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ROLE AND PRACTICES OF MARKETING IN SMES

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*“Ei tärkein ole kai se vauhti
vaan usein matka sinänsä.
Ei tärkein ole aina maali
vaan kuka kulkee vierellä. ---*

*Ei tärkein ole kai se määrä
vaan että tunnet ystävän.
Ei tärkein ole edes viisaus
vaan kuinka sitä hyödynnän.*

*Ei tärkein ole mitä saadaan aikaan
vaan löytää ilo vaikei kävisi kuinkaan.”*
Jari Kekäle (extracts from a song Tärkein)

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Helen Reijonen

ABSTRACT

The purpose of this dissertation was to gain a more profound understanding of the role and practices of marketing in SMEs and, thus, to enhance the development of marketing theory in relation to this context. Traditionally, marketing theory has been developed based on studies on large organisations. Consequently, it cannot be applied directly to SMEs, where marketing practices may differ considerably from those of their larger counterparts. Thus, the need to examine marketing practices and develop a theory of marketing in SMEs has been recognised.

More specifically this dissertation concentrates on examining three interrelated constructs: *marketing concept*, *market orientation* and *success*. Marketing concept is defined as an organisation's purpose to identify the needs and wants in its target markets and then to satisfy those needs more effectively and efficiently than its competitors. Market orientation is the implementation of marketing concept. It consists of three behavioural elements: customer orientation, competitor orientation and interfunctional coordination and of three sets of activities: generating, disseminating and responding to market intelligence. Finally, market orientation is seen to enhance firm performance and success. This dissertation considers what the perceptions of marketing are, how marketing is adopted and implemented and what the relationship of marketing and business success is in the context of SMEs.

The dissertation consists of two parts. It is based on four articles that are reprinted in the second part. In the first part, a summary is presented where the theoretical and methodological backgrounds are elaborated, the results reviewed and supplemented and, finally, conclusions drawn and ideas evinced for further research. In the empirical examination, a mixed methods programme was followed in the investigation of SMEs in North Karelia, Eastern Finland.

The results indicated that SME marketers perceive marketing through concrete practices that often relate to promotion, selling and customer relationships. They do not seem to have adopted a single business philosophy but rather features of several philosophies that they estimate to best fit their business operations. With regard to market orientation, SMEs had adopted this to a certain extent. The focus was on customer information gathering, but to act in a truly market-oriented way would require paying more attention to the dissemination and responsiveness of market intelligence. SMEs differed in their notions and practices of marketing. Especially in the smallest of SMEs the role of marketing was not considered focal and it was often carried out unsystematically and sporadically. In addition, instead of traditional financial success measures, owner-managers emphasised personally related ones, such as job satisfaction. It seems that owner-managers have explicit or implicit notions of what they want to achieve with their enterprises and, at the same time, they have perceptions of what marketing consists of and what its outcomes will be. According to these perceptions, marketing is applied so that the self-defined important business goals and, thus, success is achieved.

Keywords: SMEs, marketing concept, market orientation, success

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LIST OF ORIGINAL ARTICLES

This dissertation is based on the following articles:

I: Reijonen, Helen (forthcoming). Do All SMEs Practice Same Kind of Marketing? 1st submission: June 24th 2008, accepted: June 5th 2009. Designated to be published in *Journal of Small Business and Enterprise Development*.

II: Reijonen, Helen & Komppula, Raija (forthcoming). The Adoption of Market Orientation in SMEs: Required Capabilities and Relation to Success. 1st submission: February 11th 2009, accepted: July 15th 2009. Designated to be published in *Journal of Strategic Marketing*.

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IV: Reijonen, Helen (2008). Understanding the small business owner: what they really aim at and how this relates to firm performance. A case study in North Karelia, Eastern Finland. *Management Research News*, 31(8), 616-629.

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1 INTRODUCTION

The person who is tired of small business research is tired of life (Curran & Blackburn 2001).

1.1 Relevance of the study

In Finland, 99.8 per cent of firms are small and medium-sized enterprises (SMEs) employing over 60 per cent of all the businesses' workforce and creating about a half of their turnover (Yrittäjyyskatsaus 2008). These numbers indicate that SMEs are important in creating jobs and promoting overall economic growth. Furthermore, they are expected to bring innovations to the markets and operate as catalysts in society. Thus, great emphasis has been put on SMEs as research objects (Morrison et al. 2003).

