreneurial and non-entrepreneurial SMEs, for four of the five variables in this category. Although, a closer examination of the mean ranking reveals that entrepreneurial SMEs have a greater tendency to seek to increase their customer loyalty through empowering employees and offering extra service.

Table 8.9c Correlation's of Consistent service and reliable delivery

				Corr.	Sig.	Cases
Q69	Q70	Consistent service	Reliable delivery	.4753	.000	59

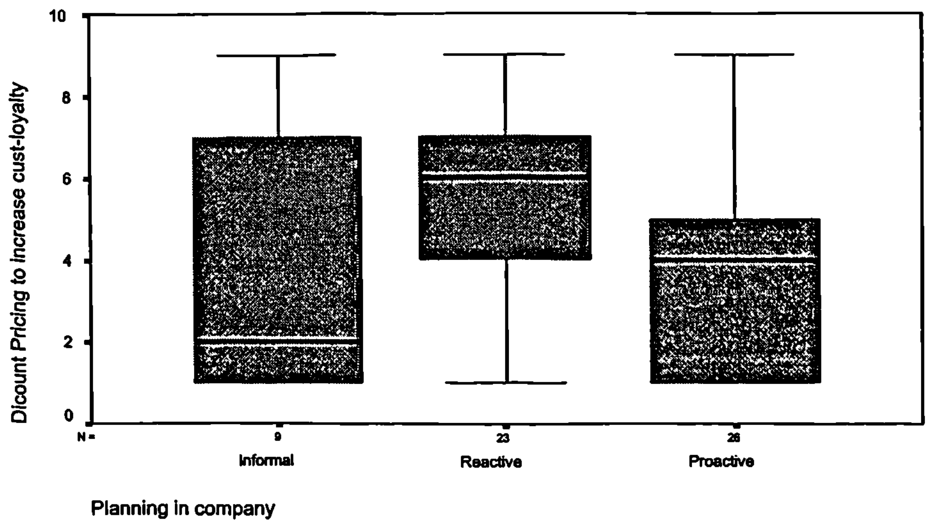
Table 8.9c shows that there is a significantly good relationship between offering consistent service and providing reliable delivery. Both entrepreneurial and non-entrepreneurial SMEs indicated these as important factors to creating loyal customers.

8.9.1 Significant Differences of Increasing Customer Loyalty

					Ent.	Non-Entrepreneurial	
	Questions	Chi-Square	Sig.	Cases	Proactive	Reactive	Informal
Q68	Offering discount pricing	6.2006	.0450	58	25.23	36.24	24.61

Table 8.9.1 reveals that the only significant difference in the customer loyalty category is that of non-entrepreneurial (Reactive) preferring to increase their customer loyalty through offering discount pricing (see also Figure 8.9.1). This is not a measure that Entrepreneurial SMEs have highlighted as an important factor for increasing customer loyalty.

Figure 8.9.1 Non-Entrepreneurial (Reactive) SMEs for offering discount pricing



8.9.2 Summary of factors Increasing Customer Loyalty

The main findings from the mean ranks and boxplots indicate that entrepreneurial SMEs have a greater tendency to empower their employees, offer extra services and NOT offer discount pricing to increase customer loyalty. All SMEs indicated that a preference for offering consistent service and reliable delivery contributes to customer loyalty.

8.9.3 Qualities in a Loyal Customer

The literature review revealed a number of variables that were prominent in highlighting qualities of a loyal customer. Initially reliability analysis was conducted on the category which revealed a reliable Cronbach's Alpha (see Table 8.9.3a).

Table 8.9.3a Reliability analysis results for qualities in a loyal customer:

Variables	Category	Reliability
Q79 - Q84	Qualities in a loyal customer	.6200

The results in Table 8.9.3a reveal that the responses for the questions in this category, of qualities in a loyal customer, are reliable. Hence, Kruskal-Wallis statistics are further used to reveal the indicative preferences and any significant differences between the entrepreneurial and non-entrepreneurial SMEs

Table 8.9.3b Qualities in a loyal customer:

					Mean Ranks		
					Ent.	Non-Entrepreneurial	
	Questions	Chi-Square	Sig.	Cases	Proactive	Reactive	Informal
Q79	Purchases at standard price	1.3542	.5081	56	28	30.88	23.90
Q80	Doesn't make risky decisions	2.5755	.2759	55	28.57	30.52	20.95
Q81	Regularly purchases	1.4133	.4933	55	24.91	30.35	29.40
Q82	Local customer	2.2689	.3216	56	24.59	31.46	30
Q83	Customers business is growing	3.8874	.1432	55	30.77	23.20	32.95
Q84	Older managing director	1.1783	.5548	53	24.55	29.17	27.85

Table 8.9.3b shows that there are no significant differences between entrepreneurial and non-entrepreneurial SMEs in terms of what they perceive as a quality of a loyal customer. Although, a closer examination of the mean ranks reveals the following indicative preferences for each SME (see Table 8.9.3c).

Table 8.9.3c Indicative preferences of each type of SME as to the qualities in a loyal customer:

Entrepreneurial and Non-Entrepreneurial SMEs (Reactive):	Entrepreneurial SMEs and Non-Entrepreneurial SMEs (Informal)	Non-Entrepreneurial SMEs (Reactive and Informal):
• Don't make risky decisions • Purchase at standard price	• Customers business is growing	• Local customer • Regularly purchases • Older managing director

The findings in Table 8.9.3c indicate that both entrepreneurial and non-entrepreneurial (Reactive) SMEs view a loyal customer as one who does not take risky decision and purchases at the standard price. Additionally both entrepreneurial and non-entrepreneurial (Informal) SMEs indicated that loyal customers increase their business with their company.

Table 8.9.3d Correlation of customers who purchase at standard price and don't make risky decisions

				Corr.	Sig.	Cases
Q79	Q80	Purchases at standard price	Doesn't make risky decisions	.4398	.001	55

Table 8.9.3d highlights the significantly good relationship between customers who purchase at the standard price and who don't make risky decisions. This statement from the results in Table 8.9.3b show that both entrepreneurial and non-entrepreneurial (Reactive) SMEs have a greater tendency to agree with this relationship.

8.9.4 Summary of Qualities in a Loyal Customer

The main findings of this section reveal that the mean ranks of the entrepreneurial SMEs exhibit a greater preference to indicating that the qualities in a loyal customer are that their business is growing. Additionally these customers don't make risky decisions and purchase at the standard price, which are significantly related.

8.10 Improvements from Close Relationships

The literature review revealed a number of variables that were prominent in highlighting improvements from close relationships. Initially reliability analysis was conducted on the category which revealed a reliable Cronbach's Alpha (see Table 8.10a).

Table 8.10a: Reliability Results for Improvements from Close Relationships

Variables	Category	Reliability
Q73 – Q77	Close relationships lead to improvements	.6189

The results in Table 8.10a reveal that the responses for the improvement factors from close relationships are reliable. The variables will now be further analysed using Kruskal-Wallis statistics to reveal the significant differences and indicative preferences of the entrepreneurial and non-entrepreneurial SMEs.

Table 8.10b Close relationships have led to improvements in:

					Mean Ranks		
					Ent.	Non-Entrepreneurial	
	Questions	Chi-Square	Sig.	Cases	Proactive	Reactive	Informal
Q73	Product quality	2.9579	.2279	56	32.52	26.50	23.25
Q74	Service quality	1.6944	.4286	59	33.28	27.42	28
Q75	Profitability	5.4820	.0645	58	34.02	28.91	19.55
Q76	Market awareness	3.1381	.2082	57	33.34	25.59	25.65

Table 8.10b shows no significant differences between the entrepreneurial and non-entrepreneurial SMEs for four of the five variables in this category.

Table 8.10c Correlation of Product and Service Quality

				Corr.	Sig.	Cases
Q73	Q74	Product Quality	Service Quality	.6599	.000	56

Table 8.10c shows a significantly very strong relationship between product and service quality. The results in Table 8.10b reveal that entrepreneurial SMEs show a greater tendency to have made improvements in both product and service quality from developing close relationships with customers.

Table 8.10d Correlation of Profitability and Market awareness:

Q75	Q76	Profitability	Market Awareness	.5218	.000	56

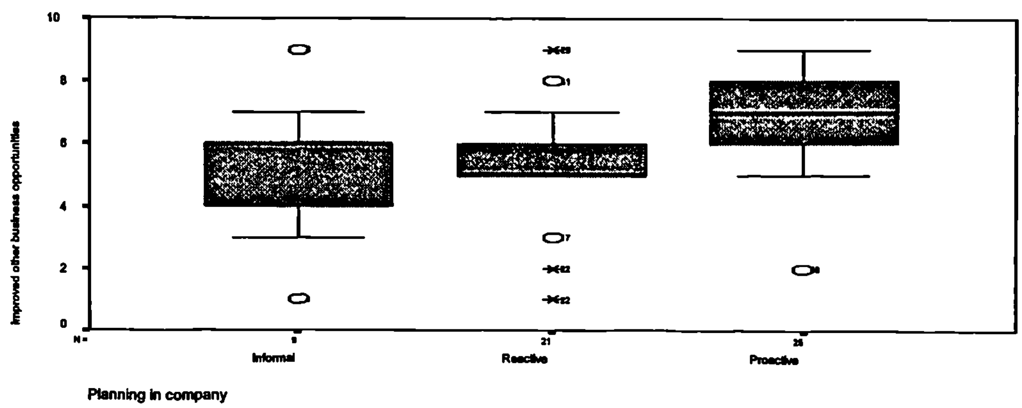
Table 8.10d shows a significantly strong relationship between profitability and market awareness. The results in Table 8.10b reveal that entrepreneurial SMEs show a greater tendency to have made improvements in both profitability and market awareness from developing close relationships with customers.

Table 8.10e Significant Differences of Improvements from Close Relationships

					Ent.	Non-Entrepreneurial	
	Questions	Chi-Square	Sig.	Cases	Proactive	Reactive	Informal
Q77	Improved business opportunities	6.2522	.0439	55	33.82	23.33	22.72

Table 8.10e reveals that entrepreneurial SMEs have significantly achieved improvements in developing improved business opportunities from close relationships with customers (see also Figure 8.10).

Figure 8.10d Significant Differences from Improvements in Close relationships



8.10.1 Summary of Improvements from Close Relationships

The main findings from the mean ranks and boxplots reveal that entrepreneurial SMEs have significantly achieved improvements in gaining other business opportunities from developing close relationships with their customers. Additionally the entrepreneurial SMEs show a greater tendency to have made improvements in profitability, market awareness, service and product quality, furthermore these variables are strongly related.

8.11 SMEs Awareness of Customer Needs

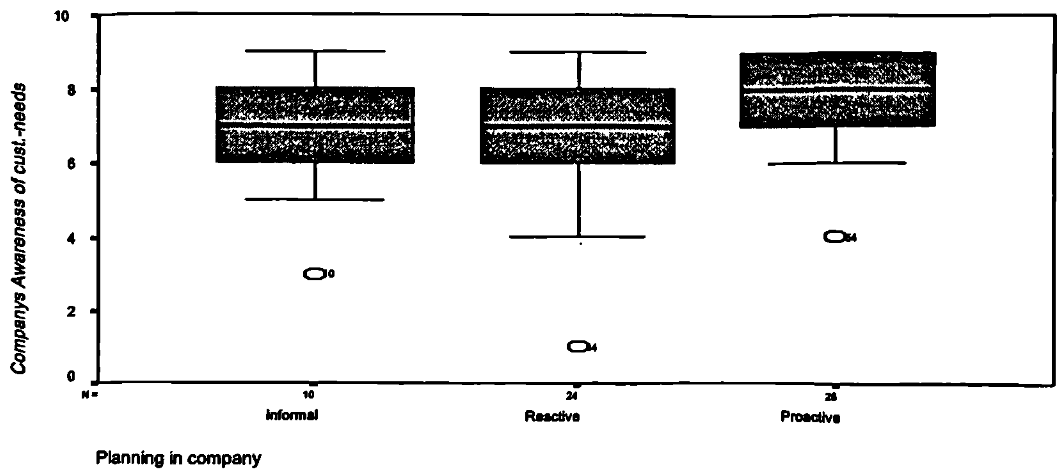
All SMEs were asked to rank, on a scale of 1 to 9, the degree to which they were aware of their customer needs. The ordinal rankings were analysed using Kruskal Wallis to determine the differences in the focus of entrepreneurial and non-entrepreneurial SMEs (see Table 8.11)

Table 8.11 SMEs awareness of customer needs:

					Mean Ranks		
					Ent.	Non-Entrepreneurial	
	Questions	Chi-Square	Sig.	Cases	Proactive	Reactive	Informal
Q109	Company's awareness of customer needs	7.4247	.0244	59	36.88	25.27	24.15

Table 8.11 shows that there is a significant difference in entrepreneurial SMEs being more aware of their customer needs (see also Figure 8.11). These results confirm hypothesis 2.

Figure 8.11 Awareness of customer needs:



8.11.1 Summary of Awareness of Customer Needs

Both the mean ranks and boxplots reveal that entrepreneurial SMEs are significantly more aware of their customer needs.

8.12 Customer Segmentation Section

This section will aim to determine whether SMEs

- segment their customer base
- apply a different strategy for each segment
- measure the success of each segment
- have a criteria for segmenting customers

Table 8.12a Segmentation Section Questions

		Percentage of SMEs who responded positively to each question			
		Ent.	Non-Entrepreneurial		
Q	Questions	Proactive	Reactive	Informal	Cases
Q110	SME segments its customers	66.7	47.6	22.2	54
Q132	SME has a different strategy for each customer segment	82.4	72.7	50	30
Q114	Success of Segment measured by contribution to profit	100	70	100	27
Q111	Success of Segment measured by sales volume	93.8	100	100	30
Q113	Success of Segment measured by loyalty	73.3	80	50	27
Q112	Success of Segment measured by purchasing behaviour	64.3	63.6	0	26

Table 8.12a clearly reveals that entrepreneurial SMEs exhibit a greater tendency to not only segment their customer but also have a different strategy for each customer segment. The main criteria that both entrepreneurial and non-entrepreneurial agreed upon for measuring the success of a segment was through:

1) Customer contribution to profitability
2) Customer contribution to sales volume

Table 8.12b Segment section Questions associated with other RM. category Questions

Q-Nos.		Questions		Phi.	Sig.	Cases
Q132	Q179	SME has a different strategy for each customer segment	SME analyses trends so as to understand why customers defect	.54772	.00375	28
Q110	Q150	SME segments customers	SME tracks the salary of employees who have contact with customers	.47708	.00084	49
Q132	Q174	SME has a different strategy for each customer segment	SME tracks its customer defection rates	.46549	.01762	26

Table 8.12b shows a significantly strong association between SMEs segmenting their customers and other relationship marketing variables. The associations reveal that entrepreneurial SMEs (since entrepreneurial SMEs in Table 8.12a exhibited greater tendency to exhibit this behaviour):

- analyse customer defections rates of each customer segment. This would allow the SME to determine whether its strategy was proving successful or not.
- review the salary of employees who have contact with all or most profitable customer segments. This would allow the SME to determine whether it is offering the appropriate financial rewards to recompense the loyalty of its employees.

Table 8.12c Area for Improving Customer Segmentation

Q-Nos.		Questions		Phi.	Sig.	Cases
Q112	Q136	Success of Segment measured by purchasing behaviour	SME has NOT calculated future potential revenue of customers?	.48075	.02113	23

Table 8.12c highlights a good association between SMEs measuring the success of a segment in terms of the customer purchasing behaviour but then not determining the future revenue of that customer. This reveals an area for SMEs to improve, so that future

marketing campaigns are directed towards the most profitable and loyal customers who are willing to increase their business with the company.

8.12.1 Summary of Segmentation Category

The main findings of this section reveal that entrepreneurial SMEs exhibit a greater tendency to not only segment their customers but also have a different strategy for each customer segment. Although, when trying to identify any significant differences in their customer segmentation criteria non were identified. The correlation's revealed several variables highly associated with one another and non-entrepreneurial SMEs showing a greater preference for segmenting their customers on financial values (e.g. selling costs, profitability, and sales volume.)

8.13 Profitability Section

This section will aim to determine:

- Whether loyal customers have proven to be profitable
- How SMEs calculate the costs of customers in terms of providing:
  - services
  - acquiring them
  - measuring their behaviour
- If SMEs measure Past and Future profitability of customers
- The costs associated with acquiring new customers for SMEs

Table 8.13a Profit Category

		Percentage of SMEs who responded positively to the questions			
		Ent.	Non-Entrepreneurial		
Q	Questions	Proactive	Reactive	Informal	Cases
Q133	SME know who are its most profitable customers	95.8	95.8	100	58
Q137	SME is aware of whether customers perceive product / service as value for money	91.7	93.3	60	49

Q138	SME has calculated cost of providing all the services	84	85	40	55
Q135	Long term customers have proven profitable	65.2	59.1	87.5	53

Table 8.13a highlights the main areas of profitability analysis that entrepreneurial SMEs have carried out. There appears to be general agreement amongst all the SMEs as to their profitability analysis of customers, in terms of knowing who the most profitable customers are and whether they perceive the product / service as value for money. Furthermore over 84% of the entrepreneurial and non-entrepreneurial (Reactive) SMEs have calculated the cost of providing all the services to a customer and have indicated that long term customers are profitable.

Table 8.13b Profit category variables associated with other profit category variables

Q-Nos.		Questions		Phi	Sig.	Cases
Q137	Q138	SME is aware of whether customer perceive product / service as value	SME has calculated the cost of providing all the services	.55183	.00021	45

Table 8.13b highlights a strong association between SMEs being aware of the switching costs for a customer and the SME having calculated the cost of providing all the services. Therefore, to determine a customers switching costs the SME must calculate the cost to the company for providing all the services to the customer. From which they can determine the benefit to the customer and to the company against competitor offers.

Table 8.13c Recommended Areas for improving Profitability Analysis

		Percentage of SMEs who responded to the questions			
		Ent.	Non-Entrepreneurial		
Q	Questions	Proactive	Reactive	Informal	Cases
Q139	SME measures the financial performance of its marketing programmes	48	27.8	30	53
Q136	SME has calculated potential future revenue for each customer	47.8	50	30	53
Q141	SME has determined the cost of acquiring a new customer	43.5	23.8	40	54

Q134	SME has calculated past 5 years cash flow for each customer	36.4	42.9	33.3	52
Q140	SME has evaluated the revenue created by communicating with customers	21.7	18.2	11.1	54

Table 8.13c highlights some areas in which the entrepreneurial and non-entrepreneurial SMEs may need to focus attention, to improve their analysis for focusing on profitable customers.

Table 8.13d Profit Section Questions associated with other RM. Section Questions

Q-Nos.		Questions		Phi.	Sig.	Cases
Q135	Q152	Long term customer have proven profitable	Employee retention has led to higher productivity	.53263	.00048	43

Table 8.13d shows a significantly strong association between retained employees being more productive and long term customers being more profitable. This highlights that loyal employees through their knowledge of the processes and systems are able to meet customer requirements more quickly. This in turn leads to greater customer value and potentially (as the literature has shown) increased business generation.

8.13.1 Costs Associated with Acquiring a New Customer

The literature review revealed a number of factors that were prominent in costs associated with acquiring customers. Initially reliability analysis was conducted on the category which revealed a very low reliability (i.e. the SMEs differed too much in their opinions on factors that increase customer loyalty) see Table 8.13.1a.

Table 8.13.1a Reliability Results for Costs Associated with Acquiring a New Customer

Variables	Category	Reliability
Q142 - Q145	Costs associated with acquiring customers	-.0432

Despite the fact that their was a wide disparity of opinion amongst the entrepreneurial and non-entrepreneurial SMEs we can still employ Kruskal-Wallis statistics to analyse the category to determine the preferences that entrepreneurial and non-entrepreneurial SMEs exhibited.

Table 8.13.1b Costs associated with acquiring a new customers:

					Mean Ranks		
					Ent.	Non-Entrepreneurial	
	Questions	Chi-Square	Sig.	Cases	Proactive	Reactive	Informal
Q142	Advertising	.8102	.667	54	25.54	28.19	30.55
Q144	Discounted pricing	3.0412	.2186	53	23.57	31.48	25.15
Q145	Resources	1.1219	.5707	54	29.38	24.63	28.75

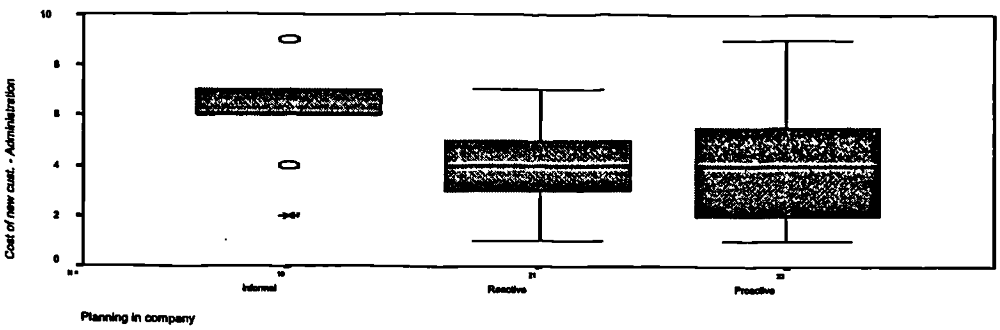
The results in Table 8.13.1b show that there is no significant difference amongst the entrepreneurial and non-entrepreneurial SMEs for three of the four variables associated with the costs of acquiring a customer.

Table 8.13.1c Significant Difference of Costs Associated with Acquiring a New Customer

					Ent.	Non-Entrepreneurial	
	Questions	Chi-Square	Sig.	Cases	Proactive	Reactive	Informal
Q143	Administration	7.5804	.0226	54	24.48	24.98	39.75

Table 8.13.1c shows that there is a significant difference for the cost of acquiring a new customer for non-entrepreneurial (Informal) SMEs, in that they accrue more costs in the administration when acquiring a new customer (see also Figure 8.13.1c).

Figure 8.13.1c Main cost for non-entrepreneurial (Informal) SMEs when acquiring a new customer



8.13.2 Summary of Profit Section

The main results reveal that entrepreneurial and non-entrepreneurial SMEs are aware of their most profitable customers. Furthermore there appears to be general agreement amongst the entrepreneurial and non-entrepreneurial (especially Reactive) SMEs as to knowing whether their customers perceive their product / service as value for money. Once again there is a strong association between loyal employees and profitable customers. Finally the results of costs associated with acquiring a customer reveal that there is a tendency for entrepreneurial SMEs to accrue the most cost to their resources.

8.14 Loyal Staff Section

This section will aim to determine:

- where SMEs recruit their employees from
- basis of promoting employees
- Training for new employees
- Measures to create loyal employees

Table 8.14a Where SMEs recruit Employees from

		Percentage of SMEs who responded positively to the questions			
		Ent.	Non-Entrepreneurial		
Q	Questions	Proactive	Reactive	Informal	Cases
Q155	SME recruits employees from advertisements	95.8	90.9	100	55
Q157	SME recruits employees from competitors	87	45.5	66.7	54
Q158	SME recruits employees from referrals	82.4	77.8	62.5	43
Q156	SME recruits employees from customers	38.9	0	0	46

Table 8.14a highlights that besides both entrepreneurial and non-entrepreneurial SMEs recruiting from general advertisements. Entrepreneurial SMEs also show a greater tendency to recruit from

- Competitors
- Referrals

Table 8.14b Basis of Promoting Employees

		Percentage of SMEs who responded to the questions			
		Ent.	Non-Entrepreneurial		
Q	Questions	Proactive	Reactive	Informal	Cases
Q163	Employees promoted on the basis of performance	100	95.8	100	58
Q161	Employees promoted on the basis of experience	96	86.4	88.9	56
Q160	Employees promoted on the basis of education	29.2	26.3	11.1	52
Q162	Employees promoted on the basis of seniority	17.4	26.3	33.3	51

Table 8.14b highlights that the vast majority (over 86%) of entrepreneurial and non-entrepreneurial SMEs base the promotion of their employees on their performance and experience.

Table 8.14c Training for new employees

		Percentage of SMEs who responded positively to the questions			
		Ent.	Non-Entrepreneurial		
Q	Questions	Proactive	Reactive	Informal	Cases
Q168	New employees have contact with senior management	95.8	86.4	66.7	55
Q167	New employees have contact with other departments	95.8	70	66.7	53
Q170	New employees have contact with some customers	81	57.1	33.3	51
Q166	New employees receive full training	76.2	63.6	44.4	52
Q169	New employees have customer satisfaction training	50	35.3	12.5	47

Table 8.14c highlights that Entrepreneurial and non-entrepreneurial SMEs both agree that new employees should have contact with senior management and other departments.

Table 8.14d Associations between induction policy for new employees:

Q-Nos.		Questions		Phi	Sig.	Cases
Q167	Q168	New Employees have contact with other depts	New Employees have contact with snr mgmt	.56270	.00006	51
Q167	Q170	New Employees have contact with other depts	New Employees have contact with some customers	.50648	.00052	47

The results in Table 8.14d show a significantly strong association between:

- New employee having contact with other departments and senior management
- New employees having contact with other departments and some customers

These results highlight the importance of carrying out training for new employees, which entrepreneurial SMEs have recognised and acted upon. This form of training will help create a more communicative company and as question 173 highlights (see Table 8.14e entrepreneurial SMEs ensure their employees are informed of customer requirements.

Table 8.14e Systems for creating loyal employees

		Percentage of SMEs who responded positively to the questions			
		Ent.	Non-Entrepreneurial		
Q	Questions	Proactive	Reactive	Informal	Cases
Q147	SME does not have a high employee turnover	95.8	78.3	80	57
Q173	Employees are informed of customer requirements	86.4	63.6	60	54
Q151	SME knows who are least satisfied employees	85.7	73.7	50	50
Q150	SME tracks salary of employees who have contact with customers	83.3	38.1	44.1	54
Q153	SME knows how much revenue employee generate from communicating with customers	80.8	82.4	37.5	51
Q148	SME has calculated cost of losing a customer	59.1	14.3	20	53
Q152	Employee retention leads to higher productivity.	59.1	73.3	80	47

Table 8.14e highlights percentage frequency responses by the entrepreneurial and non-entrepreneurial SMEs to how they create loyal employees. There is a wide degree of difference (not significant) between the entrepreneurial and non-entrepreneurial SMEs. The entrepreneurial SMEs exhibited a greater preference for:

- Claiming that they did not have a high employee turnover;
- Informing their employees of their customer requirements;
- Knowing who its most satisfied employees are in the company;
- Tracking the salary of employees who have contact with the SMEs customers.

Table 8.14f Recommend Areas for Improving Employee Retention

		Percentage of SMEs who responded to the questions			
		Ent.	Non-Entrepreneurial		
Q	Questions	Proactive	Reactive	Informal	Cases
Q154	SME has introduced profit sharing	53.8	17.4	40	59
Q149	SME evaluates employees on their customer awareness	43.5	39.1	44.4	55
Q172	SME carries out staff satisfaction surveys	34.6	13.6	20	58

Table 8.14f highlight the main issues that generally entrepreneurial and non-entrepreneurial SMEs should improve (since almost 50% of the SMEs have not introduced these measures), these are:

- introducing profit sharing or at least offering other financial incentives
- evaluating employees on their customer awareness
- reviewing staff opinions regularly on the SMEs customers

Table 8.14g Loyal staff category Questions associated with other RM. Section Questions

Q-Nos.		Questions		Sig.	Phi.	Cases
Q167	Q181	New employees have contact with other departments	Exit interviews carried out with all employees	.00001	.62672	49
Q168	Q181	New employees have contact with snr mgmt	Exit interviews carried out with all employees	.00005	.56299	52

Previous results (see Table 8.14c) demonstrated that all new employees have contact with senior management and other departments. The results in Table 8.14g highlight that SMEs carry out Exit interviews with all employees. This allows the SME to determine any areas for improving their current quality/system processes, service, training, recruitment selection, etc.

Table 8.14h Reward systems for employees

		Ent.	Non-Entrepreneurial		
		Proactive (16)	Reactive (12)	Informal (4)	
Q165	How are employees rewarded	Both Monetary and non-monetary	Both Monetary and non-monetary	Both Monetary and non-monetary	60

Crosstabulation results highlighted that both Entrepreneurial and non-entrepreneurial (Reactive) SMEs show a greater tendency to offer both financial and non-financial rewards.

8.14.1 Summary of Loyal Staff Category

The main findings from this section reveal that entrepreneurial SMEs show a greater tendency to recruit employees from their competitors and employee referrals. Entrepreneurial and non-entrepreneurial SMEs both ensure that their new employees have contact with senior management and other departments.

The main behaviour of entrepreneurial SMEs in creating loyal employees involves having a low staff turnover, keeping employees informed of customer requirements, identifying least loyal employees, tracking the salary of employees who have contact with customers. Finally entrepreneurial SMEs have recognised that they need to introduce appropriate rewards mechanisms to recompense the loyalty of their staff, therefore, their employees are allowed greater flexibility and responsibility of their work environment as well as being financially rewarded.

8.15 Defection Analysis Section

This section will aim to determine:

- Whether SMEs track, analyse and segment their customer defections
- Whether SMEs carry out Exit interviews with all employees
- The percentage loss of customers each year by the SME
- The loss of customers compared to that of their competitors

Table 8.15a Customer loss each year by SMEs

		Ent.	Non-Entrepreneurial		
Q-No.		Proactive	Reactive	Informal	Cases
Q177d	% loss to customer base	5.7379 %	5.8339 %	7.4479 %	50
Q178	Comparison of defection rate with competitors	Fewer	Same	Same	58

Table 8.15a highlights that entrepreneurial SMEs (if we compare the percentages for customer loss) lose anywhere between 2-30 % fewer customers each year than non-entrepreneurial SMEs.

Table 8.15b Customer Defection Section Frequency Percentage Responses

		Percentage of SMEs who responded positively to the questions			
		Ent.	Non-Entrepreneurial		
Q	Questions	Proactive	Reactive	Informal	Cases
Q181	Exit interviews are carried out with all employees	100	81	70	56
Q179	SME analyses trends of customer defection rates	83.3	45.5	20	56
Q174	SME tracks its customer defection rates	66.7	47.4	30	53

Table 8.15b highlights the main preferences of entrepreneurial and non-entrepreneurial SMEs to conducting customer and employee defection analysis. The frequency percentage responses in Table 8.15b reveal that entrepreneurial show a greater tendency to carry out exit interviews with all employees and analyse customer defection trends and track their customer defection rates.

Table 8.15c Defection Section Questions Associated with other Defection Section Questions

Q-Nos.		Questions		Sig.	Phi	Cases
Q174	Q179	SME does track customer defection	SME analyses customer defection trends	.00038	.50761	49

The results from Table 8.15c reveal two questions that are strongly associated. The associations reveal a strong significant relationship between SMEs tracking and analysing reasons for customer defection. The results in Table 8.14b highlight that entrepreneurial SMEs have exhibited a greater tendency to carry out this form of analysis.

Table 8.15d Recommended Areas for improving SMEs Defection Analysis

		Percentage of SMEs who responded positively to the questions			
		Ent.	Non-Entrepreneurial		
Q-No	Question	Proactive	Reactive	Informal	Cases
Q180	SME segments customers who defect	25	13	20	57

Table 8.15d highlights that less than 25% of entrepreneurial and non-entrepreneurial SMEs have segmented their customers who defected.

8.15.1 Summary of Defection Section

The main findings of this section reveal that entrepreneurial SMEs show a greater tendency to carry out exit interview and analyse and track its customer defection rate. Additionally there is a strong relationship between both tracking and analysing customer defections. This would allow the company to improve its processes, training, service offering, price, and target its marketing more effectively. A major recommendation for all SMEs is that they segment and analyse those customers that defected.

8.16 Conclusion

The results from the statistical analysis reveal that entrepreneurial SMEs have not only experienced more growth than non-entrepreneurial SMEs but have a significantly greater relationship marketing orientation and are more aware of their customer needs. The entrepreneurial behaviour is consistent with their focus on Schumpeterian characteristics, in terms of developing new products / services and opening new markets. The close relationships that the entrepreneurial SMEs have developed with their customers have allowed them to leverage more business, become more aware of customer needs which in turn has led to the SME developing new opportunities to service their existing and new customers. The segmentation and defection analysis of the customers has allowed the entrepreneurial SMEs to focus their marketing campaigns on the most profitable segments of customers and also tailor the appropriate service levels to each customer segment. Additionally the entrepreneurial SMEs are much more aware of the switching costs of each customer segment and therefore know the cost of providing all the services to a customer. The results reveal that entrepreneurial SMEs have significantly:

- pursued a relationship marketing strategy and are therefore more customer orientated
- been more aware of customer needs
- been more innovative and adventurous in their entrepreneurial behaviour

- experienced more growth during the last 3 years, additionally the entrepreneurial SMEs have significantly increased their numbers of employees
- formed closer relationships with their customers to allow them to develop more business opportunities
- communicated more with their customers not only to determine their needs but also to ask for referrals. Entrepreneurial SMEs are therefore using their customer base to leverage increased business and increase their customer base to achieve growth
- not adopted discount pricing as a promotion to acquire new customers. This is as a result of the price sensitivity of these customers and therefore are more likely to switch suppliers.
- realised the importance of employee loyalty in creating customer loyalty
- lost fewer customers each year from their customer base.

CHAPTER 9: Qualitative Analysis of Responses to Customer Questions

9. Introduction

The analysis of the qualitative data will be reported in four Chapters (see Table 10), each Chapter will deal with a particular number of related themes that are divided into several sections.

Table 9 Analysis of Qualitative Data by Chapter

Chapter 9	Chapter 10	Chapter 11
9.1 Customer profile	10.1 Marketing behaviour	11 Employee loyalty
9.2 Leveraging business from customers	10.15 Conclusion	11.5 Employee defection
9.3 Customer service		11.10 Conclusion
9.4 Customer Loyalty		
9.5 Customer defection		
9.6 Conclusion		

A profile of the SMEs interviewed, for this research, is highlighted in Table 9a

Table 9a: Interviewed SME Background Details by Entrepreneurial and Non-entrepreneurial Classification

[ ] median value	Entrepreneurial orientation	Non- entrepreneurial orientation		
	Proactive	Reactive	Informal	'n'
	4 IT firms 2 Printing firms 1 Marketing firm	4 IT firms 2 Printing firms 1 Marketing firm	3 IT firms 1 Printing firms 2 Marketing firms	
Number of years trading (mean value)	[12] 11	[11] 12	[14] 14	20
Principal market for main product/service line	UK/Europe	UK	UK	20
Number of different products /service lines offered (number and range of response)	6-10	6-10	50-100	20

Stated % market share for main product / service line (mean value)	21-30%	1-5%	1-5%	20
Annual turnover (£m) (range)	1- 6	1-6	0.5 - 1	20
Number of full time employees	[15] 17	[28] 36	[32] 32	20
Number of part time employees	[2] 2	[2] 2	[] 1	20
Customer defections reported as % loss to customer base (mean response)	4.21	4.83	6.17	20
◊ The majority of the SMEs had multiple owners and were first generation businesses still run by the founders (rather than inherited or purchased as a going concern) ◊ In the sample the number of proactive SMEs was 7, reactive - 7, and informal - 6.				

Initially the author generated a large item pool of responses to a number of themes relating to the research topic. After preliminary analysis only the appropriate responses to questions relevant to each theme, in this research, were incorporated in the qualitative analysis Chapters. The presentation of the qualitative results will commence with a summary of the qualitative responses for a variable from a theme on relationship marketing. Next the frequency and variety of responses from the entrepreneurial and non-entrepreneurial SMEs will be displayed in a matrix style table so that the reader can appreciate the most popular response for that interview question. This will be clearly visible because all the responses for each section are displayed in ascending order in the table. Following on from the table, each response category for that section will be explored in more detail with quotes and explanations provided from the entrepreneurial and non-entrepreneurial SMEs. If there is any difference in the frequency of quotes between entrepreneurial and non-entrepreneurial SMEs for a category then the author will provide an explanation for the difference based on the analysis of the transcripts. The author will also highlight any associations between the category of responses, for a section theme, and other themed categories. At the end of each theme (e.g. customer profiling) the author has constructed a diagrammatic framework of the main factors associated with that theme as well as displaying the intensity of the associations between the categories (through varying the line intensity of the links between categories). Finally at the end of each section the author has developed a holistic framework to present the findings of that section in a diagrammatic format. The five holistic frameworks, for Chapter 10, represent all the factors contributing to:

- Customer profile
- Leveraging business from customers
- Customer service
- Customer Loyalty
- Customer Defection

9.1 Customer Analysis

This section of the questionnaire was designed to elicit some general information about the customer profile of the SMEs. Specifically this section aimed to determine

- The benefits of retaining customers
- Factors that most influence a customers purchasing decision
- How the SME encourages its customers to tell them their problems

The findings of the above questions will now be discussed in detail.

9.1.1 Benefits of Retaining Customers

The most frequently cited response for retaining customers is leveraging more business and as Table 9.1.1 clearly shows it is entrepreneurial SMEs that have cited more than non-entrepreneurial SMEs to have realised this benefit. The entrepreneurial SMEs further differ from the non-entrepreneurial SMEs in citing that retaining customers has helped them combat their competitors. There does not appear to any major difference in the other frequently cited categories for benefits to retaining customers.

Table 9.1.1 Benefits of Retaining Customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Leverage more business	7	5	4	16
Build up a close relationship	5	4	5	14
Less money to retain existing customers	5	4	3	12
Referrals	3	3	4	10
Combat competitors	4	2	2	8

The quotes from both entrepreneurial and non-entrepreneurial SMEs in Table 9.1.1 will now be reviewed.

Leverage more business

Proactive "You know the client you build the relationship, and the other thing about retaining clients is once you know them that well you can maximise your profits as well, you can almost individualise their pricing to make maximum margin where you feel you can" Co. K

Reactive "the majority of customers are all repeat customers, so we actually do the origination for a label say for ********* they will then come back to us and say we want another 20,000 of those labels, so repeat business is a good foundation to grow the company on." Co. L

Informal "I think we develop a good relationship with most of the clients that we have got and therefore if the work that we have done has been successful for them or proved successful it brings in more work, it has a snowball effect, so the customers that we have retained we have been given more and more work from them, they have become bigger and bigger clients really. And also we have gained other clients through them" Co. M

Entrepreneurial SMEs stated slightly more than the non-entrepreneurial SMEs that retaining and communicating with customers allows them to build a relationship that will encourage customer loyalty as well as provide an opportunity to leverage more business. A further advantage of retaining customers is that both entrepreneurial and non-entrepreneurial SMEs have been able to increase their profitability by individualising their prices to maximise profit margins for each retained customer. The computing (entrepreneurial and non-entrepreneurial) SMEs further added that systems or software that were installed with customers usually required annual servicing, further contributing to SME profitability and facilitating a platform for the SME to sell other additional products / services. Non-entrepreneurial SMEs stated that repeat business is far easier to get than new business, as their ongoing business accounts for 60-70% of their turnover.

Entrepreneurial SMEs stated that they had introduced systems for their large customers, particularly market leaders and consequently were able to increase business with those customers and other customers working in the market because of the investments they had made to retain the future business from these customers. This they claimed made them the natural selection for customers working in that market.

Build up a close relationship

Proactive	"You build up long term relationships." Co. W
Reactive	"The advantage of repeat business over other business, I mean, as I say it is not just about retaining those customers, we get a customer and we really want to build a relationship" Co. N
Informal	"You have a better working relationship, your client knows what you want and therefore it is quicker and easier to work with. You both know the premises with which you work in, payment details how it works, you have a better relationship" Co. X

The development of a close relationship provides opportunities for the entrepreneurial and non-entrepreneurial SMEs to increase their business with their customers. It was also noted by the entrepreneurial and non-entrepreneurial SMEs that close relationship with customer leads to a better working relationship making the interaction easier and quicker to work in. The entrepreneurial and non-entrepreneurial SMEs also stated that a close relationship provides them with an unfair advantage about competitive tenders for business from their customers. The non-entrepreneurial (Informal) SMEs further stated that if there is a close relationship between the SME and its customers they are given more leeway and allowed to make mistakes occasionally. In terms of peripheral issues such as late deliveries and most importantly pricing which they found took a 'back seat' when there is a good relationship.

Less money to retain existing customers

Proactive	"Well I suppose it's an old adage that it takes an awful lot of money to actually get a customer and probably a significantly less amount of money to actually retain a customer so if you actually lose one, the cost of replacing that customer is significant.." Co. S
Reactive	"I would say that it is always easier to go and sell to your existing customers than to a completely new account. It's probably less risky as well because you know you have had a trading history with them. You know whether they pay on time or whether they take 120 days or whatever." Co. A

Informal "we are not what you would call exceedingly good at marketing. By retaining them we try and market our product as a quality product and that is what we are trying to retain them on" Co. V

There was a high degree of agreement amongst the entrepreneurial and non-entrepreneurial SMEs that there are considerably fewer costs involved in retaining customers. The reason cited for this was that entrepreneurial and non-entrepreneurial SMEs acquire knowledge and learn about the requirements of their customers, allowing them to introduce systems within their company to their meet customer requirements. The entrepreneurial and non-entrepreneurial SMEs have also noticed that the actual cost of generating sales declines when dealing with existing customer, as both the customer and the SME are even more familiar with each other's requirements.

Referrals

Proactive "I suppose the new clients, we get a lot of referrals and people are referred to us because we spend time with them, we have got it right with other clients before because we have spent that time with them, we are not just in for the jugular..." Co. K

Reactive "new customers, many times come on recommendations from old customers, so they know what to expect of us" Co. F

Informal "also we have gained other clients through them. Through word of mouth, people have seen what we have done for them and it has gone on from there really" Co. M

One major advantage of retaining customers' is that it allows the entrepreneurial and non-entrepreneurial SMEs to generate prospective referrals from customers. Since they have found that new customers have been gained through "word of mouth" by the efforts of the existing customers who generate a lot of referrals.

Combats competitors

Proactive "Equally the environment that we operate within is extremely competitive so you have to be careful in terms of every aspect of the service that we provide, because there will be another company just round the corner, who will be saying, well we are better, or we provide a quicker service, a better quality service, a service that offers greater value for money, before you can blink, so the rule is to maintain customer loyalty at any cost almost" Co. S

Reactive "In our industry it is very difficult to pick up new kinds, because of the competitive nature of our market, because we have got a situation whereby what four years ago, five years ago, you had a duopoly led by BT, Mercury and that was it, full stop, but now there are 160 in the market place all providing similar or the same type of product and services that we do and that makes it very competitive and for us to actually go out there and I suppose prospect new business we would spend a lot of time..." Co. J

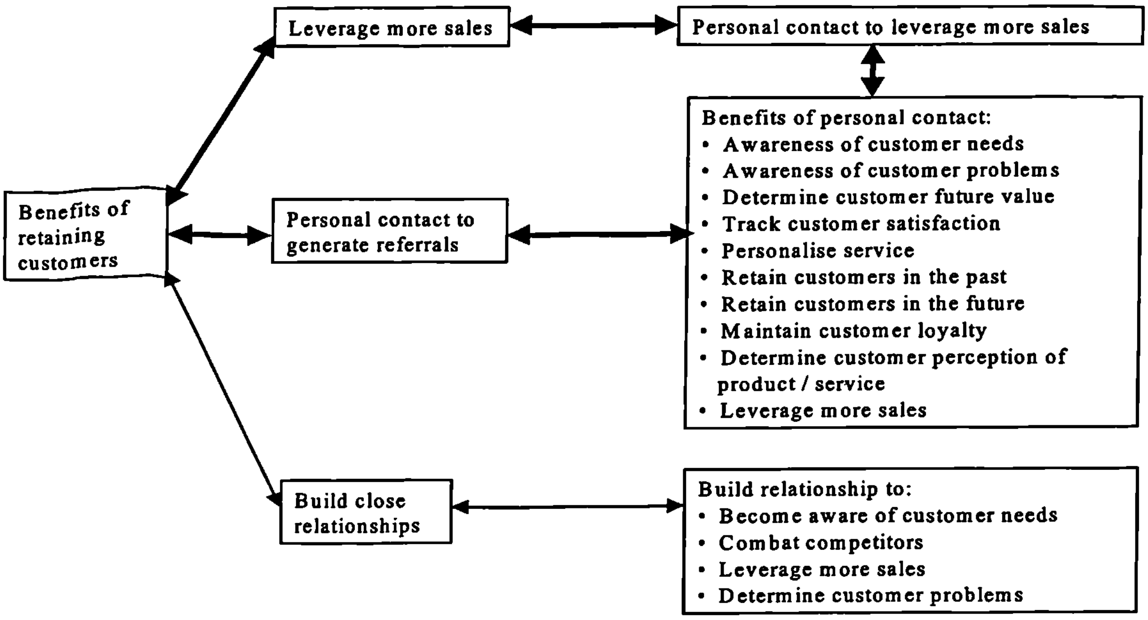
Informal "If you get a good relationship with a customer, they will tell you all the information and will say look I have been told by the managing director that I have got to get another quote on say your service contract, I will get it, but you know, you might have to come down on price. They will usually work with you more, give you almost an unfair advantage" Co. P

The entrepreneurial and non-entrepreneurial SMEs were in agreement that retaining customers helps them to become more aware of their customer needs than their competitors because of the establishment of a personal contact. Although, entrepreneurial SMEs also referred to taking advantage of gaining an insight into their customer plans to move in the same direction as their customer, thereby combating competitors.

9.1.1.1 Benefits of Retaining Customers Associated with Other Categorical Themes

The author carried out a word search of the transcripts to reveal synonyms and antonyms in various categories. The synonyms and antonyms were counted to reveal both positive and negative links between categories. Consequently to represent the strength of association between the categories the author used varying lengths of arrow intensity to indicate the strength of the association. The author has consistently applied this methodology of identifying the strength of association between categories throughout this and other Chapters. Figure 9.1.1.1 reveals that there is a very strong relationship between personal contact with retained customers and the SME leveraging more business from their customers. The personal contact generates a multitude of benefits for the SME, the most important being that the SME is aware of customer needs and problems as well as being able to determine a customers future value, track customer satisfaction levels, personalise the service and retain them. Finally there is a modest link between building close relationships to retain customers and the close relationships allowing the SME to become aware of customer needs, combat competitors, leverage more sales and determine customer problems.

Figure 9.1.1.1 Factors Associated with the Benefits of Retaining Customers



9.1.2 Factors Influencing A Customer's Purchasing Decision

There are a multitude of reasons why customers may purchase from the SME, although as the results reveal (see Table 9.1.3), entrepreneurial and non-entrepreneurial SMEs concentrate their efforts on service quality, price and vigilance of the effects of the macro environment.

Table 9.1.3 Factors Influencing A Customer's Purchasing Decision

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Service orientation	7	7	6	20
Competitive price	4	5	3	12
Macro environment	3	2	3	8
Experience of people working on the project	1	0	0	1

Service orientation

Proactive "I think its undoubtedly a mixture because its a major business purchase. So its partly a quality of the product, its partly the technological capabilities, its probably our investment plans, its partly our service, its partly also and critically its our commitment to meeting their change in production methods and its partly personality, probably." Co. E

Reactive	"I think all of our customers are influenced by quality of service and I think price does come into it as well." Co. A
Informal	"We find here anyway that once we get a client on board and prove to them after the first couple of projects that we can do the job that we have this service that they will stay with us." Co. M

Entrepreneurial and non-entrepreneurial SMEs have learnt that service is a prerequisite to customer retention. Consequently, they ensure that their staff are accessible to their customers.

Competitive price

Proactive	"On the hardware side it would come down to price, because you can go down to PC World and buy things, so it's really nothing else involved in that."
Reactive	"A lot of people are now saying that price isn't a major design factor, well it is, if your.. let's say plus or minus 2 or 3% around your competitors then yes it isn't a huge factor, but most of the players at the moment are providing discounts of sort of up to 15% or 20% around the market place. Prices go up all the time and the point being that customers are far more knowledgeable about pricing structures and about the fact that yes there is another company where you can buy a similar service at a cheaper price, so the price is one and service is the second" Co. J
Informal	"I suppose through the actual service they get. I think if we are doing our job right then with both the product and the service that we are supplying them, coupled with a reasonably competitive price, will do that job for us" Co. D

Entrepreneurial and non-entrepreneurial SMEs have learnt that competitive pricing as well as quality services are essential to maintain customer patronage. The SMEs have also stated that although price is important it is not the only factor that determines customer retention. Although, the non-entrepreneurial (Informal) SMEs have observed that their smaller customer are more cost conscious and tend to purchase on price alone.

Macro environment

Proactive	"Well these outside factors, the change in speed of computers, computer equipment is obsolete so very quickly and we reckon there is a life cycle of about 3 years in a computer from hardware point of view but from a software point of view it really is the industry changes that determine what size of computer we need."
Reactive	"I think a lot of it is reading the trade press, getting information from trade magazines" Co. A
Informal	"We are an advertising agency, so obviously it goes on the market, I mean we are always up to date with the market but yes, whatever comes into the thing and we keep them up to date" Co. X

Entrepreneurial and non-entrepreneurial SMEs maintain awareness of their market by tracking trends to observe current and past patterns in purchasing. Non-entrepreneurial (Informal and Reactive) SMEs stated that they reviewed the trade journals and press and are aware of price variances from their suppliers and the effect this has on the market.