In the EU definition, SMEs are defined as enterprises with fewer than 250 employees whose annual turnover does not exceed 50 million euros or whose annual balance sheet total does not exceed 43 million euros. In the academic literature other criteria used to classify small firms have also included sales volume, asset size, types of customer and capital requirements, industry market share and significance within the industry (McCartan-Quinn & Carson 2003). Thus, McCartan-Quinn and Carson (2003) argue that there is no clear and agreed definition of a small firm. For the purposes of this study, the term SME is taken to refer to enterprises with fewer than 250 employees.

Academic studies have shown that marketing plays a significant role in SMEs. On the one hand it is one of the biggest problems owner-managers face in their business operations and, on the other hand, it is recognised as one of the most important business activities and essential to the survival and growth of the enterprises (Stokes 2000b, Simpson & Taylor 2002). Traditionally, marketing theory has been developed mainly based on studies on large organisations (Stokes 2000b) and, thus, it is argued that it cannot be applied directly to SMEs, where the practices and activities may differ considerably from those of their larger counterparts (cf. Hill 2001). In addition, it has been recognised that there is no clear definition or grand unifying theory of marketing in SMEs (Simpson et al. 2006). The contribution of this dissertation will consist of a

more profound understanding of the role and practices of marketing in SMEs and, thus, of the development of marketing theory with reference to this context.

The theme of this dissertation is closely related to the research area of entrepreneurial marketing, which has been an object of increased interest in the past decades (Collinson & Shaw 2001). The focus is on the interface between marketing and entrepreneurship – which have traditionally been considered to be two different fields of study (Hills et al. 2008). Researchers, however, have become more aware of the importance of entrepreneurship in marketing and also of marketing having a significant role in successful entrepreneurship (Stokes 2000a). Although entrepreneurial marketing can be adapted to larger firms (Miles & Darroch 2006), the emphasis has been on investigating marketing forms that are appropriate to SMEs (Stokes 2000a). In addition, it has been recognised that entrepreneurs have a pivotal role in the marketing activities of their enterprises. Thus, entrepreneurial marketing has been defined as “marketing carried out by entrepreneurs or owner-managers of entrepreneurial ventures” (Stokes 2000b). It has been further defined in terms of “the behaviours and activities that are typical of those involved in successful entrepreneurial ventures” (Stokes 2000a).

Small firm marketing and entrepreneurial marketing do not, however, necessarily refer to the same thing, although the line between them may be blurred. Carland et al. (1984) defined a *small business venture* to be “any business that is independently owned and operated, not dominant in its field, and does not engage in any new marketing or innovative practices”. On the other hand, they argued that *entrepreneurial ventures* are characterised by innovative strategic practices and that their goals are aimed at profitability and growth. Thus, it can be argued that not all small firms are entrepreneurial (Chaston 1998). Most of them do not intend or even want to grow (Greenbank 2001). On the other hand, it is argued that business owners who carry out entrepreneurial marketing have both financial goals and personal goals with regard to their business operations and that they make decisions not to invest in marketing to achieve growth or not to delegate control and responsibility to employees in order to grow (Hills et al. 2008). All in all, it is suggested that the examination of marketing processes in the small firm context is useful in order to enhance our understanding of entrepreneurial marketing (Stokes 2000b).

More specifically, the research object of this dissertation is related to these three interrelated terms: *marketing concept*, *market orientation* and *firm performance or success*. Market orientation is based on marketing concept (Jaworski & Kohli 1993) defined to mean an organisation's purpose to find out needs and wants in its target markets, and then to satisfy those needs more effectively and efficiently than its competitors (Slater & Narver 1998). Market orientation consists of three elements: customer orientation, competitor orientation and interfunctional coordination (Narver & Slater 1990). With regard to these elements, market oriented firms 1) generate market intelligence about customers' present and future needs, 2) disseminate this information through the organisation and, finally 3) respond to the intelligence (Jaworski & Kohli 1993). In addition, market orientation is seen to enhance firm performance (Kirca et al. 2005, Matear et al. 2004, Pulendran et al. 2003, Matsuno et al. 2002, Kohli & Jaworski 1990). This dissertation considers what the perceptions held about marketing are in SMEs (cf. marketing concept), how marketing is adopted and implemented in SMEs (e.g. market orientation) and, finally, what the relationship of marketing and business success is in the context of SMEs.