Experience of people working on the project

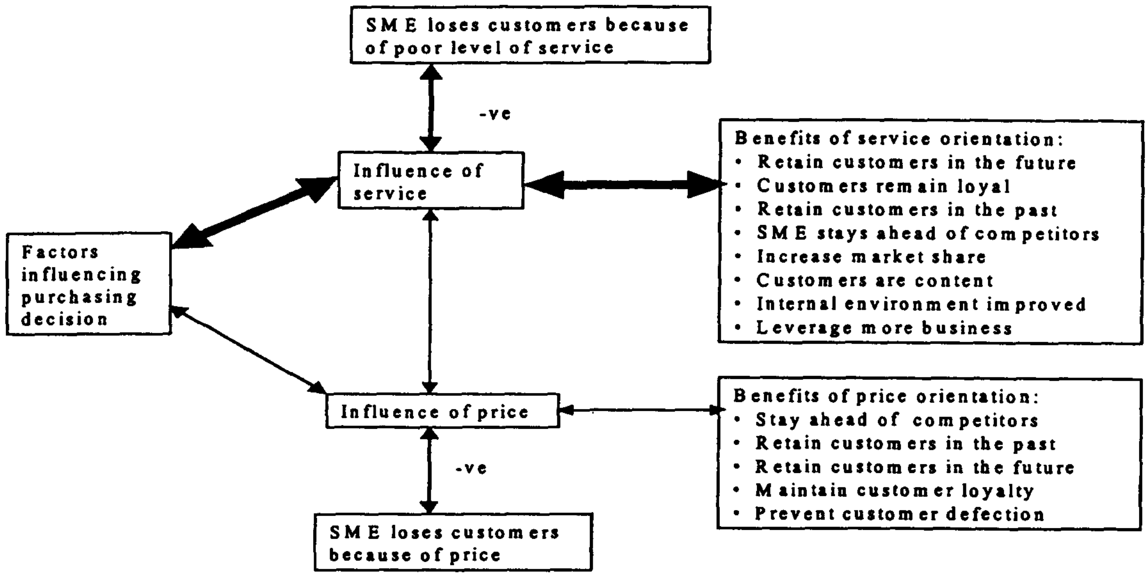
Proactive "Experience. Expertise in their particular sector. Cost. Quality of the personnel that will actually work on their business. Originality in thinking, both creatively and in strategic terms. The days that this becomes not a 'people business' I think will witness the decline of the business. People work with agencies because they actually like the people who work in them........ So I think 'people' is important, and there is no getting away from it, the key thing at the end of the day is we have to deliver results." Co. S

Entrepreneurial (Proactive) SMEs stated that their employees through their experience, expertise, creativity and close relationship influenced customer purchases.

9.1.3.1 <u>Influencing A Customer's Purchasing Decision Associated with Other Categorical Themes</u>

There is an extremely strong association (see Fig. 9.1.3.1) between service influencing a customers purchase decision and the other main benefits of the SMEs service orientation which include retaining customer loyalty, staying ahead of competitors, increasing the market share and ensuring customer contentment with the SME. Additionally, there is also a strong association to reveal that the consequences of a poor service may result in customers' leaving the SME. The other modest association reveals that there are many benefits to arise from maintaining a competitive price in terms of both staying ahead of competitors and retaining customers. While the consequences of inappropriate pricing, may lead to the SME losing their customers' to competitors. Finally the associations also reveal that it is not just the service alone that influences customer purchase but also a complementary competitive prices.

Figure 9.1.3.1 Factors Associated with Influencing A Customer's Purchasing Decision



9.1.5 Encouraging Customers' to tell the SME their Problems

Entrepreneurial (Proactive) and non-entrepreneurial (Reactive) SMEs acknowledged more than the non-entrepreneurial (Informal) SMEs (see Table 9.1.5) that their personal contact with their customers allows them to determine their customer problems. Furthermore there was a very small reference by the SMEs, especially entrepreneurial (Proactive), to building a close relationship to determine customer problems.

Table 9.1.5 Encouraging Customers to tell the SME their Problems

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Personal contact to determine customer problems	7	7	4	18
Build Close relationships to determine customer problems	1	2	3	6

Personal contact to determine customer problems

Proactive "Basically saying that if they are open with us and will actually take us into their confidence then we can actually help them by thinking ahead alongside them" Co. S

Reactive	"Initially by asking them relatively open questions about what they need, but then commenting typically on those problems while we are in the meeting, so that you earn their confidence there and then and they open up for you. Once they feel they are dealing with somebody who has something to say on the issue they are much more informative about it" Co. N
Informal	"We are the first people to know if they have got any problems! I mean we like to feel that we are fairly open and that they can come to us with anything" Co. D

The entrepreneurial and non-entrepreneurial SMEs communicate regularly with their customers and this open rapport helps build confidence between the two parties resulting in more information flowing between the two. The entrepreneurial and non-entrepreneurial SMEs stated that they found that the open dialogue between them and their customers' allowed both parties to explore and identify problems. The feedback is often leveraged from technical staff (trainers and installers) and occasionally from questionnaires sent out.

Build relationships to determine customer problems

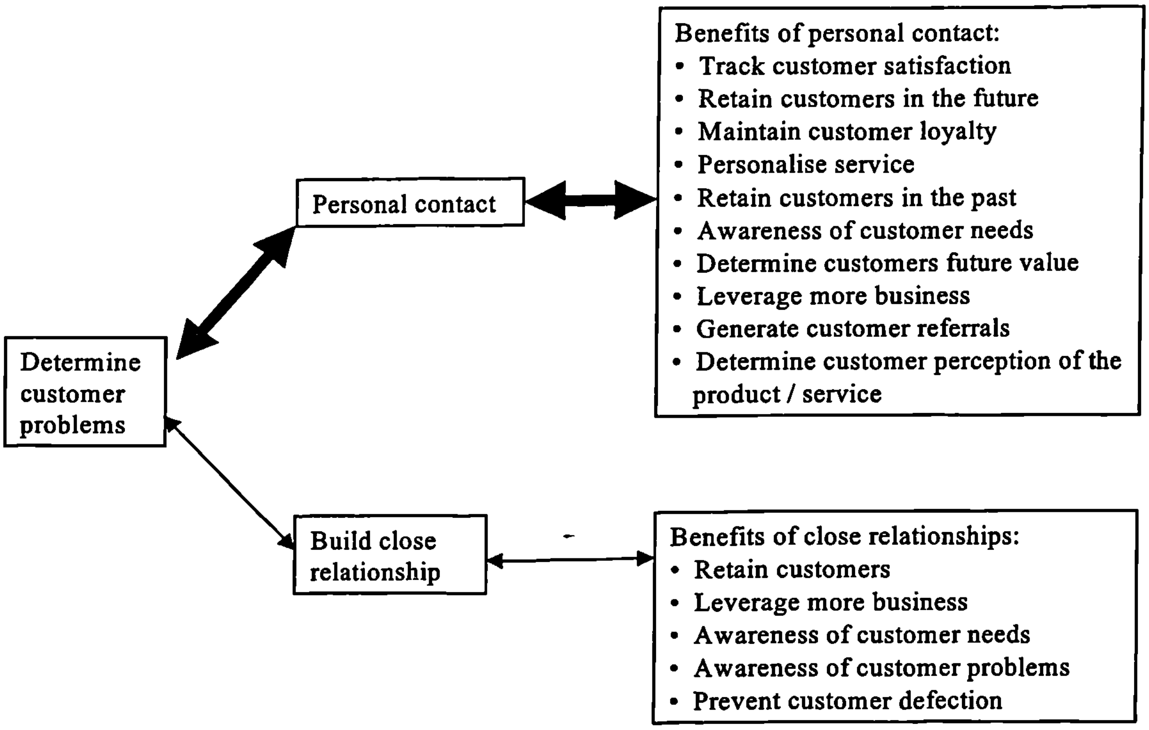
Proactive	"Kept talking to them, keep sorting out their problems as quickly as we could. Basically keep building a relationship" Co. H
Reactive	"we like to tell people that things are not right, that there are problems be it our fault or something supplied by a customer and we develop a relationship, rather than just do one job, we build a relationship with a client, so we talk to them basically, let them know what is happening and that is generally how we get on. Every client we give a director, obviously the account handler, we give a second source contact and production people so they can talk to anyone here at any time" Co. L
Informal	"Normally if there is a problem, if they are a first time buyer, they will tend to be probably instantly hostile. If you have a good relationship with customers, you tend to eliminate that" Co. D

The entrepreneurial and non-entrepreneurial SMEs have found that the close relationship that they build with their customers, allows them to be aware and more open with determining customer problems.

9.1.5.1 Encouraging Customers to tell the SME their Problems Associated with Other Categorical Themes

The extremely strong associations (see Fig. 9.1.5.1) of personal contact reveal that there are many benefits of maintaining personal communication with the SMEs customers. Most notably to track customer satisfaction, retain customer loyalty, personalise the service, gain awareness of customer needs, determine customers future value and leverage more business. Additionally the modest associations for building close relationships allows the SMEs to achieve many benefits in terms of retaining customers, leveraging more business and maintaining awareness of customer needs and problems.

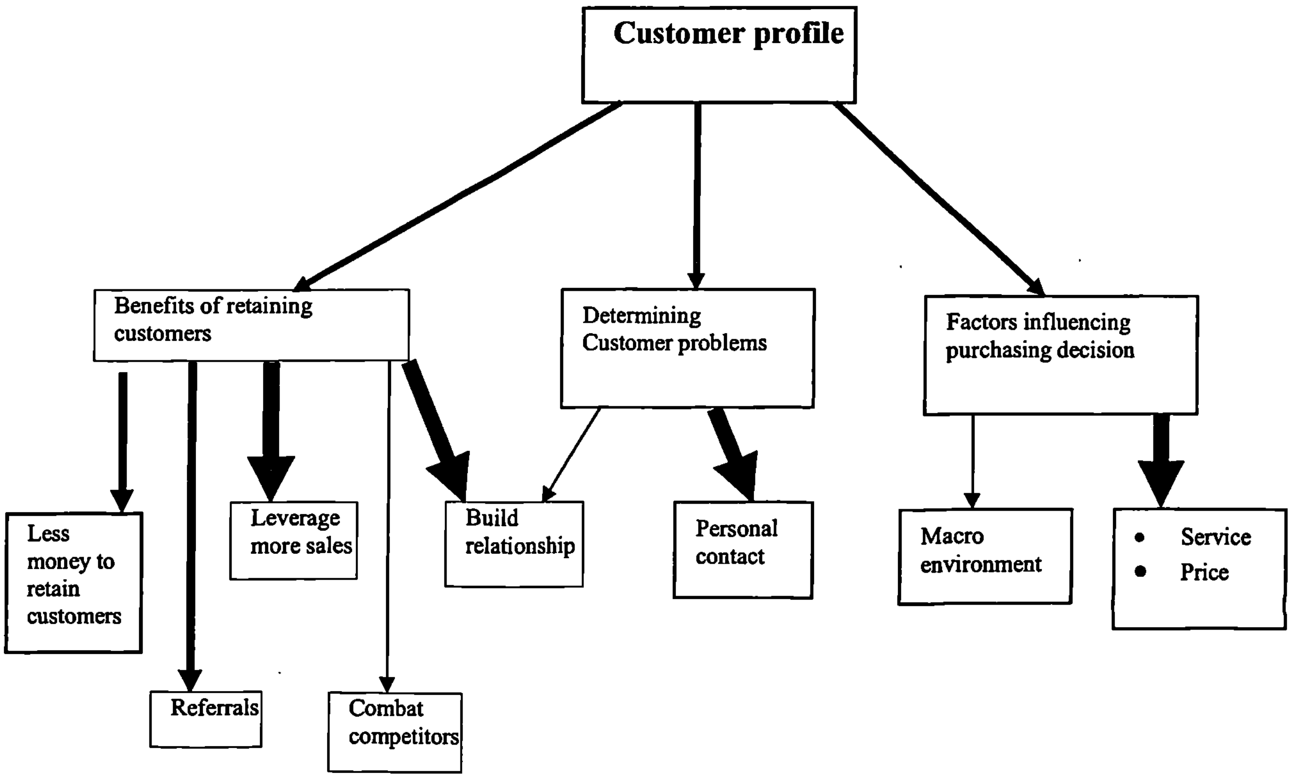
Figure 9.1.5.1 Factors associated with Encouraging Customers to tell the SME their Problems



9.1.6 Diagrammatic representation of all constructs identified in the customer profile section

The author has constructed a framework of all the major factors influencing the construction of a customer profile in SMEs (see Fig. 9.1.6), based on the results of this research project. The intensity of the arrows represents the strength of association of the factors to a category.

Figure 9.1.6 Major Factors Contributing to Building a Profile of Customers



9.2 CUSTOMER LEVERAGE

This section of the questionnaire aimed to determine how entrepreneurial and non-entrepreneurial SMEs were able to leverage more business from both their existing and new customers. This was determined through evaluating:

- Determining the percentage of customers that generate the most sales
- How the SME is able to predict accurately which customers will generate value in the future
- Determining which existing customers the SME particularly concentrates on to leverage more business from
- The techniques the SMEs employ to leverages more business from their existing customers
- Which new customers the SME particularly focuses on to leverage more business
- The profile of the SMEs profitable customers
- The profile of the SMEs least profitable customers

9.2.1 Pareto Rule

Entrepreneurial (Proactive) and non-entrepreneurial (Reactive) SMEs agreed to a greater extent than non-entrepreneurial (Informal) SMEs that the Pareto rule was applicable to their customer base (see Table 9.2.1). This is a situation whereby 20% of the current customers generate 80% of the SMEs turnover.

Table 9.2.1 Agreement with the Pareto Rule

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Pareto rule	5	6	3	14
Don't know	2	1	3	6

Pareto rule

Proactive "The old cliché. I would say we probably are not far off it. In actual fact we had the top six customers produced something like 30% of our turnover, which is quite frightening because we have got about 1,000 clients and only six of them are doing the things if they were all doing that then I would be a happy man" Co. K

Reactive	"80/20 rule applies" Co. A
Informal	"I have got some figures somewhere but I think it is something like 30% of our customers generate about 60% of our business" Co. P

Entrepreneurial (Proactive) and non-entrepreneurial (Reactive) SMEs cited more than non-entrepreneurial (Informal) SMEs that the 'Pareto Rule' was applicable to their customer base. This is where a very small minority of customers, contribute to the vast majority of revenue for the SME. This disparity in customer income generation creates an opportunity for SMEs to leverage more business from their existing customers. Therefore, there are two questions that SMEs need to address:

1) Which existing and new customers should SMEs focus on to leverage more sales
2) How can the SMEs leverage more sales from both their existing and new customers

These questions were addressed in the qualitative research instrument and the following sections will highlight the results.

9.2.2 Determining A Customer Future Value

There are some interesting results to the question of 'determining a customer's future value' (see Table 9.2.2). The difference in the frequency of responses by the entrepreneurial and non-entrepreneurial SMEs reveal that entrepreneurial (Proactive) SMEs cite their preference for determining a customers future value is through personal contact. While non-entrepreneurial (Informal) SMEs show a preference for incontrovertible financial evidence (i.e. purchasing frequency). Finally many entrepreneurial and non-entrepreneurial SMEs agreed that customer planning allowed the SMEs the opportunity to further verify their customer's future value.

Table 9.2.2 Determining A Customer Future Value

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Personal contact to determine customer future value	7	6	4	17
Based on customer planning	4	4	4	12
Purchasing behaviour of customer	3	4	5	12
Macro environment	3	2	3	8

Personal contact to determine customers future value

Proactive "We know all our customers very well. And also the personal touch with our sales reps who have been with us 10 or 12 years so they know their customers, even so far as they are friends with them so we get to know their perceptions" Co. G

Reactive "We can actually see which accounts are making money at the moment and also with having regular contact by the rep it's known whether the account is likely to change suppliers or not" Co. A

Informal "we tend to keep good contact with them. That is the main thing, even if it is only over the telephone, speak to them regularly, find out what they actually need, if their requirements are changing or not, whether they are still happy with the service" Co. D

The proximity of the personal contact the entrepreneurial and non-entrepreneurial SMEs develop with their customers' allows them to gain an insight into their customer plans and their potential future value.

Based on customer planning

Proactive "It depends on what business they are in...... certain ones would demonstrate more ability and have more emphasis on planning than others and ones that can plan further ahead tend to be able to predict what is going to happen." Co. H

Reactive "Really just through the scale of the type of work that they are doing" Co. N

Informal "You tend to find that the larger people, the ones who have got the big order books and are looking to source product are much more relaxed and more prepared to leave it to the computer company to actually do what it does best and supply good computers" Co. D

Many entrepreneurial and non-entrepreneurial SMEs agreed that their larger customers are usually the customers the SME can rely on for business because of their size, attitude to IT investment and that they inform the SME of their immediate future needs.

Purchasing behaviour of customers

Proactive "We have been in business 8 years about, and during that time we certainly can analyse which customers have been best for us." Co. W

Reactive "We know which accounts are generating most money at the moment. We know the type of business, the type of clients that are more profitable to us, so we tend to bear that in mind when we are targeting potential clients" Co. T

Informal "our MD and he was able to highlight a few major accounts - again long standing - that have produced X-amount in the last year or two, and he considered those as crucial really and it was important to maintain good relationships with them on that basis" Co. B

The entrepreneurial and non-entrepreneurial SMEs are aware which of their major accounts have consistently provided the SMEs with business in the past. Non-entrepreneurial (Informal) SMEs cited more than the other SMEs that they focus on previous purchasing behaviour of a customer to determine their future value.

Macro environment

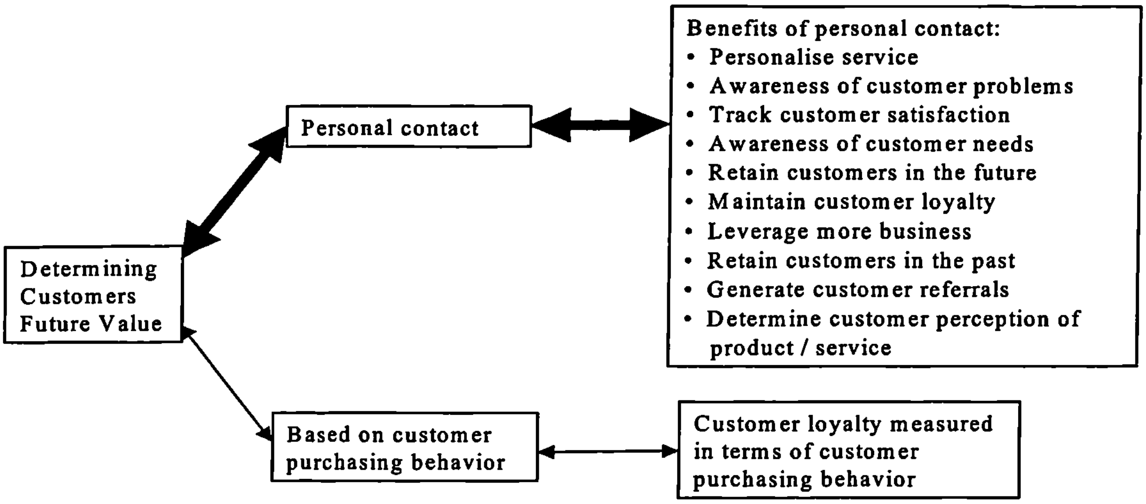
Proactive "That's quite difficult because what might be a very stable large customer now, might decide to make a policy change and that policy change might be to move to a low cost economy. i.e. move their business to the Philapines because of the low cost and this is the danger in working with a large customer and you may not have any notice, it could just happen." Co E

The entrepreneurial and non-entrepreneurial SMEs stated that they must always be cautious of the macro environment and its effect on their customers' future value. The entrepreneurial and non-entrepreneurial SMEs maintain awareness of their markets through constantly assessing the market trends in terms of sales and publications in trade journals and assessing competitors (both locally and nationally) prices and the market rates and how these compare with their own prices and costs.

9.2.2.1 Determining A Customer Future Value Associated with Other Categorical Themes

The extremely strong associations (see Figure 9.2.2.1) not only reveal the advantage of personal contact to determine a customer's future value but also the multitude of other benefits. Additionally there is a modest association between customer loyalty and a customer's purchasing behaviour to allow the SME to determine the customer's future value.

Figure 9.2.2.1 Factors Associated with Determining A Customers Future Value



9.2.3 Leveraging More Sales from Existing Customers

The most frequently cited response, to leveraging more sales from existing customers, was targeting existing profitable and potentially profitable customers, this was cited more by the non-entrepreneurial (Reactive) SMEs (see Table 9.2.3). The entrepreneurial (Proactive) SMEs differed in opinion and aim to leverage more business from existing customers through offering new products / services.

Table 9.2.3 Leveraging More Sales from Existing Customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Target marketing	3	6	4	13
New products / services	6	3	2	11
Customers other departments	3	2	2	7

Target marketing

Proactive "I just produced a sales listing off on terms of turnover in reverse order, and it alarmed me that there were so many clients on there that had not spent any money with us so far this year and we are six months into this year and that rang an alarm bell and I am actually looking at the moment to actually give a list of those clients to the sales guys to say right they have not spent anything that means we are not talking to them, ring them up make sure they are OK and make sure they have not gone elsewhere and keep on top of it because they are our opportunity" Co. K

Reactive "We know which accounts are generating most money at the moment. We know the type of business, the type of clients that are profitable to us, so we tend to bear that in mind when we are targeting potential clients" Co. T

Informal "They tend to be customers who are either in the education sector or they are in the public sector, or they are within one particular arm of a conglomerate maybe and we are not selling to that particular business" Co. D

Entrepreneurial and non-entrepreneurial SMEs have a specific profile of customers that they wish to target largely based on the profile of their existing profitable customers. These customers are usually companies that can benefit from the SMEs field of experience.

New product / services

Proactive "At the moment we are concentrating on the year 2000. Obviously there is a limit to what we can do, we are not a huge company and we have got a ..... sales office, but we have got to really target our campaign, so at the moment our main aim is the year 2000 we have a product to convert.." Co. W

Reactive "We tend to service financial institutions and the type of business that we are looking for is primarily colour work, colour for print.....It is largely because of the resources that we have and it is an area that we seem to specialise in." Co. T

Informal "We constantly update our basic procedures with respect to the actual goods themselves in terms of quality and performance and the service" Co. D

SMEs target specific customers with proposals of new products or services that are available to aid the customer and generate more business for the SME. Alternatively the SMEs may bespoke their existing products / services to specifically meet their customer's requirements.

Customers other departments

Proactive "Basically we have sold the System 6000 software into a number of unrelated areas, but there are two companies who deal with the same market segment, one of whom has recently been acquired by a large international organisation who are looking at the systems that they have purchased, one of which is the system we sold. So the opportunity there is enormous for us because it is quite possible that we could then sell on to this parent organisation as well." Co. H

Reactive "Our larger International clients are acquiring businesses all the time. They are consolidating their own business so we know that at some point in the future there will be a lot more opportunities for us and as such we target them or we pester them" Co. J

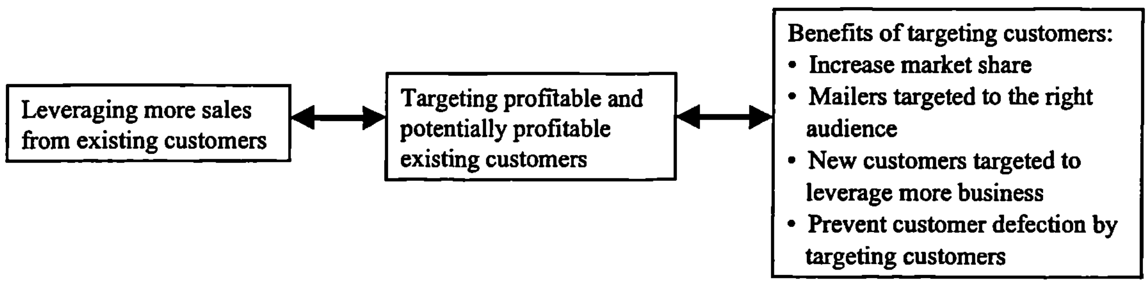
Informal "We did one logo and that was a pitch situation, we got the job, we then got a brochure to do, we then got a leaflet to do, advertising to do and from that department, producing that amount of work through us somebody else from the division of Yorkshire Water on the board of directors, saw the work, rang us up, I'm from a different division, I like the work you are doing and so it always takes a lot longer in companies like that because it is so political, everything has got to get 'passed' and 'passed' you tend to wait a lot longer but the rewards are a lot bigger" Co. M

Entrepreneurial (Proactive) SMEs stated more than non-entrepreneurial SMEs that they target specific existing customers that have other departments or are part of a subsidiary of companies for a large organisation. Since there always exists the opportunity to leverage more sales from a large customer if they acquire another company or if another department in the company could benefit from the company's services.

9.2.3.1 Leveraging More Sales From Existing Customers associated with other categorical themes

The very strong association in Figure 9.2.3.1 reveals that targeting customers can allow the SME to not only leverage more business but also increase their market share and prevent customers from defecting.

Figure 9.2.3.1 Factors Associated with Leveraging More Sales from Existing Customers



9.2.4 Techniques to Leverage More Sales from Existing Customers

There are **four** main techniques that entrepreneurial and non-entrepreneurial SMEs take advantage of to leverage more business from their existing client base. The main difference between the entrepreneurial and non-entrepreneurial SMEs is that non-entrepreneurial (Informal) SMEs don't rely as much on building close relationships to leverage more business than both entrepreneurial (Proactive) and non-entrepreneurial (Reactive) SMEs. Additionally, entrepreneurial and non-entrepreneurial SMEs mainly agreed that maintaining customer awareness, personal contact and offering the required services are appropriate techniques to leveraging more sales (see Table 9.2.4).

Table 9.2.4 Techniques to Leverage More Sales from Existing Customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Awareness of customer requirements	5	6	6	17
Personal contact	4	4	5	13
Service	4	3	4	11
Building close relationship	4	4	2	10
Use other customers reputation	3	0	0	3
Not able to leverage any more business	0	1	1	2

Awareness of Customer Requirements

Proactive "Primarily what they are going to be doing next, what they are working on. So we can look quite closely at their technical side, their development people. On the basis what they might be developing now might come into production into say a years time" Co. E

Reactive "We have developed certain parts of our business in response to the way each customer sees himself going and what his future needs are going to be" Co. R

Informal "I think the most important thing is for our future development, because with software it's almost mercurial the changes that happen in the industry, so anything that they can say that will help us to plan our future development in terms of what they need to do their research, because it's largely researchers who use our product, that's the most helpful thing. And also how we can diversify on what we are doing at the moment" Co. B

Customer awareness is achieved by entrepreneurial and non-entrepreneurial SMEs through maintaining a personal contact and constant contact to determine both the present and future customer plans. Furthermore, entrepreneurial and non-entrepreneurial stated that the various communication mediums assisted them to identify and encourage customers to generate feedback for specific requests and/or changing requirements.

Personal contact

Proactive "we are trying to look at making sure that we are talking to those people enough so that we are in their thoughts, when they are thinking about it, they don't even pick up the Yellow Pages" Co. K

Reactive "Where we have direct contacts with the customer through the salesman, yes, we get a good feedback from the salesman in terms of the direction that customer is following, whether that fits in with our development plans, whether we can adjust our plans to meet that requirement. We have developed certain parts of our business in response to the way each customer sees himself going and what his future needs are going to be" Co. R

Informal "we put in our newsletter that if they have a specific request for something, that we have not told them about, then come back to us and we will see if we can do it. Again it is fairly limited communication" Co. V

Entrepreneurial and non-entrepreneurial SMEs stated that through their on-going continuous communication of face-to-face visits, seminars, mailshots (newsletters, adverts) with their customers they are ensuring that that the SME is constantly in the thoughts of their customers. The entrepreneurial and non-entrepreneurial SMEs further stated that personal communication allows them to determine how their products/services are perceived and whether any further refinements to the products/services are required.

Service Orientation

Proactive "The only way that they can really judge it is not necessarily on how the package works, but how the people who service it work and if they are more efficient, cost effective, all the things that make you feel that you like doing business with them, are good at it, better than other people, then they will continue to buy from you. And it may even be true to say that it does not necessarily reflect as to whether the package they bought is better than others, it is just that they like doing business with you." Co. H

Reactive "I think one thing that we concentrate on is actually maintaining standards of service and it's like all of these things, once companies know that your service is good they are a lot more receptive to you" Co. A

Informal "I suppose through the actual service they get. I think if we are doing our job right then with both the product and the service that we are supplying them, coupled with a reasonably competitive price, will do that job for us" Co. D

The service levels the entrepreneurial and non-entrepreneurial SMEs offer allows them to leverage more sales. The entrepreneurial and non-entrepreneurial SMEs highlighted that this has been achieved through focusing on generating ideas to assist customer development.

Build up a close relationship

Proactive "when they commit to purchasing from us that is the beginning of the relationship rather than the end of it, so we build on that and say there are new modules that are coming along to improve how the system works, therefore the systems that you are currently using can be made more effective and more efficient, which improves their business." Co. H

Reactive "There are the little customers that we do little drabs of work for and that is all we are ever going to do and there is the customer that we are at the beginning of building a relationship with, and we hope that they are going to become one of the major customers." Co. N

Informal "over the last three or four years the customers that started out in just giving us small amounts of work have snowballed and they give us a considerable amount of work now. We have just won a pitch back in September for a logo just for a division of Yorkshire Water. It is now snowballing through our relationship with them and the work we do for them is going into other divisions now as well, so we build on rather than cold calling a lot of the time, which you have got to do anyway, we do cold mail people, sometimes you never know one could come off but in the main it is through word of mouth and good work" Co. M

Through developing and nurturing relationships with their customers', entrepreneurial and non-entrepreneurial SMEs ensure they are providing the products/services that meets their customer requirements.

Use customer reputation to leverage more sales

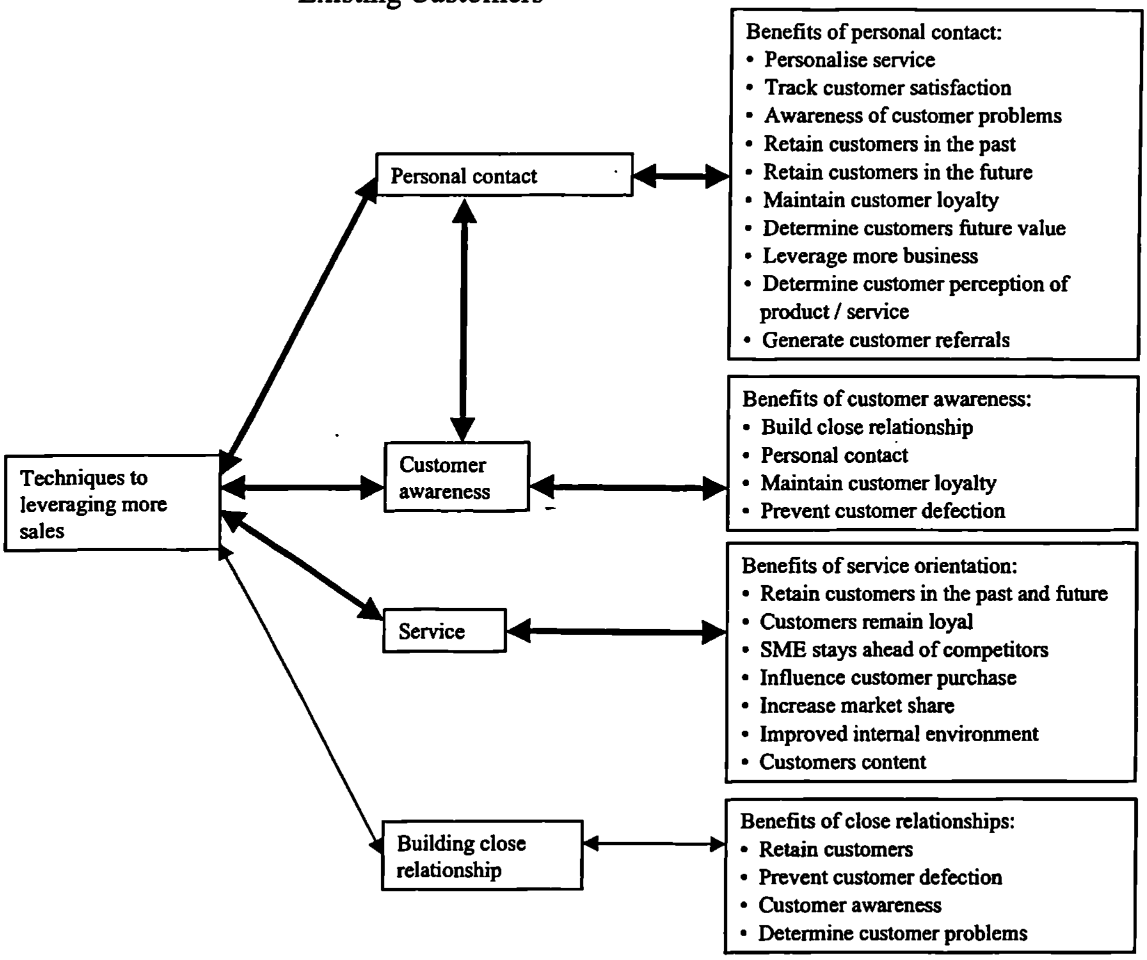
Proactive "There are those clients who the prestige of their name, that we will handle at a very low margin and we will do it because it actually is to our advantage because we can actually use the fact that we actually have that business to actually interest other prospects." Co. S

Entrepreneurial (Proactive) SMEs capitalise on the reputation of some of their customers' to leverage more business from their existing and new clients. Finally two non-entrepreneurial (one Reactive and Informal) SMEs mentioned that often there is a limit to how much a customer can invest in IT or a marketing campaign and often the budget for a period has been reached. Therefore, there exists no more opportunities for the SME to leverage more business.

9.2.4.1 Techniques to Leverage More Sales from Existing Customers Associated with other Categorical Themes

The very strong associations in Figure 9.2.4.1 reveal that personal contact, customer awareness and service all contribute to leveraging more sales, from existing customers. The main benefits to arise from these links are that SMEs who maintain a personal contact will also personalise the service for their customers, track their levels of satisfaction, maintain awareness of customer problems, retain customer loyalty, determine customer's future values and leverage more business. The very strong associations of SMEs maintaining awareness of customers' current and future requirements will improve the SMEs ability to build a closer relationship, personal contact, maintain customer loyalty and prevent defection. The final very strong associations of service highlights several benefits for the SME, most notably retaining customers, staying ahead of competitors and influencing customer purchase. The modest association of building a close relationship has several benefits the strongest link being to retain customers and maintain customer awareness.

Figure 9.2.4.1 Factors Associated with Techniques to Leverage More Sales from Existing Customers



9.2.5 Targeting New customers to Leverage More Business

There appears to be a fair degree of conformity of opinion amongst the entrepreneurial and non-entrepreneurial SMEs to target new customers, of a similar profile as their existing profitable and potentially profitable customers, in order to leverage more business from them (see Table 9.2.5). Entrepreneurial (Proactive) SMEs further show a preference for targeting customers who are in growth markets.

Table 9.2.5 Targeting New customers to Leverage More Business

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Targeting customers with similar profile	6	7	5	18
Growth markets	6	4	1	11

Target marketing similar customer profiles

Proactive "They have a very strong focus on the type of client they need to get, to the extent they know the names of them and there would usually be a long term strategy for each of the people we would like to become our customers and we know most of them." Co. E

Reactive "We know which accounts are generating most money at the moment. We know the type of business, the type of clients that are more profitable to us, so we tend to bear that in mind when we are targeting potential clients" Co. T

Informal "Generally now we have a data base set up and we know companies who are using our products and companies of a certain size that we then target. We really look for all the medium sized companies which is a five to twenty million turnover company, that is the area that we tend to go for. We are staffed to be able to handle their complete systems" Co. P

The entrepreneurial and non-entrepreneurial SMEs have created a database of knowledge on current and past purchasing behaviour of customers to establish trends, size of customers, current and potential profitability, geographic location and customers that could benefit from their expertise. These profiles are used to allow the entrepreneurial and non-entrepreneurial SMEs to focus on customers for whom they can meet their requirements. Several entrepreneurial and non-entrepreneurial SMEs cited that targeting customers has permitted them to achieve greater success in terms of response rates.

Growth markets

Proactive "The growth has got to come from new people, especially in terms of if we go back to this, they will replace their system every three years - the better clients.... we have got growth plans this year in terms of sales, I think they are 38%, I do not expect to achieve that from existing clients." Co. K

Reactive "We have identified the market place certainly, well there are a couple of market places in the volume products area, we have identified a new market place that we are tackling and focusing on so we are going through a marketing exercise there and we have identified a new product which is working in a completely" Co. R

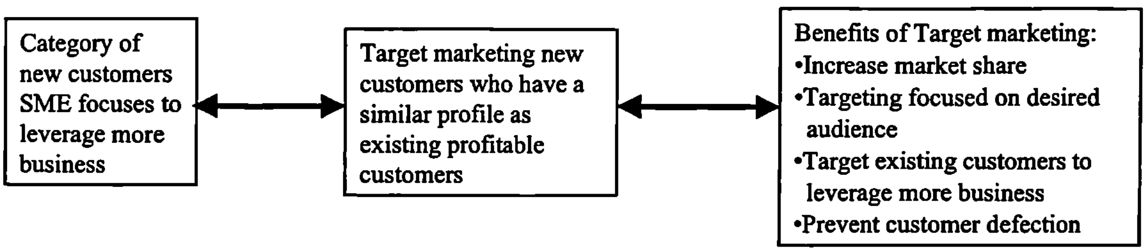
Informal "I think it is the type of research that they are doing, if we look back and see how we have helped people in the past and concentrate on some in that area, and also the current climate, what is topical now, for example, the medical imaging that we have been involved with is a real growth area and that is why we are looking to get involved in it further. So I think it is a combination of what we have been successful in doing in the past and also what is topical now" Co. B

Entrepreneurial (Proactive) SMEs have shown a preference to concentrate on identifying customers who are in growth markets so that it creates an opportunity for the SME to improve its own growth. Another area for potential growth that entrepreneurial and non-entrepreneurial SMEs highlighted was targeting subsidiaries of the SMEs larger customers who may benefit from the SMEs products / services.

9.2.5.1 Targeting New customers to Leverage More Business Associated with Other Categorical Themes

The very strong associations in Figure 9.2.5.1 reveal that targeting customers can allow the SME not only to leverage more business but additionally increase their market share and prevent customers from defecting.

Figure 9.2.5.1 Factors Associated with Targeting New customers to Leverage More Business



9.2.6 Profile of Profitable Customers

There is tremendous divergence of opinion amongst the entrepreneurial and non-entrepreneurial SMEs as to how they perceive a profitable customer (see Table 9.2.6). Entrepreneurial (Proactive) SMEs show a predilection for customers' who are already profitable as well as customers who need the services of their company. While non-entrepreneurial (Reactive) SMEs also show a modest agreement with entrepreneurial

(Proactive) SMEs they have also indicated along with non-entrepreneurial (Informal) SMEs that they do not have a profile of a profitable customer written down, but have indicated that they would be able to recognise one.

Table 9.2.6 Profile of Profitable Customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Customer who needs service	5	3	2	10
Profitable customer	6	3	0	9
Not written down	0	3	2	5
Not aware of competitors	2	0	0	2

Customer who needs service

Proactive "What we say is, if the organisation turns over more than 5 million a year, then we think it is an organisation that we can help in terms of they will require a sophisticated system which we will be able to service for them." Co. H

Reactive "We know the profile of the type of customer that we find most profitable, and they are typically large organisations with big IT budgets. So they have got a long term need and the advantage to that is we can sell them things continuously and therefore we get very good utilisation" Co. N

Informal "I think that they have been successful in their field for some time and they know exactly what it is that they want when they come to us because we do get some people who say - "oh I'd like to produce a graph" - and that's it, you know, they don't really know what they are asking, Some of our main customers are established people like Smith, Kline, Beecham Glaxo, people like that. So they come with a specific agenda which we can answer directly and that is that usually" Co. B

Entrepreneurial and non-entrepreneurial SMEs stated that they focus on customers who have a need for their products / services (often these customers are geographically close to the SME) as well as focusing on the larger organisations that utilise their services more because of their expenditure.

Profitable customer

Proactive "They are all profitable, bearing in mind that the software is already written" Co. C

Reactive "We also look at the level of expenditure not only of a particular client, but also their competitors, and see the type of production values and levels of service that that particular client might demand" Co. T

There are many characteristics of a profitable customer. Entrepreneurial and non-entrepreneurial SMEs stated that their profitable customers exhibit the following characteristics:

- Large customers usually with large budgets
- Customers who give a high level of expenditure to the SME
- Customers who have historically given a lot of business to the company
- Usually require a lot of service

Not Written down
Informal "Obviously you do have a profile in your head but not written, on paper" Co. X

Two Non-entrepreneurial (one Reactive and Informal) SMEs stated that they did not have any formal profile of a profitable customer(s) but were nonetheless aware of customers who were profitable. Although, the non-entrepreneurial SME stated that this conscious definition would probably differ amongst the employees in the company.

Not aware of competitors
Proactive "its usually someone who has limited buying experience, low profile, and therefore is someone who we have been able to find and work on and who is not aware of the presence of our competitors." Co. E

Finally two entrepreneurial (Proactive) SMEs stated that they were able to generate profitability from customers who were unaware of their competitors.

9.2.7 Profile of Least Profitable Customers

The non-entrepreneurial (Informal and Reactive) SMEs show agreement in describing a less profitable customer as one who is price conscious, while there is some modest agreement with this statement from entrepreneurial (Proactive) SMEs (see Table 9.2.7). Several entrepreneurial (Proactive) and non-entrepreneurial (Reactive) SMEs voiced their concern over not having established close relationships with their least profitable customers.

Table 9.2.7 Profile of Least Profitable Customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Price conscious customers (-ve)	4	7	5	16
Close Relationship not established (-ve)	3	2	0	5
Dubious financial record	2	1	0	3
Customers with a small budget	0	0	3	3
Customers who don't know what they want	0	0	1	1

Price conscious customers

Proactive "Somebody who buys on price and does a lot of work switching, so the service and quality can be completely satisfactory but they get a lower price next time. So they beat your prices down until a point where you don't wish to compete anymore. The same thing will then happen to the next supplier, so there is unlikely to be any long term relationship build up." Co. E

Reactive "Prices go up all the time and the point being that customers are far more knowledgeable about pricing structures and about the fact that yes there is another company where you can buy a similar service at a cheaper price" Co. J

Informal "Price. We only have a couple, and usually that is the last company we actually turned work down, because they demanded too much for the costings that they were offering. So we quite happily said well please go somewhere if we can recommend another agency with cheaper rates, but we know that we give a good quality service and we will not lower that service just for a cheaper cost" Co. M

The main characteristics that non-entrepreneurial SMEs highlighted of their least profitable customers (often their smaller customers) were that these customers were highly sensitive to price.

Close relationship not established as customers' not interested in a relationship

Proactive "Well that would be the straightforward PC sale who does not invest any time or anything in trying to contact us about other things that we do." Co. W

Reactive "A lot of our customers are gained through word of mouth. You can also lose customers through word of mouth" Co. F

A few entrepreneurial (Proactive) and non-entrepreneurial (Reactive) SMEs highlighted their concern that they did not have close relationships with some of their profitable customers.

Customers with dubious financial records

Proactive "We always look around for good housekeeping" Co. G

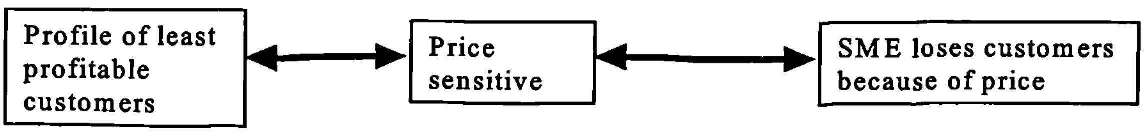
Reactive "Usually it is because of the payment record. The margins that we make on volume products are so slim, we can't afford to have a customer who takes six months over paying his bills, for whatever reason, so if we find customers continually do that, then we think it better if they do business with somebody else" Co. R

Entrepreneurial (Proactive) and non-entrepreneurial (Reactive) SMEs stated that customers with bad payment records and slim margins on the product are often their least profitable customers. Finally, three non-entrepreneurial (Informal) SMEs stated that customers with small financial budgets often expect a large degree of work for very little money. Creating greater expense for the SME since they have to spend more on resources in explaining how their systems work and how they should be operated. The other type of profile of least profitable customers that non-entrepreneurial (Informal) SMEs noticed were customers who did not have a clear idea of their overall goals and therefore the SME found great difficulty in answering their needs.

9.2.7.1 Profile of Least Profitable Customers Associated with Other Categorical Themes

The very strong associations of prices in Figure 9.2.7.1 reveal that those customers that displayed a price conscious nature were most likely to defect.

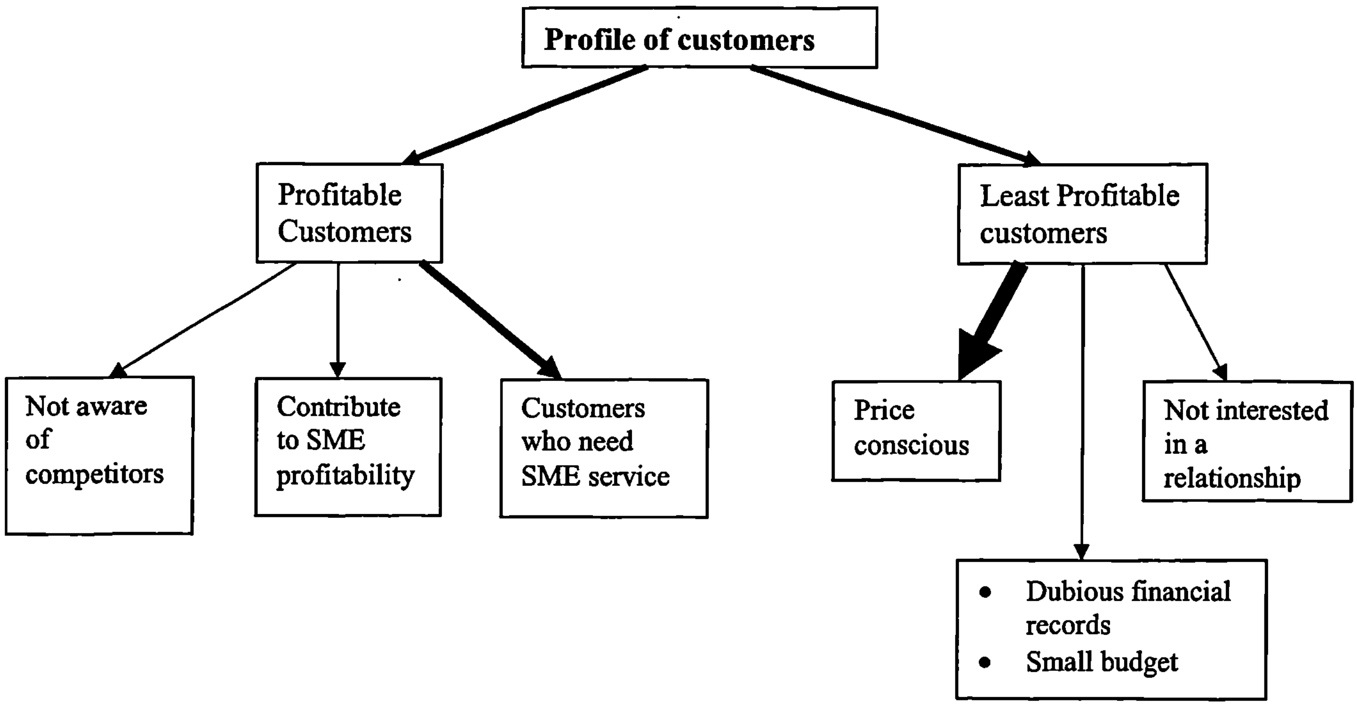
Figure 9.2.7.1 Factors Associated with Profile of Least Profitable Customers



9.2.8 Diagrammatic representation of all the constructs generated to identify profitable and least profitable customers

The author has constructed a framework of all the major factors contributing to building a profile of a profitable and least profitable customers' (see Fig. 9.2.8), based on the results of this research project. The intensity of the arrows represents the strength of association of the factors to a category.

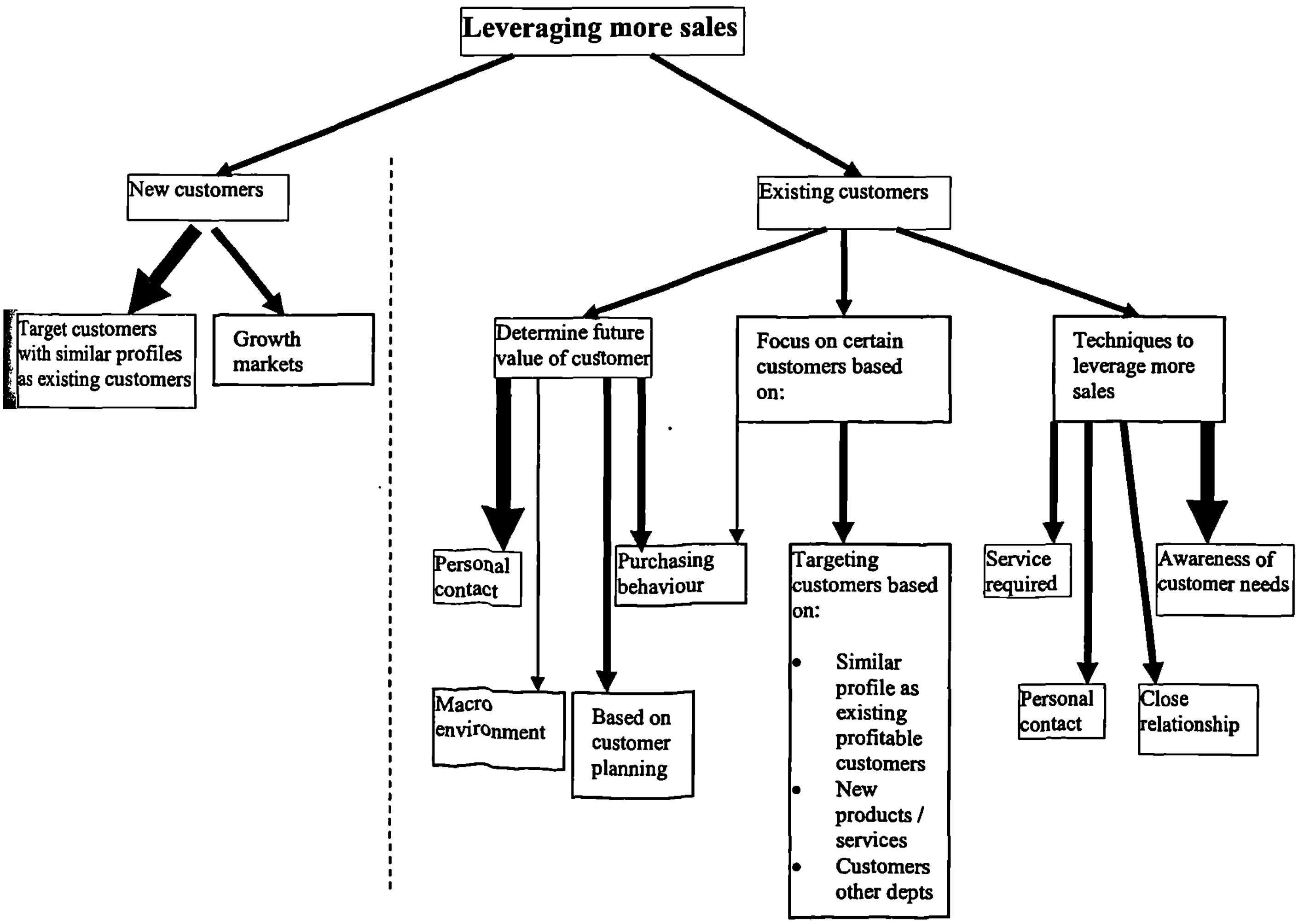
Figure 9.2.8 Main Factors Associated with the Profile of Profitable and non-profitable Customers



9.2.9 Diagrammatic representation of all the constructs identified to leverage more business from existing and new customers

The author has constructed a framework of all the major factors influencing the leveraging of more business from existing and new customers (see Fig. 9.2.9), based on the results of this research project. The intensity of the arrows represents the strength of association of the factors to a category.

Figure 9.2.9 Main factors Associated with Leveraging more Sales from Existing and New Customers



9.3 CUSTOMER SERVICE

This section aims to determine how SMEs maintained service levels for their customers. This is evaluated by determining

- How SMEs maintain a consistent level of service
- The level of service the SMEs MAIN customers receive
- How SMEs personalises the service for their customers
- Actions the SMEs take when a customer complains

9.3.1 Maintaining Consistent Service

There is high degree of agreement amongst both entrepreneurial (Proactive) and non-entrepreneurial (Informal) SMEs and to lesser degree non-entrepreneurial (Reactive) SMEs that quality procedures and teamwork aid the SME in maintaining a consistent level of service (see Table 9.3.1).

Table 9.3.1 Maintaining Consistent Service

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Quality procedures	6	4	5	15
Teamwork	4	3	4	11
Increasing staff	1	0	0	1
Recruiting right people	0	1	0	1
Difficult to maintain (resource problem)	0	1	0	1

Quality procedure

Proactive "We maintain it through the quality procedure.... If you produce great work then its aim is to consistently produce great work, but ISO 9000 is a procedure, aims to produce consistency, not quality, necessarily. Your quality will be determined by a host of other factors such as the experience and expertise of your people"

Reactive "Once you have procedures in place it's as easy to adhere to those for the large firms as it is for the smaller clients, or the profitable ones and the non-profitable ones" Co. T

Informal "Again, primarily to ISO 9002, that ensures that we do. But also by talking to our customers. We talk to them on a daily basis, probably a more effective way than ISO9002" Co. D

There are two main approaches to maintaining a consistent level of service that entrepreneurial and non-entrepreneurial SMEs favour. The first involves the entrepreneurial and non-entrepreneurial SMEs introducing 'quality systems and feedback mechanisms' to monitor the consistency of quality. Since the quality systems monitored the consistency of service by logging and tracking performance and customer complaints, thus permitting the SME to gauge a clearer picture of what is happening to their customers.

Teamwork	
Proactive	"By having teamwork within the group, production, accounts, must all have the same objective – the customer - and that is what I personally have been striving for to try and get everyone working together." Co G
Reactive	"at the end of the day a lot of what we are involved in is teamwork" Co. A
Informal	"I think everyone is very open with each other in their activities there is not a sense of personal gain or each person tries to outdo the other. You really feel that there is a good support system for everyone" Co. B

The second main approach that entrepreneurial and non-entrepreneurial SMEs have introduced to maintain a consistent level of service is creating a teamwork environment. The entrepreneurial and non-entrepreneurial SMEs have found that an environment that supports people being very open with each other in their activities inhibits any real sense of personal gain.

9.3.1.1 Maintaining Consistent Service Associated with other Categorical Themes

There is a modest association between maintaining a consistent service through adopting quality systems and the subsequent benefits that arise namely: improved internal environment; tracking customer satisfaction and dealing with customer problems (see Fig. 9.3.1.1).

Figure 9.3.1.1 Factors Associated with Maintaining a Consistent Service

Maintain consistent service ⟷ Quality systems maintain consistent service ⟷ Benefits of Quality systems:
- Improved internal environment
- Track customer satisfaction
- Deal with customer problems

9.3.2 Determining the Level of Service for Customers

The responses generated from the entrepreneurial and non-entrepreneurial SMEs reveal that the level of service that a customer receives is prioritised and directed towards the most profitable and loyal customers (see Table 9.3.2).

Table 9.3.2 Determining Level of Service for Customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Prioritising service	3	3	4	10
Don't know / No Response	4	4	2	10

Priority of service for major clients

Proactive "I suppose in terms of different levels of service the sales guys would typically approach their quotes on margin difference. So if we have got three quotes to do the biggest system will get quoted first but apart from that we try and treat everyone the same to try and give the same level of service. However, there are a number of service levels that people pay for, they pay for a different level of service." Co. K

Reactive "I think there is actually one way of maintaining it by giving them priority. As I said as well, we have the direct sales line and the people that are answering the phone are very competent. They know who is the most profitable accounts and will organise stuff accordingly, really" Co. A

Informal "Based on profitability and potential profitability. It is not just how much they have spent with us, but how much they are likely to spend with us and then also some of our customers pay for faster response times so obviously they get priority treatment. It does not matter how profitable they are, they get faster responses because they pay for it" Co. P

Entrepreneurial and non-entrepreneurial SMEs have segmented their customer base on the basis of contributions to SME profitability. This has allowed the entrepreneurial and non-entrepreneurial SMEs to identify customers not only by their size and frequency of orders but also in terms of their purchase of superior service such as quick response times, delivery, etc.

9.3.3 Personalising Service for Customers

Personal contact is very high on the agenda of the entrepreneurial and non-entrepreneurial SMEs (see Table 9.3.3). Since this allows them to personalise the service offer to their customers. Furthermore, the personal contact has additionally allowed both entrepreneurial (Proactive) and non-entrepreneurial (Reactive) SMEs, to a greater degree than non-entrepreneurial (Informal) SMEs, to become aware of customer problems. Finally one non-entrepreneurial (Reactive) SME voiced concern over losing the personal contact if the SME continued to grow.

Table 9.3.3 Personalising Service for Customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Personalising relationships with customers	7	6	6	19
Personal contact: being aware of customer problems	7	7	4	18
Difficult to maintain if SME grows	0	1	0	1

Personalising relationship with customer

Proactive "Again personalising" Co. G

Reactive "we have a high degree of personal contact with the customers. I think really that's when you get away from a customer being an account number, and it is actually their faces and names" Co. A

Informal "I think we are quite personalised anyway because we are so small, because we have been operating for over 15 years and in quite a niche market and a lot of our accounts are long-standing. People tend to know the company and almost warm to them and I think that again has a lot to do with our MD who is very friendly with the majority of our accounts" Co. B

The entrepreneurial and non-entrepreneurial SMEs stated there is a high degree of personal contact between them and their customers. This is maintained by the entrepreneurial and non-entrepreneurial SMEs often allowing the same employees to take responsibility for a portfolio of customers, to maintain continuity in the relationships. Other measures entrepreneurial and non-entrepreneurial SMEs have taken to personalise the service include:

- Carrying out training courses
- Visiting the customer regularly
- Taking customers out on social events
- Creating a climate where employees are on first name basis with customers

Entrepreneurial and non-entrepreneurial SMEs further stated that as they are fairly small they have established a very personal contact with their long-standing accounts that has often developed into a warm climate of friendship between the two parties.

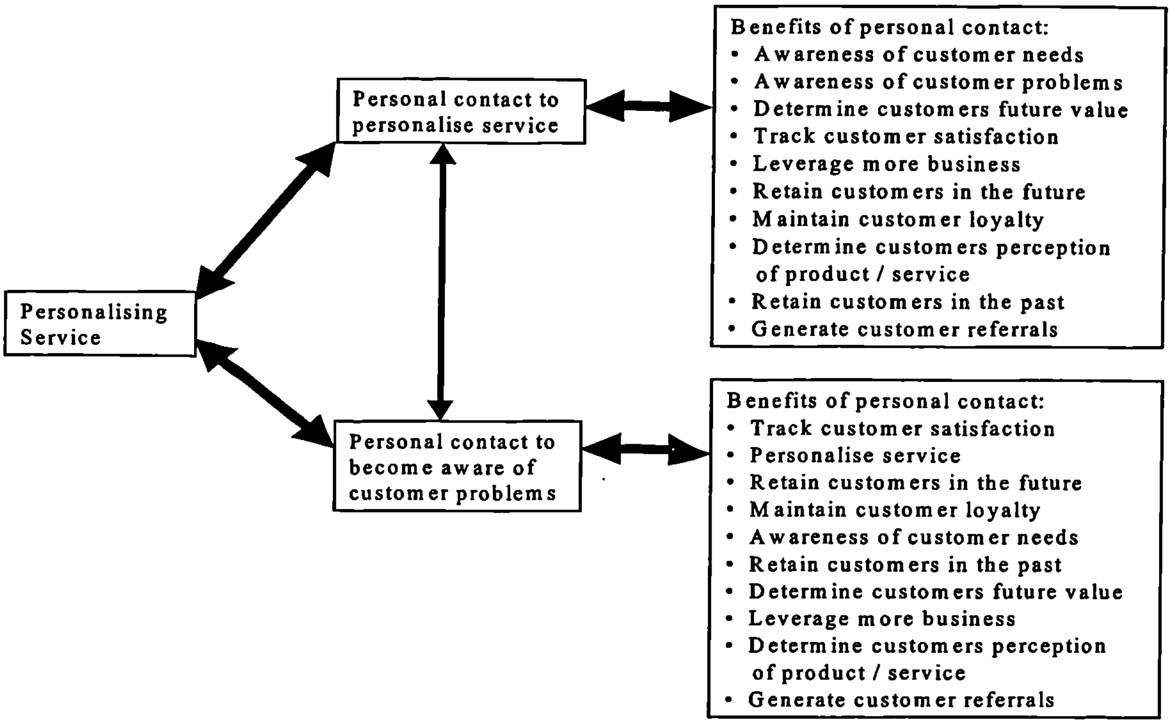
Personal contact: Being aware of and spending time on customer problems	
Proactive	"Well it goes from big things like demonstrating that we have an awareness of the problems that they will have in their business, by segmenting them into a vertical market, saying like we know that you deal with the soft drinks industry and we already have clients in that area, now these are the problems that they faced, and we think that you will have similar problems... having a notice board up in reception that welcomes them, that makes them feel as if they are special, because they are, of course, spending as much time as possible with them on site with us asking and answering their questions, and all the areas in between those two." Co. H
Reactive	"there is a lot of personal contact and certainly the reps are encouraged to find out whether there are any problems in the account, when they are making calls" Co. A
Informal	"Quite often we do keep in contact after selection and they will talk to us and say we are not happy about this or that. Occasionally we will send out a questionnaire asking them about the service we provide and the installation and then we also get feedback from our technical staff as well, our trainers and installers" Co. P

The entrepreneurial and non-entrepreneurial (Reactive) SMEs have discovered that they are able to determine any customer concerns from their personal contact they develop with their customers.

9.3.3.1 Personalising Service for Customers Associated with other Categorical Themes

There are some extremely strong associations for SMEs communicating with their customers personally (see Fig. 9.3.3.1).

Figure 9.3.3.1 Main Factors Associated with Personalising Service for Customers



9.3.4 Actions Taken when Customer Complains

Entrepreneurial (Proactive) and non-entrepreneurial (Informal) and to a very modest degree non-entrepreneurial (Reactive) SMEs have introduced quality systems to deal with customer problems (see Table 9.3.4).

Table 9.3.4 Actions Taken when Customer Complains

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Quality systems deal with problems	6	2	5	13
SME reacts to a problem	0	1	0	1
Don't Know / No Response	1	4	1	6

Quality systems determine and deal with problems

Proactive "Depends on the nature of the complaint. There is a system in place for dealing with it through IS09002. Which demands a response within a certain time and that response would be in writing, if it was a written complaint after investigation. Verbally if it was verbal. There is a distinct system of monitoring." Co. E

Reactive "Within the ISO9002 , it is written in to your manual as to procedures that must be followed about complaints" Co. A

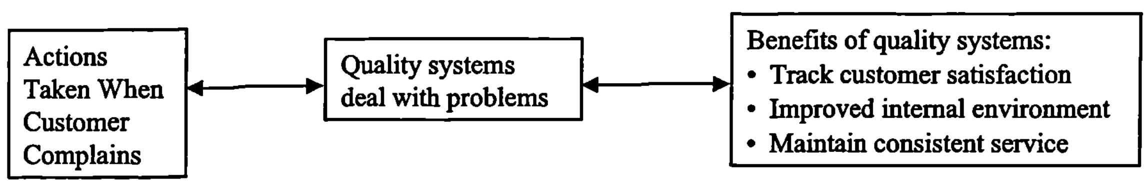
Informal "Basically by as soon as we get a call in. That kicks in the rejection system of the ISO9002 and so we can track all rejected items be they either targeted by the customer or through somehow or another within the system" Co. V

Entrepreneurial (Proactive) and non-entrepreneurial (Informal) SMEs frequently referred to establishing formal procedure that were put into operation when customers complained. Whereby each problem is assessed and directed to the appropriate personnel who are trained to follow the formalised quality systems.

9.3.4.1 Actions Taken when Customer Complains Associated with Other Categorical Themes

There are modest associations between SMEs dealing with customers' complaints through their quality systems in place (see Fig. 9.3.4.1). These quality systems assist SMEs to track customer satisfaction, improve their internal environment and maintain a consistent service.

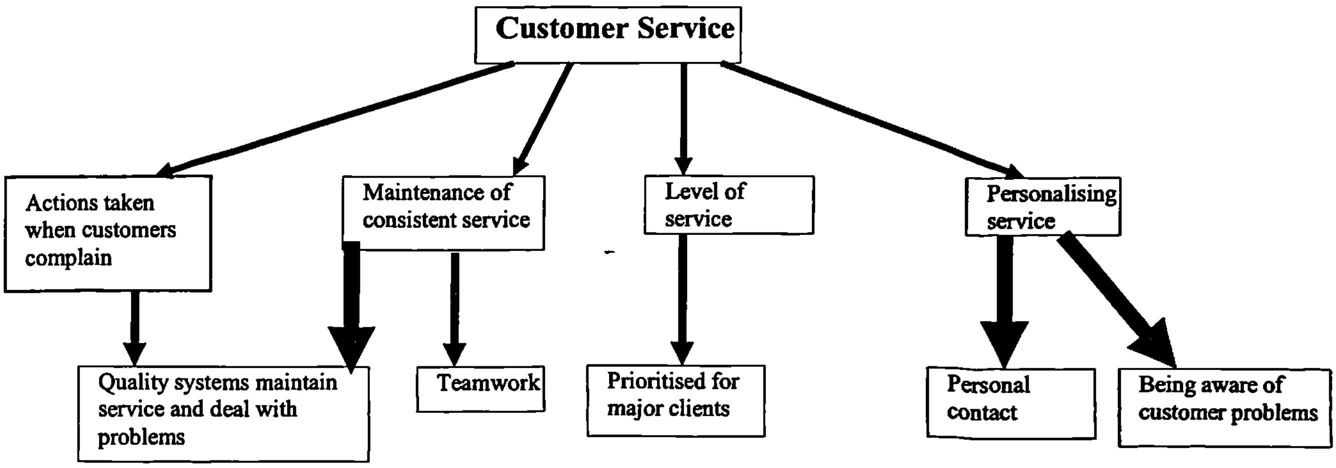
Figure 9.3.4.1 Main Factors Associated with Actions Taken when Customers Complain



9.3.5 Diagrammatic representation of all constructs identified to maintain customer service

The author has constructed a framework of all the major factors influencing the delivery of a consistent service by the SME to their customers (see Fig. 9.3.5), based on the results of this research project. The intensity of the arrows represents the strength of association of the factors to a category.

Figure 9.3.5 Main Factors Associated with Maintaining a Consistent Service



9.4 CUSTOMER LOYALTY

This section aims to determine why the customers are loyal to their respective SMEs and what measures the SMEs are taking to ensure continued customer patronage. This is determined by evaluating:

- What the SMEs define as a Loyal customer
- How the SMEs measure customer loyalty
- Why the SMEs believe their customers are loyal to their company
- The steps SMEs are taking to maintain customer loyalty
- How SMEs reward their most loyal customers
- The benefits of developing close relationships with loyal customers

9.4.1 Definition of a Loyal Customer

There is a high degree of coherence amongst the entrepreneurial and non-entrepreneurial SMEs, in their understanding of the profile of a loyal customer (see Table 9.4.1). The only slight difference in the categorisation of a loyal customer is that non-entrepreneurial (Reactive) SMEs show a tendency to emphasise that their definition of a loyal customer is a customer who stays with the company.

Table 9.4.1 Definition of a Loyal Customer

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Service that customers are happy with	5	6	5	16
Customer stays with SME	5	6	4	15
Referrals from customers	3	3	4	10

Service orientation: Customer happy with service

Proactive "Well it's just someone who is happy with the product and the service he has bought. You know it's not like switching from one brand of envelopes to another, it's not as easy. At first it's perhaps easy to have loyal customers because the changeover is expensive and major" Co. C

Reactive "customer I think the loyalty of the customer comes more from the after sales service that they get" Co. R

Informal "I think it would be someone that is happy with our product and what we do, the way we treat them and is loyal to those aspects really" Co. B

Entrepreneurial and non-entrepreneurial SMEs stated that loyal customers are content with the level of service that the SME is providing.

Stays with Co.

Proactive	"A loyal customer is one who stays with us" Co. S
Reactive	"One that has been with us over probably four to five years and will happily talk with us and work with us. And obviously one whose market place has grown as the customer has become more aware of what we can offer" Co. L
Informal	"Most of our customers we have had for six or seven years, so obviously that is to me a definition of loyalty" Co. X

Non-entrepreneurial and entrepreneurial SMEs both view loyal customers as those customers' who continue to stay and purchase with the SME and increase business with the SME as their market share grows.

Referrals

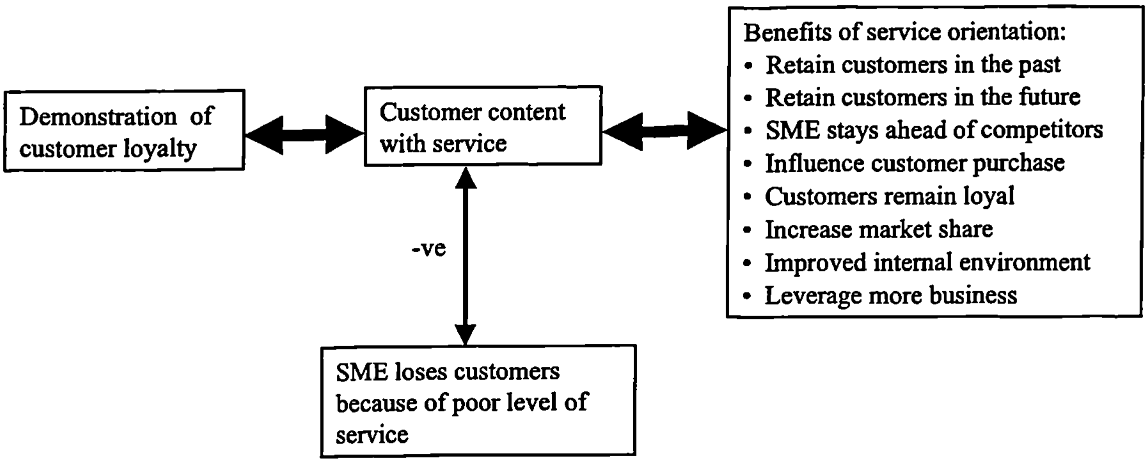
Proactive	"Somebody who recommends us to somebody else" Co. E
Reactive	"new customers, many times come on recommendations from old customers" Co. F
Informal	"I think just by really just how long they have been with us and whether they have recommended us to other people" Co. B

Several entrepreneurial and non-entrepreneurial SMEs were in agreement that new customers have been gained through "word of mouth" by the efforts of the loyal existing customers who generate a lot of referrals.

9.4.1.1 Customer Loyalty Associated with Other Categorical Themes

There is an extremely strong association between customers being content with the service levels provided by the SMEs and the multitude of benefits to arise from a service orientation (see Fig. 9.4.1.1). Additionally, there is also a strong association between customers being content with service and the consequences of a poor level of service that may result in customers leaving the SME.

Figure 9.4.1.1 Main Factors Associated with the Demonstration of Customer Loyalty



9.4.2 <u>Measurement of Customer Loyalty</u>

There is uniform accord amongst the entrepreneurial and non-entrepreneurial SMEs that a customers purchasing behaviour is an essential measure of determining the degree of loyalty of a customer (see Table 9.4.2).

Table 9.4.2 Measurement of Customer Loyalty

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Purchasing behaviour	4	4	4	12
Don't Know / No Response	3	3	2	8

Purchasing behaviour

Proactive "I think the easiest measure of loyalty is how much money have they got to spend on computer equipment and how much of it are they spending with us and if they are spending a lot of money and it is all coming to us then obviously they are very loyal" Co. H

All other quotes similar from non-entrepreneurial SMEs

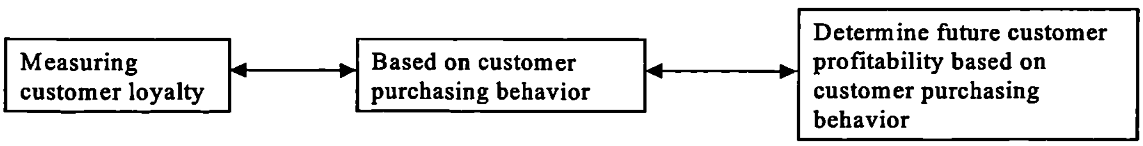
Entrepreneurial and non-entrepreneurial SMEs measure their customer loyalty in terms of the amount of spenditure the customers has and how much of that expenditure the SME has captured to provide a more accurate assessment of the value of the customer to the SME. The entrepreneurial and non-entrepreneurial SMEs have learnt that the more frequent the contact between the SME and its customers the more regular will be the work. Other measures the entrepreneurial and non-entrepreneurial SMEs have both introduced to determine customer loyalty, include:

- Analysing previous purchasing patterns and determining trends for each customer
- Measuring the length of time the customer has been with the SME
- Determining number of referrals a customer has generated
- MD occasionally may highlight major accounts that it is crucial to develop a relationship with in the hope that they will become loyal, although there are no guarantees.

9.4.2.1 Measurement of Customer Loyalty Associated with Other Categorical Themes

Their exists a modest association between customer purchases and being able to determine a customer's future value (see Fig. 9.4.2.1).

Figure 9.4.2.1 Main Factors Associated with Measurement of Customer Loyalty



9.4.3 Factors Influencing Customer Loyalty

There is a fair degree of coherence among the entrepreneurial and non-entrepreneurial SMEs on acknowledging that their focus on service has influenced customer loyalty (see Table 9.4.3). The main difference amongst the entrepreneurial and non-entrepreneurial SMEs lies in the non-entrepreneurial (Reactive) SMEs preference for competitive prices to influence customer loyalty. The minor citations reveal that entrepreneurial (Proactive) and non-entrepreneurial (Reactive) SMEs cite switching costs and the quality of the product as measures that influence customer loyalty.

Table 9.4.3 Factors Influencing Customer Loyalty

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Service quality	7	7	5	19
Competitive price	4	6	3	13
Switching costs	1	2	0	3
Quality of the Product	2	1	0	3

Service
Proactive "Standard things really improved. Prices , services and quality" Co. E
Reactive "I think that one there has got to be down to quality - quality of products and quality of service" Co. A
Informal "Because they are happy with the service" Co. P

Entrepreneurial and non-entrepreneurial SMEs recognise that service plays a vital role in influencing customer loyalty.

Price competitiveness
Proactive "Standard things really improved. Prices , services and quality" Co. E
Reactive "I would say that one of the main reasons why our clients are loyal to us is the pricing factor more than anything else. We tend to be 10% to 15% below the usual ... devices and it is very difficult financially for a client to leave us" Co. J
Informal "reasonably competitive price" Co. D

The entrepreneurial and non-entrepreneurial SMEs are all aware of pricing to influence customer loyalty and entrepreneurial SMEs stated that they have tended to set prices that avoid attracting customers who are primarily focused on price. Since they have discovered that these customers have proved to be unreliable and capricious to competitor offerings. In general non-entrepreneurial (Reactive) SMEs frequently cited that they tended to focus on price (lower prices) as a means to influence customer loyalty and patronage.

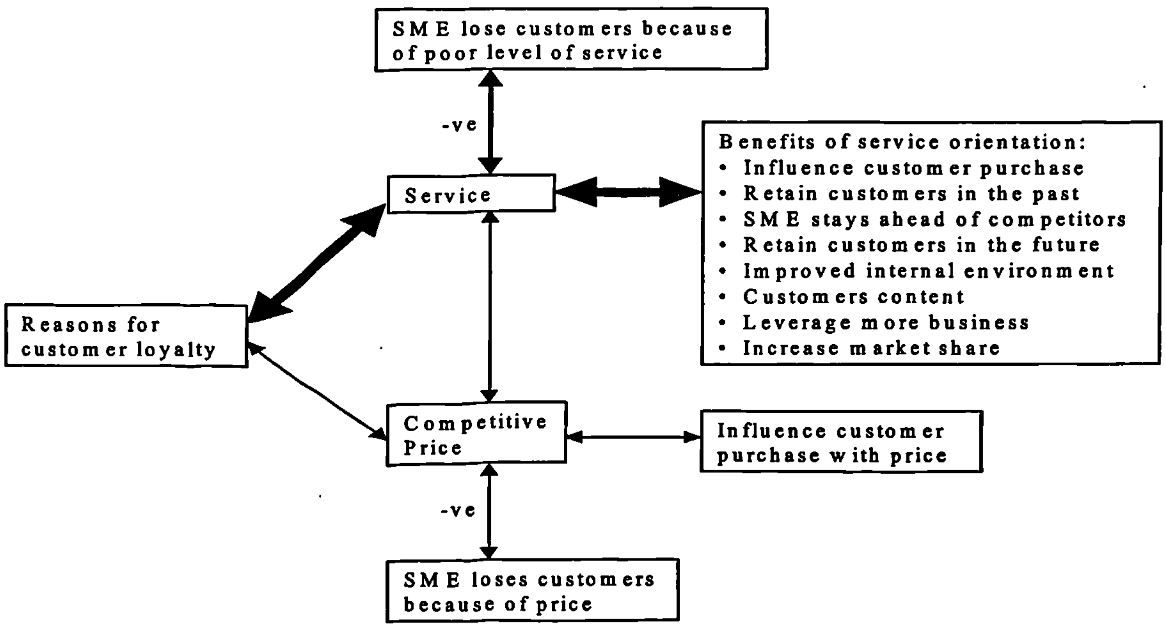
Switching costs
Reactive "We tend to be 10% to 15% below the usual ... devices and it is very difficult financially for a client to leave us. We actually install not only just the network but we also install a number of other peripheral equipment to enable that network to work and we provide that as part of our price. Now if a client was to do that we would take away all of our structure and he would have to reinvest in not only his network but his equipment" Co. J

The switching costs for the customers play a vital role in maintaining customer patronage. To ensure that their customers don't switch to competitors two non-entrepreneurial (Reactive) SMEs have employed the most basic tool at their disposal of price to retain customers, although, this may be used only as a short term measure. While one entrepreneurial (Proactive) SMEs has realised that a more effective means of influencing customer loyalty is to invest in technological ties between the SME and its customers by installing peripheral equipment at the customer's site. So that systems and structures are in place that would make it uneconomical for the customer to switch to another supplier.

9.4.3.1 Factors Influencing Customer Loyalty Associated with Other Categorical Themes

There is an extremely strong association between SMEs focusing on service and the multitude of benefits to arise from service orientation (see Figure 9.4.3.1). Although, the consequences of a poor level of service has often resulted in customers leaving the SME. The modest association of competitive prices also contributes to influencing customer loyalty. While the consequences of inappropriate pricing, may lead to the SME losing their customers' to competitors. Finally there are modest associations that reveal that service and competitive prices are inter-linked to maintaining customer loyalty.

Figure 9.4.3.1 Main Factors Associated with Factors Influencing Customer Loyalty



9.4.4 Measures to Maintain Customer Loyalty

Entrepreneurial and non-entrepreneurial SMEs are in agreement that maintaining customer awareness predisposes the SME to maintaining customer loyalty (see Table 9.4.4). Additionally both entrepreneurial (Proactive) and non-entrepreneurial (Reactive) SMEs display a greater emphasis on personal contact than non-entrepreneurial (Informal) SMEs to ensure customer loyalty. Interestingly, the non-entrepreneurial (Reactive) SMEs cited more than the entrepreneurial and non-entrepreneurial (Informal) SMEs that they provided extra service to maintain customer loyalty. Finally, two entrepreneurial (Proactive) SMEs stated that it is through the efforts of their employees who maintain the service levels that they are able to maintain customer loyalty.

Table 9.4.4 Measures to Maintain Customer Loyalty

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Awareness of customer	6	7	6	19
Personal contact to keep customers informed	6	6	4	16
Extra service	4	7	3	14
Staff maintain service	2	0	0	2

Customer Awareness to maintain loyalty

Proactive "Kept in touch with them. Told them what we were doing, and found out what they were doing." Co. W

Reactive "we have talked about some already, the concept of newsletters where very often we in the newsletters will talk about new product development but also .... existing customers what they have done type of thing. We are developing into areas like user groups. I am really now talking about our solution ..... whereby we can get feedback from our users on their experiences with the product and the way in which they would like to see it moving and that generates a loyalty of its own based .... of the product and the surrounding personnel" Co. R

Informal "I think just by keeping in touch with them, and particularly now with the new version coming out, finding out their future plans for research and how we can help them better." Co. B

Entrepreneurial and non-entrepreneurial SMEs stated that they maintain constant communication with their respective customers through various mediums so that their customers are fully informed of new versions of a product / service that will be available.

Additionally by maintaining an interactive communication the entrepreneurial and non-entrepreneurial SMEs highlighted that they became aware of their customer's plans for research and how they could assist their customer's in their requirements (in terms of service levels and discounts offered).

Personal contact to keep customers informed	
Proactive	"Because time gives you time for friendship. You need to have a personal basis so business grows with them, with customer and sales or rep." Co. G
Reactive	"We obviously try and keep competitive on pricing and we try and look after the loyal customers on a personal basis" Co. A
Informal	"we tend to keep good contact with them. That is the main thing, even if it is only over the telephone, speak to them regularly, find out what they actually need, if their requirements are changing or not, whether they are still happy with the service" Co. D

The reason cited by the entrepreneurial and non-entrepreneurial SMEs for maintaining a personal contact is that it allows them to become aware of their customer requirements. Many entrepreneurial and non-entrepreneurial cited that they developed a personalised rapport with their customers through socialising with customers out of work hours and developing the friendship element for better working relationships.

The entrepreneurial and non-entrepreneurial SMEs stated that they focus greater attention on their most loyal customers by ensuring they receive a more personal and quicker service than their competitors. This has helped them to maintain a healthy relationship with their main customers.

Extra service	
Proactive	"We offer them a special fast track production" Co. E
Reactive	"To improve if we can, because in this industry, we invest in new equipment so that we can hopefully give an even better job, and so long as you don't go backwards, you must always go forwards, not let the quality drop" Co. F
Informal	"By constantly increasing the level of service we provide" Co. D

The entrepreneurial and non-entrepreneurial SMEs stated that they have invested in new technology or providing extra support to meet customer requirements, offering extra free training courses, and one non-entrepreneurial (Informal) SME stated that they moved their distribution offices close to their customer location.

Staff maintain service

Proactive "I've found of the total staff of the company are dedicated to that end, they are employed solely to serve our customers that's what their title is - Customer Service Officers and we have a high regard for the quality of the product" Co. C

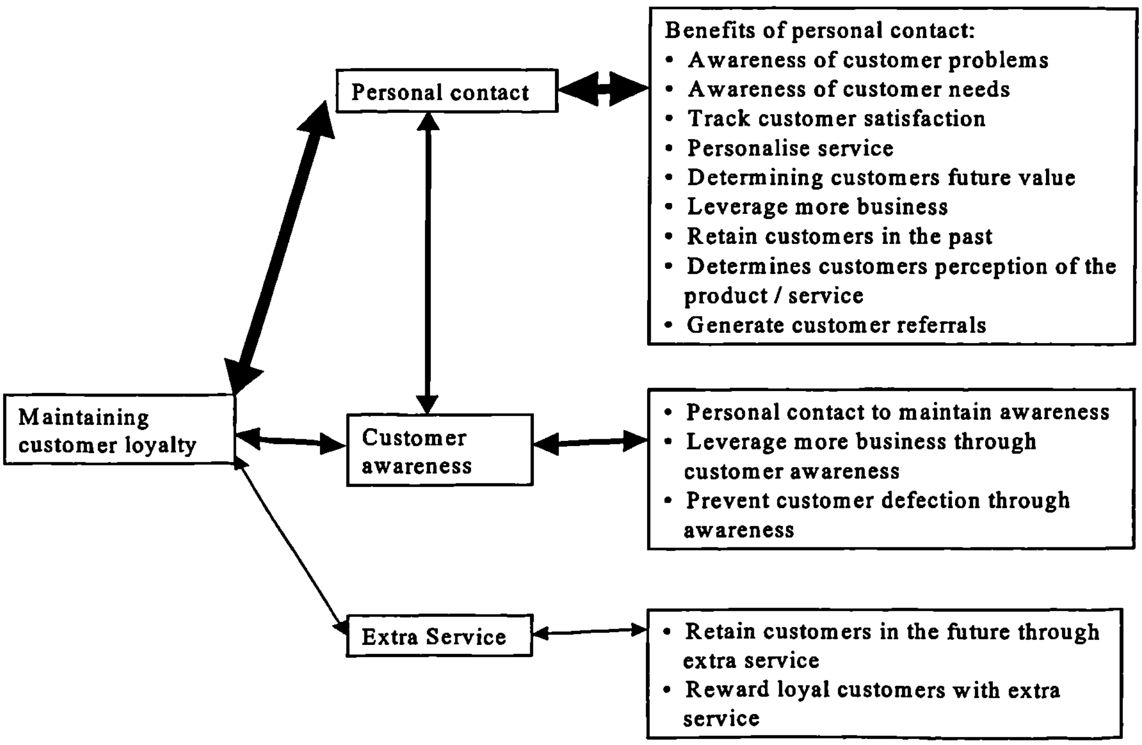
Proactive "The main thing is by the staff being able to maintain that quality so at the end of the day, the main thing we sell is people, people's time, people's expertise and so on. So that is what you need to invest in." Co. W

Two entrepreneurial (Proactive) SMEs further commented that it was due to the efforts of their employees that they were able to provide quality service levels to maintain customer loyalty.

9.4.4.1 Measures to Maintain Customer Loyalty Associated with Other Categorical Themes

There is some extremely strong associations for maintaining customer loyalty and through using personal contact and the subsequent benefits of personal contact that accrue (see Fig. 9.4.4.1). Additionally there is a very strong association of maintaining customer loyalty through customer awareness. Finally the modest association of providing extra service allows the SMEs to not only retain their customers in the future but also to reward and maintain their loyalty.

Figure 9.4.4.1 Main Factors Associated with Maintaining Customer Loyalty



9.4.5 <u>Rewards / incentives for loyal customers:</u>

Non-entrepreneurial (Reactive) SMEs referred to providing extra service as of greater importance to rewarding loyal customers than the other entrepreneurial and non-entrepreneurial (Informal) SMEs (see Table 9.4.5). Other rewards that entrepreneurial and non-entrepreneurial SMEs offer their customers include offering discounts and taking customer suggestions on-board.

Table 9.4.5 Rewarding Loyal Customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Extra service	4	7	3	14
Discounts	5	5	3	13
Customer suggestions taken on board	4	2	2	8
No discounts given	0	0	1	1

Extra service

Proactive "We will do the same as last year (meet their technical requirements) and will also try to speed up our production and offer and increased range of services and will try to strip out costs form the same process" Co. E

Reactive "By a loyalty in return - that we look after them very well" Co. F

Informal "If it is made easy for them to come to the door, to have friendly faces to speak to, a friendly person to deal with, and someone who will take on their problems and sort it out for them, rather than them trying to do it all themselves, I think that is one of the major things" Co. M

Entrepreneurial and non-entrepreneurial SMEs both stated that they are constantly scanning their environment to search for new ways to offer their products / services to their customers that competitors have not tried or cannot compete on. The entrepreneurial and non-entrepreneurial SMEs both stated that they have invested in new technology or providing extra support to meet customer requirements, offering extra free training courses, and one non-entrepreneurial (Informal) SME stated that they moved their distribution offices close to their customer location.

Discounts

Proactive "Price discounts if we have to." Co. C

Reactive "the main thing we do is for large customers we have agreed discounts in the past in order for guaranteed advance commitments for a volume of work" Co. N

Informal "I think it is mostly through the discounts" Co. B

The entrepreneurial and non-entrepreneurial SMEs have also selected to reward customers with price discount. Through employing price discrimination based on customer loyalty and the customer's contribution to the company's profitability. Many non-entrepreneurial (Reactive) SMEs further stated that they offer larger discounts during certain seasons of the year to stimulate business. Furthermore, several non-entrepreneurial (Informal) SMEs offer some very generous discounts and offer individual deals. In some cases the main customer's automatically receive a 50% discount, as they are the SMEs main target audience. Other forms of discount that the entrepreneurial and non-entrepreneurial SMEs provided were when:

- Advanced orders are agreed
- Retrospective re-grade (i.e. percentage repayment at the end of a period)
- Automatic discount for main targeted customers

Customer Suggestions Taken on Board

Proactive "If it is to do with the package that we produce, we will try and get their specific requirements catered for, so if they have a new accounting system or a particular way of stock control and their system is not written for that, we will get the software supplier to do it for them, so it works exactly the way they want it to work." Co. H

Entrepreneurial (Proactive) SMEs to a greater degree than non-entrepreneurial SMEs tended to take on-board customer suggestions. Although, each customer suggestion was considered on its merits and benefit to both parties before it was adopted. One entrepreneurial (Proactive) SME stated that if the customer proposal was practical and assisted the SME it would be implemented. The decisions that many entrepreneurial and non-entrepreneurial SMEs review for taking on board a customer suggestion include:

- Intensity of concern by the customer
- Technical feasibility
- Financial cost
- Customer future profitability
- Human resources
- Value added to the product / service

9.4.5.1 Rewarding Customer Loyalty Associated with Other Categorical Themes

The modest association of extra service to reward customer loyalty allows SMEs to not only retain their customers in the future but also reward their loyalty (see Fig. 9.4.5.1).

Figure 9.4.5.1 Rewarding Loyal Customers Associated with Other Categories

Rewarding profitable customers ↔ Extra service ↔

- Retain customers in the future through extra service
- Maintain customer loyalty through extra service

9.4.6 Benefits of Building Close Relationships with Loyal Customers

There are a multitude of benefits that entrepreneurial and non-entrepreneurial SMEs have highlighted from developing and maintaining close relationship with customers (see Table 9.4.6). The commonality in all the SMEs appears to be exhibited in their references to retaining customers and becoming aware of their needs through building a relationship. While both entrepreneurial (Proactive) and non-entrepreneurial (Reactive) SMEs display a greater preference for leveraging more sales through close relationships than non-entrepreneurial (Informal) SMEs. Furthermore three entrepreneurial (Proactive) SMEs stated that close relationships allow them to use the customer as a source of reference when soliciting for business from other customers. It is also apparent that entrepreneurial (Proactive) SMEs have cited more than non-entrepreneurial SMEs that building close relationships assists them to combat competitors.

Table 9.4.6 Benefits of Building Close Relationships with Loyal Customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Building close relationships to retain customer	5	4	5	14
Building close relationships to combat competitors	5	3	3	11
Building close relationships allows the SME to become aware of customer needs	4	4	3	11
Building close relationship to leverage more sales	4	4	2	10

Build close relationship to determine customer problems	1	2	3	6
Building close relationships allows the SME to use the customer as a reference	3	0	0	3

Build up a long term relationship to retain customers

Proactive "By finding out about what they are doing. It's the relationship again, finding out what their plans are, what they are doing, what they are going to be doing." Co. W

Reactive "The advantage of repeat business over other business, I mean, as I say it is not just about retaining those customers, we get a customer and we really want to build a relationship" Co. N

Informal "Basically, repeat business is far easier to get than new business, so you develop a relationship with some key people about the customer, and they will continue to buy their upgrades and recommend you" Co. P

Entrepreneurial and non-entrepreneurial SMEs were in agreement that building close relationships with their customers permits them the opportunity to not only become more aware of their customer requirements but also develop a personal contact which facilitates continued customer patronage. The non-entrepreneurial (Informal) SMEs also mentioned that if there is a good relationship between the SME and its customers then they are given more leeway and allowed to occasionally make mistakes. In terms of peripheral issues such as late deliveries and most importantly pricing which takes a 'back seat' when there is a good relationship. Furthermore, the non-entrepreneurial SME stated that the customer will give the SME an unfair advantage by providing them with more information about competitor quotes, allowing the SME an unfair advantage to re-address its quotes.

Build close relationships in order to combat competitors

Proactive "The other lesson to learn is that you can never be off-guard, you have to be constantly on your guard to prevent other companies getting close to your existing customers"

Reactive "Just to preserve and improve and maintain our customer relationships as much as anything to stop customers defecting" Co. T

Informal "If you get a good relationship with a customer, they will tell you all the information and will say look I have been told by the managing director that I have got to get another quote on say your service contract, I will get it, but you know, you might have to come down on price. They will usually work with you more, give you almost an unfair advantage" Co. P

The entrepreneurial and non-entrepreneurial SMEs stated that the maintenance of close relationships eliminates any initial hostilities or concerns the customer may have.

Allowing an unfair advantage to the SME in terms of them being privy to the customer's future plans. That provides a major advantage for the entrepreneurial and non-entrepreneurial SMEs to continually align its products/services to their customers' requirements.

Build close relationships to become aware of customer needs

Reactive	"The benefits of close relationships are one of ensuring that problems are not allowed to become..... the loyalty can be there through these sort of things" Co. R
Informal	"because of the relationship we have got with a lot of our clients, we go out with them, some of them we are on a friendly basis with and it is quite good to get that sort of relationship and they become more open with you as well" Co. M

The close relationship that is built allows the entrepreneurial and non-entrepreneurial SMEs to become aware and more open with determining customer problems. Additionally because of the close relationship between the parties, the customer has shown to be less likely to be hostile when a problem occurs.

Build up a long term relationship to leverage more sales

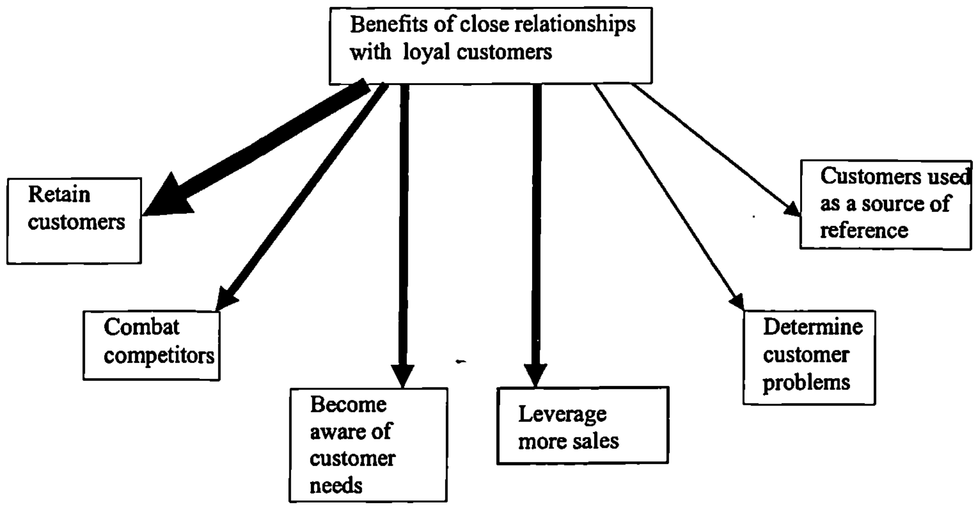
Proactive	"when they commit to purchasing from us that is the beginning of the relationship rather than the end of it, so we build on that and say there are new modules that are coming along to improve how the system works, therefore the systems that you are currently using can be made more effective and more efficient, which improves their business." Co. H
Reactive	"...there is the customer that we are at the beginning of building a relationship with, and we hope that they are going to become one of the major customers." Co. N
Informal	"over the last three or four years the customers that started out in just giving us small amounts of work have snowballed and they give us a considerable amount of work now. We have just won a pitch back in September for a logo just for a division of Yorkshire Water. It is now snowballing through our relationship with them and the work we do for them is going into other divisions now as well, so we build on rather than cold calling a lot of the time, which you have got to do anyway, we do cold mail people, sometimes you never know one could come off but in the main it is through word of mouth and good work" Co. M

The entrepreneurial and non-entrepreneurial SMEs take advantage of their relationship with their customers to leverage more business. Since the entrepreneurial and non-entrepreneurial SMEs have invested in developing relationships with their customers to not only become aware of their customer requirements but also endear the customers' to the SME.

Build close relationships to allow the SME to use customers as a source of reference
Proactive "We can demonstrate the relationships we have to other organisations who are not customers, but with whom we are building a relationship and then making a purchase" Co. H

When a relationship has been developed entrepreneurial (Proactive) SMEs have found that they can then rely on these customers as a source of reference when demonstrating their performance to existing or new customers'.

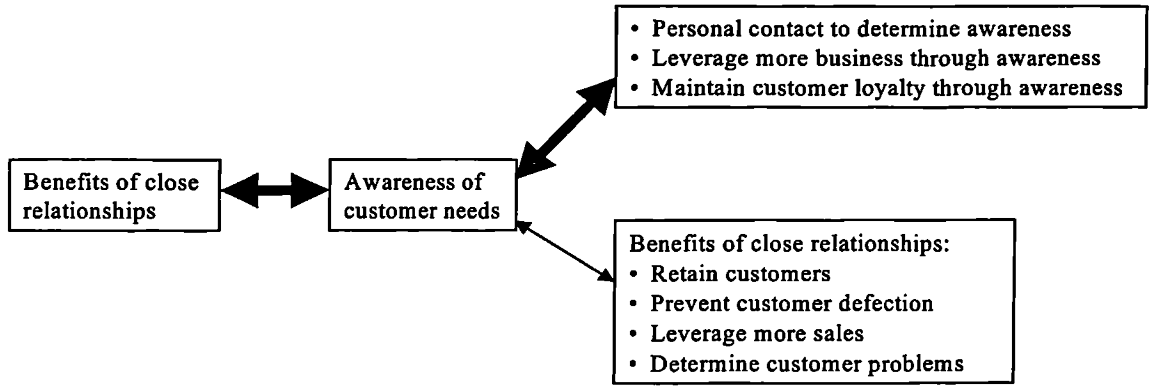
Figure 9.4.6 Main Benefits of Building Close Relationships with Loyal Customers



9.4.6.1 <u>Benefits of Building Close Relationships with Loyal Customers Associated with Other Categorical Themes</u>

There is an extremely strong association between awareness of customer needs and personal contact to become aware of customers, leveraging more business and maintaining customer loyalty (see Fig. 9.4.6.1). Similarly there is modest association between the awareness of customer needs and building close relationships with customers to take advantage of a number of benefits the most important being to retain customers and leverage more business.

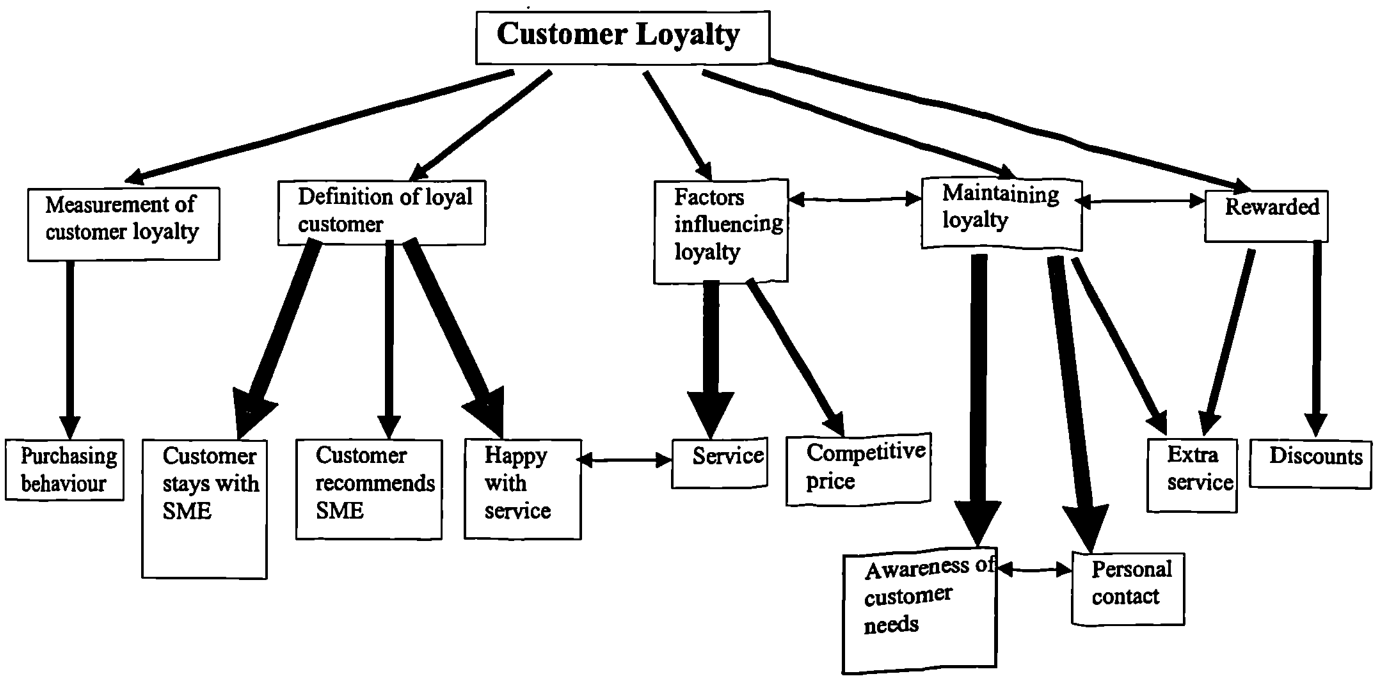
Figure 9.4.6.1 Main Factors Associated with Benefits of Building Close Relationships with Loyal Customers



9.4.7 Diagrammatic representation of all the constructs identified that contribute to customer loyalty

The author has constructed a framework of all the major factors influencing customer loyalty (see Fig. 9.4.7), based on the results of this research project. The intensity of the arrows represents the strength of association of the factors to a category.