Figure 1 presents a simplified summary and description of the kind of theoretical discussion of which the theme of this dissertation forms part. The theoretical objective of this dissertation is to enhance the development of marketing theory concerning the context of SMEs by obtaining a more profound understanding of the role and practices of marketing in SMEs. In the literature it has been argued that marketing in large firms differs from that in SMEs due to the special characteristics of the latter. Consequently, there is a need to examine the marketing carried out in SMEs in order to develop a marketing theory appropriate to the small firm context. The special characteristics of SMEs are discussed in more detail in Chapter 2.4.1 but they include the influential role of the owner-manager in the every activity of the enterprise. Thus, entrepreneurial marketing has gained more attention in recent decades as it investigates the interface between marketing and entrepreneurship. Entrepreneurial marketing and small firm marketing are closely connected but they cannot be treated as synonyms because not all small firms are entrepreneurial. It can be argued, however, that a better understanding of small firm marketing may also serve to develop the understanding of entrepreneurial marketing.

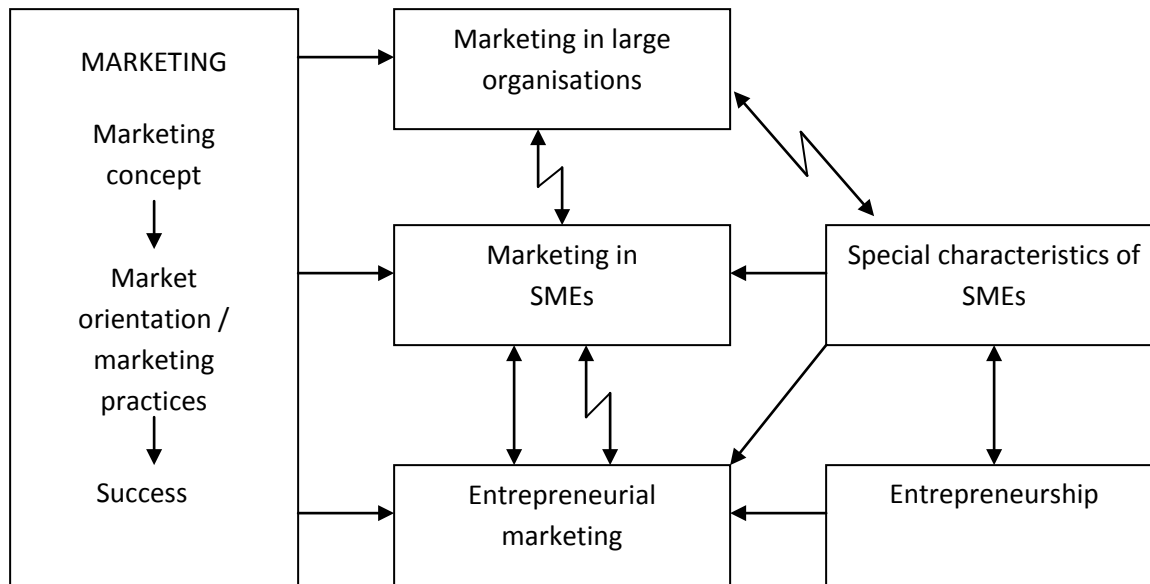


Figure 1. Summary of the theoretical discussion to which the dissertation is related.

1.2 Outline of the study

This dissertation consists of two parts. In the second part, the four articles that form the basis of this dissertation are reprinted. The first article examined the perceptions of marketing held in SMEs, and further what marketing tasks were regarded as important and what the general attitudes toward marketing were. These issues were compared between SMEs of different sizes, operating in different industries and in different customer markets. The second article discussed how market orientation has been adopted in SMEs and how market orientation is related to the success factors that were important to the respondent. In addition, the article examined what kind of marketing capabilities are required in successful business operations. A customer relationship oriented marketing process was taken as the premise of the third study. This process included phases, such as customer information gathering, customer segmentation, creating value by differentiation and managing customer relationships. The study examined how actively SMEs performed these basic marketing activities and if there were differences in the activity according to firm size, industry or customer markets. The fourth article examined what kind of success measures small business owner-managers applied when assessing their

business operations. These success measures are suggested to drive the behaviour and decision-making of owner-managers.