Figure 9.4.7 Main Factors Influencing Customer Loyalty



9.5 CUSTOMER DEFECTION

This section aims to determine why customer chose to leave the SME. This is evaluated through determining:

- The major reasons customers have given for leaving the SME
- The lesson the SMEs have learnt from the customers that defected

9.5.1 Main Reasons for Customer Defection

Non-entrepreneurial (Reactive and Informal) SMEs both cited price and insufficient service levels as the main reasons for customer defection (see Table 9.5.1). A further minor reason cited by all SMEs was due to the customer's requirements changing.

Table 9.5.1 Main Reasons for Customer Defection

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Price (-ve)	3	7	5	15
Service Level of service not sufficient (-ve)	2	4	4	10
Customer requirements change	2	1	1	4

Price

Proactive "The customer who defects are the customers who have bought on price" Co. E

Reactive "they might say "on this occasion I can get it done cheaper elsewhere" and we think well, there is no point in doing it for less price, when we are very busy with jobs at a good price, and we will say "fair enough let us try later". If they were to bring the same job at a different period in the year, when we are short of work, say after Christmas, then we would say yes, we will do it for a lesser price, to keep the people busy" Co. F

Informal "There is obviously price" Co. D

The principle factor that non-entrepreneurial SMEs cited as to why customers had defected was due to the influence of competitor prices. Many non-entrepreneurial SMEs stated that often customers will demand far in excess of what the SME has accounted for and this excessive demand will usually result in the customer deciding to go to a cheaper competitor. The entrepreneurial and non-entrepreneurial SMEs were in agreement that it is the smaller customers' that are the most cost conscious and defect for lower price tenders.

Level of service not sufficient

Proactive	"Its usually service related" Co. E
Reactive	"Well I mean one was purely and simply a different technology. It is a very fast moving market place so if we haven't actually kept up with technology as it goes then maybe because of that and service" Co. J
Informal	"Usually they have not been happy about service. That would account for probably about 70%, 20% based on price" Co. P

If the level of service is not what the customer perceived it to be, then the entrepreneurial and non-entrepreneurial SME may lose the customer to another competitor with superior service levels. This has previously arisen due to employees doing what suits the company and not the customer or the entrepreneurial and non-entrepreneurial SMEs not having the systems, experience or technology in place to meet the exact customer requirements.

Customer requirements change

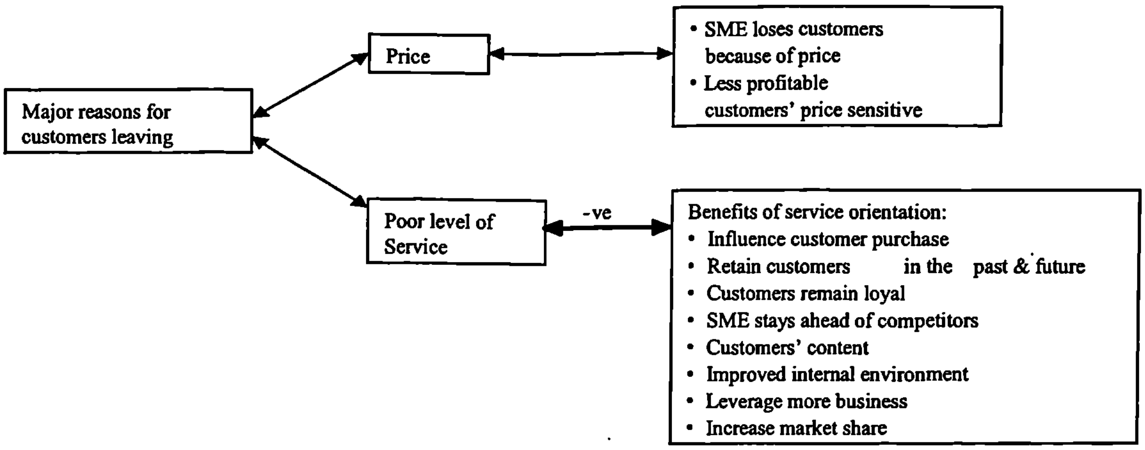
Proactive	"Probably typically because their business requirements moved and we did not move with them........... So it is technically we have not got the product that they feel they require and we have not convinced them that they do not require that product yet." Co. K
Reactive	"Mainly because they do not need what we do any more" Co. N
Informal	"one of the things that our Customer Liaison Manager is doing is adapting this reply card we have and giving a few reasons to why people perhaps stop using our product or change their minds and usually it's to do with they perhaps their research, or it no longer applies to them, or they have just reached the level that they want to go in competing, they don't need any more requirements" Co. B

Customer requirements may often change and move to a different platform that the entrepreneurial or non-entrepreneurial SMEs do not have the technical experience or resources to service.

9.5.1.1 Main Reasons for Customer Defection Associated with Other Categorical Themes

There are modest associations to indicate that SMEs lose customers (especially less profitable customers) because of the SMEs prices (see Fig. 9.5.1.1). Additionally the modest associations between the poor level of service provided by the SMEs reveal the many benefits that could have been gained by taking a more strategic approach to maintaining and improving service levels.

Figure 9.5.1.1 Main Factors Associated with Main Reasons for Customer Defection



9.5.2 Lessons Learnt from Customer Defection

The main lesson that non-entrepreneurial (Reactive) SMEs cite to have learnt from defecting customers is maintaining competitive prices. While entrepreneurial (Proactive) SMEs cited that they have learnt that they need to build close relationships, develop new products/services and remain vigilant about changing customer requirements to avoid customers defecting (see Table 9.5.2). Several minor reasons were also cited, entrepreneurial (Proactive) and non-entrepreneurial (Informal) SMEs referred to improving their marketing target audience campaigns. While entrepreneurial (Proactive) and non-entrepreneurial (Reactive) SMEs stated that employees needed to be rotated around the company. Finally one entrepreneurial (Proactive) SME mentioned that if a customer defects they should orchestrate a customer recovery strategy.

Table 9.5.2 Lessons Learnt from Customer Defection

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Competitive prices	3	7	3	13
Building close relationships	5	3	3	11
Develop New products / services	5	3	2	10
Awareness of customer	7	0	2	9
Targeting right customers	2	0	1	3
Employees rotated around company	1	1	0	2
Orchestrating customer recovery strategy	1	0	0	1

Competitive prices

Proactive	"we have had to respond to those price parameters" Co. G
Reactive	"We obviously try and keep competitive on pricing and we try and look after the loyal customers on a personal basis" Co. A
Informal	"On cost, we always try and break down as much as possible, quotes. We always try and educate our client and that is one of the major problems you come across is education. A lot of the clients have large budgets for advertising and design, they do not understand the issues that are involved, so it is educating them that good quality design will take whatever, will cost whatever and show them and prove that to them. Anyone can knock on their door and say they are a lot cheaper, hourly rates £30, but yet you might need them to work two weeks instead of two days. So it is really just showing them and proving to them that it is cost effective" Co. M

Entrepreneurial and non-entrepreneurial SMEs have realised that they need to ensure that their prices remain competitive. Several entrepreneurial and non-entrepreneurial SMEs have taken measures to educate their customers about their pricing structure so that their customers' fully understand and appreciate where the costs are being incurred and what they are paying for and that this more cost effective.

Build close relationships in order to combat competitors

Proactive	"The other lesson to learn is that you can never be off-guard, you have to be constantly on your guard to prevent other companies getting close to your existing customers" Co. S
Reactive	"Just to preserve and improve and maintain our customer relationships as much as anything and make sure that our prices are competitive" Co. T
Informal	"If you get a good relationship with a customer, they will tell you all the information and will say look I have been told by the managing director that I have got to get another quote on say your service contract, I will get it, but you know, you might have to come down on price. They will usually work with you more, give you almost an unfair advantage" Co. P

Entrepreneurial and non-entrepreneurial SME try to ensure that they do not become complacent over the close relationship that is built with their customers, otherwise they have realised it creates an opportunity for the competition to solicit the SMEs customers. Furthermore, the entrepreneurial and non-entrepreneurial SMEs have found that the maintenance of close relationships eliminates any initial hostilities or concerns the customer may have and provides them with an unfair advantage of being privy to the customer's future plans.

New products / services developed

Proactive	"To develop our windows software, which we are doing at the moment" Co. K
Reactive	"we are rebuilding or re-investing at this point in time in the network, redesigning it and making it more secure and that should go an awful long way to providing or making sure that a lot of our customers don't defect and we are also, I suppose looking at all the time new services and if a new service crops up and we can do it then we will" Co. J
Informal	"We constantly update our basic procedures with respect to the actual goods themselves in terms of quality and performance and the service, so we have done that, Co. D

Entrepreneurial and non-entrepreneurial SMEs are re-investing in their current technology as well as constantly updating their quality and performance procedures. So that their service provided and corresponding price parameters continue to meet the requirements of their main and profitable customers' to maintain their patronage.

Awareness of Customer requirements

Proactive	"if for example they are looking for a different package, if we know that, we would go in there with our offering, but if we don't know about that, then obviously we can't do that, so again it is a matter of awareness of what the plans are" Co. W
Informal	"If there is a change of management coming up, consider yourself to be ready for it" Co. X

The entrepreneurial (Proactive) and non-entrepreneurial (Informal) SMEs maintain awareness of any immediate or future changes in the customers' product / service requirements.

Targeting right customers

Proactive	"It all comes down to targeting. Not only targeting customers that you can help, but targeting customers who will want you to help them. That we have the resource to be able to satisfy their resource" Co. H
Informal	"I would rather spend that extra time that I have retained from losing that client in trying to get a few more in tune clients, and that usually happens. Usually you find the way you lose a client you will gain one and hopefully they are more in tune to yourself." Co. M

The entrepreneurial (Proactive) and non-entrepreneurial (Informal) SMEs cited that they have learned to focus their efforts more on trying to get more in-tune customers than acquiring any customer who may ultimately defect.

Employees rotated around SME:

Proactive "we will move people around the business, so if we feel that certain employees are getting staid, or tired, or too familiar with the client" Co. S

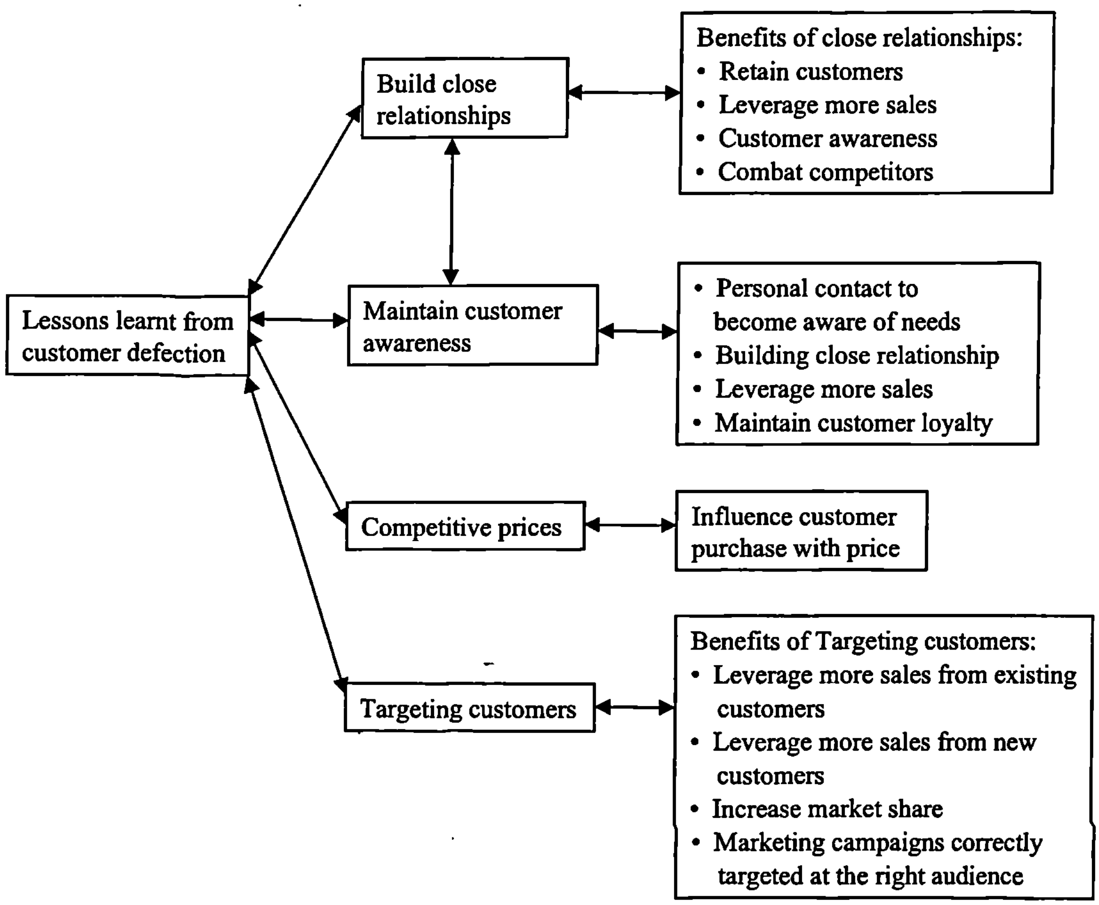
Reactive "we do try to ensure that reps don't work in the same area for, I think, it's a six month period, you know, from the point of leaving the company" Co. A

One entrepreneurial (Proactive) and non-entrepreneurial (Reactive) SMEs move employees around the company or different geographic locations if they feel they are getting staid, tired or too familiar with a customer. Since they have found this ensures that the sales rep do not become complacent or the customers don't become too attached to the sales rep as opposed to the SME. This is a necessary safeguard to protect the SME from customer defection if their sales rep decide to leave for a competitor.

9.5.2.1 Lessons Learnt from Customer Defection Associated with Other Categorical Themes

The modest associations in Figure 9.5.2.1 reveal a multitude of benefits SMEs can realise if measures are taken to prevent customer defection. The main advantages include building close relationships to retain customers, using personal contact to maintain awareness of customer needs, influencing customer purchase through competitive prices and targeting profitable and potentially profitable, both existing and new customers, to leverage more business. The other main lessons to be learnt include maintaining customer awareness through personal contact to build close relationships and leverage more sales and continue to maintain competitive prices to influence continued customer patronage. Finally SMEs need to target their customers (existing and new) to ensure there are opportunities to leverage more sales, contribute to continued SME growth and gain maximum utility out of marketing resources.

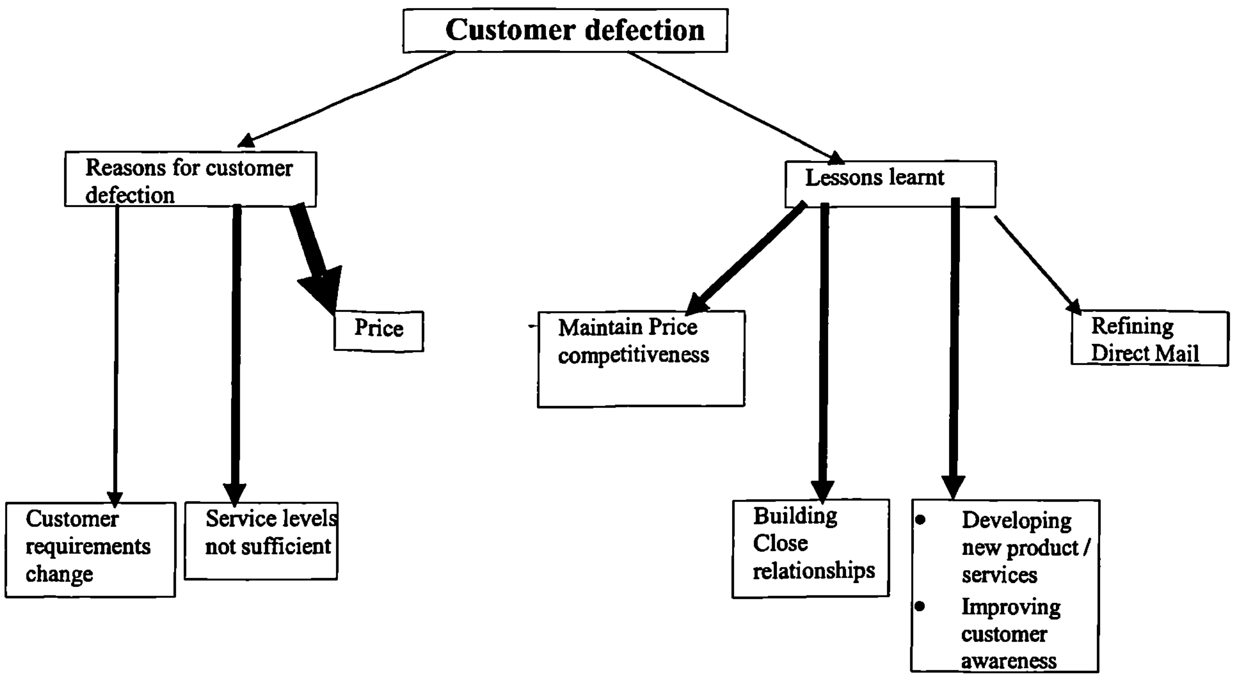
Figure 9.5.2.1 Factors Associated with Lessons Learnt from Customer Defection



9.5.3 Diagrammatic representation of all the constructs identified by the SMEs as contributing to customers leaving the SME and the lessons learnt from customer defection

The author has constructed a framework of all the major factors influencing customer defection and the lessons learnt by the SME (see Fig. 9.5.3), based on the results of this research project. The intensity of the arrows represents the strength of association of the factors to a category.

Figure 9.5.3 Major Factors Influencing Customer Defection and Lessons Learnt by SMEs



9.6 Customer Qualitative Conclusions

The qualitative findings reveal that the main benefits of retaining customers is that SMEs are able leverage more businesses from customers with whom they have developed a relationship and have learnt to individualise the pricing to meet the financial parameters of both the SME and the respective customer. Therefore, there is strong evidence to suggest that the longer a customer is retained the more confident the customer is with the SMEs products/services and providing the customers business is growing and ceteris paribus. There is a greater propensity of customers purchasing from the SME. Retaining customers' results in a reduction in cost of generating sales since both parties are familiar with each other's requirements and capabilities. Furthermore as the business relationship grows both technological and social bonds commit both parties to the relationship. These bonds result in a lowering of tension between both parties when problems occur since a personal contact has already been established to enable immediate communication.

SMEs have realised that many new clients have come through recommendations that have proven to be profitable. Therefore, rather than investing unnecessarily in large marketing budgets to acquire new customers it is recommended that SMEs refocus some of the marketing budget to cultivate existing customers. Finally by retaining customers SMEs are weakening the competitors position because of the strong personal contact established with their customers. That allows the SME an unfair advantage of insight into the customer's future proposals and concerns. So that the SME may take advantage of this opportunity to move in the same direction as the customer.

Factors influencing customer purchase

SMEs have stated that service is the most important prerequisite to customer patronage. Service also has a number of other influences on the SMEs customers such as influencing customer retention and loyalty, SME staying ahead of competitors, increasing market share, etc, although, the consequences of a poor service is customer departure to competitors. Finally an awareness of the changes in a service market is imperative in today's 'information rich age'.

Both Non-entrepreneurial (Reactive and Informal) SMEs have voiced concern over their pricing structures in the market. Since inappropriate competitive pricing for all SMEs will result in customer departure to more competitive arenas.

Customer Leverage

Many of the SMEs agreed that generally speaking the 'Pareto Rule' applied to their customer base. This is where twenty percent of a company's customers' base actually generate eighty percent of the turnover for the company. Therefore, the opportunity to leverage more sales from the SMEs other customers offers enormous potential for the SME to achieve further growth without having to exhaust resources by pursuing new customers. This is a much lower risk strategy of achieving growth since the SME already has an established rapport with these existing customers'. Although, each of the existing customers would need to go through a qualifying process to determine which candidates were most likely to allow the SME to leverage more business. Thereby allowing the SME to make maximum utility of their existing resources to achieve growth with minimal risk.

To determine the profile of the types of existing customers an SME should focus on can be found through applying various techniques. Entrepreneurial (Proactive) SMEs show a greater preference on relying on the personal contact with existing customers' to determine their future value. The personal contact allows the SMEs to gain and insight into the customer's future plans. Therefore, personal contact between the SMEs employees (sales reps, technical advisors, service helpdesk personnel) and loyal and profitable customers should be maintained to ensure that the SME is both aware and meeting customer needs both currently and in the future, so long as it is profitable to do so. Hence, a customer's future value is partly determined by the personal contact the SMEs employees develop and partly based on the loyalty of on going business the customers is generating for the SME. Other factors that might influence a customer's future value include:

- Customer's Attitude
- Customer's resources (financial strength)

- Market growth potential
- Growth potential of the customer
- Number of competitors in the market
- Macro environment

As always SMEs need to be cautious of the macro environment and its potential effect on a customer's future revenue generation. Therefore, the personal contact must also be complemented through assessing market trends in terms of technology, state of the economy, political legislation, social preferences as well as competitor offering, pricing and cost structures. The basis of increasing business from customers is through the development of a close relationship. To ensure that both parties communicate and co-operate to utilise each other's resources for mutual benefit.

In terms of leveraging more business from the SMEs existing customers. SMEs need to first identify and target those customers for whom they can provide a valued service and who present the SME with the opportunity to leverage more business.

The maintenance of a quality service with a competitive price provides the SMEs the opportunity to leverage more business. This is achieved through taking a proactive approach to both delivering and offering new solutions to meet customer requirements. SMEs need to be constantly aware of how much business they are both able and capable to leverage at any one period. For this will be restrained by both the SMEs and the customer's resources (i.e. budgetary constraints). Therefore, maintaining awareness of this fact allows SMEs to pursue a more strategic dialogue with customers to leverage business at the appropriate time for both parties. In summary the main techniques that the SMEs highlighted to leverage more sales included:

- Personal contact;
- Customer awareness;
- Service orientation;
- Competitive prices

- Building close relationships.

These main techniques are supported by a foundation of other policies, in terms of pricing strategies, macro environment influences, etc that allow the SMEs to leverage more business.

New customers to leverage more business

Many SMEs were in common agreement that targeting new customers of a similar profile, to that of existing customers, is an excellent method to allow the SME to leverage more sales. For similar customers permit the SME to focus on customers that create 'operational synergy' in that the SME already has systems, processes and the experience to meet the requirements of these customers. Furthermore, entrepreneurial Proactive SMEs further stated that by targeting customers in growth markets the SME was able to facilitate the leveraging of more business because of its ability to meet the dynamic needs of these customers in terms of new products/services. The benefits to arise from targeting customers include:

- Attracting profitable customers the SME wants;
- Getting to know the 'decision makers' in the customer's company;
- Higher response rate to ads;
- Better utilisation of advertising expenditure;
- Increase in market share;
- Leveraging more business;
- Preventing customer defection.

Profile of Profitable Customer

Entrepreneurial (Proactive) SMEs stated that profitable customers are generally the type of customers that need the service's the SME provides and have a number of other identifiable features that include:

- Customers usually with a large budget;
- Customers who give a high level of expenditure to the SME;

- Customers who have historically given a lot of business to the company;
- Customers who require a lot of service.

Profile of least Profitable customer

While on the other hand, the least profitable customers have been cited as being highly sensitive to price. This represents a major financial loss to the SMEs when the costs of acquiring the customer are taken into account. Therefore, a more prudent course of action would be to target customer acquisition campaigns and then develop close relationships with the attracted profitable customers. Since many customers are lost due to no close relationship being formed. Therefore, in developing a close relationship SMEs can counteract customer attrition rates.

Customer Service

Consistent customer service is maintained through introducing quality systems as they allow the SME to become more informed about not only what measures the SME is taking to deliver customer service but also whether the measures introduced are meeting the customer needs. The benefits to accrue from introducing quality systems include:

1. Current systems formalised
2. Customers satisfied
3. Consistency in dealing with all customers, regardless of size
4. All staff have a better picture of what is happening with the customer
5. Staff moral lifted and opportunities created for them

Furthermore quality systems enable an SME to

- Improve their internal environment;
- Track customer satisfaction, although this is an unreliable measure of customer loyalty;
- Provide a procedure to deal with customer complaints.

The level of service distributed to customers is based on their profitability contribution. This lets the SME prioritise the level of service each customer is allotted and at the same time ensure maximum utilisation of current resources. The personal contact also allows the SMEs to develop a personalised service focus as well as become aware of customer requirements and problems. Therefore, to facilitate the development of a personal contact between the SME and its employees, SMEs encourage their employees to work on a portfolio of customers that allows greater contact between them. To further assist in the development of a close personal contact many customers are:

- Invited to training courses;
- Visited regularly;
- Taken out on social events;

These measures facilitate the rapprochement between the SMEs employees and their customers.

Loyalty

There were three main profiles that SMEs identified in defining a loyal customer. The main trait involves customers' displaying contentment with the level of service the SME has provided. Secondly loyal customers' embody the very nature of the superlative 'loyal' as they continue not only to stay with the SME but also over the years often increase their purchase frequency and order size. Finally many SMEs stated that loyal customers generate customer referrals. Loyal customers enjoy doing business with the SMEs because of the quality of service and competitive price provided. This provides an early opportunity for the SME to build a foundation for a personal contact. Since a personal contact may aid the SME to be forgiven for mistakes and still remain as the preferred supplier despite a varied choice of suppliers open to the customers.

Measurement of customer Loyalty

There was unanimous agreement amongst all the SMEs that the purchasing behaviour of current customers was a good indicator as to the degree of loyalty of a customer.

Although, entrepreneurial (Proactive) SMEs further added that not only do they measure the period of time an account has been with the SME but also how much that account has contributed to the SMEs profitability. Since this they believe provides a more accurate indicator of the true loyalty value of a customer. Other measures the SMEs have introduced to determine customer loyalty, include:

- Analysing previous purchasing patterns and determining trends for each customer
- Measuring the length of time the customer has been with the SME
- Determining number of referrals a customer has generated
- MD occasionally may highlight major accounts that it is crucial to develop a relationship with in the hope that they will become loyal, although there are no guarantees.

Therefore, in conclusion SMEs base their measurements of customer loyalty on customer's company size, investment budgets, referrals provided and SME intuition about customer potential. The measurement of a customer's purchasing pattern also provides the SMEs with a good indicator of the likely future profitability of the customer.

Factors influencing customer loyalty

The main factors influencing customer loyalty are based on the SMEs focus on their service orientation. The SMEs service orientation influences future customer purchases, customer retention, competitive edge over competitors, improved internal environment, customer contentment, leverage of more business and increased market share. This is achieved through:

- Personal contact between the staff of both companies creates a harmonious productive environment;
- Ensuring customers genuinely believe that the SME is concerned about their problems and creating appropriate solutions;
- SME is sincere and honest in wanting to do the best for the customers'.

Remaining competitive on pricing for SMEs is always a primary concern and influence on customer loyalty. Although, while pricing may initially inhibit a customer from switching to a competitor, this is not a sustainable strategy. Therefore, SMEs have adopted to employ both technological (structural) and social bonds to tie a customer into the structure, systems, processes and personal contact with an SME. For these measures cannot easily be duplicated economically elsewhere. The 'social' bonds create an immense advantage for the SMEs in terms of information leveraged from the customer. This social bond inhibits the customers from switching to another supplier because of the time and effort that would be required to inform the new supplier of the specific requirements of the customer. Therefore, due to the creation of social or technological bonds or both the customers' can ill-afford to make the same investments with another company. Hence, factors influencing customer loyalty include remaining competitive on pricing, offering a superior service and developing social and/or technological bonds.

Measures to maintain customer Loyalty

SMEs maintain customer loyalty through an on-going rapport that not only permits the SME to become aware of customer concerns and unique requirements but also inform the customer of the SMEs efforts to meet customer needs. Thus, permitting the SMEs to allocate the necessary resources to meet both the present and future requirements of their customers. Communication also aids the development of a better working relationship, which ensures that both parties are fully aware of the premises that they work under in terms of technical requirements, payment details, etc. The feedback not only helps generates loyalty but also helps the SME to rationalise its product / service range.

Through, the on-going dialogue that employee's develop with the SMEs customers' they are able to gain an insight into understanding unique customer requirement. Therefore, the efforts of the SMEs employees should never be negated as they undoubtedly play a major role in maintaining customer loyalty.

Entrepreneurial and non-entrepreneurial SMEs prioritise their focus of attention on their most loyal and profitable customers to maintain their patronage and enable the SME to develop a close personal contact. Thus allowing these customer to identify more personally with the SME and thus strengthen the bond between the customer and the SME. Additionally SMEs may offer extra service that may include such activities as:

- Offering additional training;
- Extra visits from technical teams to customer premises;
- Setting up delivery operations close to the customer;
- Focus on improving the internal environment to ensure employees are more customer focused.

The advantage of adopting extra service for the SME is that it permits the SME to both retain customer patronage and reward this loyalty.

Rewarding customer loyalty

To reward customer loyalty SMEs are constantly challenging ways in which they can improve the service they offer their customer. This has resulted in offering extra service and price discrimination to customers that generate large volumes of business for the SME.

Benefits of close relationships with a loyal customer

There is a multitude of benefits for SMEs in developing and maintaining close relationship with customers. The commonality in all the SMEs appears to be exhibited in their references to retaining customers and becoming aware of their needs through building a relationship. The development of a close relationship permits the SME to leverage more business from the customer. Although, close relationships should be closely monitored especially with the most loyal and profitable customers to ensure the SME is not only meeting the customer requirement but is always at the forefront of the thoughts of their customers. Especially when they are making a purchasing decision as the close rapport acts as a barrier to entry for the SMEs competitors. Furthermore, close relationships permit the SME to allay any concerns the customer may have as well as become privy to propriety knowledge that would allow the SME to have an advantage over competitors in serving the customer. SMEs advocated a number of benefits that were realised from developing close relationships with customers, these included:

- Retaining customer patronage;
- Preventing customer defection;
- Become aware of customer needs;
- Leveraging more business;
- Determining customer problems.
- Use the customer as a source of reference.

Customer Defection

The principle contributor to customer defection has been the attraction of competitor prices. SMEs cannot afford to be complacent in terms of competitive pricing. For the consequences, especially with the customers with whom a relationship has not yet been developed, will be that the SMEs competitors will take advantage of the opportunities in the market place and influence the customer. Therefore, the SMEs employees must be continuously aware of any changes that occur inside the customer's company to allow the SME the opportunity to readdress any customer concerns. SMEs also noted that their less enthusiastic customers were highly capricious to competitor offerings.

In terms of remaining competitive on pricing many SMEs are now educating their customers on their pricing structures. To enable the customers to appreciate where the costs are being incurred and help the customer understand that this is the most cost effective approach. The SMEs were in agreement that it is the smaller customers' that are the most cost conscious and defect for lower price tenders. Therefore, SMEs must make a decision as to whether it is economical to continue doing business with these customers especially during busy periods while trying to establish a reputation as a quality provider of products and services. Although, SMEs that are unwilling to discuss the issue of price soon find that their customers will disappear.

In today's highly service orientated society, SMEs that fail to deliver not only the required service levels but also that little bit extra. Will soon find that their customer's perception of the SME will start to sway toward competitor offerings. Therefore, SMEs need to maintain efficient systems that permit personal contact and feedback to empower the SME with the information to maintain awareness of their customer's, often changing, concerns and requirements. In terms of the lessons learnt from customers defecting, there was a divergence of opinion amongst the SMEs. Non-entrepreneurial Reactive SMEs cited adopting more competitive prices. Whilst entrepreneurial (Proactive) SMEs emphasised a need to build close relationships, develop new products/services and maintain awareness of the dynamic requirements of their customers.

SMEs need to be cautious of the any new services that are demanded by customers. Since these services should complement the existing portfolio of services that the SMEs provide and not digress the SME into a different service field, unless this was a strategic addition to the SMEs portfolio of products/services. SMEs should be conscious of the effect of the new services on customer support and employee training programmes. It could lead to a situation where the employees are overawed by the degree of varied services they must ultimately become familiar with to meet each customer requirements. This would also effect the resource base of the SMEs. The introduction of any new product/service must be assessed against:

- Benefits to accrue from this new addition to the company portfolio;
- Whether the product/service complements the existing range;
- Training sessions required for employees;
- Training sessions required for customers;
- Whether the SME has the resources to deliver a new product/service;
- Propriety knowledge;
- Macro environment influences, e.g. technological changes, legislation, etc.

The maintenance of a close relationship should primarily be maintained with exiting and potentially loyal and profitable customers for several reasons, these include:

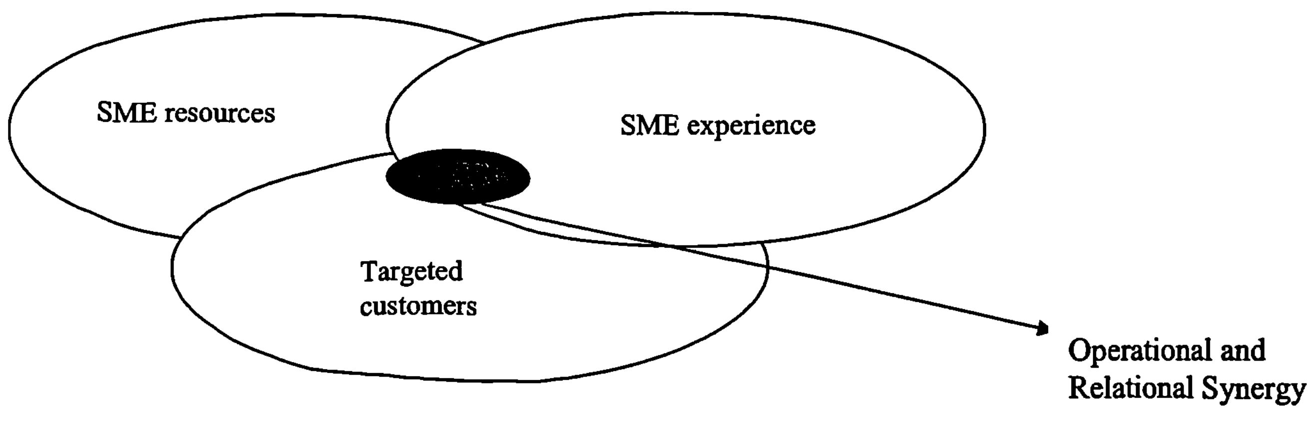
- Ensuring the SME is meeting the customer requirements;
- SME is at the forefront of the customer thoughts;
- Building a social bond that acts as a barrier to competitive offerings;
- Overcoming any initial customer hostilities;
- Leveraging more information about future customer plans;

Additionally close relationships help to:

- Retain customer patronage;
- Leverage more business from the customers;
- Combat competitor approaches;
- Allow the SME to use the customer as a source of reference.

Finally to combat customer defection SMEs are focusing their efforts on targeting customers' through direct marketing campaigns and sales representatives focused on capturing a specific profile of customers that contribute to operational synergy and relational synergy. In terms of the SME having the resources and experience to cater to these customer requests. Furthermore by targeting customers' the SMEs claim to have experienced fewer customer defections. Since these customers have been more acceptable to developing a close personal contact with the SME.

Achieving 'Operational Synergy'



CHAPTER 10: Qualitative Analysis of Responses to Marketing Questions

10 Introduction

This Chapter aims to identify the key marketing behaviour of entrepreneurial and non-entrepreneurial SMEs. This will be achieved through focusing on three areas of marketing see Table 10.

Table 10 Areas of Marketing Behaviour Reviewed

1. Communication	• How the SMEs communicate with their customers • What the SMEs hope to learn from Communicating with their customers
2. Marketing	• How the SMEs hope to increase its market share • The type of marketing campaign that attracts the greatest number of loyal customers • How the SME know it is correctly targeting the right customers • The specific COSTS associated with acquiring a new customer • The distribution of the marketing budget
3. Retention Strategies	• What the SME did last year to retain their most profitable customers • What the SMEs will do this year to Retain their most profitable customers

The presentation of the qualitative results will be in the same format as the previous chapter, in that, each section of a theme will start with a summary of the responses provided for that particular section. Next the frequency and variety of responses from the entrepreneurial and non-entrepreneurial SMEs will be displayed in a matrix style table so that the reader can appreciate the most popular response for that section. This is clearly visible because all the responses for each section are displayed in ascending order in the table. Following on, from the matrix table, each response category, for that section, will be explored in more detail with quotes and explanations from entrepreneurial and non-entrepreneurial SMEs provided. If there is any difference in the frequency of quotes between entrepreneurial and non-entrepreneurial SMEs for a category then the author will provide an explanation for the difference based on the analysis of the transcripts. The author will also highlight any associations between the category of responses, for a section theme, and other themed categories. At the end of each theme (e.g. marketing behaviour of SME) the author has constructed a diagrammatic framework of the main factors associated with the theme as well as displaying the intensity of the associations between the categories (through varying the line intensity of the links between categories). Finally at the end of the marketing and competitor themes the author has constructed holistic frameworks that present the findings of this Chapter in a diagrammatic format. The holistic framework represents all the factors contributing to a successful marketing campaign (see Fig. 10.11).

10.1 Mode of Communicating with Customers

From Table 10.1 it is quite apparent that SMEs use a variety of mediums to communicate with their customers. These different forms of communication medium further reinforce the SMEs message of being a producer of a quality product and service. Entrepreneurial and non-entrepreneurial SMEs both indicated that they used personal contact and so the main difference in citation lies in their use of direct mail campaigns to target their customers. Entrepreneurial SMEs employed targeted direct mail campaigns to a greater degree than non-entrepreneurial SMEs. The two other minor approaches used to communicate with customers involved the use of seminars by two entrepreneurial and two non-entrepreneurial SMEs and user groups by both one entrepreneurial and one non-entrepreneurial (Reactive) SME.

Table 10.1 Mode of communicating with customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Personal contact	7	7	6	20
Direct mail	7	5	4	16
Seminars	2	1	1	4
User groups	1	1	0	2

Personal contact

Proactive	"A mixture of mailing, newsletters, personal visit, technical / equipment demonstrations, seminars" Co. E
Reactive	"It's amazing how we do like the personal approach and to meet them, and its amazing what you can find out from meeting people and the "sixth sense"" Co. F
Informal	"Well we normally have contact with our key customers on a daily basis, at least either by the phone or fax. We normally see them - because our customers are spread out all over the country - we tend to see them on average maybe once every three months, if everything is running smoothly" Co. D

Entrepreneurial and non-entrepreneurial SMEs have realised the need for regular personal contact with their customers to facilitate the development of close relationships. The entrepreneurial and non-entrepreneurial SMEs cited that personal contact with the customers allows them to determine ways the SME can help the customer as well as ensure the customer is aware of the company's products/services.

Direct Mail

Proactive	"we have quarterly news letters that we send to our existing customers which tells them of the progress of various products and we have user groups that have twice or three times a year where we invite all of them and the user groups we tell them again, we ask them in the development stage of a new product we invite them to come up and put their.. say their piece." Co. C
Reactive	"We regularly put fliers out. We put a flier out once every two weeks I would say. We have a corporate newsletter which goes out four times a year and we also have a corporate brochure which we update regularly" Co. L
Informal	"A lot of it is through written material which is proposals, mailshots, and we send out a quarterly newsletter and the other thing we do have half a dozen seminars a year covering various topics that are relevant and get our customers to come along and see it" Co. P

Several SMEs (2 entrepreneurial, 2 non-entrepreneurial (Reactive) and 3 non-entrepreneurial (Informal)) referred to using a quarterly newsletter as a form of direct mail. The entrepreneurial and non-entrepreneurial SMEs view the newsletter as an added value service to maintain customer interest and purchase loyalty, as well as highlight new products/ services that the SME is introducing or to re-emphasise a product/ service that is not longer being used. The entrepreneurial and non-entrepreneurial SMEs also stated that the newsletters has proven to be very appropriate when there is volume of customers many of whom have low purchase levels.

Seminars

Reactive "A lot of our marketing activity tends to be seminars" Co. R

Informal "...we do have half a dozen seminars a year covering various topics that are relevant and get our customers to come along and see it" Co. P

Two entrepreneurial and two non-entrepreneurial SMEs have conducted several seminars that deal with various issues that are of interest to the customers.

User groups

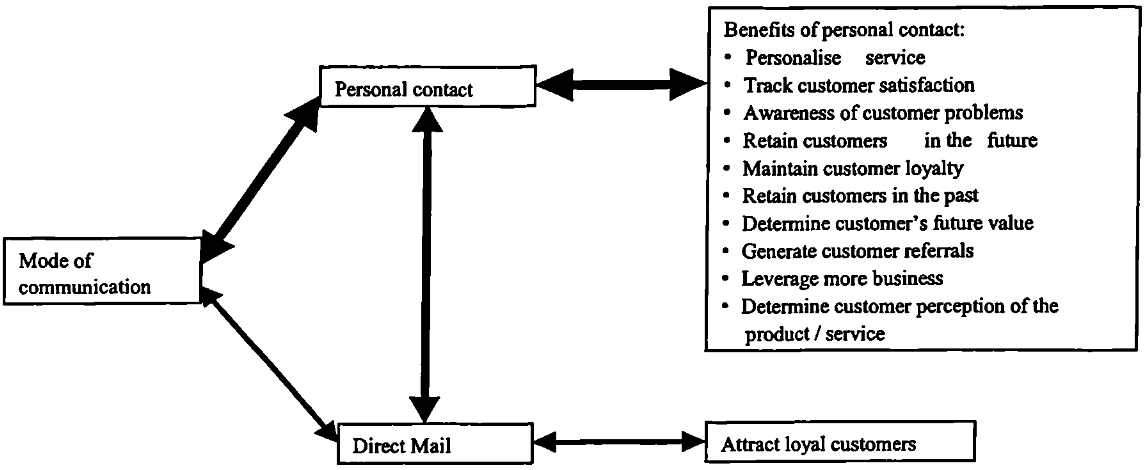
Reactive "We are developing into areas like user groups. I am really now talking about our solution ..... whereby we can get feedback from our users on their experiences with the product and the way in which they would like to see it moving and that generates a loyalty of its own based .... of the product and the surrounding personnel" Co. R

One entrepreneurial and one non-entrepreneurial (Reactive) SME have used user groups to aid the SME in refining its products / services to ensure the SME is continually meeting customer requirements. The entrepreneurial and non-entrepreneurial SMEs stated that the user groups allow customers the opportunity to tell the company what they would like to see in the product and service.

10.1.1 Internal Associations between the Modes of Communicating

The author carried out a word search of the transcripts to reveal synonyms and antonyms in various categories. The synonyms and antonyms were counted to reveal both positive and negative links between categories. Consequently to represent the strength of association between the categories the author used varying lengths of arrow intensity to indicate the strength of the association. The author has consistently applied this methodology of identifying the strength of association between categories throughout this Chapter. Figure 10.1.1 reveals that the SMEs have utilised several mediums to communicate with their customers and often these mediums are interrelated and occur simultaneously. The extremely strong associations (see intensity of line arrow width in Fig. 10.1.1) reveals that the main benefits of personal contact are substantial in terms of personalising the service for a customer, tracking their satisfaction, becoming aware of customer problems, retaining customer loyalty and determining a customers future value. While the targeted mailing programmes help the SME to attract loyal customers.

Fig 10.1.1 Internal Factors Associated with Communicating with Customers



10.2 Benefits of Communicating with Customers

There is an array of benefits to arise from communicating personally with customers. The entrepreneurial and non-entrepreneurial SMEs stated that looking after their customers on a personal basis and investing time with their most profitable customers allows them to inform their customers' of new products / services available and understand and design appropriate bespoke products/ services to individual customer requirements (see Table 10.2). Other benefits that entrepreneurial and non-entrepreneurial SMEs cited included, tracking customer satisfaction; informing customers; retaining customers; leveraging more business and generating referrals. The main differences between the SMEs is the greater gain realised by entrepreneurial and non-entrepreneurial (Reactive) SMEs as compared with non-entrepreneurial (Informal) SMEs, in terms of using personal contact to:

- Determine customer's problems
- Determine customer's future value

The other main difference between entrepreneurial SMEs and non-entrepreneurial SMEs appears to be evident in the entrepreneurial SMEs being more aware of their customers perception of their products and services (see Table 10.2).

Table 10.2 Benefits of Communicating with Customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Personal contact for awareness of customers to determine future customer needs	7	6	6	19
Personalise relationship	7	6	6	19
Personal contact to determine problems customer may be facing	7	7	4	18
Personal contact to track customer satisfaction	7	6	5	18
Personal contact to keep customers informed	6	6	5	17
Personal contact to determine customer future value	7	6	4	17
Personal contact to retain customers	6	5	4	15
Personal contact to determine whether customer perceives product/ service as value for money	7	4	4	15
Personal contact to leverage more business	4	4	5	13
Personal contact to generate referrals	3	3	4	10

The quotes from both entrepreneurial and non-entrepreneurial SMEs in Table 10.2 will now be reviewed.

Awareness of customers to determine future customer needs

Proactive "Primarily what they are going to do next, what they are working on. So we can look quite closely at their technical side, their development people. On the basis what they might be developing now might come into production into say a years time" Co. E

Reactive "Basically their requirements, and it keeps us abreast with the technology that we have to put in to keep them happy" Co. L

Informal "we will normally get a bit of feedback on what they think of the actual seminar format itself and also we get new companies there and they will give us an idea of how they perceive what we are offering. We get an idea about that" Co. P

The quotes reveal that the frequency and proximity of the communication allows the entrepreneurial and non-entrepreneurial SMEs to learn more about what their customers are currently doing and in the proposed future, so that the SMEs can assess the investments they will need to make to retain customer patronage.

Personalise relationships with customers	
Proactive	"Well we know them all by first names and when we install on site everybody is introduced so from the very beginning we are on Christian name terms with our customers and we try to get to know the staff where possible" Co. C
Reactive	"we have a high degree of personal contact with the customers. I think really that's when you get away from a customer being an account number, and it is actually their faces and names" Co. A
Reactive	"we are a very personal company. Everybody is welcome here and I go round as regularly as I can to see people" Co. F

Entrepreneurial and non-entrepreneurial SMEs maintain a friendly approach, especially with their long-standing and profitable customers so that both parties can continue communicating to ensure the SME is meeting their requirements (see Table 10.2). The entrepreneurial and non-entrepreneurial SMEs stated that they invest a lot of effort (time, financial costs, personnel) with their most profitable customers. So that the sales representatives are confident about ringing the SMEs customers at any time because of the personal contact developed through personal visits and telephone communication. The quotes further reveal that entrepreneurial and non-entrepreneurial SMEs are aware if their customers are not happy with a product or service as often they will complain. Finally, communicating with customers allows entrepreneurial and non-entrepreneurial SMEs to determine the future direction of their customers.

Personal contact: Open dialogue to determine customer problems	
Proactive	"Basically saying that if they are open with us and will actually take us into their confidence then we can actually help them by thinking ahead alongside them" Co. S
Reactive	"we have many conversations with various clients who have for example been down for whatever it is about time and are upset about it and know what we should be to actually rectify that but in our industry the capital expenditure for rectifying a lot of these problems is too great" Co. J
Informal	"Quite often we do keep in contact after selection and they will talk to us and say we are not happy about this or that. Occasionally we will send out a questionnaire asking them about the service we provide and the installation and then we also get feedback from our technical staff as well, our trainers and installers" Co. P

Entrepreneurial and non-entrepreneurial (Reactive) employ to a greater degree than non-entrepreneurial (Informal) SMEs (see Table 10.2) various forms of communication to determine whether customers are facing any problems with their products / services. The entrepreneurial and non-entrepreneurial SMEs stated that they are aware of their customer concerns due to feedback generated from personal contact from salespeople, technical personal or questionnaires.

Personal contact to track customer satisfaction

Proactive	"directors of companies will have a dialogue with the MD, they will have a dialogue with the Account Director, they will meet the creative people, they will meet the Media Director, either one of those directors if they sense that things are not right and people talk in this business, you will soon get a fair idea if an account is not happy, or it is." Co. S
Reactive	"we have always been very open and try and get customers in to talk to the people who do the job to put them on the right road, so we have always done that and always will, because we find that pays dividends. The more they know the easier it is and less will go wrong" Co. F
Informal	"we tend to keep good contact with them. That is the main thing, even if it is only over the telephone, speak to them regularly, find out what they actually need, if their requirements are changing or not, whether they are still happy with the service" Co. D

There was a very high degree of agreement (see Table 10.2) amongst the entrepreneurial and non-entrepreneurial SMEs to maintain regular contact with their customers to track their level of satisfaction. Both entrepreneurial and non-entrepreneurial SMEs cited that the open communication allows customers to be aware of what is going on in the company and vice versa so that there is less chance of something going wrong.

Personal contact to keep customers informed

Proactive	"It will be the same thing we will keep in touch with them and keep them informed of what's coming, get them their upgrades in time hopefully" Co. C
Reactive	"we try and look after the loyal customers on a personal basis" Co. A
Informal	"we call in on a regular basis." Co. M

Their was a high degree of agreement amongst the entrepreneurial and non-entrepreneurial SMEs (see Table 10.2) to maintain personal contact with their customers to ensure that both parties are informed of each other's requirements. The entrepreneurial and non-entrepreneurial SMEs stated that communicating with their customers facilitates the development of a better working relationship, which ensures that both party's are fully aware of the premises that they work under in terms of technical requirements, payment details, etc. Further measures that entrepreneurial and non-entrepreneurial SMEs have developed to personalise the rapport for their loyal and profitable customers include socialising with customers out of work hours and developing the friendship element to facilitate a better working relationships.

Personal contact to determine customers future value	
Proactive	"By talking with them. The constant contact with the customers which you do have, daily, weekly, monthly" Co. G
Reactive	"We can actually see which accounts are making money at the moment and also with having regular contact by the rep it's known whether the account is likely to change suppliers or not" Co. A
Informal	"We try and build a rapport with the client, so we understand their business, so we can quickly do a design and aim it at their market and also understand their business so therefore we can service that" Co. M

The proximity of the *personal contact the entrepreneurial and* non-entrepreneurial *SMEs* develop (see Table 10.2) with their customers' allows them to gain an insight into their customer plans and potential future value. The entrepreneurial and non-entrepreneurial SMEs stated that based on the feedback from the sales representatives they are able to learn more about their customer needs and at the same time inform their customers of the premises under which the company works (e.g. pricing, value, payments, etc).

Personal contact to retain customers	
Proactive	"Because time gives you time for friendship. You need to have a personal basis so business grows with them, with customer and sales or rep." Co. G
Reactive	"...trying to build a relationship with them at a personal level, so that they feel comfortable with you" Co. N
Informal	"Like I say, once we have them we don't have to do too much we tend to repeat the same activities. We know if things are going OK because we are in contact with them by telephone and with our main ones we visit them. So I think just that personal and constant contact, keeps them happy really" Co. B

There is a high degree of personal contact (see Table 10.2) that entrepreneurial and non-entrepreneurial SMEs maintain with their customers'. The reason stated for this was that the SMEs did not want their customers to feel like they were just an account number.

Determining whether customer perceives product / service as value for money	
Proactive	"They usually say so. A lot of them will say so." Co. W
Reactive	"I guess we ask them really." Co. N
Informal	"we will ask them why they are buying from us. We deal with them on a face to face situation, when the place an order with us we will say thank you very much but why have you placed it with us. And they usually tell you why. At the end of the day it is because they usually trust you and they feel that you are going to be professional to put their system in properly for them" Co. P

Entrepreneurial SMEs cited more than non-entrepreneurial SMEs (see Table 10.2) that they are able to determine whether their customers perceived their products / services as value for money through the praise they receive after the sale and based on the 'trust' they have built with their customers.

Personal contact to leverage more business from existing customers	
Proactive	"To be frank the bottom line is opportunities to sell. Opportunities to make margins, which is what we are all in business for. I suppose there are a number of areas. One is to make sure that the client is happy, if they are happy, we will get the referrals, if they are not happy we need to know about it, and keeping our name in their thoughts, so ringing them up, seeing if they are all right" Co. K
Reactive	"I think really most of the communication with the customers is to try and find out exactly what they want, from a sales point of view" Co. A
Informal	"Well some of them we are not going to win a lot more business because they are only small companies. The other ones, we will actually pay them visits and we will do face to face visits, market them with various mailshots and if necessary approach the people in their organisation, and try and get our systems in there" Co. P

The entrepreneurial and non-entrepreneurial SMEs, through their on-going continuous communication with their customers, stated that they aim to determine whether a customer's future changes fit in with those of the company's plans or whether areas within the company need to be developed to meet future customer needs. This allows the SMEs to leverage more business from their customers'. Entrepreneurial and non-entrepreneurial SMEs also cited that employees are essential to leveraging more sales from the customers because of their frequent and close rapport with the customers.

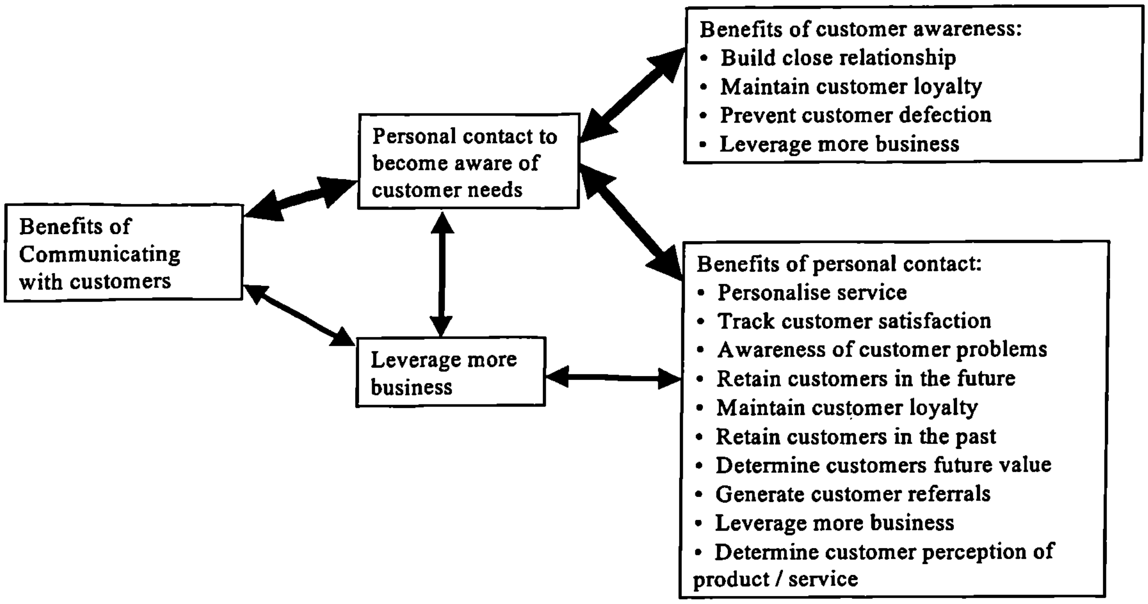
Referrals	
Proactive	"I suppose the new clients, we get a lot of referrals and people are referred to us because we spend time with them, we have got it right with other clients before because we have spent that time with them, we are not just in for the jugular, for the kill, we say right well we talked about the system that you need, not that we want you to have so they are the big ones." Co. K
Reactive	"A lot of our business, or business opportunities are created through word of mouth really. We might have done something with one particular company and they are delighted with it, and they might know someone within their circles and recommendations. Cold calling is not that productive" Co. T
Informal	"we have gained other clients through them. Through word of mouth, people have seen what we have done for them and it has gone on from there really" Co. M

Entrepreneurial and non-entrepreneurial SMEs rely on and take advantage of recommendations (via word of mouth) from their existing customers to attract new customers.

10.2.1 Benefits of communicating with customer linked with other categorical themes

There is an extremely strong association (based on the intensity of the arrows) between the SMEs taking advantage of personal contact to become aware of customer needs (see Figure 10.2.1). This results in the SME building closer relationships, maintaining customer loyalty and leveraging more business from their customers. Additionally there is a very strong relationship between the SMEs leveraging more business through personal contact and the many other benefits derived from communicating with customers personally. The most important links being the personalisation of the service for customers, tracking customer satisfaction, maintaining awareness of customer problems and retaining customer loyalty.

Figure 10.2.1 Factors associated with benefits of communicating with customers



10.3 Increasing Market Share

There are a number of reasons that entrepreneurial and non-entrepreneurial SMEs cited as contributing to increasing their market share. The main agreement amongst the entrepreneurial and non-entrepreneurial SMEs is their preference for targeting specific customers to increase their market share (see Table 10.3). Where the SMEs appear to differ in opinion is the entrepreneurial SMEs greater preference for pursuing growth through acquiring new customers and developing existing customer than non-entrepreneurial SMEs. Furthermore, both entrepreneurial and non-entrepreneurial (Reactive) SMEs referred more than non-entrepreneurial (Informal) SMEs to taking advantage of the service they provided to customers to increase their market share. Finally both entrepreneurial and non-entrepreneurial (Informal) SMEs referred to raising the presence of their SMEs to increase their market share.

Table 10.3 Increasing Market Share

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Target marketing customers with similar profile to increase market share	6	7	5	18
Growth through both new and existing customers	7	5	4	16
Service advantage over competitors	6	5	3	14
Raising SME profile	5	0	3	8

Target marketing customers with similar profile

Proactive "Simply by specialising in a niche market and trying to offer a range of additional services at levels of quality and service that exceed our competitors" Co. E

Reactive "Because of the nature of our business, because it is a service that we provide, like I mentioned before, it is the only service we can provide, then any marketing campaign would be pointless to attract the low customer..." Co. J

Informal "I think one of things that we would like to do is to target a few companies, or few establishments I should say in the medical and educational fields which is the ones that are most relevant to our product..." Co. B

It is quite clear from the statements, that entrepreneurial and non-entrepreneurial SMEs perceive growth as being achieved through acquiring new customers of a similar profile or who could benefit from the product or service (see Table 10.4). The entrepreneurial and non-entrepreneurial SMEs also indicated that they are aware of which customers they would like to attract. Since they have acquired information over the years that allows them to develop profiles of customers that have been very successful for the SMEs in the past along with marketing campaigns that attracted them. The entrepreneurial and non-entrepreneurial SMEs also mentioned:

- Customers being referred to them by existing customers;
- Reviewing trade directories (almanacs) about customers information in their market;
- Identifying all the possible industries that could benefit from their products / services

Several entrepreneurial and non-entrepreneurial SMEs mentioned that they possessed an almanac (this is a directory of all the customers in their marketplace), that was used by their sales representatives to focus on specific targeted customers that the SME would like to attract.

Growth through both existing and new customers

Proactive	"Our objective at the end of the day is to have more in annually occurring support fees to cover all the expenses of the company and to do that we need new customers all the time, however we do not want to lose old ones, so it's a mixture of both. I don't want to lose my existing customers but it is crucial from a growth point of view that I have to have new ones." Co. C
Reactive	"We are always trying to develop new business as well as trying to maintain and retain the existing customers. If you set your stall out to treat potential customers better than you treat existing customers you are going to lose your existing customers. If you do it the other way round, you are not going to get new customers, so you have to treat them equally" Co. R
Informal	"There is an equal balance really. It all depends. We tend to take a lot of customers on and then obviously after a three to four month period then settled in the agency, so you can actually take on more work and we do get a lot of referrals" Co. X

Entrepreneurial SMEs have realised to a greater degree than non-entrepreneurial SMEs (see Table 10.3) that their existing customers are the 'lifeblood' of the SME, in terms of continuous income generated but to continue to achieve growth they still need to attract new customers.

Service advantage over competitors

Proactive	"Simply by specialising in a niche market and trying to offer a range of additional services at levels of quality and service that exceed our competitors" Co. E
Reactive	"When we are looking at new business we are constantly looking at ways in which we can offer something else that our competitors can't, and more often than not it is servicing that increases the business" Co. T
Informal	"We offer the full service from the telephone call to the PC to the networking to the on-site delivery to the maintenance, the technical support, the implementation of the quality plans that they may want us to do" Co. D

Entrepreneurial and non-entrepreneurial (Reactive) SMEs have to a greater degree concentrated on offering additional services to aid them to not only increase their market share but to also compete against their competitors.

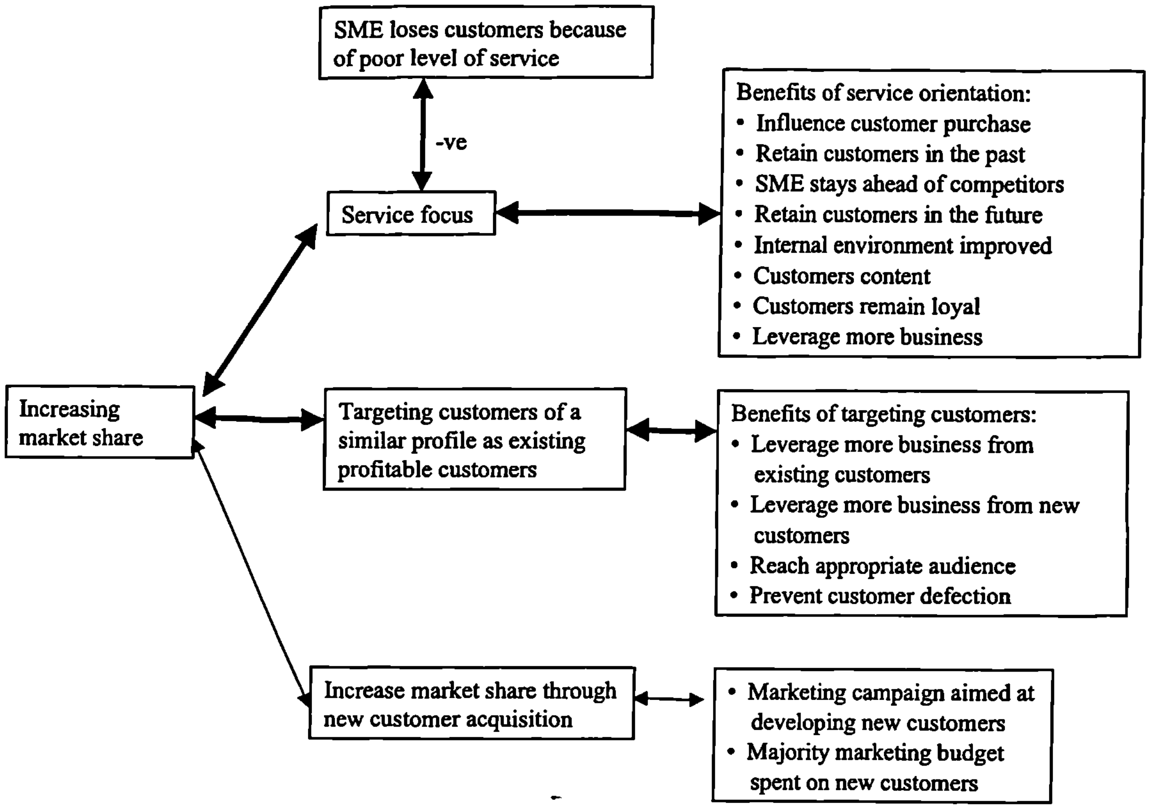
Raise presence of SME through marketing	
Proactive	"By undertaking direct marketing campaigns. By ensuring that we have good PR. By ensuring that we are in the line of sight of those marketing managers when they are actually reviewing the business" Co. S
Informal	"when I came here my brief was largely to concentrate on editorial and exposure for the company and to concentrate less on advertising because they tended to find that was quite a hit and miss activity, so that's one of the things I have concentrated on, and in fact, we were actually featured in the innovation section of the Sunday Times at the beginning of September because our software is being used for a new computer base system for giving an early diagnosis of a heart attack, so I think it is working in that respect" Co. B

Entrepreneurial and non-entrepreneurial (Informal) SMEs have focused on raising the profile of their company to capture more business from their customers. The entrepreneurial SMEs have raised customer awareness through generating positive publicity of its products / services in its industry. While non-entrepreneurial SMEs have stated that they will adopt public relations campaigns to raise their profile.

10.3.1 Increasing Market Share Associated with Other Categorical Themes

There are some very strong associations (see Fig. 10.3.1) between an SMEs service orientation and targeted marketing campaigns to increase the SMEs market share. The main benefits to arise from a service orientation include influencing customer purchase, retaining customers, staying ahead of competitors, improving the internal environment and ensuring customer contentment. Additionally, there is also a strong association to reveal that the consequences of a poor service may result in customers leaving the SME. While the main benefits from a very strong association with targeting customers include the SME being able to leverage more business from both existing and new customers, and preventing customer defection. Finally, there is a modest association that shows that the new customers acquired to increase the SMEs market share were attracted by marketing campaigns being directed and funded to acquire new customers.

Figure 10.3.1 Factors Associated with Increasing Market Share



10.4 Marketing Campaigns that Attract Loyal Customers

The qualitative results from the transcripts revealed that entrepreneurial SMEs showed a greater preference than non-entrepreneurial SMEs to using direct mail to attract loyal customers (see Table 10.4). While three non-entrepreneurial SMEs were unsure which of their marketing campaigns attracted their loyal customers.

Table 10.4 Marketing Campaigns that Attract Loyal Customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Direct mail communication	7	5	5	17
Don't know	0	2	1	3

Direct Mail Communication

Proactive "Well I've found direct mail has worked the best" Co. C

Reactive "I would have said we have done fairly well out of direct mail and also the other is there is the effective use of the sales force" Co. A

Informal "We have started doing some work with textile companies so therefore we said well let's look at the local textile companies in the area - about 20 - and really target a really nice mailer to them" Co. M

Entrepreneurial and non-entrepreneurial SMEs were in agreement that targeting their mailing at specific customers has proven to be very effective when it is followed up by a sales representative visit.

10.5 Targeting customers

The majority (18 SMEs) of the entrepreneurial and non-entrepreneurial SMEs were in agreement that they know which customers to target, based on the profile of their existing profitable and potentially profitable customers. Entrepreneurial and non-entrepreneurial (Reactive) SMEs also further cited a greater preference for targeting customers in growth markets (see Table 10.5).

Table 10.5 Targeting Customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Targeting Customers with similar profile	6	7	5	18
Growth markets	6	4	1	11

Similar profile as existing customers

Proactive "the major thrust is actually on new customers of a similar profile. We don't have an adequate number of customers who could develop to the same size. So we could get a lot more business but we don't want to become over reliant on too few a number of customers" Co. E

Reactive "I think most of our campaigns have been highly targeted at a particular market segment and so we would not normally get customers coming to us that we did not want. The only occasion where that happened really is where we have been doing things like general advertising, just been making people aware of our names where we might get members of the general public for instance, contacting us" Co. R

Informal "We have started doing some work with textile companies so therefore we said well let's look at the local textile companies in the area - about 20 - and really target a really nice mailer to them. So we are always on the lookout for areas that we can increase. We have got a good textile company on board now and we might as well use that experience to try and get in with other textile companies in the area. So we are always on the lookout to produce small individual mailers and that usually does reap quite good rewards really. It is usually the good quality ones, not the massed produced mailer that bring back some good appointments" Co. M

Entrepreneurial and non-entrepreneurial SMEs are targeting customers with a similar profile as their existing profitable customers. Since they have discovered that they tend not to lose the right customers, for whom they are qualified to provide a quality service for.

Growth markets

Proactive "Well I suppose the bigger ones like the Post Office for example, it is easier from them because they have multiple branches" Co. C

Reactive "We can target customers who we know have other business to give us, but in terms of targeting customers who at some point in the future may decide to go down the road which will increase our profitability or business with them, no. It is all based around the number of sites that a company has. If we can identify a company that is growing and is growing rapidly then yes we can" Co. J

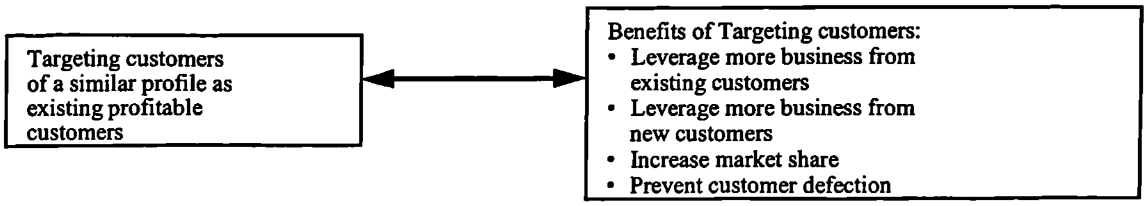
Informal "I think it is the type of research that they are doing, if we look back and see how we have helped people in the past and concentrate on some in that area, and also the current climate, what is topical now, for example, the medical imaging that we have been involved with is a real growth area and that is why we are looking to get involved in it further. So I think it is a combination of what we have been successful in doing in the past and also what is topical now" Co. B

Entrepreneurial SMEs have a greater tendency to focus on targeting customers in growth markets than non-entrepreneurial SMEs. Furthermore, entrepreneurial and non-entrepreneurial (Reactive) SMEs are also targeting subsidiaries of their larger customers who may benefit from the SMEs products / services.

10.5.1 Targeting Customer Associated with Other Categorical Themes

Targeting customers allows the SMEs to realise many benefits in terms of being able to leverage more business, increase their market share and prevent customers from defecting (see Fig. 10.5.1).

Figure 10.5.1 Factors Associated with Targeting Customers



10.6 Cost of Acquiring Customers

There is common agreement among eleven entrepreneurial and non-entrepreneurial SMEs that the major cost of acquiring a customer can be attributed to presales costs (see Table 10.6).

Table 10.6 Cost of Acquiring Customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Presales cost	4	3	4	11
Don't know / No Response	3	4	2	9

Presales costs

Proactive "There are sales costs i.e. travelling times, sales time in actual employees time. There will be the cost of producing any sample matter, quotation and anything else that's involved in a bid and there might be production start-up costs." Co. E

Reactive "It is expensive. It is very time consuming. I mean really that is one of the key reasons why we employ all the sales staff that we do" Co. A

Informal "Well I reckon it takes £1,000 of profit, it probably costs you five times as much in terms of man hours, effort, from a selling point of view to get that business" Co. P

It is quite apparent that a lot of time and resources are exhausted before entrepreneurial and non-entrepreneurial SMEs make a sale. The entrepreneurial and non-entrepreneurial SMEs mentioned that the initial costs include mailing potential customers, visiting customer sites and demonstrating the product/ service reliability, refining the service to meet customer specification and finally offering a financial incentive.

10.7 Distribution of SMEs Marketing Budget

Four entrepreneurial and Seven non-entrepreneurial SMEs were in agreement that their marketing budget was predominantly distributed in favour of acquiring new customers (see Table 10.7).

Table 10.7 Distribution of SMEs Marketing Budget

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
New customers majority	4	4	3	11
Existing customers	2	3	2	7
Don't Know	1	0	1	2

New customers receive majority

Proactive "the majority of the marketing budget is spent on attempting to gain new customers" Co. H

Reactive "There is not that much spent on marketing efforts with existing clients, apart from delivering the services and products that they come to us for. So I suppose most of our marketing budget is designed to attract new business" Co. T

Informal "it is all aimed at new customers" Co. D

The entrepreneurial and non-entrepreneurial SMEs focus the majority of their advertising budget on acquiring new customers. Although, it should be noted that campaigns aimed at attracting new customers are also viewed by existing customers.

Existing

Reactive "60% spent on existing customers" Co. L

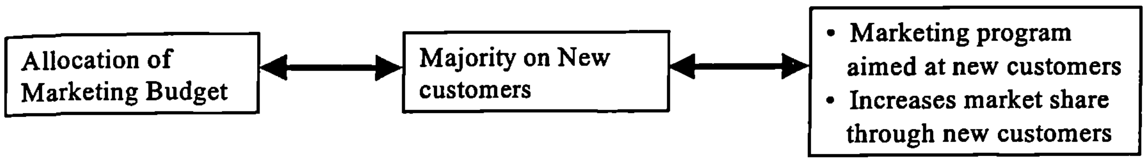
Informal "60 to 70% on existing customers" Co. B

Despite the large investments to attract new customers there are still several SMEs (two entrepreneurial and five non-entrepreneurial) who reserve a considerable marketing sum for their existing customers.

10.7.1 Allocation of Marketing Budget Associated with Other Categorical Themes

The allocation of the marketing budget for new customers is partly influenced by the marketing programmes and the SMEs growth ambitions (see Fig. 10.7.1). The SMEs disperse a large budget on attracting new customers in the hope that it will increase their market share.

Figure 10.7.1 Factors Associated with the Allocation of the Marketing Budget



10.8 Measures to Retain Customers in the Past

Entrepreneurial and non-entrepreneurial (Reactive) SMEs have cited more than the non-entrepreneurial (Informal) SMEs that they apply three main measures to ensure customer retention is achieved through focusing on services provided, personal contact and competitive prices (see Table 10.8).

Table 10.8 Measures to Retain Customers in the Past

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Service provided that customers want	7	7	5	19
Personal contact to retain customer	6	7	4	17
Competitive Prices	4	5	3	12

Service orientation

Proactive "we have given them the service that they wanted" Co. K

Reactive "We just looked after them well! Basically all we do to retain them is give them the service that they want" Co. L

Informal "We are a person to person industry so we have to get on with the person who comes and does the presentation to them. The services that we offer them and the way we offer them" Co. X

In terms of service entrepreneurial and non-entrepreneurial SMEs have continued to maintain the service levels expected from them. Although, the entrepreneurial and non-entrepreneurial SMEs stated that service is just one aspect of retaining customers which needs to be considered in line with price, delivery, quality and strength of the relationship.

Personal contact with customers to keeping them informed to retain them

Proactive	"Kept talking to them, kept sorting out their problems as quickly as we could." Co. H
Reactive	"Well we spend a lot of time with the most profitable customers, we .... the personal level, so we try to make sure that we are talking at a personal level to the key people in the organisation and that really I think is the thrust of our activity to make it somewhat personal so that they know the people here that they deal with at a personal level, and feel quite happy to talk or ring each other up of whatever if there is a problem, or whatever they pick up the phone and get on with, because they have met the person personally" Co. R
Informal	"Like I say, once we have them we don't have to do too much we tend to repeat the same activities. We know if things are going OK because we are in contact with them by telephone and with our main ones we visit them. So I think just that personal and constant contact, keeps them happy really" Co. B

There was a high degree of agreement amongst the entrepreneurial and non-entrepreneurial SMEs (see Table 10.8) to building personal relationship through maintaining continuous communication with their customers to allow both parties to become aware of each others products / services / concerns and identify any opportunities. It should be noted that the frontline employees would take a major role in building the personal contact through telephone calls, personal visits. The entrepreneurial and non-entrepreneurial SMEs stated that they encouraged the personal contact between their customers and their key employees to ensure the customers were happy to communicate regularly with the company and vice-versa. Further measures adopted by both entrepreneurial and non-entrepreneurial SMEs to develop a personal contact with their customers include socialising with customers, out of work hours, and developing the friendship element for a better working relationships. The reason stated for this was that it created a barrier for competitors to enter and allowed the entrepreneurial and non-entrepreneurial SMEs to cultivate the customer relationship to generate more business and referrals.

Competitive prices

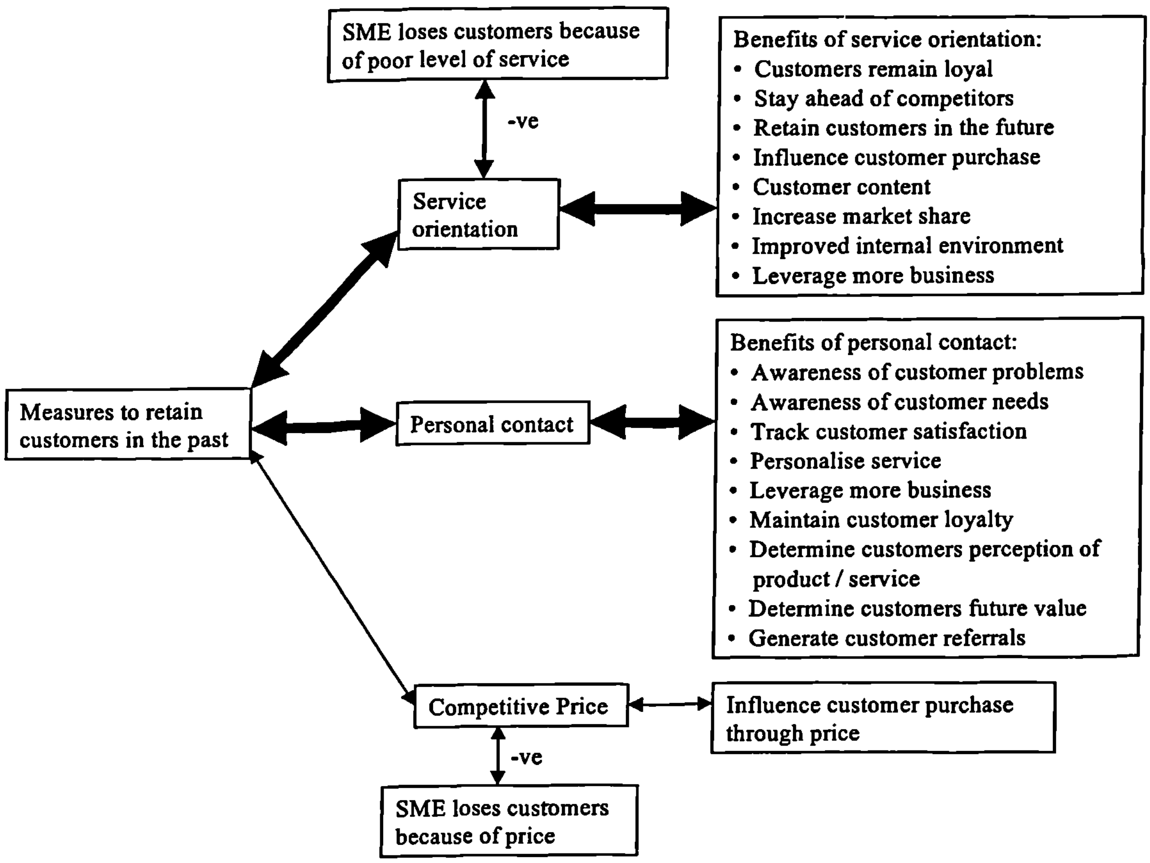
Proactive	"Standard things really improved. Prices , services and quality" Co. E
Reactive	"Price" Co. L
Informal	"for our customers it is essentially price and speed. price which enables them to add on their percentage mark up and still be competitive, and speed, when all else fails, we can get it to you quicker than anyone else does" Co. V

The previous measures of both service and personal contact would be incomplete without the entrepreneurial and non-entrepreneurial SMEs offering a competitive price structure. The entrepreneurial and non-entrepreneurial SMEs are both focused on offering a price that is competitive while at the same time dissuade customers who are primarily focused on price since the SMEs have found these customers to be unreliable and capricious to competitor offerings.

10.8.1 Measures to Retain Customers in the Past Associated with Other Categorical Themes

There are some extremely strong associations (see Fig. 10.8.1) between SMEs retaining customers in the past through service orientation and personal contact. The main benefits to arise from a service orientation include maintaining customer loyalty, staying ahead of competitors, retaining customers and influencing customer purchase. Although, SMEs that offer a poor level of service may find their customers defecting to other competitors. While the main benefits of personal contact include awareness of customer problems and needs, tracking customer satisfaction, personalising the service and leveraging more business. Additionally the modest associations of price reveals that price plays a vital role in influencing not only customer retention but also influencing customer purchase.

Figure 10.8.1 Factors Associated with Retaining Customers in the Past



10.9 Future Measures to Retain Customers

The majority (19 SMEs) of the entrepreneurial and non-entrepreneurial SMEs were in agreement that service plays a key role in retaining customers' in the future. Entrepreneurial and non-entrepreneurial (Reactive) SMEs show a greater degree of accord than non-entrepreneurial (Informal) SMEs in using personal contact to retain customers in the future (see Table 10.9). The main difference between entrepreneurial and non-entrepreneurial (Reactive) SMEs is the non-entrepreneurial (Reactive) SMEs preference for offering both extra service and competitive prices to retain their customers in the future.

Table 10.9 Future Measures to Retain Customers

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Service orientation	7	7	5	19
Personal contact to retain customers in the future	6	7	4	17
Extra service	4	7	3	14
Competitive prices	4	6	3	13

Service orientation

Proactive "Standard things really improved prices, services " Co. E

Reactive "We think as I say the best way to retain a customer is to do a good job at a good price, its the old thing. You can't buy customers. It's the job that buys a customer" Co. F

Informal "Give them a very good service" Co. X

Almost all the entrepreneurial and non-entrepreneurial SMEs (approximately 19 out of 20) declared that they were committed to maintaining their services levels. This is maintained through the investments the entrepreneurial and non-entrepreneurial SMEs are making in personnel (through training), technology (process improvement) and quality systems.

Personal contact keeping customers informed to retain them in the future

Proactive "It will be the same thing we will keep in touch with them and keep them informed of what coming, get their upgrades in time hopefully" Co. C

Reactive "We have a high degree of personal contact with customers. I think really that's when you get away from a customer being an account number..." Co. A

Informal "we tend to keep good contact with them. That is the main thing, even if it is only over the telephone, speak to them regularly, find out what they actually need, if their requirements are changing or not, whether they are still happy with the service" Co. D

The majority entrepreneurial and non-entrepreneurial SMEs (see Table 10.12) stated that they will continue to maintain a personal contact with their customers. The reason stated for this is that it ensures that both parties are aware of each other's requirements.

Extra Service depends on size of customer

Proactive "We now offer a 24 hour service where we have got a rota of four who have a telephone and they answer calls at night if needs be. It's getting a service to them as quickly as we can" Co. C

Reactive	"We look after them better, you know, in terms of ensuring that their demands are met. In terms of delivery times and that sort of thing. It's really just the key accounts" Co. A
Informal	"We will have to do above and beyond that I think. Service is always an issue that we keep looking at to do better. The next thing we would look at is to put a quality system on board and investors in people. So we are looking at those. Because a lot of our work is with techs anyway, education, councils, they do like that, they like anything that shows investment in people, etc. So training courses, we have got training courses organised for our staff which will obviously benefit our clients in the end" Co. M

Non-entrepreneurial (Reactive) SMEs showed a greater tendency to cite that they offered extra service to their customer (see Table 10.9) than entrepreneurial SMEs. The type of extra service that the entrepreneurial SMEs offered include setting up helpdesks and free additional visits from technical teams if customers were not happy with the previous training sessions. Non-entrepreneurial (Informal) SMEs have set-up offices close to their customers to speed up delivery of goods / services and have implemented internal training courses that focus on improving the existing quality systems and employee development.

Competitive prices

Proactive	"Varied price levels" Co. K
Reactive	"We obviously try and keep competitive on pricing and we try and look after the loyal customers on a personal basis" Co. A
Informal	"I think if we are doing our job right then with both the product and the service that we are supplying them, coupled with a reasonably competitive price, will do that job for us" Co. D

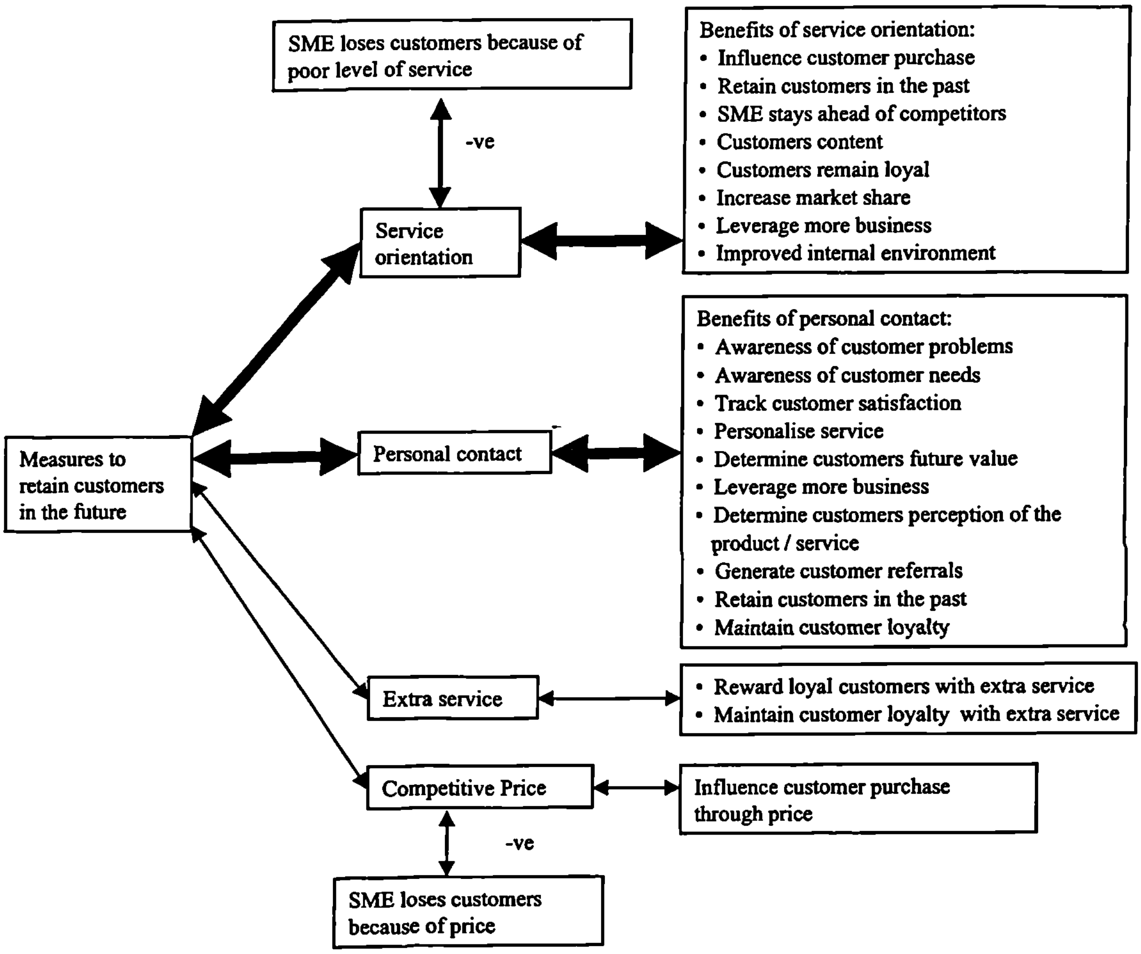
The results from Table 10.9 reveal that non-entrepreneurial (Reactive) SMEs have a greater tendency to focus on offering a more competitive price than the entrepreneurial SMEs.

10.9.1 Future Measures to Retain Customers Associated with Other Categorical Themes

There is some extremely strong associations (see Fig. 10.9.1) between SMEs retaining customers in the future through service orientation and personal contact. The main benefits to arise from a service orientation include influencing customer purchase, retaining customers in the past and staying ahead of competitors. Although, SMEs that offer a poor level of service may find their customers defecting to other competitors.

While the main benefits of personal contact include awareness of customer problems and needs, tracking customer satisfaction and personalising the service. Additionally the modest associations of price reveal that price plays a vital role in influencing not only customer retention but also influencing customer purchase. Finally the modest associations in the extra service offered allows the SMEs to not only retain their customers in the future but also reward and maintain their loyalty.

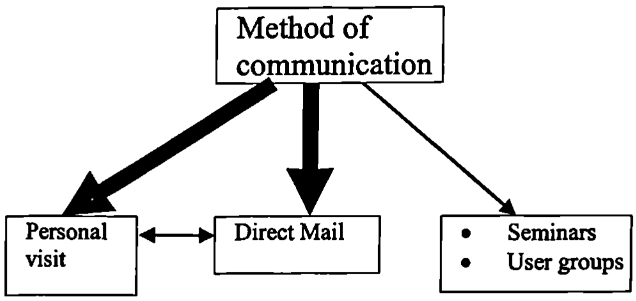
Figure 10.9.1 Factors Associated with Future Measures to Retain Customers



10.10 Diagrammatic representation of all the constructs identified by the SMEs to communicate with customers

The author has constructed an holistic framework of all the communication mediums employed by SMEs in this research (see Fig. 10.10).

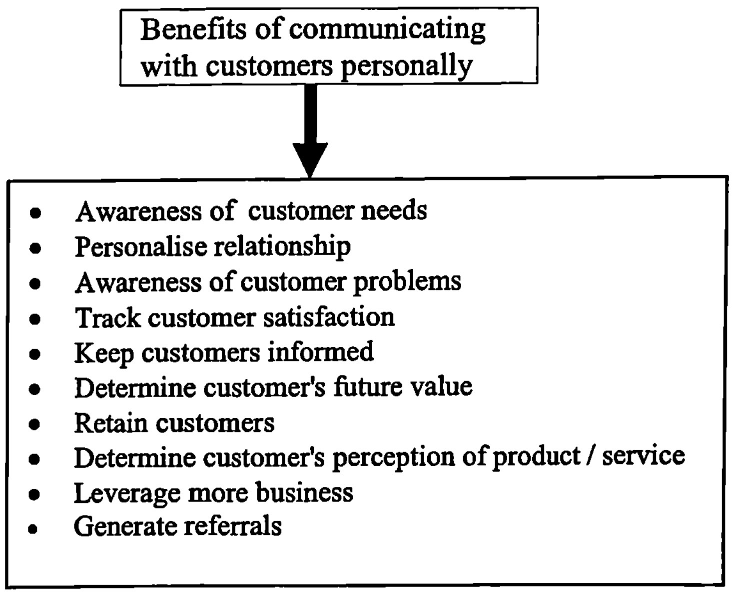
Figure 10.10 Factors Associated and Interlinked with Communicating with a Customer



10.10.1 Diagrammatic representation of all the constructs identified by the SMEs to determine the benefits to arise from communicating personally with customer:

The author has constructed a simple framework that highlights all the benefits that arise from communicating with customers (see Fig. 10.10.1)

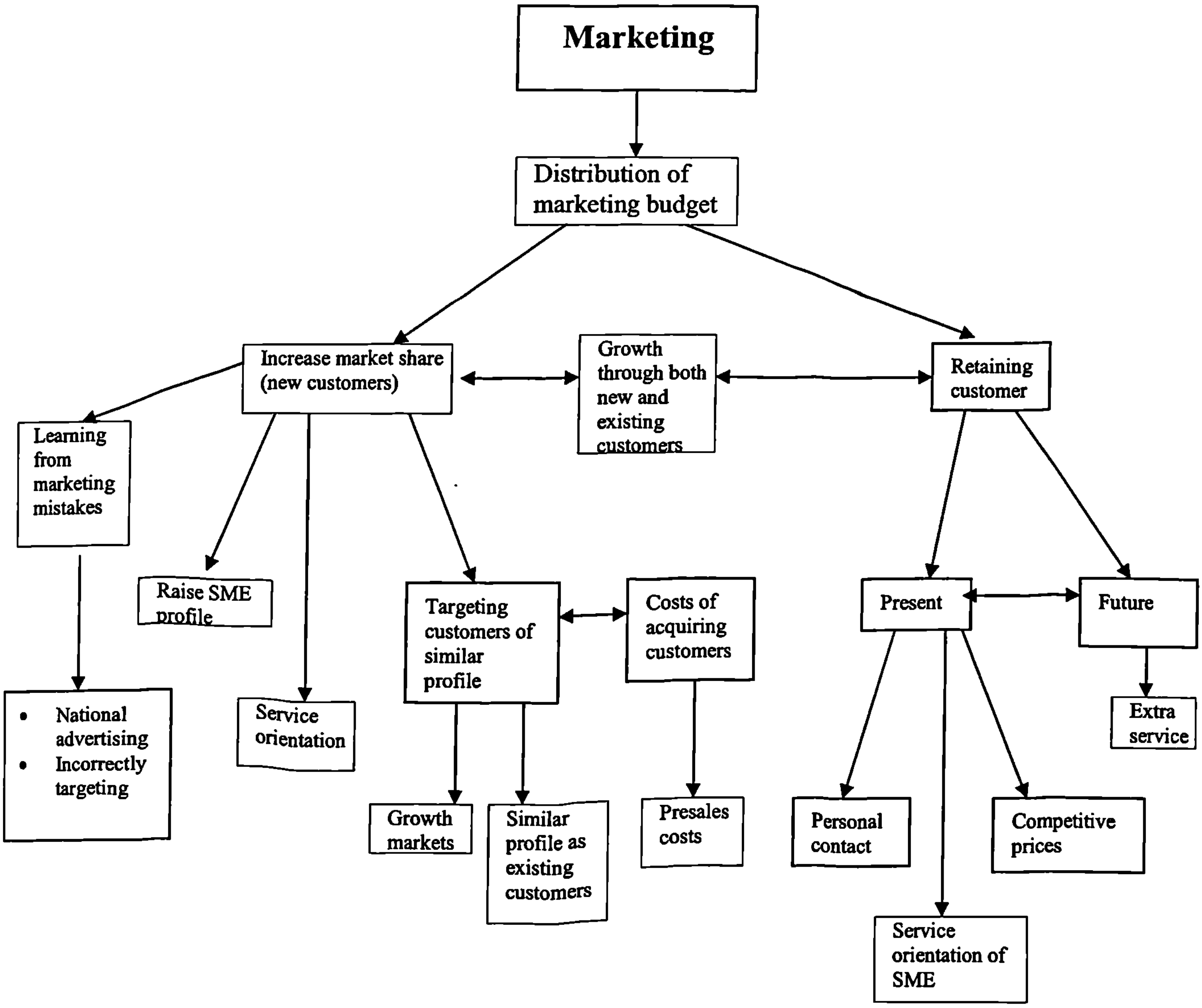
Figure 10.10.1 Benefits of Communicating with Customers



10.11 Diagrammatic representation of all the constructs identified by the SMEs that contribute to a successful marketing programme:

The author has constructed a framework of all the major factors influencing marketing in SMEs (see Fig. 10.11), based on the results of this research project.

Figure 10.11 Major Factors contributing to Marketing in SMEs



10.12 Marketing Qualitative Conclusion

The traditional aim for marketing in entrepreneurial and non-entrepreneurial SMEs has always been on its focus of attracting new customers. This is achieved through generating customer awareness of the SMEs products/services through advertising in various mediums. This imbalanced focus on new customers as a mode of aiding the SME to achieve growth both financially and in terms of market share is a vintage of traditional marketing theory that perceives growth to be measured in terms of market share and not 'share of the customer'. Therefore, the potential to achieve growth, through implementing a sustainable low risk competitive strategy of customer retention, development and once resources permit acquisition, are enormous for SMEs willing to embrace a new approach to marketing.

There is still a very traditional approach to measuring the success of a marketing campaign. That involves focusing on how many new customers were attracted by a current campaign and measuring it against the cost of the campaign. This approach has been questioned by practitioners such as Bain and Company (see Reichheld, 1994b, p.3 and Reichheld, 1996a, p.39) who argue that the method is simplistic given that it does not account for customers that were attracted from previous campaigns, customers that were recommended through word of mouth, etc. Therefore, the author suggests that SMEs need to introduce other measures such as:

- Which campaigns attracted a customer to the SME;
- Type of customers attracted by a campaign in terms of profitability and loyalty;
- Operational synergy of the customer(s);
- Recommendations that the customer may generate;
- Positive publicity the new customer may generate.

The main costs incurred by many entrepreneurial and non-entrepreneurial SMEs in acquiring a customer result from the SMEs expenditure prior to a sale being generated. These costs highlight the need for SMEs to target correctly the most profitable and loyal customers. This is to ensure that SMEs are making maximum use of their resource bases to capture customers that will contribute both to current and future SME profitability and growth as well as enhancing the SMEs image. The expenditures may include:

- Initial phone calls
- Cost of Travelling to customers workplace
- Salespersons time
- Researching customer requirements
- Preparation of presentation material
- Administration charges
- Repeat visits / demonstrations
- Literature provided
- Further correspondences via telephone, fax and mail
- Bespoke products/services
- Offering discounts

Whilst the findings have shown that the majority of the marketing budget is aimed at attracting new customers this does not discount the fact that existing customers may also view the campaigns in the media they regularly review. Many entrepreneurial and non-entrepreneurial SMEs prefer to focus their campaigns on new customers because of the personal contact many SMEs have established with their existing customers and are therefore, often in a position to directly inform their customers of new products/services. This therefore, further reinforces the justification for developing relationships with customers (especially profitable customers) to enable the SME to take advantage of the remaining limited marketing resources to target new prospects. For both existing and targeted loyal and profitable new customers are required to help the SME achieve growth. Therefore, SMEs need to constantly monitor their customers (especially their most profitable ones) and pursue a policy of leveraging more business from existing customers while at the same time pursuing new customers so as not to become too reliant upon their existing customers. By maintaining this delicate balance of retaining, developing and acquiring targeted customers, the SME ensures that they do not exceed their resource base. Thus resulting in a much less risk averse strategy to growth

Marketing involves developing a coherent communications policy and employing a variety of specific medium vehicles to communicate with customers. These various forms of communication mediums' complement, interact and support the SMEs goals of retaining, informing and acquiring customers. One form of communication that is popular amongst entrepreneurial and non-entrepreneurial SMEs and which has positively contributed to customer retention and acquisition is the development of personal contact with selected customers. The benefits of investing in developing such a rapport, especially profitable customers, permits the SME to reinforce the personal relationship with the customer, inform the customers of new products/services as well as to design bespoke products/services through this personal contact. The decision to develop a bespoke product/service/price will be based primarily on the future stream of revenue that can possibly be generated. Other factors to consider including: customer satisfaction with current solutions, pricing as well as whether the product/service complements the SMEs resources and experience.

The employees of the entrepreneurial and non-entrepreneurial SMEs invest time and effort in developing a personal contact with customers. This allows them to become much more confident in contacting the customer any time the SME has a query, or inform the customer over any issue, or just try to leverage more business from the customer. Therefore, frontline employees play a pivotal role in both developing and reinforcing the perception of a personalised service. The personal contact may also take the form of seminars that are used to demonstrate the practical applications of the products as well as allow the SME the opportunity to answer any questions/concerns in an environment where the SME has the home advantage.

The printed medium of quarterly newsletters has proved very popular amongst many entrepreneurial and non-entrepreneurial SMEs to both inform and contribute to maintaining customer interest in the SME. This medium of communication adds extra value to the service that entrepreneurial and non-entrepreneurial SMEs provide. For they provide customers the opportunity to voice their opinions on the SMEs products/services. This not only helps generate customer appreciation but also allows other existing customers the opportunity to hear the reviews of a third party on the SMEs products/services and thus allowing the SME to use this medium as form of endorsement advertising from reputable players in the market. Additionally the newsletter can be used to highlight new uses for a product/service as well as promoting additional updates or new peripheral products/services that complement the SMEs portfolio. Furthermore, the newsletter is ideal for communicating with low volume customers in remote geographical locations and for customers who are not currently planning to spend any more for the fiscal year. One other form of printed communication that is favoured by entrepreneurial and non-entrepreneurial SMEs is targeted direct mail campaigns, which has assisted SMEs to attract many new loyal customers.

Increasing the market share is primarily based on the SMEs marketing efforts to raise the profile of the SME to attract new customers. To achieve this entrepreneurial and non-entrepreneurial SMEs have tended to target specific customers, who display similar characteristics (or customers who need the SMEs products/services) to their existing clientele, as the SMEs have both the resources and experience to cater to the needs of these customers. These targeted customers create operational synergy (see Fig. 10.12a) for the SMEs resource base and experience. Therefore, entrepreneurial and non-entrepreneurial SMEs are taking advantage of the profile of their existing customer base to formulate strategies to attract customers of a similar profile, or customers who need the SMEs products/services.