The first part of this dissertation consists of the representation of the theoretical and methodological background of the thesis. In the introduction, the relevance of the study is established and an outline presented. The second chapter comprises the theoretical framework of the dissertation. First the three central themes of marketing concept, market orientation and success are elaborated from a general point of view and then from the perspective of SMEs. In the third chapter, the research setting and the research objectives are discussed in detail. The fourth chapter consists of an elaboration of the methodological approach and choices and a description of the data collection and analysis. In the fifth chapter the primary results of the articles are discussed. In the final chapter conclusions are drawn and ideas for further research evinced.

2 THEORETICAL FRAMEWORK

2.1 Basis of market orientation - marketing concept

Although the idea of it was mentioned a couple of decades earlier, the term “marketing concept” was introduced in the literature in the 1950s (Lusch & Laczniak 1987, Svensson 2001). It offered an alternative to sales, production and product concepts. In the marketing concept the starting point is customers’ needs and wants, whereas according to the sales concept, a firm aggressively looks for exchange partners for established offerings (Houston 1986), according to the production concept, it focuses on low production costs and, thus low prices through standardisation and mass production, and according to the product concept, it focuses on quality and product development (Duus 1997).

The marketing concept has been seen as a business philosophy, an ideal or a policy statement (Kohli & Jaworski 1990). Moreover, it is said to articulate an ideology that offers a framework for business success (Brownlie & Saren 1992). According to Houston (1986), marketing concept is a prescription of how a firm achieves its goals. He states that

“an entity achieves its own exchange determined goals most efficiently through a thorough understanding of potential exchange partners and their needs and wants, through a thorough understanding of the costs associated with satisfying those needs and wants, and then designing, producing, and offering products in light of this understanding” (Houston 1986, 85).

The basis of this comprehensive understanding is formed by gathering information through marketing research and also making future anticipations about customer needs that are not explicitly expressed (Houston 1986). Depending on whether the firm relies on the expressed needs or focuses on not-yet-existing future opportunities, Duus (1997) suggested that marketing concept could be seen from a traditional perspective or through a new interpretation. According to him, the traditional marketing concept assumes that offerings should be created after the information about the market needs have been gathered in order to meet the demand, whereas the new interpretation suggests that the focus should be on developing new resources and capabilities through which offerings satisfying future needs could be created. Slater’s and Narver’s (1998) definition of marketing concept concurs with that of

Houston (1986) but with an additional competitive dimension. They summed up the definition of marketing concept as an organisation's purpose to find out needs and wants in its target markets and then to satisfy those needs more effectively and efficiently than its competitors.

The emphasis of marketing concept has been on the relationship between a buyer and a seller (Svensson 2001). Grönroos (1989) argued that marketing revolves around customer relations and that the goals of each party are met through exchanges which in turn establish and maintain these relationships. The marketing concept, however, is broadened to include other relationships. The importance of taking into account all the members in the marketing channel (Svensson 2001) and also the needs and wants of multiple stakeholders or publics (Lusch & Laczniak 1987) is highlighted. In addition, the marketing concept has been used in the context of both profit and non-profit organisations and, moreover it has been taken out of the business context and examined with regard e.g. to political marketing (O'Cass 1996).

Researchers have identified three apparently recurrent themes in the various definitions of marketing concept. These relate to customer focus, coordinated marketing efforts and profitability (Kohli & Jaworski 1990). The customer is the fulcrum of business operations (Lusch & Laczniak 1987) and, thus, the focus should be on obtaining information about customers' needs and wants and taking actions based on this information in order to satisfy such needs and wants (Kohli & Jaworski 1990, Turner & Spencer 1997). To be able to satisfy these needs entails an organisation-wide integrated effort (Turner & Spencer 1997) and, consequently, the implementation of the marketing concept is not the responsibility of a marketing department but the whole organisation (Kohli & Jaworski 1990). In addition, the marketing concept can be regarded as a means to achieve long-term objectives (Turner & Spencer 1997) and its often suggested consequence is profitability (Lusch & Laczniak 1987, Kohli & Jaworski 1990). The application of the marketing concept is seen to lead to the enhancement of sales figures, new product success, product quality, market share, *esprit de corps* and overall business performance (Nakata & Sivakumar 2001).

Nakata and Sivakumar (2001) examined how organisations root themselves in the marketing concept. According to them, this takes place through three steps. During the first step,

interpretation, a firm determines what the marketing concept is by formulating some notion of it and attaching meanings, values and beliefs to it. The second step, *adoption*, entails determining if and when the firm should commit to institutionalising the marketing concept. The last step is *implementation*. In this step a firm determines how it should execute the concept via specific activities.