The marketing campaigns allow the SME to raise the profile of their company in the hope that this will lead not only to the abating of 'post purchase dissonance' by existing customers but also to the attraction of new customers. Therefore, one way to influence market share is for SMEs to target the right calibre of new customers. There are many ways SMEs can target customers and entrepreneurial and non-entrepreneurial SMEs have realised success from adopting one or more of the following strategies in developing a targeted marketing campaign by identifying:

- Profile of existing profitable customers;
- Customers that could benefit from their products/services;
- Subsidiaries or other departments of a large customer that could benefit from the SMEs products/services;
- Customers that are in growth market(s);
- All the potential customers that are in the SMEs product/service market and could benefit from the SMEs products/services.
- Issues (technological, social (environmental standards), political (legislation) that are of or will be of concern to customers;

The benefits to arise from targeting customers include:

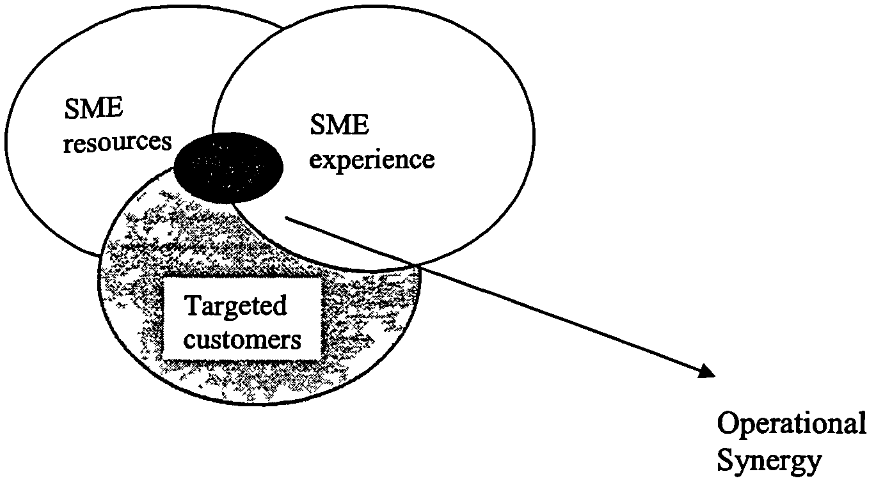
- Opportunity to leverage more business;
- Reaching appropriate audience to develop a profitable business exchange (transactionally or through a relationship) to increase market share;
- Combating customer defection.
- Creates operational synergy

Besides the profile of existing customers, SMEs also use several other sources of information to target customers these information sources include:

- Previous successful marketing campaigns;
- Contemporary issues that are of concern to customers;
- Trends in the market i.e. technological, quality standards, service, etc;
- Customer referrals generated from existing customers;
- Targeting larger customers subsidiaries and/or their other departments;
- Almanac of all the customers working in the market;

- SME identifying all the possible industries that could benefit from its products / services

Figure 10.12a: Operational synergy of targeted customers:



In terms of retaining customers in the future entrepreneurial and non-entrepreneurial SMEs offered the previous array of services (i.e. offering service required, developing a personal contact and maintaining a competitive price) while additionally advocating that extra services would be required to maintain customer patronage. Therefore, SMEs are constantly searching for new ways to improve their current service levels that cannot easily be duplicated by their competitors. This extra service adds value to the relationship and strengthens the bonds (i.e. structural, technical or social) with the customer. The service improvements may surface because of:

- Personal contact to determine ways to improve service;
- Investments in new technology;
- Training employees in new practices;
- Re-evaluating current level of services offered (from start of order to delivery) and then either adopting new services as part of comprehensive service for customer.

The benefits of offering extra service include:

- Ability to reward loyal and profitable customers;
- Maintaining customer loyalty.

Figure 10.12b Factors influencing customer retention:

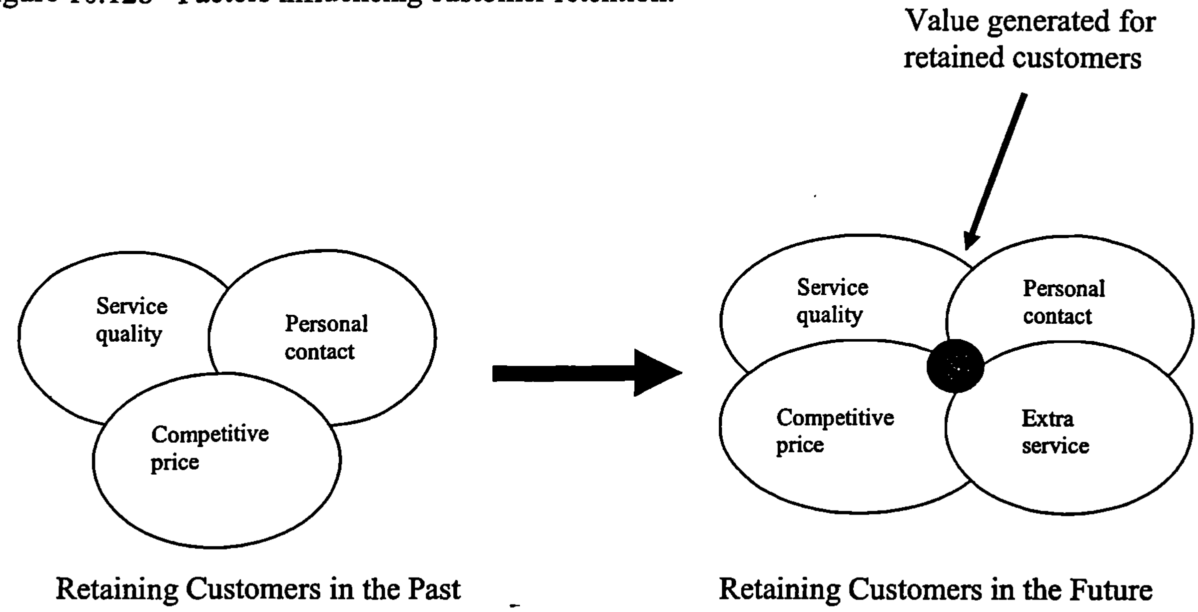


Figure 10.12b reveals that the factors of service, personal contact, competitive price and extra service are inter-linked and reinforce the SMEs measures to retain their customers in the future. Hence, for SMEs to stay ahead of their competitors they need to deliver value added services of consistent service quality that cannot be easily duplicated or cannot be offered as part of a whole competitive service offer by competitors. Complementary to a quality service is the attraction of a competitive price, for this encourages customers to remain loyal and helps reinforce customer belief in the SME. Although, certain customers may remain loyal to the SME because of the SMEs presence in a specialised niche markets. Additionally, due to the lack of competitors and the switching costs many customers may naturally, without choice, remain loyal. Therefore, the development of structural, technological or social bonds can safeguard the SMEs customers from competitive offerings.

CHAPTER 11: Qualitative Analysis of the Efforts by SMEs to Improve their Internal Environment

11 Employee Loyalty

The responses to the interview research instrument (see Appendix 7) on employee behaviour have been divided into two sections (see Table 11). Section A aims to determine how SMEs are pursuing policies to encourage employee loyalty and secondly determine the profile and benefit of loyal employees. Section B will review the profile and effect of less enthusiastic employees.

Table 11: Areas of Employee Loyalty to be Reviewed

Section A		Section B
Developing loyal employees	Benefits of loyal employees	Identify the profile of a less enthusiastic employee
• Why the SMEs believe their employees stay loyal to your company • How employees demonstrate their loyalty/ confidence with management	• The profile of a loyal employee • The benefits of loyal employees	• The profile of a less enthusiastic employee and their effect on the SME

The presentation of the qualitative results will be in the same format as the two previous Chapters. In that each section of a theme will start with a summary of the responses provided for that particular section. Next the frequency and variety of responses from the entrepreneurial and non-entrepreneurial SMEs will be displayed in a matrix style table so that the reader can appreciate the most popular response for that section. This is clearly visible because all the responses for each section are displayed in ascending order in the table. Following on from the table, each response category for that section will be explored in more detail with quotes and explanations from entrepreneurial and non-entrepreneurial SMEs provided. If there is any difference in the frequency of quotes between entrepreneurial and non-entrepreneurial SMEs for a category then the author will provide an explanation for the difference based on the analysis of the transcripts. The author will also highlight any associations between the category of responses, for a section theme, and other themed categories. At the end of each theme (e.g. employee loyalty) the author has constructed a diagrammatic framework of the main factors associated with the theme as well as displaying the intensity of the associations between the categories (through varying the line intensity of the links between categories). Finally at the end of the all the qualitative analysis the author has constructed an holistic framework that represents the major factors contributing to both employees loyalty (see Fig. 11.7) and factors leading to less enthusiastic employees (see Fig. 11.8).

11.1 Reasons for employee loyalty

There is a high degree of agreement among entrepreneurial and non-entrepreneurial SMEs (see Table 11.1) for both the major and minor reasons cited for employee loyalty. The most important reason cited for employee loyalty is the financial reward structure and the fact that employees enjoy their work. The main difference between the entrepreneurial and non-entrepreneurial (Informal) is that the entrepreneurial SMEs are aware of the influence of company success on employee loyalty. The minor citations consisted of treating employees fairly, empowering them to make decisions for their work environment.

Table 11.1 Reasons for Employee Loyalty

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Rewarded financially	6	6	5	17
Enjoy work	4	4	3	11
Employees treated fairly	2	2	1	5
Empowerment	2	2	1	5
Success of SME	2	3	0	5

The quotes from both entrepreneurial and non-entrepreneurial SMEs in Table 11.1 will now be reviewed.

Rewarded financially

Proactive	"We pay I think probably slightly above the industry average. We have good packages, so it is not just about pay, salaries, there are other incentives within that. I think people enjoy working here." Co. S
Reactive	"There is the obvious like salary. They are reasonably well remunerated in the market place we are not the best payer, but I think we pay well enough that they would not necessarily gain financially from a move. We attempt to reward people that do make special efforts and special contributions" Co. R
Informal	"Treated fairly. They are paid quite well, it is a flexible package" Co. P

There are many factors influencing employee loyalty and one of the most prevalent measures that both entrepreneurial and non-entrepreneurial SMEs have adopted is the introduction of financial rewards (e.g. Salaries complemented with bonus and profit sharing schemes see Table 11.1.1). Such that employees are paid above industry rates, to deter employees from believing that they would necessarily benefit financially from a move to another company. The entrepreneurial and non entrepreneurial SMEs offer various measures to reward employee loyalty, these include

Table 11.1.1 Financial Reward Packages offered by Entrepreneurial and non-entrepreneurial SMEs

Entrepreneurial SME (Proactive)	Non-Entrepreneurial SME (Reactive)	Non-Entrepreneurial SME (Informal)
• Bonus schemes • Profit sharing schemes • Special discretionary payments / awards • Flexible package	• Bonus scheme • Generous overtime payments • Home telephone bills paid for IT engineers • Commission system in place for sales reps	• Profit sharing schemes • Bonus schemes • Flexible packages

Enjoy work

Proactive	"Loyal employees like what they are doing they enjoy their job" Co. E
Reactive	"I think most people find the work rewarding as well" Co. N
Informal	"One of the guys in production put it into perspective when he said we don't work at ***** for the salary, it is fantastic to work for" Co. X

Due to the small size (in terms of employees) of SMEs there is an opportunity for all employees to get to know each other. The respondents, from half the entrepreneurial and non-entrepreneurial SMEs (see Table 11.1), noted that employees demonstrate their passion for what they are doing by putting in more effort through working longer hours for no extra pay.

Employees treated fairly

Proactive "I think as a company we treat our employees fairly. There are opportunities within ******** that if an individual wants to develop their career, wants to get on, they will get on. The organisation is a meritocracy, insofar that people who are prepared to put the effort in, invest their time in developing their skills and are good, will be promoted." Co. S

Reactive "On the employee side I think we are quite fair with everyone" Co. L

Informal "Treated fairly. They are paid quite well, it is a flexible package" Co. P

While financial incentives are important they are not alone in maintaining employee loyalty. As two entrepreneurial and three non-entrepreneurial SMEs have realised that to ensure employee loyalty, employees must also be treated fairly and measures must be introduced to reward employees both financially and in terms of career prospects.

Empowerment

Proactive "I suppose the typical things is autonomy here, they are given a rope to run round with, not enough to hang themselves and not enough to upset anything but they do have an area of freedom....... we do not have a turnover of staff that is very high" Co. K

Reactive "We attempt to devolve responsibility as much as possible, so tasks people take on doing tasks without being told.." Co. R

Informal "let them do the job that they are paid to do but give them as much support as you can in terms of training and backup procedures. Backup equipment. Let them make the decisions regarding their job, we think that is the key" Co. D

Two entrepreneurial and three non-entrepreneurial SMEs have empowered their employees, through training and management support, to ensure that quality standards are maintained.

Success of company

Proactive "I think our employees have proved that to date because of the success of our company in all those areas that I have been highlighting to you and I think our success has a knock on from the input that they have put in to the company" Co. G

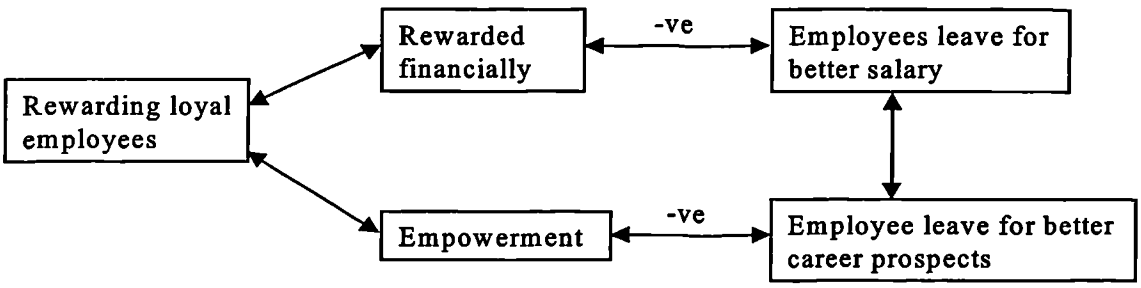
Reactive "because of the pride and the job satisfaction that we are getting here in this company seeing the company grow. The company has been taken from nil to £5m in just under 5 years, so it's I suppose a lot of it is to do with pride, that's why the staff feel that way"

As the company becomes more successful, entrepreneurial and non-entrepreneurial SMEs (Reactive) have noticed that employees realise that they have a good future with the company.

11.1.2 Employee Loyalty Associated with other categorical themes

The author carried out a word search of the transcripts to reveal synonyms and antonyms in various categories. The synonyms and antonyms were counted to reveal both positive and negative links between categories. Consequently to represent the strength of association between the categories the author used varying lengths of arrow intensity to indicate the strength of the association. The author has consistently applied this methodology of identifying the strengths of association throughout this Chapter. Figure 11.1.2 reveals some interesting associations between the rewarding of entrepreneurial and non-entrepreneurial SME employees and reasons for employees leaving. Figure 11.1.2 shows that despite the efforts of the companies to both financially reward and empower their employees, if their employees are offered more money and/or a better career prospect they may leave.

Figure 11.1.2 Factors associated with rewarding loyal employees



11.2 Profile of a loyal employee

The main accord amongst virtually all the entrepreneurial and non-entrepreneurial SMEs (see Table 11.2) is their belief that loyal employees make more effort and contribute to an environment that is committed to teamwork. Entrepreneurial SMEs exhibited a greater tendency than non-entrepreneurial SMEs, to cite that loyal employees stayed longer with the SME and built relationships with their customers.

Table 11.2: Profile of a Loyal Employee

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Makes more effort	7	6	6	19
Stays with SME	5	3	4	12
Build relationships with customers	5	3	3	11
Teamwork	3	3	4	10

Make more effort

Proactive "They are a certain type of individual. They are precious, they would work hard, they would work late when required; they would not say "well I can't do that, that is not my job." Co. S

Reactive "I come in at 8.30, 9 o'clock, I don't normally leave here until 7 at night. I very rarely have a lunch hour, this is actually my lunch hour, but I don't normally take it. We have a lot of engineers who work throughout the weekend. They work at night if something needs doing on the network at night time they come in and do that and they get paid overtime, they get paid overtime for doing that sort of thing but they would still do it" Co. J

Informal "They will stay until the job is done and that can mean on a Friday night at 5 p.m. they are still in a site somewhere in Liverpool with no hope of getting home much before 10.30. But they will stay and do the job. That is the best sign I think" Co. M

The majority of entrepreneurial and non-entrepreneurial SMEs were in agreement that loyal employees are not only motivated to do a good job but want to do a good job. The reason cited for this was the employee's pride in their company, which consequently led to the employees putting in an appropriate effort into their roles by putting forward ideas so that they met customer requirements. The entrepreneurial and non-entrepreneurial SMEs were also in agreement over loyal employees working long hours for the company, usually without the financial incentive of overtime.

Stay with company

Proactive "Well they are all loyal, lets have a look. We have been in business what 12 years and most of them upstairs are in their first job" Co. C

Reactive "The principle way they demonstrate their loyalty is by staying. Not going somewhere else" Co. R

Informal "Because they have been here a long time for very little reward. Again we have a very, very loyal staff. The average staff rate, the company has been going 17 years, and people are still here that have been here for 15 years" Co. X

Entrepreneurial SMEs cited more than non-entrepreneurial SMEs that their employees have stayed with the company since it started trading and for very little reward. This has created an environment where many employees have become good friends with colleagues, encouraging new employees to become loyal by the time they have been with the SME for 6 months.

Build relationships with customers

Proactive	"they know the customers, customers often come back and ask for a particular person if they have been on site before and they have got on with them and they have done a good job they will come back and ask for that person, so obviously it helps if that person is still here" Co. W
Reactive	"Good employees create a personal relationship" Co. N
Informal	"They boost the relationship ten-fold in as much as that a loyal employee sees further than the pay packet. They actually care about the customer which ten-fold increases the service level that we can give to the customer" Co. V

Entrepreneurial SMEs cited more than non-entrepreneurial SMEs that loyal employees have quite an effect on customer relationships, as customers like not only to see the same people but also prefer these same people to regularly deal with their enquiries. The reason cited for this was that customers are aware that retained employees have good product knowledge and develop a rapport and knowledge about unique customer requirements.

Teamwork

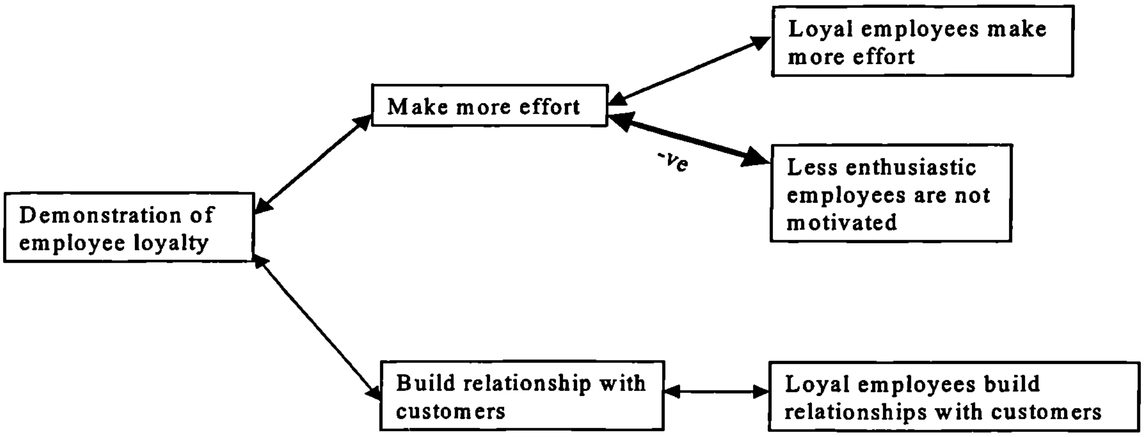
Proactive	"There would be a camaraderie amongst them. A lot of people would not be satisfied until they felt they had done their best" Co. S
Reactive	"Really it is a team player, we have taken a number of people on board in the company over the past 2 or 3 years and a lot of other people have left. There are people who perhaps don't really work or fit within our team as well as they could have done and that's why they tend to leave. However the people who do fit into the team are still here and doing very well" Co. J
Informal	"I think everyone is very open with each other in their activities there is not a sense of personal gain or each person tries to outdo the other. You really feel that there is a good support system for everyone" Co. B

There was common agreement amongst half the entrepreneurial and non-entrepreneurial SMEs that loyal employees work well and fit in with the teams. The reason cited for this behaviour was that loyal employees have a good rapport with their fellow co-workers and contribute to an environment of teamwork.

11.2.1 Profile of Loyal Employees Associated with Other Categories

Figure 11.2.1 shows how loyal employees demonstrate their loyalty through both making more effort and building relationships with customers and both these traits are shown to be present in the benefits of loyal employees. Additionally it was noticed that less enthusiastic employees are not motivated and therefore display the opposite traits of a loyal employee.

Figure 11.2.1 Factors Associated with the Profile of Loyal Employees



11.3 Benefits of loyal employees

The principle factor that entrepreneurial and non-entrepreneurial SMEs agreed upon as to the benefit of a loyal employee is in their belief that loyal employees make more effort (see Table 11.3). Entrepreneurial SMEs exhibited a greater tendency than non-entrepreneurial SMEs, to cite that loyal employees build relationships with the SMEs customers. A number of minor reasons were also cited as to the benefits of loyal employees these included both entrepreneurial and non-entrepreneurial SMEs referring to lower costs from not having to continually recruit employees. Finally two non-entrepreneurial SMEs stated that loyal employees help contribute to their growth.

Table 11.3 Benefits of Loyal Employees

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Make more effort	7	5	6	18
Build relationships with customers	5	3	3	11
Lower cost from having to recruit	2	1	0	3
Help contribute to SME growth	0	2	0	2

Make more effort

Proactive "If you see a loyal employee you see a better service, in all aspects of the business. Whether it be on the phone or quickly responding to a telephone call, a delivery, whatever." Co. G

Reactive "I think by doing a good job – wanting to do a good job - and pride in the job they do which is pride in the company, so that then the customer gets the good job which keeps him loyal" Co. F

Informal "I would say a loyal employee is a happy one so therefore if you are happy in your job, usually you do the best job possible. From my experience here I would say very much so, yes" Co. M

The majority (18) of the entrepreneurial and non-entrepreneurial SMEs have stated that they have learnt through experience that loyal employees are more professional and get it right first time because they are technically competent in their area, as well as being highly motivated and hard working. Through, ensuring that the appropriate efforts are made to resolve customer problems. Their superior quality service and working practices through their motivation, commitment and proactive nature demonstrates their concern about what they are producing for the end-user.

Build relationships with customers

Proactive "They tend to be the people who develop good relationships, and get on because they are doing it as much for themselves as they are for the company, and they see that as the route to career development. They are self-motivated" Co. S

Reactive "The relationship with customers means that we have generally long term relationships with customers that where there is a personal relationship then that can be understood" Co. R

Informal "Loyal employees have quite an effect on customer relationships" Co. M

Entrepreneurial SMEs have experienced to a greater degree than non-entrepreneurial SMEs that loyal employees' develop a personal contact with their customers. They cited that this has been achieved through interactive dialogues between the SMEs technical teams, designers, help desk service, etc and its customers. This close rapport between the employees and customers allows the employees to pre-empt any customer defections through quickly addressing any problems or queries the customers has.

Lower costs from having to continually recruit

Proactive	"Taking on new staff is very time consuming. Interviewing procedures, the unknown employee from hell and training. With the product we sell it would take, with the accounts software it would take somebody up to twelve months to learn that accounts software, so it is very expensive in terms of if we lose somebody we have to get them trained up again,............ so the biggest benefit of keeping them here is the cost of actually recruiting new people and also the opportunities that we would lose because we have to internally cover while we have long speed curves and pretty long sometimes as well" Co. K
Reactive	"The main benefit is that it is very hard for us to find good people of the calibre that we want and we spend a lot of time on recruitment. Our interview process lasts eight hours for one person because that is how we believe we find the best people who give the best service to our customers. So it takes a lot of effort and a lot of time for us to find a new employee and it is hard, they do not come along that often" Co. N

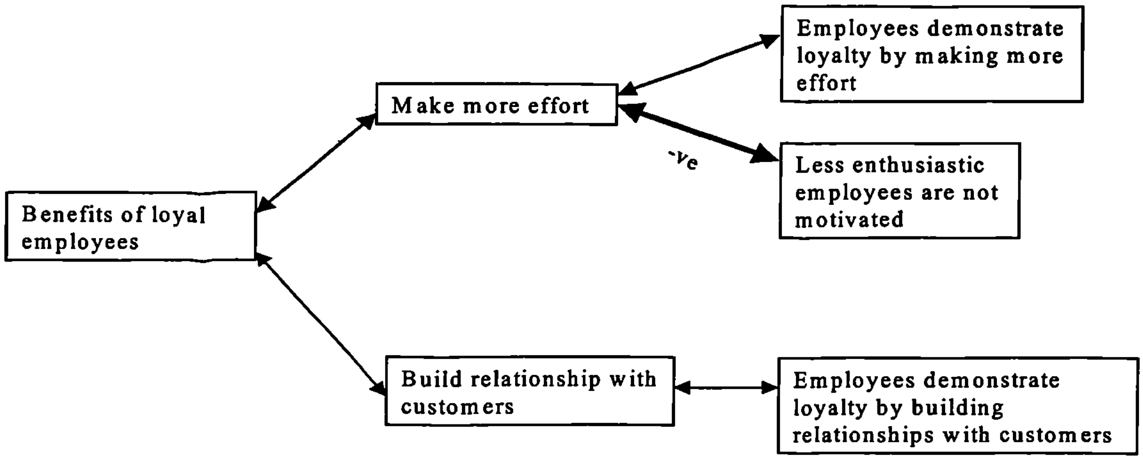
Two entrepreneurial and one non-entrepreneurial SME (see Table 11.3) cited that one of the advantages of maintaining employee loyalty is that it leads to a reduction in the cost of having to continually recruit. Since the SMEs have realised that previously they have to spend a considerable sum of money on recruiting and training new employees.

Finally two non-entrepreneurial SMEs (see Table 11.3) cited that loyal employees can be relied upon to deliver the SMEs promises to customers, which consequently contributes to SME growth.

11.3.1 Benefits of loyal employees Associated with other categorical themes

The main benefit of loyal employees is demonstrated in Fig. 11.3.1, which clearly shows that making more effort and building relationships with customers are key characteristics of loyal employees. It was also noticed that as a less enthusiastic employee is not motivated they therefore display the opposite traits of a loyal employee.

Figure 11.3.1 Factors associated with the benefits of loyal employees



11.4 <u>Profile of a less enthusiastic employees and their effects on the SME</u>

Entrepreneurial SMEs cited to a greater degree than non-entrepreneurial SMEs (see Table 11.4) that less enthusiastic employees are not as motivated as loyal employees. Additionally both entrepreneurial and non-entrepreneurial (Informal) SMEs share the opinion that less enthusiastic employees can have a bad effect on the moral of other employees. The minor citations revealed that two non-entrepreneurial (Informal) SMEs stated that less enthusiastic employees are also financially motivated and one non-entrepreneurial (Reactive) SME mentioned that these employees are usually in the wrong job.

Table 11.4 Profile of a less enthusiastic employee

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Not motivated	7	3	3	13
Less enthusiastic employees effect other employees	4	1	4	9
Financially motivated	0	0	2	2
Employee in wrong job	0	1	1	2

Not motivated

'roactive "Generally not very punctual, not much idea of what it is they are supposed to be doing, perhaps a little bit surly, they resent being given instructions, they resent being asked questions as to what they are doing and how it is going" Co. H

Reactive	"You can spot them I think. They have an air of discontentment. They do not really believe in some of the things that the company is doing" Co. N
Informal	"As in the terms of things like, he is probably going to keep very poor time-keeping, poor appearance, poor quality of work in the sense that there is no actual pride in the job" Co. D

Entrepreneurial SMEs mentioned that less enthusiastic employees do not have the same level of commitment and do not work as hard. Entrepreneurial and non-entrepreneurial SMEs were in agreement that less enthusiastic employees disregard punctuality and often generate a poor quality of work, poor appearance and not fully co-operating with the SMEs programmes. The comments that the entrepreneurial and non-entrepreneurial SMEs have cited reveal that the employees lack of motivation is caused by the employees being:

- In the wrong job
- In jobs with little promotional prospects
- Misrecruited
- Underpayed

Less enthusiastic employees effect other employees

Proactive	"If they are a very strong character, very forceful and disruptive, it can have a very bad effect indeed, because they have a way of negative persuasion if you like, where they can persuade people not to work hard, why should I do that. They see everything as being they are the victims" Co. H
Reactive	"They can have a bad effect. But they can be sometimes addressed. I mean if you can spot it, then you can have it all out with them" Co. N
Informal	"They have a horrendous effect on the whole company. They lower moral throughout the company. They can see no further than their wage packet and particularly because ...... they have an attitude of pile it high sort of attitude, which is in total contrast to our quality role that we are trying to take, so the whole effect is anti what we are trying to do" Co. V

Four entrepreneurial and five non-entrepreneurial (see Table 11.4) were in agreement that less enthusiastic employees are known to everyone in the SME as they have a negative effect on the moral of the company. The reason cited by the SMEs for this was that these employees have no pride in their work and negatively effect the people they work with especially if they have a strong character and their grievances are not addressed and allowed to create disharmony in the SME.

Financially orientated

Informal "My own version of a less enthusiastic employee is a 9 to 5 person who typically bangs out a product and is concerned only about his bonus" Co. V

Two non-entrepreneurial (Informal) SMEs described less enthusiastic employees as people who work from 9 to 5 and only interested in their bonuses (i.e. financially motivated).

Other quotes:

Non-entrepreneurial SMEs also mentioned that sometimes their employees find the job too hard or lose interest and discover that this is not the job they want. So both management and the employee often agree that they do not fit into the company and agree that it is in the best interest of both parties if the employee leaves.

11.4.1 Less Enthusiastic Employees Associated with other Categorical Themes

It is interesting to note that there is an extremely strong negative association (i.e. the word 'motivation' appeared in both categories but with an opposite sense of meaning) between loyal employees who are motivated and the less enthusiastic employees' who display a lack of motivation (see Fig. 11.4.1).

Figure 11.4.1 Factors associated with less enthusiastic employees

11.5 Major reasons for employees leaving the SME

Entrepreneurial SMEs attribute more than non-entrepreneurial SMEs that the main causes of employee departure is for both better career prospects and salary (see Table 11.5).

Table 11.5 Major Reasons for Employee Departure

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Better Career prospects	6	4	4	13
Salary	4	3	3	9

Better career prospects and Salary

Proactive "Employees have exit interviews and usually they defect for better pay or career progression is the most usual reason" Co. E

Reactive "It is usually to do with salary. People are finding they probably get an increase in status and therefore an increase in salary which we are not able to satisfy" Co. R

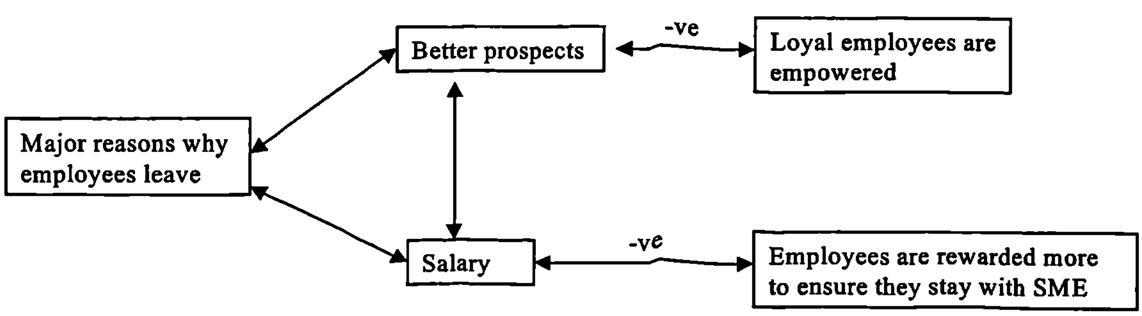
Informal "The majority of people, young ones, are going up the career ladder" Co. X

The two most frequently cited causes of employees leaving the entrepreneurial and non-entrepreneurial SMEs were 'better career prospects' and 'better salary'.

11.5.1 Employee Departure Associated with other Categorical Themes

There are some interesting associations between the rewarding of SME employees and reasons for employees leaving. The results show in Figure 11.5.1, that despite the efforts of entrepreneurial and non-entrepreneurial SMEs to both financially reward and empower their employees if their employees are offered more money and/or a better career prospect they may leave.

Figure 11.5.1 Factors associated with employee departure



11.6 Lessons learnt from employee defection

The main lesson that three entrepreneurial and two non-entrepreneurial SMEs proclaim to have learnt from employee departure is the need to improve their interview procedures (see Table 11.6).

Table 11.6 Lessons Learnt from Employee Defection

Category	Entrepreneurial	Non-Entrepreneurial		
	Proactive	Reactive	Informal	Total
Better interviewing procedure	3	1	1	5
Don't know / No Response	4	6	5	15

Better interviewing procedure

Proactive "To firm up or to have a better interviewing procedure. Typically it is because of non-performance and we have missed something, we have made some mistakes during the interview process on a couple of occasions and we have cleaned up our interviewing act. We spend more time making sure we recruit the right person which adds to the recruitment cost. We will actually have two interviews now instead of one. A much more stringent trial period, a three month review period of that particular employee, which obviously costs us a bit more" Co. K

Reactive "Basically for us, it starts at the beginning in that we get good people. We have a very rigorous recruitment policy. We do have methodologies and procedures and all that sort of thing, but fundamentally what we do is down to our people. So we try and get good people, we try and develop and grow them and train them" Co. N

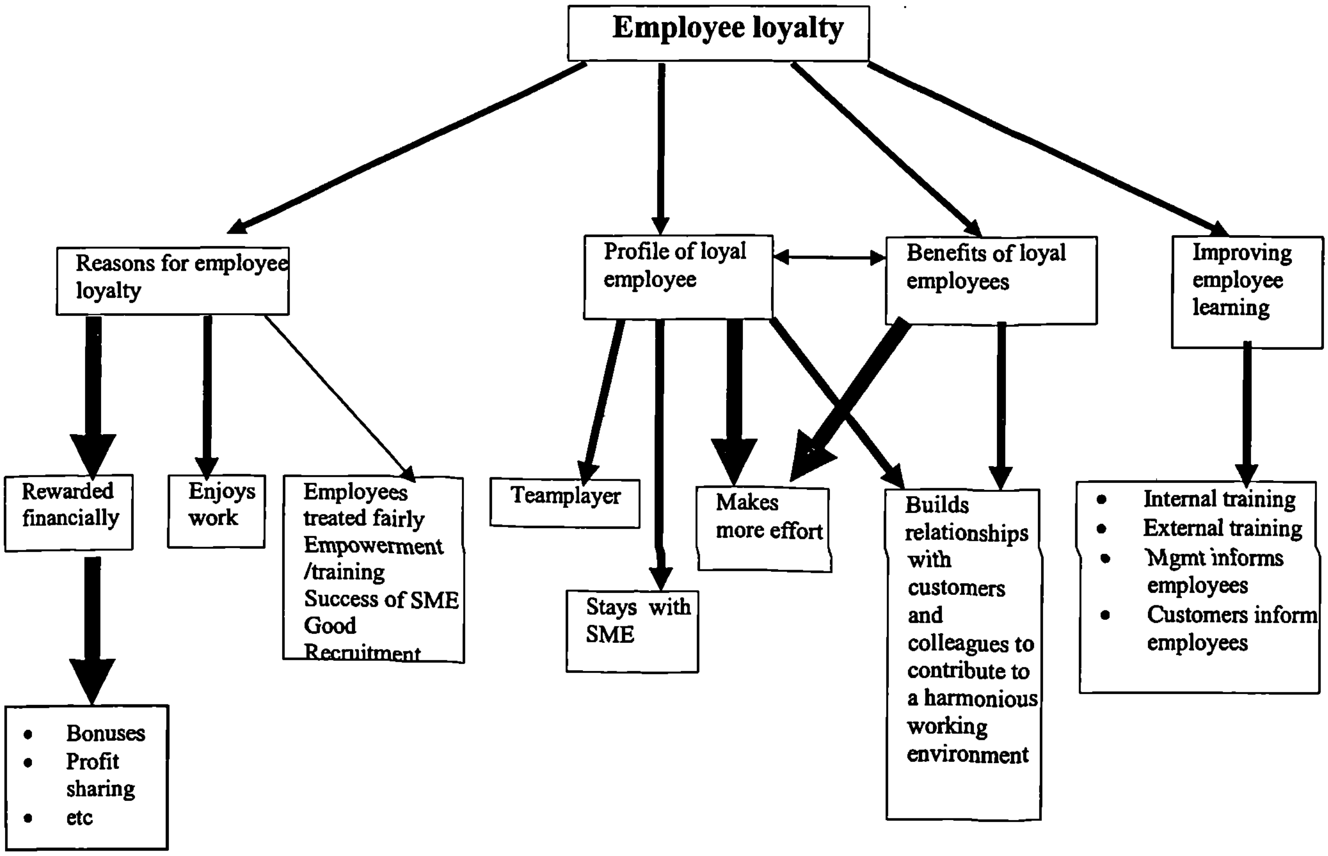
Informal "When we interview, we just took on a couple of new staff last year, and we take pains to try and find the right person for the job." Co. M

Three entrepreneurial and two non-entrepreneurial SMEs have realised that they need to introduce better interviewing procedures to ensure that they attract the right employees. These five SMEs have introduced a rigorous recruitment policy to ensure that potential employees are thoroughly vetted as to their suitability for the work culture, loyalty factor and potential contribution to the success of the SME.

11.7 Diagrammatic representation of all the constructs identified by the SMEs as contributing to employee loyalty

The author has constructed an holistic framework of the main factors influencing employee loyalty. The framework is by no means exhaustive but aims to inform the reader of key issues related to employee loyalty (see Fig. 11.7). The intensity of the lines highlights the strength of the relationship between the factors and the category.

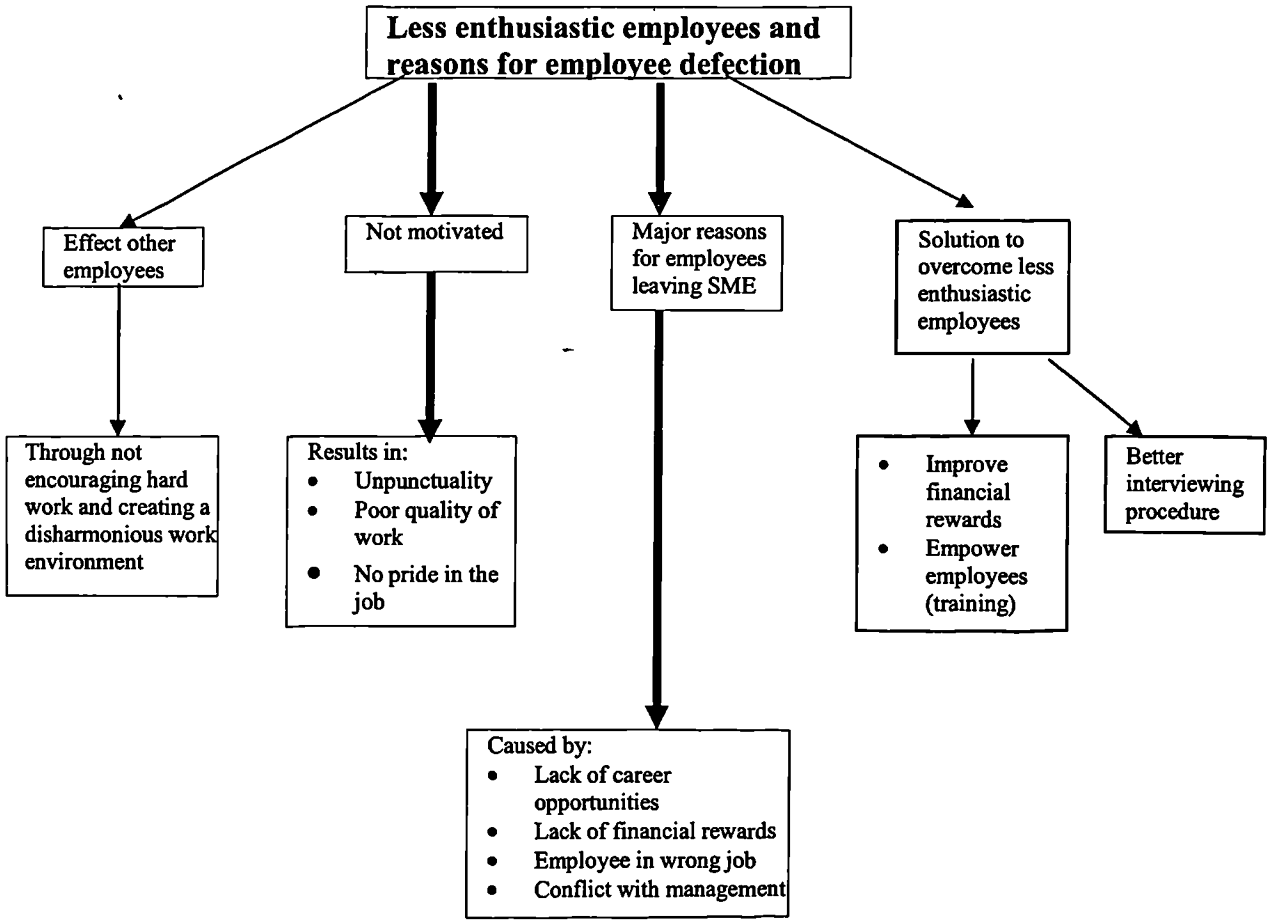
Figure 11.7 Holistic overview of factors influencing employee loyalty



11.8 Diagrammatic representation of all the constructs identified by the SMEs as factors leading to less enthusiastic employees and major reasons for employee defection

The author has constructed a holistic framework of the main factors influencing employee defection. The framework is by no means exhaustive but aims to inform the reader of key issues related to employee defection (see Fig. 11.8). The intensity of the lines highlights the strength of the relationship between the factors and the category.

Figure 11.8 Holistic overview of Less Enthusiastic Employees



11.9 Employee Qualitative Conclusions

The primary reasons contributing to employee loyalty include the obvious financial rewards and employees enjoying their work. The financial rewards defend the SME from employees defecting to competitors for financial motives. Since employees that are remunerated at or above the industry standard are less likely to be attracted by a similar or lower offer. Although, if employees were discontent with their working environment because of the culture or lack of opportunities they may then leave because of better prospects that may be gained from joining another company. The analysis further revealed that entrepreneurial and non-entrepreneurial SMEs that did not financially reward and offer career prospects for their employees witnessed many employees leaving to pursue their careers elsewhere. Hence, it is imperative that SMEs reward frontline employees with both financial and non-financial reward mechanisms. Since these reward mechanisms are inter-linked to sustain employee loyalty. Therefore, SMEs need to create an environment that is conducive to openness and teamwork where employees enjoy working so that they are motivated to become customer centric.

Many entrepreneurial and non-entrepreneurial SMEs have realised that to create employee loyalty, measures must be adopted that treat employees' fairly. This can be achieved through empowering employees with a degree of autonomy to carry out their work without the SME seeming too paternalistic, thus creating a sense of ownership of the work environment. This should result in the maintenance of a high calibre of quality service for customers as well as produce a positive influence for fellow colleagues to emulate. Thus leading to further employee job satisfaction and pride in their work environment and culminating in a more conducive and productive working environment. Although, the empowerment measures need to be constantly measured, to ensure that management are providing the correct training and support to permit employees to perform their duties and reach their potential.

Entrepreneurial and non-entrepreneurial SMEs noted that loyal employee's were not only motivated to do a good job but eager to do a good job because of their pride in their work. This is demonstrated through working long hours without necessarily for extra pay to ensure that they meet customer demands. This demonstrates that loyal employees show a considerable amount of concern for the welfare of the SMEs customer. Allowing both entrepreneurial and non-entrepreneurial SMEs to achieve success in retaining customers and generating a positive image of the SME. Loyal employees by the very nature of the term 'loyal' remain with the SME for a very long period of time. There are a multitude of benefits to arise from employee loyalty these include:

- Building relationships with customers to both become aware of and deal with customer concerns;
- Pre-empt customer defections through their personal contact and priority to developing solutions to help retain the customer, provided it is profitable to do so;
- Staying with the SME leading to lower costs for the SME from not having to continually recruit;
- Contributing to SME growth through both developing relationships with customers and formulating suggestions to meet customer needs;
- Influencing other colleagues to work harder through creating an a conducive, open and friendly environment in which to work in by working harder;
- Develop good product knowledge;
- Create a positive impression of the SME;
- Can be relied upon to deliver the SMEs promises.

Entrepreneurial and non-entrepreneurial SMEs have learned that loyal employees are usually more professional because of their competency, high degree of commitment and work ethics. Although, for this to materialise SMEs need to invest in the appropriate systems, processes, equipment and reward mechanisms to facilitate employee motivation in delivering a quality service.

The findings suggest that SMEs have realised that loyal employees are hard to come by. Therefore, retaining a loyal employee not only results in countless benefits but also saves the SME money on having to continuously advertise and go through the recruitment process for attracting a new employee. Loyal employees have quite a positive effect on customer relationships. For these employees not only have good product knowledge but also develop a personal contact with customers to become both aware of customer needs and respond to their concerns. The close rapport employees develop with customers helps pre-empt customer defection and their professionalism in answering and demonstrating sympathy in positively addressing customer concerns further endears customers to the SME, provided the SME continues to deliver value that is perceived competitive. Loyal employees project an invaluable impression of the service quality the SME provides and thus help contribute to the company's growth through their countless immeasurable actions.

The attraction and retention of less enthusiastic employees can have a disastrous effect on employee moral unless the SME tackles these employees initially. Since these employees take no pride in their work they may negatively impact upon the people with whom they work. Furthermore, these employees do not openly display the same level of commitment, work ethic and belief in what the SME is trying to achieve. Another trait of less enthusiastic employees is that they tend to be financially orientated and may often be in the wrong job. SMEs, therefore, need to address the grievances of these employees to ensure that they are not provided with the opportunity to create disharmony in the company. The main lesson to be learnt from these less enthusiastic employees is that it is imperative that SMEs introduce more rigorous interviewing procedures to ensure they attract the right calibre of employees, who will both contribute to SME growth and help develop a harmonious healthy working environment. A small company needs to attract the right people, who have a personality that will be friendly towards both customers and other members of staff. Additionally, the person must be very flexible given that speed is essential in a small company from every employee.

CHAPTER 12:

Discussion of Findings and Recommendations Proposed

12 Review

The author set out to test two hypotheses in this research project, both of which were confirmed. The implications of these findings have major implications for SME survival and prosperity. Therefore the author will now discuss the contributions of these findings in relation to his initial three objectives of the research project, which were to:

1. Advance our knowledge and understanding of relationship marketing and entrepreneurship.
2. Develop a framework for aiding SMEs to retain, develop and acquire customers.
3. Contribute to the relatively new field of Marketing/Entrepreneurship Interface

Starting with the first objective, the findings of this research project make several contributions to relationship marketing and entrepreneurship. The quantitative findings in Chapter 8 revealed that entrepreneurial SMEs were significantly different in both their relationship marketing and entrepreneurial orientation. The results confirmed the initial hypothesis, namely:

H_1: 'Entrepreneurial SMEs have a greater relationship marketing focus than non-entrepreneurial SMEs'

Further analysis of the quantitative results revealed that entrepreneurial SMEs had also significantly achieved greater growth (in terms of customers, assets and employees). These significant results led the author to further investigate, through qualitative research, relationship marketing and entrepreneurial behaviour in SMEs. The author will review each theme of relationship marketing where entrepreneurial SMEs exhibited either significant or a greater tendency to exhibit relationship marketing behaviour that was different from the non-entrepreneurial SMEs.

12.1 Contributions to Successful Relationship Marketing

This research confirms previous findings by supporting the claim that the key to an effective relationship marketing strategy is an efficient internal marketing programme that is one, which aims to foster total commitment amongst the employees to realising the 'service vision' theme. The *formulation* of a relationship marketing strategy will achieve a higher degree of success if its is successfully integrated with an internal marketing strategy, thereby, integrating the formulation and implementation of the strategy. Both the qualitative and quantitative results highlighted that loyal employees positively contribute to creating customer loyalty. Therefore, it can be concluded that employees play a vital role in increasing SME productivity, providing customer service, and challenging competitor offerings. Internal marketing requires SMEs to demonstrate tact and wisdom (after having invested their resources and commitment) to reform their internal environment to one in which the behavioural changes from the employees will result in the creation of an internal environment that is customer centric. Once SMEs commence the process of change they must acknowledge that it is a gradual process and one that requires commitment and investment from them if they are to achieve the anticipated rewards. The qualitative results revealed a number of areas as contributing to an internal environment that is customer centric. The author contributes to our understanding of improving an internal environment by highlighting three themes, created through evaluating the qualitative results, that SMEs need to concentrate upon (see Table 12.1a).

Table 12.1a: Improving the Internal Environment

1. Rewards	2. Training	3. Company Internal Policies
• Financial • Empowerment	• Training in areas of new skills, teamworking, Customer development; • Employees requests for training prioritised in terms of how much value they generate for the SME;	• Development of a system that captures data on the profile of loyal employees for recruitment purposes; • Rigorous recruitment programme to identify the right calibre of employee for the SME; • Exit interview carried out with all employees; • Boundaries of empowerment defined; • Information dissemination (newsletters, management inform); • Regular internal audits of employee concerns and contentment; • Organic culture created that promotes teamwork;

The results from the research reveal that appropriate reward mechanisms have resulted in the maintenance of a high calibre of value added quality service for customers and the creation of a more conducive and productive working environment. The quantitative findings revealed that there was a significant difference in the reward mechanisms offered by entrepreneurial and non-entrepreneurial SMEs and this is corroborated by the qualitative findings. These results revealed that entrepreneurial SMEs not only empower their employees but also financially reward them to ensure that employees are active in contributing to the success of the company.

The empowering of employees is imperative for the continual prosperity and growth of an SME, as it unleashes both the enthusiasm and the intellectual capital of employees for the creation of innovative products, services, structures and systems. This liberation of employees will allow SMEs greater flexibility, although before empowering some or all of the employees, the SME must ensure that the employees want to be empowered.

Furthermore, true empowerment is required so that the employees have the authority to resolve problems and make decisions. This can only come about from management commitment to employee development and learning. Additionally SMEs will also need to invest in the appropriate systems, processes, equipment as well as reward mechanisms to facilitate employee motivation in delivering a quality service. Although, the advocation of empowerment does not release management from giving leadership, since that is a fundamental prerequisite to directing the vision of the SME to achieving success in its environment. Consequently, the author advocates that management needs to initially develop programmes that relinquish authority to a cadre of employees (frontline) and monitor their performance in creating a more harmonious and productive internal environment and one that is aligned to customer preferences. The evidence, from this research, suggests that empowerment contributes to retaining the best employees in the SME and thus reduces any further unnecessary costs directed towards habitual recruitment and this releases resources to be better utilised elsewhere in the company.

A small company needs to attract the right people namely, those who have a personality that will be friendly both with customers and with other members of staff additionally they need to be very flexible, as speed is essential in a small company. To achieve this SMEs need to ensure that they are recruiting the right type of new employees who fit into the current team culture. These recruitment efforts will allow the SME to build on the synergistic efforts of their current employees and thus providing a consistent customer service orientation. The qualitative results reveal that SMEs are now introducing rigorous recruitment measures to ensure they employ the right calibre of candidates for the post.

While evidence suggests that motivated employees will stay with an SME longer and contribute to its success, this is not always the case as the motivated employee may still leave because of other external factors. It should be realised that despite the best intention of an SME, and its policies, there are always other factors that will be considered by employees and which influence their final decision as to whether to stay with a company. Such issues might be addressed, in part, by the development of remote working for some *employees.* The advent of advanced and powerful networks such as the Internet, improvements in the capabilities of PCs, telecommunication facilities, etc releases SMEs from having to recruit from a particular geographic locality or require its employees to go to the office everyday. Hence, an SME should ask itself does it really require that the employee is on site every day and if not, can more value be generated by a committed and loyal employee through remote working. Although, remote working requires that the SME invest in employee development and training and select those employees who can work independently in a virtual environment with other co-workers on agreed project objectives within specified time parameters.

The quantitative results have revealed that exit interviews can provide vital information for SMEs to determine those areas of their company that need improvement (i.e. the level of service/productivity/efficiency/etc) as well as identifying factors that would influence employee contentment and loyalty. The author advocates that SMEs conduct exit interviews with their employees to allow the SME the opportunity to maintain company knowledge through capturing the employee's experience and knowledge in an exit interview. This would allow a new employee to review previous practices and the reason behind those actions so that former experience and knowledge is available to other employees after the departure of an employee. Through embracing the tenets of internal marketing SMEs can develop a repository of synergistic knowledge that contributes to providing value added service excellence to targeted customers. The research findings have revealed that entrepreneurial SMEs have realised the potential of the intellectual capital of their human resources and this is likely to be a major commodity for future SME growth and market security. It is the author's belief that most people, under certain conditions, will exhibit or be attracted to degrees of behaviour that is entrepreneurial. Thus, ceteris paribus, SMEs can attain a sustainable advantage over their competitor by capitalising on their inherent intellectual capital. Based on the qualitative findings the author has identified a number of benefits to arise from such resident intellectual capital and has categorised them in Table 12.1b.

Table 12.1b: Benefits of Employee Loyalty

Positive promotion of SME	Cost Savings generated	Opportunities generated
• Build relationships with customers; • Resolve customer concerns; • Promote a positively image of the SME; • Can be relied upon to deliver the SMEs promises;	• Pre-empt customer defection through personal contact developed and solutions delivered; • Employee loyalty to company (lower recruitment and training costs); • Create a positive environment to work in, that influences others; • Increased productivity	• Employees offer suggestions; • In-depth product knowledge not only saves the SME money but provides the opportunity to leverage more business;

12.1.1 <u>Measurement of Employees</u>

While several measures currently exist to determine the productivity levels of employees. The author argues that SMEs should develop new systems that capture real time data on employee contributions to customer development and ultimately SME growth. Hence, the author has developed a new set of measures, whereby the ratio of innovative idea generation is compared with the ideas accepted. The ratio is based on:

1. How many new ideas an employee has generated (see Fig 12.1.1a);
2. How many of those new ideas have proved commercially viable (see Fig 12.1.1b);

Fig. 12.1.1a Ratio of accepted ideas

$$\text{Ratio of Ideas to acceptance of ideas} = \frac{\sum \text{Individual Employee's Ideas}}{\dfrac{100}{\sum \text{Individual Employee Ideas}} \ * \text{Accepted}}$$

Fig. 12.1.1b Employee Innovativeness

$$\text{Ratio of employee innovativeness} = \frac{\sum \text{Individuals Accepted Ideas} \ * 100}{\text{Total Ideas generated in SME}}$$

The ratio in Fig 12.1.1a indicates how many ideas an employee has contributed and the number that were accepted for implementation. The information from this ratio can also be used to identify those employees that contribute the most accepted ideas (see Fig. 12.1.1b). The author advocates that this information can be used by SME to create teams, in which the less innovative employees can learn from the creative thought processes of employees who exhibit greater innovativeness. This would allow the SME to create an internal environment that is much more creative, and customer centric, and thus ultimately will contribute to the continued financial prosperity and growth of the SME. Providing that the SMEs have also developed remuneration packages that reward employees, through both financial and non-financial mechanisms that seek to maintain their motivation and commitment to the company and customer(s).

12.1.2 Customer Defection Management

Customer attrition is one of the clearest signs that customers see a diminishing value of level of service from an SME. It can have a tremendous detrimental influence on the profitability, growth and future viability of an SME. The quantitative findings revealed that there was a significant difference in the customer defection rates of entrepreneurial SMEs. Whereby, entrepreneurial SMEs lost anywhere between 2-30% fewer customers than their counterparts. Hence, it can be concluded that compared to non-entrepreneurial SMEs, entrepreneurial SMEs have adopted measures that are superior at retaining their customers. The results from this research reveal that one of the main significant differences between the entrepreneurial and non-entrepreneurial SMEs was in their relationship marketing focus. Entrepreneurial SMEs have taken advantage of developing closer personal contact with their existing clientele both to reduce their attrition rates and target specific existing customers to leverage more business.

The qualitative findings revealed that the principal contributor to customer defection has been the attraction of competitor prices. Entrepreneurial and non-entrepreneurial SMEs cannot afford to be complacent in terms of competitive pricing. For the consequences, especially with those customers with whom a relationship has not yet been developed, is that they become susceptible to competitor advances. Hence, in terms of remaining competitive on pricing many entrepreneurial and non-entrepreneurial SMEs are now educating their customers on their pricing structures, this enables customers to appreciate where costs are being incurred and helps them to understand that this is the most cost-effective approach for themselves. Furthermore, the pricing element has affected non-entrepreneurial SMEs to a greater extent than entrepreneurial SMEs, and it is clear that the entrepreneurial SMEs have shielded themselves more prudently from competitor pricing through investing in social and structural investment. This has created value added services that are delivered by the SMEs committed and customer centric employees, who in turn are supported by the necessary tools, systems, process and training to deliver the services.

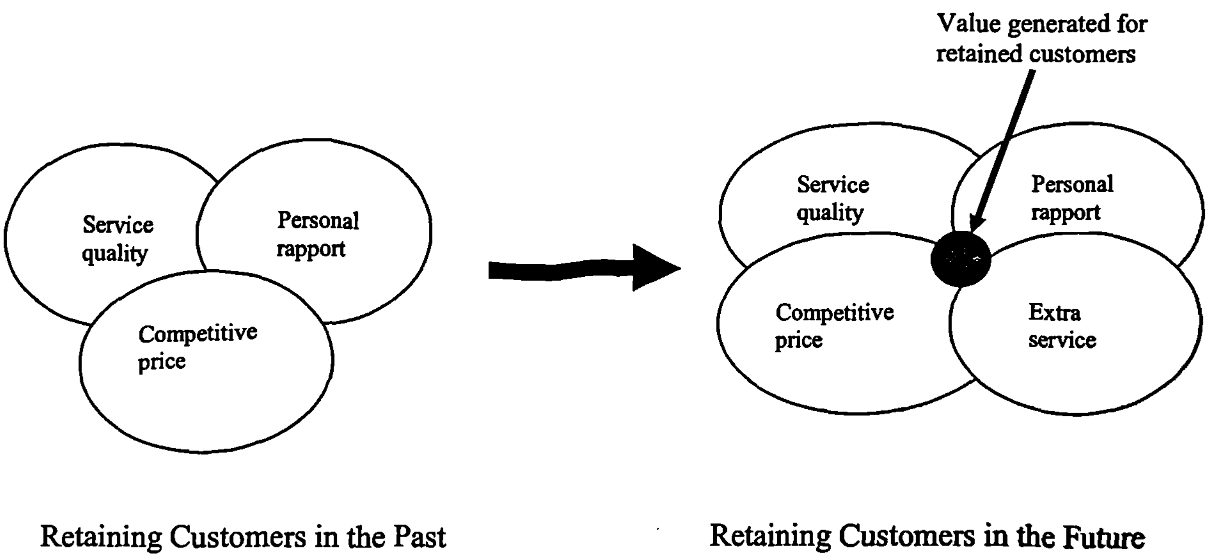
12.1.3 Retaining Customers

There is overwhelming qualitative evidence that the main benefits of retaining customers is that it allows the SME an opportunity to develop personal relationships with their customers. The quantitative findings further confirm that entrepreneurial SMEs are significantly more aware of their customer needs so allowing them to be aware of their requirements. There is strong evidence from this research to suggest that those SMEs who invest in concerted efforts to retain and develop targeted customers, are able to reap tremendous benefits. The findings from both the qualitative and quantitative techniques confirm that entrepreneurial SMEs have achieved significant improvements in developing business opportunities from their close relationships with retained customers.

The author commenced this research project with the aim of developing a customer, retention and development framework that would minimise the rate of failure within early start-up SMEs, particularly those who desired to grow their business. The research findings have revealed that SMEs were in agreement over the 'Pareto Rule' as being applicable to their customer base, this is a situation whereby twenty percent of a company's customer base reputedly generates eighty percent of the turnover for the company. Consequently, the opportunity to leverage more sales from the SMEs existing customers offers enormous potential for the SMEs to achieve further growth without having to compromise the resources of the company. Especially, since the qualitative findings highlighted that entrepreneurial SMEs were able to leverage more business from retained customers. Hence, the pursuit of a customer retention and development strategy and a measured approach to targeted customer acquisitions based on the SMEs competencies and market opportunities is being proposed. This strategy is ideal for SMEs because of the many challenges that they face in allocating their finite resources in order to meet the diverse demands of their customers. Although, the author acknowledges that because SMEs may never leverage more business from certain customers, or permanently retain them, both a transactional and relationship marketing approach can and often does exist within a company. The challenge for SMEs is to identify how a portfolio of marketing approaches (Transactional and Relationship) should be actively managed in the context of the SME's strategy.

- Upon identifying which customers to retain, entrepreneurial and non-entrepreneurial SMEs have then gone on to develop measures such as delivering consistent service; adding value to the service; offering extra service and offering preferential pricing to ensure they maintain customer patronage (see Fig. 12.1.3).

Figure 12.1.3: Relational investment of SMEs to retaining and developing customers:



The measures highlighted in Figure 12.1.3 on their own are insufficient to retain and deliver added value service to customers. The qualitative findings revealed that SMEs are investing in structural, technological and social bonds to safeguard the SMEs customers from competitor advances. The 'social' bonds (i.e. a personal and amicable rapport) create an immense opportunity for the SME to develop a close personal contact with their customers. Providing an opportunity for the SME to leverage propriety knowledge that can be used to allow the SME to gain an advantage of the future requirements of the customer. The structural investment in systems, processes, technology, people, training, etc, allow the SME to become an integral part of the customer's operations. Additionally, these social and structural bonds act as a powerful inhibitor to the customer switching to another supplier because of the time and effort that would be required to inform the new supplier of the specific requirements of the customer. These bonds also result in a lowering of tension between both parties when problems occur, since an established personal contact enables immediate communication to resolve matters.

12.1.4 Value Added Service

In today's highly service orientated society, many SMEs have realised that they need to define their roles in terms of customer service and support since service is a key component of value. By generating value the SME is creating a branded identity of its products/services from which they can create a distinction from others and consequently charge a price premium (if the customers perceive the charges as acceptable for the service level and confidence in the supplier). The qualitative results revealed that entrepreneurial and non-entrepreneurial SMEs offer extra service to add value to the customer relationship and thus strengthen the bond between the customer and the SME. Extra service may include both internal and external activities (see Table 12.1.4)

Table 12.1.4 Internal and External Extra Services

Internal activities	External activities
• Focus and investment in improving the internal environment to ensure employees are more customer focused;	• Extra visits from technical teams to customer premises;
• Commitment from employees through gaining their participation often through financial and non-financial rewards;	• Setting up delivery operations close to the customer;
• Creating a culture that is genuinely concerned about the customers welfare (especially if they are a loyal and profitable customer);	
• Re-alignment of processes, structures, communication channels, etc that are focused to capturing and meeting the unique requirements of loyal and profitable customers to both add value to the relationship and generate further profitability and growth for the company;	
• Offering additional training;	
• Offering a rapid service;	
• Reliably delivering the service;	• Reliably delivering the service;

Entrepreneurial SMEs are able to maintain their service focus and deliver added value due to their significantly greater awareness of customer needs, and, through a committed, empowered and motivated workforce that maintains customer centricity and delivers a consistent service. The qualitative findings revealed that consistent service is maintained by the entrepreneurial SMEs through their investment in internal quality procedures and systems that allow employees to deal with customer problems as well as the maintaining of a consistent level of service.

12.1.5 Personal Communication

The genesis of relationship marketing is personal attention, developing a personal contact with a customer so that they are treated as an individual rather than as a mass-market commodity customer. The qualitative results revealed that personal contact and direct mail are both popular with entrepreneurial and non-entrepreneurial SMEs. There are a number of measures that entrepreneurial and non-entrepreneurial SMEs have adopted to facilitate the development of a close personal contact with customers, these include:

- Contact them regularly through various mediums;
- Invite customers to training courses;
- Visit customers regularly;
- Take customers out on social events;

There are many communication mediums open to SMEs to develop an interactive and open dialogue with their customers. For example the virtual domain has opened up new possibilities in real time communication and one in which SMEs need to invest in order to maintain their continued commitment to offering customer valued services. The quantitative results revealed that there was a significant difference between the entrepreneurial and non-entrepreneurial SMEs in their reasons for communicating with their respective customers. The findings revealed that entrepreneurial SMEs communicated with their customers particularly to determine their needs and to ask for referrals, these SMEs also showed a greater preference for relying on the personal contact with existing customers' to determine their future value. Finally, all communication mediums need to be assessed in terms of value they generate, quality of information that they capture, type of customers they attract and customer involvement required.

12.1.6 Assessing Customer Loyalty

It has been argued in the literature that the measurement of customer loyalty could be placed on a continuum ranging from eclectic to loyal. The author opposes this linear approach, since customers do not behave in a linear manner. The second problem with placing customers on a loyalty continuum is first identifying what do we mean by loyalty, hence objective measures need to be established to identify the behaviour of loyal and profitable customers. The qualitative transcripts revealed that entrepreneurial SMEs not only measure the period of time an account has been with them but also how much that account has contributed to their profitability. They believe this provides the most accurate indicator of the true value and loyalty of a customer. Further to these findings, the quantitative results revealed that entrepreneurial SMEs not only segment their customers but also pursue a different strategy for each customer segment. Based on these empirical findings the author has developed a framework to allow SMEs to assess and track the loyalty of their customers' (see Table 12.1.6).

Table 12.1.6: Loyalty Assessment Grid

	Frequency of Activity (this year)			
Activity Previous Year	Very Regular (every week)	Regular (monthly)	Infrequent (yearly)	Ad hoc
Loyal Customer (large order)	X			
Regular Loyalty (smaller order)		X		
Spurious Loyalty			X	
Infrequent purchases			X	
Ad hoc (one time)				X
NB: The more a customer moves to the left of the grid the more loyal their patronage. The time period for assessing the loyalty of a customer can be days, months, years, etc.				

If a customer purchases very regularly and they contribute both financially and in terms of value added services they can be deemed loyal. Although, the grouping of customers into a category called 'loyal customer' is misleading since there will be heterogeneity amongst the homogeneous sample. Therefore, SMEs need to assess the individual contribution of each loyal customer and consequently allocate appropriate resources to maintain their continued loyal patronage. This loyalty assessment grid (see Table 12.1.6) allows SMEs to determine at any one time how loyal a customer is and whether that customer is continuing to maintain their loyalty or is showing signs that they are dissatisfied with the level of service the SME is providing. This framework will allow SMEs to:

- Assess customer defection;
- Assess other factors influencing each quadrant e.g. competitor activity in that area.
- Combine qualitative data to determine a more holistic view of customer views.
- Assess customers that need immediate attention.

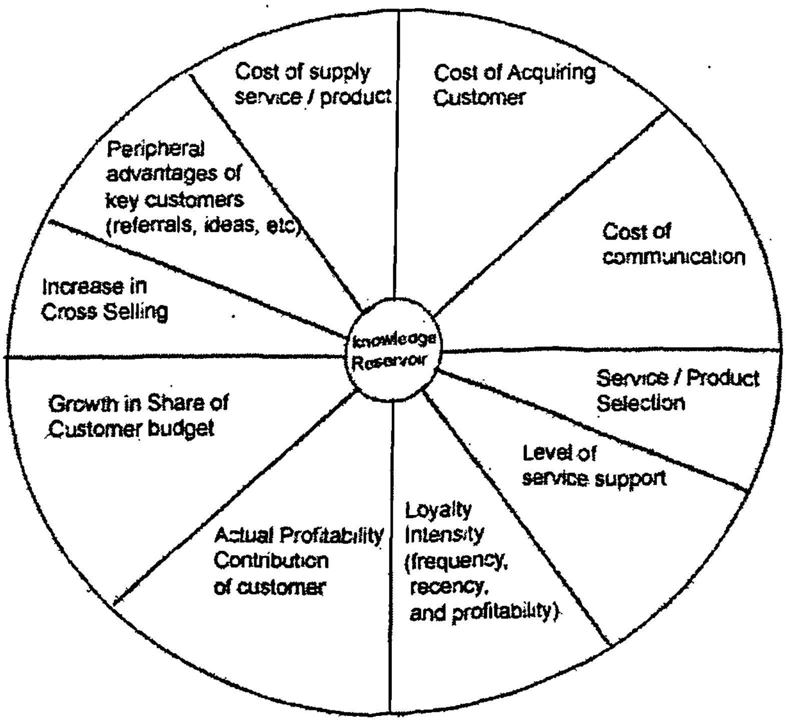
Upon determining where the customers are currently positioned on the loyalty grid the SME can then develop appropriate marketing strategies to ensure that customers remain loyal and for those less frequent customers develop strategies to help ensure they move to more frequent customers. It is recommended that SMEs assess the quantitative data generated from the grid (see Table 12.1.6) in conjunction with qualitative data. So that the SME has a whole picture of a customer's behaviour and their true loyalty.

The loyalty assessment grid (see Table 12.1.6) is just one tool that will allow SMEs to evaluate their customer loyalty. Other disciplines such as accountancy also need to re-evaluate their current static measures that often do not truly reflect the true value of customers and the intellectual capital of employees. Therefore, the author advocates that SMEs develop new internal measures to truly reflect the value of their assets so that strategies can be developed to take advantage of their resources. The author supports the research carried out by Strauss and Frost (2001, p.294) and also proposes that all SMEs need to measure their customer value in term of:

- Life time value of a customer (using net present value);
- Average order value (Sales/order size) – figure should rise to indicate loyalty of a customer;
- RCM analysis (recency, frequency, monetary) – to identify high value customers;
- Average annual sales growth for repeat customers over time;
- New customer acquisition cost;
- Current customer retention cost;
- Profits generated from current retained customers;
- Share of customer spending (pareto analysis);
- Percentage of customers who repeat purchase;
- Rate of customer recovery (i.e. who return after defecting)
- Referral revenue;
- Price premium (saving created by not having to offer price discounts).
- Operational synergy of customer

If SMEs were to develop these new measures they would have a clearer indication of which customer segments had proven and are likely to prove to be most profitable. Therefore, they would able to target their marketing campaigns towards a much more focused select group of customers who would meet the profile of their existing profitable customers. The author has constructed a 360° view of the type of information that Information databases should be generating to allow SMEs to gain a comprehensive appreciation of the value of their customers (see Figure 12.1.6). These quantitative metrics need to be assessed alongside qualitative information on the customer.

Figure 12.1.6 Customer Loyalty and Profitability Metrics



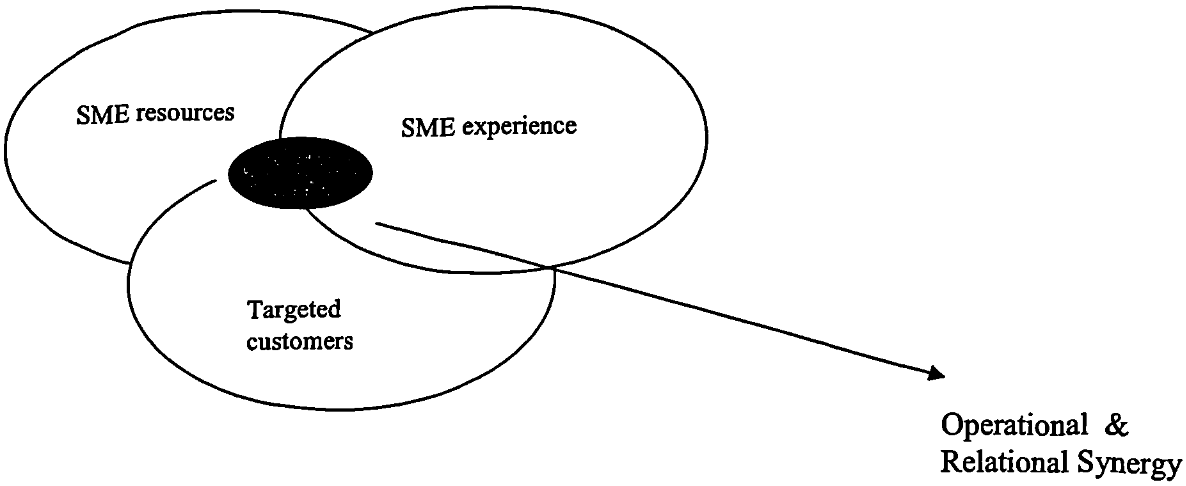
12.1.7 Acquiring New Customers

This research has identified that entrepreneurial and non-entrepreneurial SMEs are still devoting their finite resources to attracting new customers and hold the traditional perception that growth is measured in terms of market share and not 'share of the customer'. This imbalanced focus on new customers as a mode of aiding the SME to achieve growth both financially and in terms of market share is a vintage of traditional marketing theory. What is required is for the entrepreneurial and non-entrepreneurial SMEs to implement a sustainable low risk competitive strategy of growth. This can be achieved, as the results from this research demonstrate through retaining, developing and once resources permit acquiring targeted customers that fit into the SMEs customer community.

The strategies to attract new customers must be carefully planned in terms of marketing campaigns to target the appropriate profile of customers. The quantitative results revealed that the costs of acquiring a new customer for entrepreneurial SMEs were significantly different from their counterparts in that entrepreneurial SMEs avoided using discount pricing as a promotional strategy to gain new customers. This was corroborated by the qualitative transcripts, which highlighted that not offering a lower price, to attract a customer, permitted the entrepreneurial SMEs to avoid acquiring eclectic customers. It should be noted that while price was not used by entrepreneurial SMEs to attract a customer, it was employed with existing customers that generated large volumes of business through differential pricing.

Due to the very nature of entrepreneurial and non-entrepreneurial SMEs and the limited resources they possess, it is quite evident that entrepreneurial and non-entrepreneurial SMEs need to effectively target their customer acquisition campaigns. This ensures that maximum utility is achieved from both the resources available and the campaigns selected to raise awareness of the SME and encourage the customer to take action from the message conveyed. The qualitative findings reveal that entrepreneurial SMEs agree to a greater extent than non-entrepreneurial SMEs that targeting new customers of a similar profile, to that of existing profitable customers, is an excellent technique to allow the company to achieve growth. Since similar customers permits the entrepreneurial SME to focus on customers that create 'operational and relational synergy' (see Fig. 12.1.7) in that the company already has systems, processes and the experience to meet the requirements of these customers.

Figure 12.1.7: Operational and Relational Synergy of Targeted Customers



The qualitative transcripts revealed that entrepreneurial and non-entrepreneurial SMEs acknowledge that the maintenance of a close relationship with targeted customers' results in numerous benefits. The author has tabulated (see Table 12.1.7a) these benefits into three themes.

Table 12.1.7a: Benefits of close relationships with customers

1. Opportunities realised	2. Customer relationships Developed	3. Awareness of customer
• Inform customers of new products/services • Determine a customers future value; • Leverage more information about a customers future plans; • Leverage more business (sales); • Customers; • Customers are used as a source of reference; • Improved utilisation of advertising expenditure; • Attract profitable customers the SME wants.	• Relationship is reinforced; • The rapport is personalised; • Customer Referrals generated; • Customer patronage is maintained; • Competitor advances are combated;	• Determine customer concerns; • Determine level of customer contentment with SME; • Determine unique requirements of customer; • Determine a customers perception of a product/service; • Determine profitable customers; • Develop a profile of customers that have inferior financial contributions to the SME;

The research has identified that various sources of information were utilised by entrepreneurial and non-entrepreneurial SMEs to evaluate the potential of targeted customers. The author has separated these into three key areas (see Table 12.1.7b).

Table 12.1.7b: Sources of information to evaluate targeted customers

1. Macro Analysis	2. Existing customer profile	3. Market Analysis
• Contemporary issues of concern to customers (PEST, environment) • Trends in the marketplace	• Profile existing customers • Subsidiaries of existing customers • Referrals from existing customers	• Customers in the marketplace that could benefit from the SMEs products/services • Customers that are growing in the market place

SMEs need to take advantage of technology through using improved databases and progressively optimised predictive models, to highlight the profile of customers that the SME should focus on attracting.

12.1.8 Definition of Relationship Marketing

From the literature review several definitions of the relationship marketing concept were identified. Since the concept of relationship marketing still lacks clarity and a universal acceptance. The author proposes the following definition that is appropriate for SMEs operating in the service industry:

"Relationship marketing permits a company to align its investments in processes, systems, structure, technology, people, etc. So that the company can facilitate a dialogue (personal or virtual) with targeted customers for whom the company can deliver valued products/services to maintain and develop their patronage, so long as it is mutually beneficial (financial or non-financial)."

The definition implies that an entrepreneurial nature by both the employees and company directors would be required to assess the opportunities from the information leveraged from the customers. For as Sun Tze advocates "Knowledge precedes Victory", therefore deriving value from a close rapport is paramount to taking advantage of the dynamics of a marketplace (or marketspace). So that the company can identify information asymmetries that will allow them to create innovative products/services that are valued by customers. This research has identified that it is the entrepreneurial SMEs that have developed the processes/systems/structures/people/etc to ensure that the SME gauges a full impression of the relationship. So that they can identify opportunities that will that will enhance their product/service value, for specific targeted customers who generate continued profitable revenue streams for the company.

12.2 Entrepreneurial Orientation

This research has highlighted throughout this thesis that entrepreneurial SMEs have a significantly greater relationship marketing focus. The actual behavioural differences of entrepreneurial and non-entrepreneurial SMEs revealed that entrepreneurial SMEs were significantly more innovative and adventurous. In terms of other entrepreneurial measures, the quantitative results revealed that entrepreneurial and non-entrepreneurial (Reactive) SMEs had **significantly** been more focused on Schumpeterian factors in the last year and have shown that they will continue to focus on these factors in the future. The findings in this research reveal that what actually differentiates the entrepreneurial SMEs from the non-entrepreneurial SMEs is that they have pursued proactive planning schemes, have a significantly greater relationship marketing orientation and develop employee programmes that help contribute to an environment that is more entrepreneurially customer orientated in order to facilitate their continued steady growth.

A post-research literature review of the proceeding of the marketing/entrepreneurial Interface conference revealed overwhelming support that entrepreneurial SMEs have a major behavioural competency in marketing (see Chapter 5, Table 5.6.1), especially relationship marketing. Based on the triangulated research findings the author argues that entrepreneurial SMEs proactively develop cohesive personal contacts with their customers and other stakeholders so that they can challenge conventions to continually identify opportunities to create superior valued products/services for their targeted customer base. While non-entrepreneurial SMEs have managed to introduce very good management practices that have glazed over the creativity in the company. Therefore, the findings of this research project are highly valuable to non-entrepreneurial SMEs in assisting them to adopt the best practices to achieve growth with minimal risk.

12.2.1 Defining an Entrepreneur

The literature on entrepreneurship is inundated with various definitions, each which can be viewed as a construct to interpret entrepreneurship. This research similarly proposes a construct that is appropriate to this research project while additionally assisting fellow researchers to view entrepreneurship:

"An entrepreneur circumvents market conditions by acting as a catalyst between the dynamics in the market environment (internal and external) and its customers through taking advantage of information asymmetries that permit them to identify opportunities so that they can align their resources to meet the perceived needs of current and potentially new customer(s)."

12.3 Company Structures

The findings from this research indicate that entrepreneurial SMEs have adopted appropriate organisational structures to facilitate relational development between current and potentially loyal and profitable customers.

12.4 Framework for retaining, developing and acquiring customers through the development of value.

The second objective of this research project was to develop a framework that would allow SMEs to achieve growth through pursuing a customer, retention, development and targeted acquisition programme. The author has constructed a sequentially visual framework (see Figure 12.4) based on the triangulated relationship marketing and entrepreneurial findings. Table 12.4a presents both the quantitative and qualitative corroborated results the sections for the qualitative findings highlight the sections where the author discovered numerous associations between the various relationship marketing themes, thus further supporting the construction of the research framework (see Figure. 12.4). The empirical findings confirm many of the previous associations between relationship marketing themes (see Chapter 3, section 3.14). The framework reveals the salient themes that contribute to the programme of customer retention, development and targeted acquisition. What drives this framework is not profit but the continuous creation of value for the customer.

Table 12.4a Corroborating Research Findings

	Quantitative Findings	Corroborating Qualitative Findings (see Sections)
Employees and Rewards	Entrepreneurial SMEs reward both financially and non-financially	11.1.2
Internal Environment	New employees trained	9.3.1.1
Benefits of loyal employees	Employee retention leads to higher productivity	11.2.1 11.3.1
Retaining Customers	Improved business opportunity	9.1.1 10.8.1 10.9.1
Awareness of Customer	Entrepreneurial SMEs significantly more aware of customer requirements	10.1.1 10.2.1
Targeting new Customers	Entrepreneurial SMEs track and analyse customer defections	9.2.2.1 9.2.5.1 10.5.1
Benefits of Communicating	To solicit other business	9.2.2.1 9.2.4.1
Benefits of customer loyalty	Increased profitability	9.4.3.1
Increasing customer loyalty	Offer Extra Service	9.4.3.1 9.4.4.1 11.2.1
Analysing customers that defect	Exit interview carried out with customers	9.5.2.1

The findings from both the literature review and empirical results corroborate that employees play a vital role in contributing to customer loyalty. Therefore, the starting point of the framework is to encourage SMEs to invest internally in the development and recruitment of the right calibre of employees. Recruiting requires SMEs to develop robust and rigorous recruitment policies to ensure they attract employees that will not only bring the skills the SME requires but that these new employees will complement the SMEs existing team ethos and positively promote relationships within the work environment. To leverage the potential from these employees they need to be supported with appropriate systems and processes to allow the employees to deliver a valued service. The findings of this research reveal that empowered and trained employees who are rewarded with the appropriate financial remuneration's will be more motivated to provide a more highly productive service and develop a personal contact with customers' to maintain awareness of their requirements. The personal contact provides an opportunity for the SME to offer bespoke products/services for certain loyal and profitable customers. So that they will continue to remain loyal and profitable to the SME, so long as value is derived from the relationship for both parties. The retention of loyal customers has numerous benefits that the SME can realise and these financial advantages can then be taken advantage of, to not only re-invest in customer valued services but also allow the SME to build a profile loyal and profitable customers. This repository of knowledge on loyal and profitable customers can be used to leverage maximum utility of the SMEs marketing resources. The financial benefits of retaining loyal and profitable customers needs to be channelled back into targeted marketing campaigns that attract the right calibre of customers, developing innovative products / services (to maintain the SMEs competitive edge by constantly improving their product/service offering and superior value offer to their customers) and investing internally (employee training, rewards, systems, processes/etc) to ensure that employees are fully committed and motivated to continue to contribute to customer service delivery which ultimately influences the prosperity of the SME. The framework was constructed based on the findings of this research project and can be considered to be influenced by what the author proposes are five main areas, namely: Entrepreneurial Direction, internal systems/ process, employee commitment, customer focus (strategic positioning) and Market Terrain Assessment (see Table 12.4b).

Figure 12.4 : Virtuous Value Added Customer Retention, Development and Targeted Acquisition strategy for Growth

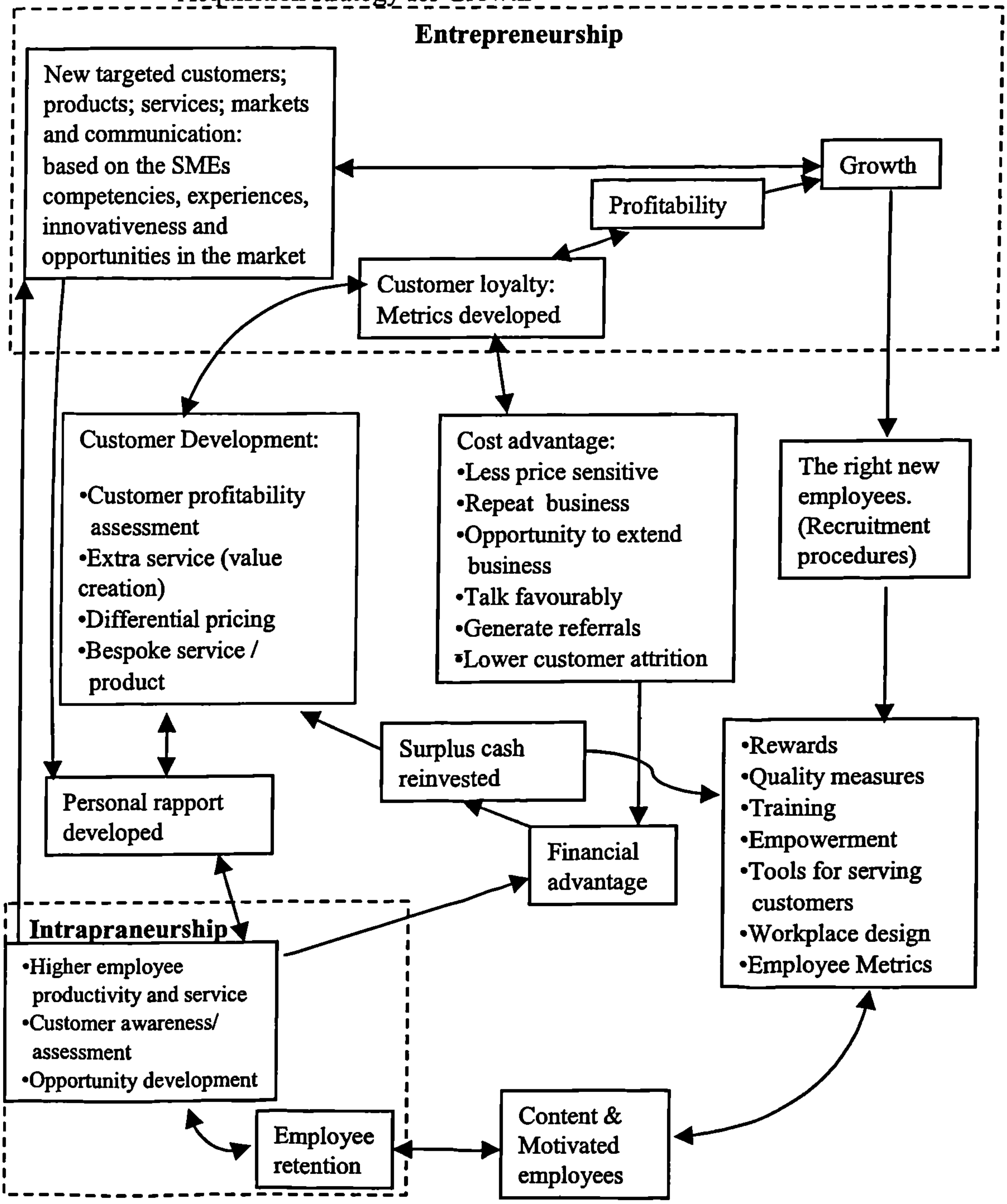


Table12.4b: Measures influencing Customer Retention, Development and Acquisition

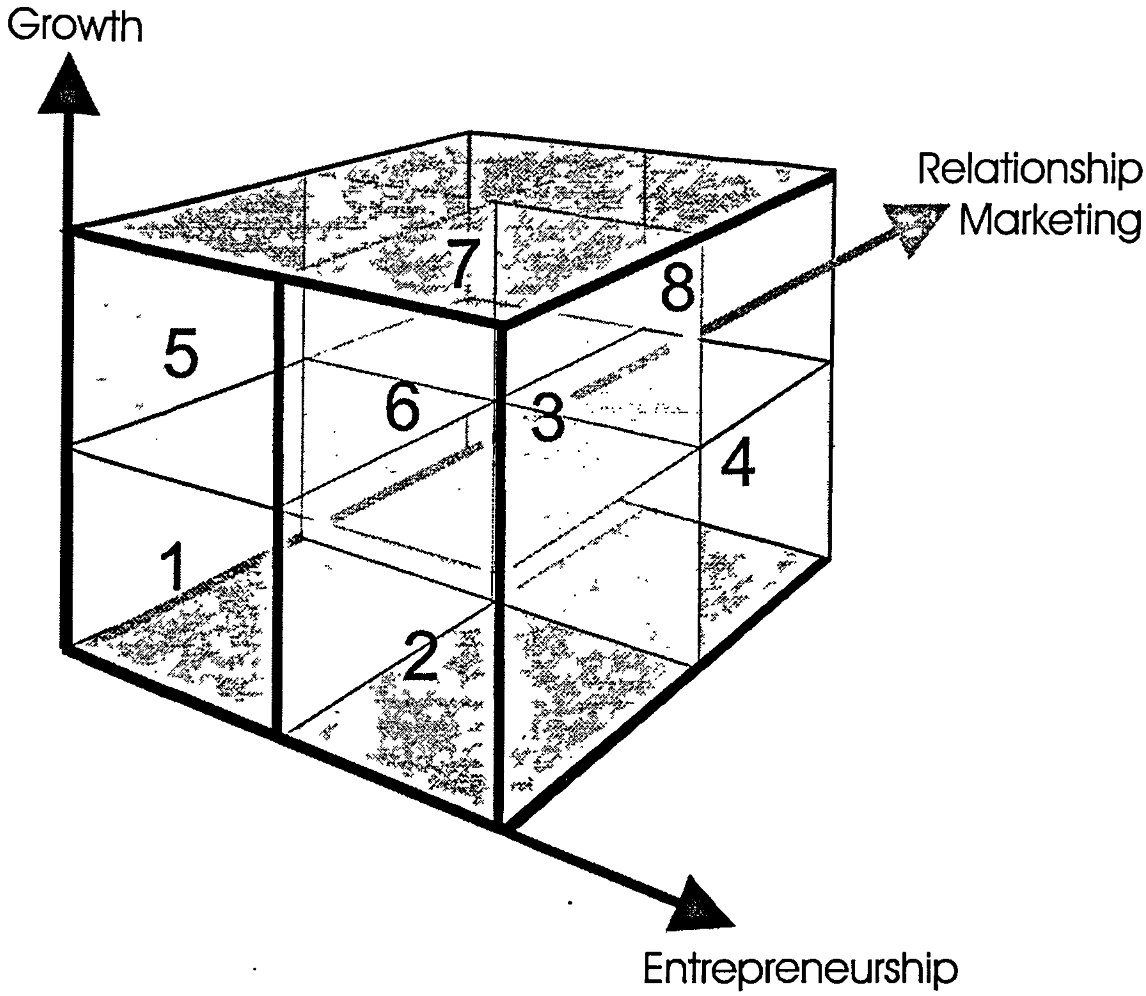
1. Entrepreneurial Direction • Setting a vision for the company; • Creating appropriate organisational structure; • Creating an innovative environment; • Creating opportunities for employees to become mini-entrepreneurs; • Recruiting the right personnel; • Developing a network of alliances;
2. Internal Systems Investment: Tactical Planning • Create right organisational structures to take advantage of internal and external opportunities; • Accountancy measures developed that monitor customer profiles and detect changes in purchasing behaviour; • Quality levels continuously monitored; • Policies/systems developed to identify and capture customer needs; • Databases created that hold a repository of information on customers; • Setting time frames for the implementation of plans; • Develop a series of metrics to assess the effectiveness of internal tools and systems
3. Employee Investment: • Employees trained to develop and manage customer relationships; • Employees encouraged to leverage information from personal contact's developed with customers; • Employees measured and rewarded (financially and non-financially) for their efforts (intrapreneurship); • Develop a series of metrics to assess the value contribution of Employees
4. Customer Focus: (Strategic Positioning) • Communication maintained using various mediums; • Personal communication established to determine any customer concerns; • Personal communication used to generate information on the company's products/services; • Information leveraged from customers analysed based on its market potential; • Personal communication used to generate referrals and leverage more business; • Customer requests prioritised in terms of profit contribution; • Customers educated on pricing and value received; • Tools developed to assess customer loyalty (Metrics) • Customer feedback analysed regularly to determine changes to products/services/process (entrepreneurial activity); • Share of the customer and other loyalty metrics employed; • Profile of profitable and loyal customers captured and monitored to ensure company is targeting appropriate clientele.
5. Market Terrain Assessment • Assessment of current position in the market place; • Identification of how the SME is staying ahead of competitors; • Customer defection analysed to identify areas for improvement; • Identifying Strategic Alliances; • Based on analysis of customer portfolios, targeted campaigns are developed to capture new customers that will complement the operational synergy of the company and contribute to its financial prosperity;

The litmus test for the frameworks presented in this thesis is continued customer patronage. Although, firms must realise that these frameworks are dynamic and businesses need to adopt a more iconoclastic approach to customer value generation.

12.5 Marketing and Entrepreneurial Interface

The final objective of this research project was to contribute to the emerging field of the Marketing/Entrepreneurial interface. Despite the concerted academic focus on the Marketing/Entrepreneurial interface over the last decade, it still remains a nebulous arena of theories, models, etc. This research has contributed to our understanding of the interaction between the two domains. Through proposing that a relationship marketing and entrepreneurial focus are needed by both entrepreneurial and non-entrepreneurial SMEs if they are to continue to sustain their growth in a globally competitive market place. The author advocates that relationship marketing acts in an entrepreneurial manner when the information generated results in one of Schumpeter's set of innovative behaviours being acted upon. The author offers a 3D view of visualising the synergistic relationship between relationship marketing, entrepreneurship and growth. The alignment of all three will contribute to SMEs achieving superior growth with minimal risk (see Fig. 12.5a).

Fig 12.5a Symbiosis of the Marketing/Entrepreneurial Growth Interface



The grid has been separated into eight cells, each of which is assigned various labels (see Figure 12.5a). To achieve the highest growth (cell 8) SMEs need to practice entrepreneurial behaviour that is complemented by a symbiotic relationship marketing behaviour. This is achieved through the SME taking advantage of propriety knowledge that is leveraged from customer centric employees. Thus SMEs can assess opportunities and develop innovative products/services that will permit them to sustain their continued growth through, in essence, delivering value added services. Cells 1 to 4 (see Fig. 12.5b) in the grid represent the lower part of the grid, while cells 5 to 8 (see Fig 12.5c) refer to the top portion of the framework. The author advocates that cell position 8 will permit

SMEs to effectively utilise their resources to leverage growth with minimal risk and maximum value delivery.

Figure 12.5b Marketing / Entrepreneurial Mediocre Growth Cells 1 to 4

Relationship Marketing	3. Close relationships formed although entrepreneurial vision not realised from the personal contact	4. Company is customer focused and has realised opportunities from the rapport although these opportunities have not yet materialised into major growth.
	1. Fairly Reactive management style to market changes	2. Opportunities focused company with traditional marketing approaches.
	Entrepreneurship	

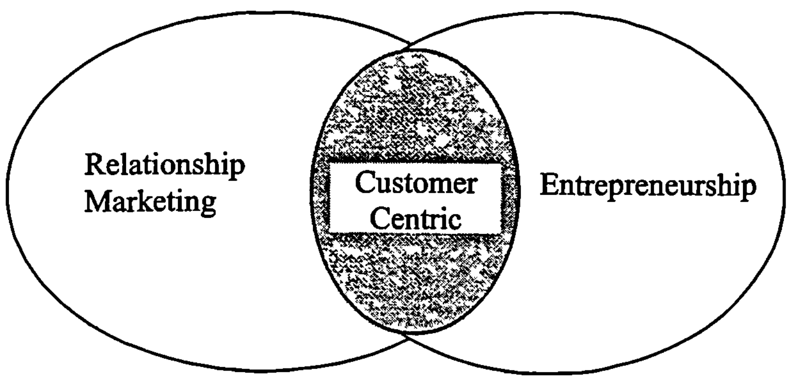
Figure 12.5c Marketing / Entrepreneurial Superior Growth Cells 6 to 8

Relationship Marketing	7. Superior growth due to loyal and profitable customers but SME management style is reactive	8. Superior growth due to opportunities realised from close personal contact's with customers. SME is entrepreneurially sensitive to information leveraged from customers.
	5. Superior growth due to existing products/services but SME vulnerable to potential competition	6. Superior growth achieved through opportunities recognised although not fully utilised through close personal contact's with customers
	Entrepreneurship	

The findings of this research contribute to our understanding of entrepreneurship and relationship marketing in SMEs and their inter-linking. The main conclusion drawn is that entrepreneurial SMEs (compared to their non-entrepreneurial colleagues) engage in a much more measured, calculated and effective approach to what is at the heart of the relationship marketing concept - customer retention and development. The author contends that relationship marketing and entrepreneurship are interlinked and both influence and drive each other, rather than one being dominant in the relationship. The author advocates that relationship marketing can save the entrepreneurial flair that was initially evident in many start-up SMEs. For relationship marketing encourages SMEs to become customer-centric and exploit avenues of new opportunities thereby creating a symbiosis between the two domains. In that relationship marketing allows SMEs the opportunity to take advantage of propriety knowledge both within the company (intellectual capital of employees) and with customers to create innovative products/service that add value to the relationship. Since both entrepreneurship and relationship marketing are concerned with developing innovative products/services/processes to enable the SME to meet customer requirements (see Fig. 12.5d). Hence, the relationship marketing / entrepreneurial interface assists SMEs to:

- Identify opportunities;
- Create innovation (new products/services/processes);
- Liberate employees to take responsibility for their work environment;
- Allow frontline employees to build personal contact's with customers;
- Create added value service;
- Embrace New Practices

Figure 12.5d: Customer Centric Interface



12.6 Limitations of the Research

While all research projects have their limitations the author has attempted to minimise any constraint on the research project through identifying four key areas that would need to be addressed to ensure any limitations were minimised. The areas addressed were:

1. Subject Area - the author:

- Attended postgraduate lectures on Marketing to become familiar with the subject area and later taught the subject at University full time;
- Attended seminars on entrepreneurship by the authors supervisor;
- Attended and presented findings of the research to date at various global conferences on Marketing and Entrepreneurship to both disseminate knowledge and gain invaluable feedback for the research project (see Appendix 10);
- Sought advice from fellow academics on the subject area (see Appendix 2).

2. Research Methodology - the author

- Attended postgraduate social science research methodology programmes;
- Attended statistical seminars and intensive day programmes to become familiar with the application and interpretation of advanced statistical techniques;
- Confirmed statistical analysis with experienced academics in two Universities (see Appendix 2);
- Sought advice on qualitative analysis from qualified and experienced academics (see Appendix 2);
- Focused on one particular location to generate greater responses;

3. Survey Design - the author

- Targeted the survey at owner-managers and marketing managers of the SME, to ensure they would be suitably qualified to complete the questionnaire;
- Adopted a contemporary approach to administering the research instrument, which resulted in a higher response rate than industry standards;
- Authenticated the legitimacy of the research project by enclosing a University letter headed paper that stated the purpose of the research project. Furthermore, the

University logo was placed on the front cover of all questionnaires to emphasise the academic nature of the research project.

4 Generalisation of Findings

The findings identified, in this research project are not necessarily characteristic of the entire UK population of business service SMEs or for that matter SMEs in different industrial sectors will demonstrate the same behaviour. This will require further research to identify the national characteristics and commonalties of service SMEs.

12.7 Future Research

Academically relationship marketing is still in its embryonic stage and the findings of this research project have indicated areas that influence relationship marketing that need to be investigated further. Schools, Colleges and Universities need to take on a greater role in both teaching and encouraging entrepreneurial ventures from their students; The Government needs to realise the tremendous benefits that can be realised through funding both research and centres of entrepreneurial activity in Universities. Therefore, research needs to be conducted on how the findings of this research project can be translated into practical training programmes by both Governmental agencies and Academic Institutes to encourage entrepreneurship. The author recommends that:

- Training agencies could develop a survey to identify the degree of relationship marketing orientation of SMEs so that they can develop bespoke training courses to enhance the relationship marketing skills of SMEs.
- The results from the survey could be used to assess the growth potential of the firm and then develop appropriate objectives to achieve the growth.
- Training agencies could assess their effectiveness in delivering relationship *marketing and entrepreneurial advice* to assist SMEs to achieve growth.
- Training agencies could assess their trainers on their knowledge of achieving a relationship marketing and entrepreneurial coherence.

- Training agencies could monitor the success of the proposed frameworks in this research project

Chaston (2000, p.56) proposes that entrepreneurs can gauge a measurement of the future trends in a market by embracing intuitive insights and methodological techniques beyond the standard survey such as scenario planning and Delphi techniques. The author also proposes the use of more qualitative and quantitative techniques such as Morphological analysis/matrix (this requires developing a grid of an attribute of an object and then comparing it in the context of where it could be used), Repertory Grids, Mind mapping and Lateral thinking to permit entrepreneurs to identify opportunities. The appropriateness and application of these instruments need to be investigated. The study of entrepreneurial failure will also provide invaluable insight and advice for SMEs hoping to pursue a more successful path.

The rapid growth of the Internet as a business medium has resulted in the refinement of many traditional marketing tools for the electronic environment. More research is required into how companies can develop a personal contact and trust with customers in a virtual environment, so that they can harness the pool of data wealth that they capture on site visits, interactivity, purchasing behaviour and customer profiles.

The author encourages more research to be conducted to investigate the nature of relationship failure. So that sophisticated tools and strategies can be developed to pre-empt or at the very least identify potential relationship unrest in customer(s). Researchers are encouraged to determine:

- the minimum threshold levels of customer retention / defection;
- a series of metrics (both Quantitative an Qualitative) that reveal the true value of retaining a customer;
- the threshold levels for creating customer loyalty;
- the success of relationship marketing in the virtual domain;

- other factors that contribute to SME growth (i.e. Macro influences, HRM policies, Technological investments, etc);
- what accountancy measures are required to accurately capture a customer's loyalty and profitability;
- Factors that result in customers learning to be loyal to a company/product/service;
- other measures that have been successful in reducing customer attrition;
- other actors (stakeholders) that influence a customer relationship.

As this research is focused primarily on one industry and in one particular region, further research needs to be replicated in different industries and in different regions to verify the suitability of the author's framework for the business service and other industries. Finally, in terms of entrepreneurial research more research is needed on the process of exploiting opportunity.

Chapter 13:
Contributions of this Research

13 Contribution to Knowledge

This PhD has made several contributions to advancing our knowledge of relationship marketing and entrepreneurship. The research started with two hypotheses that were both confirmed and the empirical findings allowed the author to contribute to his three objectives. That is to firstly contribute to our understanding and knowledge of relationship marketing and entrepreneurship, secondly developing framework(s) to assist SMEs to pursue a relationship marketing strategy and finally contribute to the evolving field of the marketing/entrepreneurial interface.

The author has contributed to the definitional diversity of relationship marketing by refining and proposing his own definition based on this research projects findings. The empirical evidence revealed that the successful implementation of a relationship marketing strategy would require a complementary internal culture of motivated and customer centric employees. The findings highlighted entrepreneurial SMEs had achieved employee loyalty and motivation through rewarding (both financially and non-financially) their employees. Based on the empirical findings the author constructed a new framework (see Fig. 12.1a, Chapter 12) that highlights three themes. The author proposes that SMEs need to invest in these areas if they are to improve their internal environment. The author has named these themes as:

1. Rewards for Employees
2. Training Programmes
3. Company Internal Policies (to develop and measure the Internal environment)

This internal improvement framework will allow both academics and practitioners to evaluate and monitor their investment in improving their internal environment for each theme. Empirical evidence has highlighted that an 'Internal Marketing' philosophy allows a company to develop a repository of synergistic knowledge that in turn allows a company to both target customer acquisition and development programmes and develop effective employee recruitment policies. The latter would seek to both blend in with and attract the right calibre of employee to contribute to the company ethos. The author has, from the empirical findings, also developed a framework that categorises the many benefits of loyal employees into three themes, namely:

1. Positive Promotion of SME
2. Cost Savings Generated
3. Opportunities Generated

This employee loyalty framework will allow both academics and practitioners to evaluate and monitor the benefits generated by each employee for each theme. This will allow the company to appraise any investment and to be aware of the consequential benefit of pursuing an employee loyalty policy.

To determine an individual employee's contribution to customer development. The author has developed his own formulas to determine an employee's contribution to company innovativeness (see Fig 12.1.1a and 12.1.1.b). The formula and the results it generates has the added benefit of allowing a company to determine which of its employees contribute the most ideas so that the company can identify their learning processes to assist in the training of other employees.

The strength of a relationship that a company has with its customers can only partly be derived from behavioural variables. The quantitative results showed that entrepreneurial SMEs exhibited a greater tendency to not only segment their customers but to also apply a different strategy for each customer segment. Therefore, the author has synthesised these measures into a grid (see Fig. 12.1.6, Chapter 12) that takes advantage of both quantitative and qualitative data to determine the current loyalty status of a customer and the reasons for that loyalty. Additionally the author has created a framework of loyalty metrics to permit SMEs to enrich their reservoir of knowledge on their customers so that they can adopt the most appropriate marketing strategies for each targeted customer.

The qualitative findings reveal that entrepreneurial SMEs agree to a greater extent than non-entrepreneurial SMEs that targeting new customers of a similar profile to that of existing profitable customers is an excellent technique to allow the company to achieve growth. Since similar customers permits the entrepreneurial SME to focus on customers that create 'operational synergy'. This allows the SMEs to take advantage of their current resources to gain maximum utility of the SMEs assets (resources include customers and employees as well as the traditional resources). Although, having attracted a customer the challenges now facing companies are to identify an appropriate portfolio of marketing strategies (Transactional and Relationship) that should be actively managed in the context of the company's strategy.

Based on the findings of this research the author discovered many benefits of developing close relationships with customers. The author was able to categorise these benefits into three themes, namely:

1. Opportunities Realised
2. Customer Relationships Developed
3. Awareness of Customers

The field of entrepreneurship is strewn with numerous definitional dilemmas'. Gartner (1990, p.28) and Hornaday (1992, p.12) proposed that academics that pursue an entrepreneurial study should develop their own definitions for their research project. Therefore, the author has developed his own construct for defining entrepreneurs and their behaviour in business service SMEs.

Post-research analysis further confirmed the marketing competency of entrepreneurial SMEs. As for the other influencing factors, entrepreneurial SMEs also pursued a proactive planning style, achieved steady growth from their start-up and many entrepreneurial SMEs had adopted organic structures.

The second aim of this research is to encourage SMEs to take on the best practices to allow them to achieve growth with minimal risk. Therefore, based on corroborated empirical evidence and literature reviews on relationship marketing and entrepreneurship the author developed a framework that encourages SMEs to purse a strategy of customer retention, development and targeted acquisition (see Figure 12.4, Chapter 12). The framework can be considered to be influenced by five main themes, namely: Entrepreneurial direction, internal systems/ process, employee commitment, customer focus and market terrain assessment. What drives this framework is not profit but the proactive creation of value for the customer.

The author has shown that synergy is achieved when SMEs develop innovative products/services/processes through entrepreneurial vision and relationship marketing behaviour. Since the relationship marketing allows an SME to take advantage of propriety knowledge both within the company (intellectual capital of employees) and from their customers' to create innovative products/services/processes that add value to customer relationships. While entrepreneurship allows the SME to determine the potential of an opportunity to further meet targeted customer preferences. Finally, the author developed a 3D view of visualising the synergistic relationship between relationship marketing, entrepreneurship and growth (see Fig. 12.5a) to contribute to our understanding of the relationship marketing/entrepreneurial interface.

13.1 Conclusion

The remit of this research project was to identify whether entrepreneurial SMEs pursued a relationship marketing approach to acquiring and retaining customers more successfully than non-entrepreneurial SMEs. The findings would allow the author to contribute to our understanding and knowledge in three specific areas, namely:

1. Contribute to knowledge and understanding of relationship marketing and entrepreneurship.
2. Develop a framework for aiding SMEs to retain, develop and acquire customers.
3. Contribute to the relatively new field of the Marketing/Entrepreneurship Interface

The findings from Chapter 8, 9, 10 and 11 have all made contribution to Objective One. The author has synthesised the findings from the empirical research, for Objective One, and developed his own conceptual frameworks and tools for applying relationship marketing and entrepreneurship, as well as promoting new definitions of the subjects in Chapter 12.

Objective Two was covered also in Chapter 12, where the author developed his own conceptual framework, based on empirical findings, that would allow companies to pursue a strategy of customer retention, development and targeted acquisition with minimal risk of growth.

Finally, this research has allowed the author to develop a new conceptual framework to assist both SMEs and academics to understand the interaction between the domains of relationship marketing, entrepreneurship and growth. Hence, Objective Three was met and discussed in detail in Chapter 12.

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Appendix 1: Interviews with Academics

Date	Academic	Institute	Topic Discussed
9/12/94 (am)	Sean Ennis	University of Strathclyde	Discussed Marketing planning for growth in SME's.
9/12/94 (pm)	Eleanor Shaw	University of Glasgow	Discussed Entrepreneurial Networks
12/12/94 (am)	Prof. Elizabeth Chell	University of Newcastle	Briefly discussed the Entrepreneurial personality
12/12/94 (pm)	Prof. David Kirby	University of Durham	Discussed various aspects of SME's
11/1/95	Eleanor Shaw	University of Glasgow	Various workshops discussed Research methodologies
7/2/95 (am)	William Glynn	University College Dublin	Discussed Service Marketing in SME's
7/2/95 (pm)	Prof. A. Cunningham Sean Dorgan Frank J. O'Carroll	University College Dublin	Discussed how SME's were achieving growth and how SME's were creating relationships with their customers
9/2/95 (am)	Prof. R. Harrison	University of Ulster	Discussed various aspects of SME's performance
21/9/95 (pm)	Prof. N. Churchill	University of INSEAD	Discussed Entrepreneurship / Entrepreneurial Firms
20/3/96 (am)	Dr. Mike Scott Prof. P. D. Reynolds Prof. Gardner	Babson Conference University of Washington	Various aspects of my research methodology discussed
19/4/96 (pm)	Prof. N. Churchill	University of INSEAD	Discussed growth models and entrepreneurship

Appendix 2: Methodology Consultation

Date	Academic	Institute	Topic Discussed
95-97	Graham Gibbs	University of Huddersfield	Quantitative and qualitative methodologies
96-98	Dallas Cliff	University of Huddersfield	Qualitative Instrument Design and Analysis
96-98	Sonia Taylor	University of Huddersfield	Statistical Analysis of Questionnaires and SPSS Functions
96-97	Richard Grant	University of Huddersfield	Questionnaire Design and Analysis
98-99	John Coshall	University of North London	Advanced Statistical Analysis

Appendix 3: Exploratory interviews

Group Discussion of Qualitative and Quantitative Questionnaire with MSc Marketing (p/t) Students

Name of Participant	Position	Date of Discussion	Time taken	Venue
S. Allison	Marketing	07/03/96	35 mins	Firth Street FS1/09
J.S.Hunjan	Sales/ Marketing	07/03/96	35 mins	Firth Street FS1/09
K. Ford	Production	07/03/96	35 mins	Firth Street FS1/09
N. Thorpe	Marketing	07/03/96	35 mins	Firth Street FS1/09
I. McCall	Owner of Company	07/03/96	35 mins	Firth Street FS1/09
P. Murray	Marketing	07/03/96	35 mins	Firth Street FS1/09
A. King	Marketing	07/03/96	35 mins	Firth Street FS1/09
P. Hughes	Marketing	07/03/96	35 mins	Firth Street FS1/09
C. Towers	Marketing	07/03/96	35 mins	Firth Street FS1/09
A. Whitehead	Marketing	07/03/96	35 mins	Firth Street FS1/09
G. Robertshaw	Marketing	07/03/96	35 mins	Firth Street FS1/09

Appendix 4: Interviews with High Street Banks to Determine Reasons for SME Failure

Bank	Name of Interviewee	Position	Date of Interview
Lloyds	Nick Turner	Small Business Advisor	05/95
Natwest	Martin Barden	Small Business Advisor	31/05/95
Yorkshire	Tony Jones	Small Business Advisor	31/05/95
Midland	Nigel Coachman	Small Business Advisor	02/06/95
Royal Bank of Scotland	Evoynn Johnson	Small Business Advisor	06/95
Barclays	Howard Owen	Small Business Advisor	10/03/99

In-depth interview with Banks to determine causes of SME failure

The following questions were personally administered to the main lending banks of SMEs.

1. What are the causes of SME failure?

Overtrading (looking to grow to quickly)
Underfunding (lack of daily cash flows)
Lack of understanding of the market
Lack of management skills.
Lack of financial management
Relying on too few customers
Not understanding competitors

1999 Interview
Lack of cash

2. What are the consistent causes of failure?

Overtrading
Lack of Working capital

The banks stated that:

"SMEs chase new business without the money to fund the expansion."
Royal Bank of Scotland, Small business advisor

"The owner manager is concerned with capturing new business rather than the cashflow needed immediately."
Midland Bank, Small business advisor

1999 Interview
Lack of cash

Internally: "expanding too quickly"
Externally: "Change in the macro environment"

3. What are the top 3 causes of failure?

Overtrading (trying to do too much too quickly)
Undercapitalised (not having enough resources)
Lack of management skills

1999 Interview
Lack of cash
Expanding too quickly

4. What are the indicators that a business is in trouble?

Account frequently over the overdraft limit
Financial audited accounts out of date
Forecast doesn't match cashflow
Late payments to suppliers
High drawings by owner-manager

1999 Interview
Overdrafts
Excess on overdrafts
Constant requests for overdrafts

5. Which type of financing does your bank encourage SMEs to take?

"Banks are now encouraging SMEs to use medium to long term loans for the purchase of capital equipment. As asset purchases need to be structured over the life period of the asset."
Yorkshire, Midland and Natwest, Small business advisors

The benefits are:
- SMEs know how much they have to pay each month
- Allows SMEs to be more effective
- Overdraft facility is more expensive

The overdraft facility is still the most popular source of financing for SMEs, especially for short term requirements. (all banks)

1999 Interview
A mixture of:

Overdrafts (working capital)
Loan / Asset finances (capital for equipment or other large purchases)
Factoring

6. Why do so many mangers ignore then the problems that could put their company out of business?

The banks believed the main reason was the refusal by the owner-manager to admit to the problem. This they believed was attributed to:

- Ignorance of seriousness, caused by lack of information,
- lack of experience, leading to under emphasis on key problems areas,
- problems occurring at a faster rate than they can solve them,
- the absence of rigorous planning and review procedures that allow prompt reaction to variances.

1999 Interview
Small businesses focus on turnover

The interview with Barclays demonstrate that despite 4 yrs having passed since the start of this research SMEs are still suffering from the same factors that contribute to SME failure. Therefore, the findings of this research are even more imperative for SMEs to avoid insolvency.

Appendix 5: Accompanying Letter with Questionnaire

Dear ,

I would like to thank your company for agreeing to participate in my research. The following questionnaire is a part of my PhD research into the marketing strategies and policies of small and medium sized companies.

Although I appreciate that you are very busy, the research is essentially dependant upon your valuable participation and co-operation. All information will be treated in the strictest of confidence and will be used for *research purposes* only. Can I reassure you that no individual company will be identified.

When you have completed the questionnaire please return it using the attached pre-addressed envelope to Aftab A. Dean at The University of Huddersfield. As a participant you are most welcome to a summary of the research findings, which I hope will contribute to the success and growth of small and medium sized companies.

For your convenience I have enclosed a brief summary of my PhD research.

Your participation is very important towards the success of this research.

Thank you for your co-operation

Yours sincerely,

Aftab A. Dean
PhD Researcher
School of Business
University of Huddersfield.

Appendix 6: Relationship Marketing / Entrepreneurship Questionnaire

THE UNIVERSITY OF HUDDERSFIELD

Investigations into the Marketing Behaviour of Small and Medium sized companies.

Your time and co-operation are very much appreciated. Can I reassure you that the strictest confidentiality will be upheld regarding the information you will provide about your business. If you should be interested in my **general findings** regarding the marketing of small/medium businesses, I will be more than happy to share these results. One of the aims of my research will be to contribute to the success and growth of small/medium businesses.

Name: ....

Company Address: ....

....

Telephone Number: ....

General

To help my investigations, it would be useful if you could provide me with some basic information about your company.

Q.1) What type of business do you run?

(a) Privately owned by one individual? 1[ ]
(b) Privately owned by a small group of individuals? 2[ ] (Tick **ONE** only)
(d) A public company? 3[ ]
(e) A subsidiary 4[ ]
(f) Other, please specify:
.... 5[ ]

Q.2) When was the business **started**?

....

Q.3) Was the business:

(a) Newly created 1[ ]
(b) Bought 2[ ] (Tick **ONE** only)
(c) Inherited 3[ ]
(d) Other, Please Specify:
.... 4[ ]

Q.4) What is your **MAIN** category of business?

(a) Manufacturing 1[ ]
(b) Business Service 2[ ]
(c) Information Technology 3[ ] (Tick **ONE** only)
(d) Financial Services 4[ ]
(e) Other, Please Specify:
.... 5[ ]

Q.5) What do you regard as the principal market for your **MAIN** product group?

(a) The local community (Own Town/City) 1[ ]
(b) The region (eg West Yorkshire) 2[ ]
(c) The UK 3[ ] (Tick **ONE** only)
(d) Europe 4[ ]
(d) The World 5[ ]
(e) Other, please specify:
.... 6[ ]

Q.6) What is the market share for your **MAIN** product group?

(a) Under 1% 1[ ]
(b) 1-5% 2[ ]
(c) 6-10% 3[ ]
(d) 11-20% 4[ ]
(e) 21-30% 5[ ] (Tick **ONE** only)
(f) 31-50% 6[ ]
(g) 51-74% 7[ ]
(h) 75-100% 8[ ]
(I) Not Sure 9[ ]

Q.7) How many **different** products does your company sell?

(a) 1 - 5 1[ ]
(b) 6 - 10 2[ ]
(c) 11 - 20 3[ ] (Tick **ONE** only)
(d) 21 - 50 4[ ]
(e) 50 - 100 5[ ]
(f) 100+ 6[ ]

Q.8) What is the **turnover** of your company?

(a) up to £99,000 1[ ]
(b) £100,000 - £499,000 2[ ]
(c) £500,000 - £999,000 3[ ] (Tick **ONE** only)
(d) £1 million - £5,999,999 4[ ]
(e) £6 million - £10 million 5[ ]
(e) over £10 million 6[ ]

Q) How many people are working in your company :
Q.9) Full time : ....
Q.10) Part time : ....

Q) Has your company needed, **over the last year,** to become involved in any of the following practices:

	Yes (3)	Not Sure (2)	No (1)
Q.11) Create a new product/service	☐	☐	☐
Q.12) Develope a new method of production	☐	☐	☐
Q.13) Open a new market	☐	☐	☐
Q.14) Capture a new source of supply	☐	☐	☐
Q.15) Create a new industry	☐	☐	☐
Q.16) Other, please specify:			

....

Q) Will your company need, **in the future,** to be involved in any of the following:

	Yes (3)	Not Sure (2)	No (1)
Q.17) Creating a new product/service	☐	☐	☐
Q.18) Developing a new method of production	☐	☐	☐
Q.19) Opening a new market	☐	☐	☐
Q.20) Capturing a new source of supply	☐	☐	☐
Q.21) Other, please specify:			

....

Q.22) Did your Owner-manger have any **experience** of the present business before they started it?

3) Yes ☐ 2) Not Sure ☐ 1) No ☐

Q) On a **SCALE of 1 to 9** How important are the following traits for describing the owner manager?

(please enter any number between 1 and 9 in each box)

1 = NOT IMPORTANT .... 9 = HIGHLY IMPORTANT

Q.23) Alert to business opportunities [ ]
Q.24) Proactive [ ]
Q.25) Highly innovative [ ]
Q.26) Uses a variety of finance sources [ ]
Q.27) Strives for the best [ ]
Q.28) Has elaborate business networks [ ]
Q.29) Is a high profile image maker [ ]
Q.30) Needs a lot of stimulus [ ]
Q.31) Adventurous [ ]

Growth

Q) What variables does your company **measure** to determine **growth**?

	Yes (3)	Not Sure (2)	No (1)
Q.32) Profitability	[ ]	[ ]	[ ]
Q.33) Turnover / Sales	[ ]	[ ]	[ ]
Q.34) Market Share	[ ]	[ ]	[ ]
Q.35) Increase in a number of Customers	[ ]	[ ]	[ ]
Q.36) Increase in Assets	[ ]	[ ]	[ ]
Q.37) Increase in a number of Employees	[ ]	[ ]	[ ]
Q.38) other, please specify:			

Q) How does your company **finance** growth?

	Yes (3)	Not Sure (2)	No (1)
Q.39) Bank overdrafts	[ ]	[ ]	[ ]
Q.40) Short term loans	[ ]	[ ]	[ ]
Q.41) Long term Loans	[ ]	[ ]	[ ]
Q.42) Seeking Partners	[ ]	[ ]	[ ]
Q.43) Other forms of Credit, please specify:			

Q.44) What type of **organisational structure** does your company have?

(a) No formal organisational structure exists 1[ ]
(b) Centralised control 2[ ]
(c) Firm divided up into similar activities 3[ ] (Tick **ONE** only)
(d) Decentralised, autonomous departments 4[ ]
(e) Other, please specify: 5[ ]
....

Q.45) Which of the following definitions best describes the **planning** in your company:

(a) informal 1[ ]
(b) ad hoc 2[ ]
(c) conservative 3[ ]
(d) reactive 4[ ] (Tick **ONE** only)
(e) proactive 5[ ]
(f) adapting to circumstances 6[ ]
(g) taking advantage of circumstances 7[ ]
(h) other, please specify:
.... 8[ ]

Q.46) At what stage of the **growth cycle** would you say your company is in?

(a) Steady Growth from the start 1[ ]
(b) Rejuvenating Growth 2[ ]
(c) Reached a plateau 3[ ] (Tick **ONE** only)
(d) Declining Growth 4[ ]
(e) Other, Please Specify
.... 5[ ]

Q) In the **last 3 years**, has your company had an increase in the:

	Yes (3)	Not Sure (2)	No (1)
Q.47) Number of employees	☐	☐	☐
Q.48) Number of customers	☐	☐	☐
Q.49) Number of Assets/Resources	☐	☐	☐
Q.50) Other, please specify:			

....

Q.51) How much **sales growth** will your company achieve **this** year?

(a) 1-5% 1[ ]
(b) 6-10% 2[ ]
(c) 11-25% 3[ ] (Tick **ONE** only)
(d) 26-50% 4[ ]
(e) 51- 100% 5[ ]
(f) 100%+ 6[ ]

Q.52) How much **sales growth** did your company achieve in the **previous** year?

(a) 1-5% 1[ ]
(b) 6-10% 2[ ]
(c) 11-25% 3[ ] (Tick **ONE** only)
(d) 26-50% 4[ ]
(e) 51- 100% 5[ ]
(f) 100%+ 6[ ]

Q) On a **SCALE of 1 to 9,** how important is it for your company to increase?

(Please enter any number between 1 and 9 in each box)

1 = NOT IMPORTANT .... 9 = HIGHLY IMPORTANT

Q.53) Number of Employees [ ]
Q.54) Number of Customers [ ]
Q.55) Number of Assets/ Resources [ ]
Q.56) Other, please specify: [ ]

....

Competitors

Q.57) How would you compare products in your **MAIN** product group with those of your competitors? Would you say they were:

(a) Identical 1[ ]
(b) Similar 2[ ] (Tick **ONE** only)
(c) Different 3[ ]
(d) Not Sure 4[ ]

	Yes (3)	Not Sure (2)	No (1)
Q.58) Are you aware of **how much** business your customers carry out with your competitors?	☐	☐	☐
Q.59) Does your company analyse the behaviour of your **competitors customers**?	☐	☐	☐
Q.60) Can your company distinguish **between major and minor** competitors for your main product group?	☐	☐	☐
Q.61) Has your company determined the **cost advantages** to customers, purchasing from your company rather than switching to a competitor?	☐	☐	☐

Customer

Q) How does your company regularly communicate with your **MAIN** customers?

	Yes (3)	Not Sure (2)	No (1)
Q.62) Newsletter	☐	☐	☐
Q.63) Telephone	☐	☐	☐
Q.64) Personal contact	☐	☐	☐
Q.65) Seminars	☐	☐	☐

Q.66) Other, Please Specify:

.... [ ]

Q) On a **SCALE of 1 to 9** please indicate the importance of each of the following factors in increasing **customer loyalty**?

1 = NOT IMPORTANT .... 9 = HIGHLY IMPORTANT

Q.67) Empowering employees [ ]
Q.68) Discount pricing [ ]
Q.69) Consistent service [ ]
Q.70) Reliable delivery [ ]
Q.71) Offering extra services [ ]
Q.72) Other, please specify:
.... [ ]

Q) On a **SCALE of 1 to 9** please indicate to what extent **close relationships** with customers, have led to improvements in?

(Please enter any number between 1 and 9 in each box)

1 = NOT IMPROVED .... 9 = GREATLY IMPROVED

Q.73) Product Quality [ ]
Q.74) Service Quality [ ]
Q.75) Profitability [ ]
Q.76) Market awareness [ ]
Q.77) Other business opportunities [ ]
Q.78) Other, please specify:
.... [ ]

Q) On a **SCALE of 1 to 9**, how important are each of the following **qualities in a loyal customer?**

(Please enter any number between 1 and 9 in each box)

1 = NOT IMPORTANT .... 9 = HIGHLY IMPORTANT

Q.79) Purchases at the standard price [ ]
Q.80) Doesn't make risky decisions [ ]
Q.81) Regularly purchases on a small scale [ ]
Q.82) Local customer [ ]
Q.83) Customer's business is growing [ ]
Q.84) Older Managing Director [ ]
Q.85) Other, please specify:
.... [ ]

Q.86) How frequently does your company communicate with your **MAIN** customers?

(a) With every transaction 1[ ]
(b) Every day 2[ ]
(c) Every week 3[ ]
(d) Fortnightly 4[ ]
(e) Monthly 5[ ] (Tick **ONE** only)
(f) Quarterly 6[ ]
(g) Yearly 7[ ]
(h) Never 8[ ]
(I) Other, please specify:
.... 9[ ]

Q) On a **SCALE of 1 to 9** please indicate the importance of each of the following when your company **communicates** with your **customers?**

(Please enter any number between 1 and 9 in each box)

1 = NOT IMPORTANT .... 9 = HIGHLY IMPORTANT

Q.87) to determine how the relationship is doing [ ]
Q.88) to solicit other business [ ]
Q.89) to ask for referrals [ ]
Q.90) to determine customer needs [ ]
Q.91) other, Please Specify:
.... [ ]

Q) When soliciting views from your **customers'**, what does your company focus on?

	Yes (3)	**Not Sure** (2)	**No** (1)
Q.92) Product features	☐	☐	☐
Q.93) Product benefits	☐	☐	☐
Q.94) Service levels	☐	☐	☐
Q.95) Other, please specify:			

	Yes (3)	**Not Sure** (2)	**No** (1)
Q.96) Are your customers the **final consumers** of your product/ service?	☐	☐	☐
Q.97) Does your company know who are its most **loyal customers?**	☐	☐	☐
Q.98) Has your company developed a separate **accounting system** to analyse loyal customers?	☐	☐	☐
Q.99) Does your company know which customers have the **potential to grow?**	☐	☐	☐
Q.100) Do your customers **refer** your business to other potential customers?	☐	☐	☐
Q.101) Is your company aware of how many **new** customers were **referred?**	☐	☐	☐
Q.102) Are **refferals** better prospects than customers who respond to advertising ?	☐	☐	☐
Q.103) Are you aware of whether your customers **talk favourably** about your product?	☐	☐	☐

	Yes (3)	Not Sure (2)	No (1)
Q.104) Do **ALL** your customers feel they receive a consistent level of service? (i.e. same level of service for each transaction)	☐	☐	☐
Q.105) Do your **MOST PROFITABLE** customers receive a consistent level of service? (i.e. same level of service for each transaction)	☐	☐	☐
Q.106) Does your company ask your customers, how often they would like you to be in touch?	☐	☐	☐
Q.107) Does your company keep a **database** on your customer preferences?	☐	☐	☐
Q.108) Does your company track the **PURCHASE frequency** of your **MAIN** customers?	☐	☐	☐

On a **scale of 1 to 9**, how would describe your companys **awareness of customer needs?**

(Please enter any number between 1 and 9 in the box)

1 = Don't understand the customer .... 9 = Actively developing mechanisms for interactive relationships with customers

Q.109) I would say the company **customer awareness** is...... [ ]

Segment

Q.110) Does your company segment your customers ?

3) Yes ☐ 2) Not Sure ☐ 1) No ☐

If NO please go to QUESTION 133

Q) How does your company measure the success of each customer segment ?

	Yes (3)	Not Sure (2)	No (1)
Q.111) Sales Volume	☐	☐	☐
Q.112) Purchasing Behaviour	☐	☐	☐
Q.113) Loyalty	☐	☐	☐
Q.114) Contribution to profit	☐	☐	☐
Q.115) Other, please specify:	☐	☐	☐

Q.116) How does your company know which customers belong in which segment?

Q) On a **SCALE of 1 to 9** please indicate the importance of the following factors your company would consider when **SEGMENTING** customers?

1 = NOT IMPORTANT .... 9 = HIGHLY IMPORTANT

Q.117) How risk averse they are [ ]
Q.118) Willingness to grow [ ]
Q.119) Customer company size [ ]
Q.120) Industry [ ]
Q.121) Profitability [ ]
Q.122) Selling costs [ ]
Q.123) Sales volume [ ]
Q.124) Products purchased [ ]
Q.125) Service support [ ]
Q.126) Customer loyalty [ ]
Q.127) Geographical location [ ]
Q.128) Demographical profile (age, income) [ ]
Q.129) Psychographic (personality, lifestyle) [ ]
Q.130) Behaviour (purchasing behaviour) [ ]
Q.131) Other, Please Specify:
.... [ ]

	Yes (3)	Not Sure (2)	No (1)
Q.132) Does your company have a different strategy for each customer segment?	☐	☐	☐

Profit

	Yes (3)	Not Sure (2)	No (1)
Q.133) Does your company know who are your **most profitable customers?**	☐	☐	☐
Q.134) Has your company calculated the gross cash flows for each customer, during the **past 5 years?**	☐	☐	☐

	Yes (3)	Not Sure (2)	No (1)
Q.135) Have **long term customers** proven to be more profitable?	☐	☐	☐
Q.136) Has your company calculated the **potential future revenue** associated with each customer?	☐	☐	☐
Q.137) Is your company aware of whether your customers perceive your product/service as value for money?	☐	☐	☐
Q.138) Has your company calculated the **cost** of providing all the services to a customer?	☐	☐	☐
Q.139) Does your company measure the **financial performance** of your marketing programme?	☐	☐	☐
Q.140) Has your company evaluated **the revenue generated** by communicating with the customer?	☐	☐	☐
Q.141) Has your company determined the cost of **acquiring** a new customer?	☐	☐	☐

Q) On a **SCALE of 1 to 9**, what are the **greatest costs** associated with acquiring a new customer?

(Please enter any number between 1 and 9 in each box)

1 = LEAST COST .... 9 = GREATEST COST

Q.142) Advertising [ ]
Q.143) Administration [ ]
Q.144) Discounted pricing [ ]
Q.145) Resources [ ]
Q.146) Other, Please Specify:
.... [ ]

Loyal staff

	Yes (3)	Not Sure (2)	No (1)
Q.147) Does your company have a high employee turnover?	☐	☐	☐
Q.148) Has your company calculated the cost of losing employees?	☐	☐	☐
Q.149) Does your company evaluate your employees on their customers awareness?	☐	☐	☐

	Yes (3)	Not Sure (2)	No (1)
Q.150) Does your company track the **salary** of employees who have contact with customers?	☐	☐	☐
Q.151) Does your company know who are the **least satisfied** employees, in terms of loyalty?	☐	☐	☐
Q.152) Has higher **employee retention** led to higher productivity?	☐	☐	☐
Q.153) Does your company know how much **revenue** employees, who have contact with the customer, generates for the company?	☐	☐	☐
Q.154) Has your company introduced **profit sharing**?	☐	☐	☐

Q) Where does your company **recruit** employees from?

	Yes (3)	Not Sure (2)	No (1)
Q.155) Advertisements	☐	☐	☐
Q.156) Customers	☐	☐	☐
Q.157) Competitors	☐	☐	☐
Q.158) Referrals	☐	☐	☐
Q.159) Other, please specify:	☐	☐	☐

....

Q) On what basis are employees **promoted**?

	Yes (3)	Not Sure (2)	No (1)
Q.160) Education	☐	☐	☐
Q.161) Experience	☐	☐	☐
Q.162) Seniority	☐	☐	☐
Q.163) Performance	☐	☐	☐
Q.164) Other, please specify:	☐	☐	☐

....

Q.165) How does your company **reward** employees?

(a) Salary alone 1 [ ]
(b) Additional Monetary Rewards 2 [ ] (Tick **ONE** only)
(c) Non-Monetary Rewards
(More Responsibility, Autonomy) 3 [ ]
(d) Both Monetary and Non-Monetary 4 [ ]

Q) What does the INDUCTION programme for **new employees involve?**

	Yes (3)	Not Sure (2)	No (1)
Q.166) Comprehensive training program	☐	☐	☐
Q.167) Contact with other departments	☐	☐	☐
Q.168) Contact with senior management	☐	☐	☐
Q.169) Customer satisfaction training	☐	☐	☐
Q.170) Contact with some customers	☐	☐	☐
Q.171) Other, please specify:		[ ]	

	Yes (3)	Not Sure (2)	No (1)
Q.172) Are staff satisfaction surveys regularly carried out?	☐	☐	☐
Q.173) Are all your employees informed of customer requirements?	☐	☐	☐

Defection

	Yes (3)	Not Sure (2)	No (1)
Q.174) Does your company **track** its customer defection rates ?	☐	☐	☐

Q.175) Approximately how **many** customers does your company have?

....

Q.176) Approximately how many **new customers** did your company **attract** last year?

....

Q.177) Approximately how many customers did your company **lose** last year?

....

Q.178) How does your customer defection rate compare with that of your competitors?

(a) Fewer defections 1[ ]
(b) Same 2[ ]
(d) More defections 3[ ] (please tick **ONE** only)
(e) Other, please specify:
.... 4[ ]

	Yes (3)	Not Sure (2)	No (1)
Q.179) Does your company analyse trends so as to understand why **customers** defect?	☐	☐	☐
Q.180) Does your company **segment** your customers who defect?	☐	☐	☐
Q.181) Are defecting **employees** asked for their reasons for leaving?	☐	☐	☐

Thank-You for completing the questionnaire.

Appendix 7: Qualitative Interview Schedule

Customer

Q.1) Does your company pursue a specific policy of **retaining** its existing customers?

Yes ☐ Not Sure ☐ No ☐

Q.2) What are the benefits of **retaining** customers?

Q.3) Would you say your **MAIN** customers are able to predict the future direction of the market? (i.e. do they have market foresight?)

Yes ☐ Not Sure ☐ No ☐

If **Yes:**

Q.4) In what ways are your **MAIN** customers able to predict the future direction of the market?

Q.5) What factors most **influence** your customers **purchasing** decision?

Q.6) How does your company know that your customers perceive your product / service as value for money?

Q.7) Which **personnel** have **MOST** contact with your customers?

Q.8) How does your company **communicate** with your customers? (i.e. inform them of your services)

Q.9) What does your company hope to **learn** from communicating with your customers?

Q.10) How does your **company encourage** your **customers** to tell you their **problems**?

Leverage

Q.11) In your opinion is your company able to predict which customers will generate value in the future?

Yes ☐ Not Sure ☐ No ☐

If **Yes:**

Q.12) How is your company able to predict accurately which customers will **generate value** in the future?

Q.13) From your present customer base. **Which customers** does your company particularly concentrate on to leverage more business from?

Q.14) How will your company **leverage (win) more business** from your existing customers?

Q.15) From your **present customer base,** what **percentage** of your customers generate

50% of sales: ....
80% of sales: ....
20% of sales: ....

Q.16) Which customers will your company focus on to leverage (win) more business from?

Q. 17) Which **new customers** does your company particularly focus on to **leverage (win)** more business?

Q.18) What is the **profile / characteristics of a profitable customer**?

Q.19) What is the profile of your **least** profitable customer?

Satisfaction

Q.20) What steps has your company taken to **improve** the **internal environment** of your company, in order to improve customer service? (resources SME has introduced)

Q.21) How, if at all, does your company **track** customer satisfaction?

Q.22) Are there any incentives your company offers your **MAIN** customers? (What are the incentives!)

Q.23) How often are customer suggestions introduced / implemented?

Q.24) What **problems** has your company experienced in trying to satisfy customers?

Service

Q.25) In your opinion does your company maintain a **consistent level of service,** for your **MAIN** customers?

Yes ☐ Not Sure ☐ No ☐

If Yes:

Q.26) How does your company maintain a **consistent level of service**?

Q.27) How does your company determine the level of service your **MAIN customer** should receive?

Q.28) How does your company **personalise** the service for your customers?

Q.29) What actions does your company take when a **customer complains**?

Marketing

Q.30) What are the **aims** of your **marketing programs**?

Q.31) How does your company hope to **increase** its **market share / growth**?

Q.32) What type of **marketing campaign** attracts the greatest number of **loyal** customers?

Q.33) How does your company know it is correctly targeting the right customers?

Q.34) How does your company measure the *financial effects of your marketing* programmes?

Q. 35) What are the specific **COSTS** associated with acquiring a new customer?

Q.36) What percentage of your marketing budget is spent on **acquiring** new customers?

Q.37) What percentage of your marketing budget is spent on your **existing** customers?

Q.38) What did your company do **last year** to retain your most profitable customers?

Q.39) What will your company do **this year** to retain your most profitable customers?

Q.40) What **marketing mistakes,** if any, has your company made in the past?

Loyalty

Q.41) What is your company's definition of a **Loyal customer**?

Q.42) How does your company **measure** customer loyalty?

Q.43) **Why** do you believe your customers are **loyal** to your company?

Q.44) What steps is your company taking to **maintain customer loyalty**?

Q.45) Does your company have **close relationships** with your **MAIN** customers?

Yes ☐ Not Sure ☐ No ☐

If Yes:

Q.46) What are the **benefits** of developing **close relationships** with your customers?

Q.47) In what ways does your company **reward** your most loyal/profitable customer?

Employees

Q.48) What do you believe would make your **employees** stay **loyal** to your company?

Q.49) How does your company **reward employee loyalty?**

Q.50) How do employees **demonstrate** their loyalty/ confidence with management?

Q.51) What is the **profile** of a **loyal** employee?

Q.52) What are the benefits of loyal employees?

Q.53) What effect do loyal employees have on a customer relationship?

Q.54) What steps has your company taken to improve **employee learning**?

Q.55) How does your company inform your employees of your customer needs?

Q.56) For **Q.51** you detailed the profile of a loyal employee, would you now detail the profile of a **less enthusiastic** employee?

Q.57) What effect, if any, do less enthusiastic employees have on your company?

Defect

Q.58) What are the **Major reasons** customers have given for **leaving** your company?

Q.59) What **lesson** has your company **learnt** from the customers that **defected**?

Q.60) What are the **Major reasons** employees have given for leaving your company?

Q.61) What lessons has your company learnt from employee defection?

Productivity

Q.62) What is the **profile of an employee** that has high productivity (performance) levels?

Competition

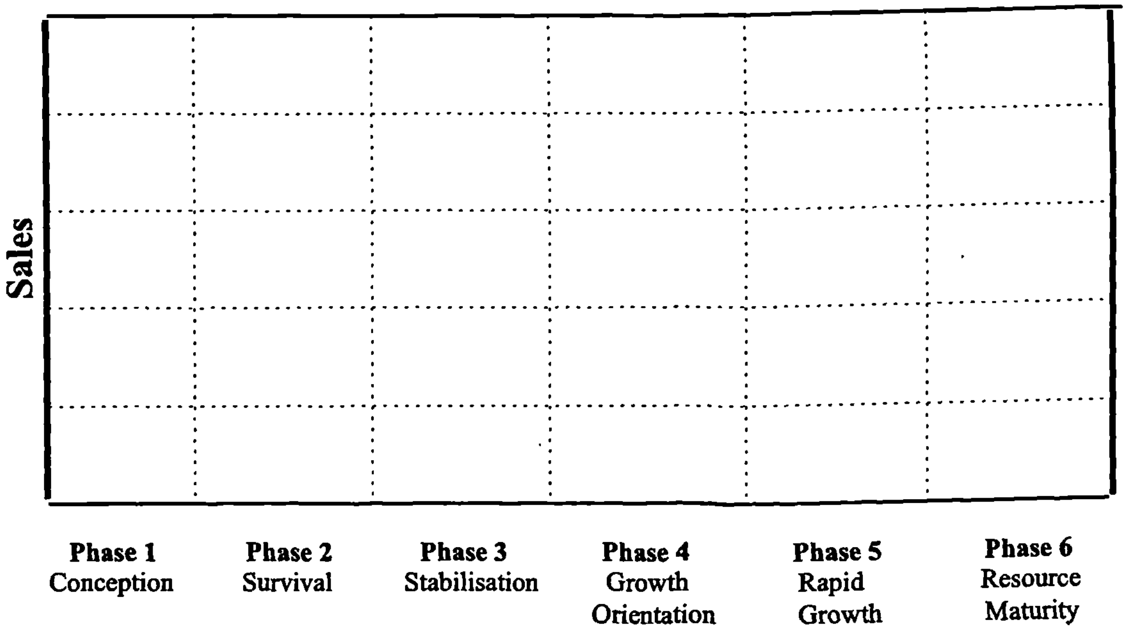
Q.63) How does your company try to **stay ahead** of your competitors?

Q.64) Why does your company **lose business** to your competitors?

Growth

Q.65) Briefly describe the **history of growth**, for your company?
(Refer to Prof. Churchill's Management Phases diagram)

Phases in Management



Q.66) At what **stage of growth** is your business currently in?
(Refer to Prof. Churchill's Management Phases diagram)

ENTREPRENEURSHIP

Q.73) Tell me about a **Positive critical period** and how your company handled it?

(a) What was the positive event

(b) How did your company achieve this positive event

(c) What were the benefits to your company

(d) Where any changes introduced

(e) What were the learning outcomes

Q.74) Tell me about a **Negative critical period** and how your company handled it?

(a) What was the problem

(b) Was it resolved

(c) How was it resolved

(d) Where any changes introduced

(e) What were the learning outcomes

Appendix 8: Steps in Analysing Qualitative Data

1. Read books/ articles on qualitative analysis
2. Consult practitioners / academics on analysing qualitative data
3. Elicit questions from subject domain literature review
4. Pilot study of initial transcripts
5. Refinement of 'qualitative questions'
6. Determine interview pool (Sampling framework -theoretical sample selected)
7. Interview respondents randomly (entrepreneurial and non-entrepreneurial)
8. Write down notes after each interview
9. On-going continuous analysis of Interview transcripts
10. Sort transcript scripts into Proactive, Reactive and Informal
11. Read transcripts (too gauge an idea into the type of responses)
12. Re-read transcripts only this time, using a pencil mark to code labels sections of text
13. Manual analysis of qualitative analysis
14. Categorise quotes and write a table of quotes for each question
15. Look for similarities and differences in all the SME categories
16. Verify categories with other groups of transcripts
17. Cut out all the responses and similar responses to each question and paste them on one sheet, which identifies the category of each question
18. Label quotes in each question (i.e. location identifiers)
19. Identify the main categories that have developed
20. Update the index of all the categories, so that similar categories in other themes can be identified
21. Identify which categories need to be spliced or split
22. Verify new categories
23. Identify similar responses for each question
24. Verify again similar responses
25. Identify possible links (both +ve and -ve)
26. Re-verify again similar responses
27. Keep reading categories to confirm links
28. Count the number of links between each category to determine its strength of association
29. Try to identify new links
30. Verify all links
31. Construct a graphical display for each question category
32. Construct a matrix showing the frequency of each code, for each category, by type of SMEs
33. Start from the beginning to make sure that all text has been coded to further refine the coding and analysis
34. After a period of time verify all the above to ensure integrity of analysis
35. Carry out the above analysis using Computer packages
36. Use keyword searches as well as (sounds like, all word forms, e.g. service, servicing, serviced, etc)
37. The analysis was then typed into a wordprocessor and the same steps carried out from steps 14 to 33 in the manual analysis
38. All codes typed up in an index
39. Index of codes sorted alphabetically

40. Similar or identical codes identified
41. Quotes of similar or identical categories explored to see if they can also be pasted into other categories
42. Links and frequency of association between both similar and opposite categories identified
43. Internal links identified, plus the strength of the association
44. Links represented graphically and the intensity of the links represented by varying widths of arrow lines
45. Interpretation of links provided in terms of general trends, themes identified, etc
46. Write report / conclusion of all qualitative analysis
47. When analysis of categories for write up takes place, it provides another opportunity to verify classification and appropriateness of each quote for the category specified
48. Report verified by director and other external moderators.

Appendix 9: Student Analysis of CIT Transcripts

Group: ....

Fill in a **SEPARATE SHEET** for each **COMPANY** you analyse

Name of Company : .... (Enter the company **ID**: letters **A to G**)

Do you believe this company is:

(a) Entrepreneurial [ ]
(b) Non-Entrepreneurial [ ] (TICK **one** only)
(c) Other [ ]
(d) Don't know [ ]

Justify the reasons you have given for describing the firm as either entrepreneurial or non-entrepreneurial?

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(continue on a separate sheet)

Firm behaviour analysis exercise.

A number of interviews were carried out with small and medium sized enterprises (SMEs) in the UK. The interviews focused on both positive and negative events in the history of the company and how the company coped with each event, so as to identify their behaviour.

The analysis should focus on:

- Looking at entrepreneurial acts
- Process of implementation
- Decision outcomes from actions

The aim is to identify **Entrepreneurial Behaviour** through analysing the behaviour of the SMEs during both positive and negative periods in the company's history.

Appendix 10: Papers Presented and Conferences Attended

Title of paper	Conference		Location	Date
A convergence of Entrepreneurial Firm characteristics: Implications for teaching and applying Entrepreneurship in an SME	Research at the Marketing / Entrepreneurship interface	Competitive Paper		August, 2002
A Comparison of the Adoption and Practice of Relationship Marketing by Established Entrepreneurial and Non entrepreneurial SMEs: Entrepreneurship Matters!	The proceedings from the AM Special Interest Group on Marketing and Entrepreneurship (pp. 153-162)	Competitive Paper		February, 1999
Extending the Role of the Marketing / Entrepreneurship Paradigm to the Public Sector: CCT in Architectural Services within English Local Authorities.	The proceedings from the AM Special Interest Group on Marketing and Entrepreneurship (pp.95-104)	Competitive Paper		February, 1999
"Adding Value?- A comparison of the adoption and practice of relationship marketing by established Entrepreneurial and Non-entrepreneurial SMEs"	Research at the Marketing / Entrepreneurship interface (pp 3-16)	Competitive Paper	University of Illinois, Chicago, USA	August, 1997
"Using a customer retention and development strategy to leverage company growth by redirecting the firms marketing internally"	Academy of Marketing (pp.1150-1155)	Work in Progress	Manchester Metropolitan University, UK	July, 1997
"The Adoption of a Customer Retention and Development Strategy as a Low Risk Growth Strategy for the Entrepreneurial Firm. Some UK Evidence from business service SMEs in West Yorkshire"	Babson Entrepreneurship Research Conference	Competitive Paper	Boston, USA	April, 1997
"Internal Marketing: Theory and Practice some evidence.",	Marketing Education Group, Track CD ROM	Work in Progress	Strathclyde University, Glasgow, UK	July, 1996
"An investigation into the consequences of adopting a low risk strategy to growth through a customer retention and development strategy"	Babson Entrepreneurship Research Doctoral Colloquium **Scholarship Awarded**	Work in Progress	Washington University, Seattle, USA.	April, 1996
"Achieving growth in entrepreneurial SMEs through a customer retention and development strategy",	Marketing Education Group Doctoral Colloquium,	Work in Progress	Bradford University, UK	June, 1995
"Review of the Marketing / Entrepreneurial paradigm",	Marketing/Entrepreneurship conference,	Work in Progress	Glasgow University, UK	January, 1995

Published Papers:

1999, "Relationship Marketing: Its Key Role in Entrepreneurship", Long Range Planning, Vol. 31, No. 6, pp. 828-83

Appendix 11: Categorisation of Entrepreneurial Definitions from the papers presented at the Marketing/Entrepreneurship Interface conferences between 1987-1994

BESPOKE

- affluent established family business
- award winners
- capture a new market ahead of competition, attempt to
- case studies - entrepreneurial company; individual with high net worth
- compare and contrasts distinct definitions of entrepreneurship, intrapraneurship & small business
- creating opportunity in risky and uncertain environments
- critiques common myths in describing the entrepreneur e.g. high risk takers, capitalise themselves, become wealthy
- entrepreneurial behaviour linked to market planning, risk, opportunity, creativity
- entrepreneurs create wealth
- entrepreneurs who view business as extension of their social values Vs traditional profit orientated entrepreneurs
- executives as dynamic industry
- founders, directors, participants in industry-university co-operative research centres
- generic human behaviour rather than solely a business phenomenon
- growth or more professional approach were major goals (self reported characteristics)
- industrious, self driven individuals
- international marketing is entrepreneurial - creation of business or change
- marketing as the process that delivers entrepreneurial outcomes
- meeting customers needs
- participants of a university entrepreneurship programme
- personal and situational factors that predispose to entrepreneurial acts
- risks, achievement driven, proactive, innovative
- successful existing businesses excludes failures & 'caretakers'
- successful market entry into mature business and growth
- synonymous with small business
- unique experience and characteristics that set them apart from small business owners
- vision
- volatile, fragmented industry
- wide range of approaches; wide ranging set of behavioural variables

COMPETENCE DISTINCTIVENESS

- entrepreneurial marketing management requires different competencies

CORPORATE ENTREPRENEURSHIP

- corporate entrepreneurship, intrapreneurship or corporate venturing

CREATE

- entrepreneurs started business or purchased one, non entrepreneurs inherited, assumed the business or were paid managers
- entrepreneurship is the process of assembling resources to create and build an independent empire
- founders of business, new and start up organisation, new concept
- newness, resources, organising, creating, wealth and risk taking

Review of Bespoke Characteristics From 1995 to 2000 Review

Bespoke Characteristics
Org structure & performance
Needs of the entrepreneur
Cognitive (knowledge)
Product modification
International Marketing
Social Responsibility
Education
Internationalisation
Management Styles
Strategy (internal & external implementation)
Networking
Environmental influence
Educational co-operation
Perception of competitive market
Entrepreneurial consumer
Guarantees
Strategic freedom, cash flow
Financing
Competitive dynamics
Supply chain
Quality Management
Attitude to entrepreneurship
Gender & Opportunity
Downsizing