2.2 Market orientation

2.2.1 Construct and content of market orientation

Market orientation is the implementation of marketing concept, which means that the actions of a market-oriented firm are consistent with the ideas of marketing concept (Kohli & Jaworski 1990). Two seminal papers by Narver and Slater (1990) and Kohli and Jaworski (1990) discussed the content, construct and consequences of market orientation. Narver and Slater (1990) argued that market orientation is an organisation culture that consists of three behavioural components: customer orientation, competitor orientation and interfunctional coordination, and of two decision criteria: long-term focus and profitability. According to them, customer and competitor orientation include the activities of acquiring information about customers and competitors and disseminating this information throughout an organisation, and interfunctional coordination means the coordinated creation of customer value based on the gathered information.

Kohli's and Jaworski's (1990) view of the content of market orientation is related to that of Narver and Slater (1990) described above, but they take a different perspective and define market orientation through three sets of activities. These sets are 1) generation of market intelligence concerning present and future needs of the customers, 2) dissemination of this information through the organisation and 3) organisation-wide task of responding to the gathered intelligence by making and implementing plans based on the gathered information (Jaworski & Kohli 1993). Kohli and Jaworski (1990) state further that organisations usually differ in the extent to which they perform these tasks and, consequently, they suggest that it is more

appropriate to assess the degree of market orientation in a firm rather than whether the firm is market-oriented or not. Steinman et al. (2000) argued that the appropriate level of market orientation of a firm should be defined by the customer.

Becker and Homburg (1999) identified two perspectives of market orientation that have been featured in the marketing literature. *Behavioural perspective* is based on Kohli's and Jaworski's (1990) view of market orientation consisting of activities (generation, dissemination and responsiveness to market intelligence) and *cultural perspective* on Narver's and Slater's (1990) idea that market orientation is an organisational culture in which the market, customers and competitors are focal to the business operations (Vázquez et al. 2001). In the behavioural perspective, the main focus is on action and, especially, information related behaviour is highlighted (Helfert et al. 2002). On the other hand, while cultural perspective focuses on norms and values within the organisation (Becker & Homburg 1999) behavioural components are also heavily emphasised (Helfert et al. 2002). Thus, there is some overlap in the approaches. According to González-Benito and González-Benito (2005), there is a positive relationship between the two approaches: on the one hand, the development of market-oriented culture leads to consistent behaviour and, on the other hand, market-oriented behaviour also enhances the development of a concordant culture in the organisation. However, they argue further that cultural market orientation does not necessarily precede behavioural market orientation. According to their study, there are firms where market orientation is adopted more as an operational recipe than as a management philosophy. In addition to cultural and behavioural approaches, Becker and Homburg (1999) suggested a third – a system-based perspective on market orientation. This perspective conceptualises market orientation as the degree to which the different management systems in an organisation are designed in a market-oriented way. Tuominen (2002) also suggested an approach that integrates the philosophical and behaviourist perspectives. He called this approach "market orientation as a resource in organizational learning". In this approach market orientation is considered an intermediate factor between a business strategy and the cultural business logic.

Narver et al. (2004) divided market orientation further into responsive and proactive market orientation. They stated that traditionally empirical analyses have concentrated on responsive

market orientation that aims to understand and to satisfy the expressed needs of customers. On the other hand, Narver et al. (2004) argued that in proactive market orientation a firm attempts to understand and meet the latent customer needs, i.e. those needs that are not expressed and, thus, proactivity implies the attempt to lead customers rather than simply to respond to them.

Lafferty and Hult (2001) also examined the literature on market orientation and identified five different approaches to it: 1) the *decision making perspective*, where market orientation is conceptualised as an organisational decision-making process, 2) the *market intelligence perspective*, that emphasises the tasks of generating, disseminating and responding to market intelligence (cf. Kohli & Jaworski 1990), 3) the *culturally based behavioural perspective*, where market orientation is seen to consist of customer orientation, competitor orientation and interfunctional coordination (cf. Narver & Slater 1990), 4) the *strategic perspective*, that focuses on the making and implementing strategies based on gathered market intelligence and 5) the *customer orientation perspective*, which is similar to the culturally based behavioural perspective but which excludes competitor orientation. Moreover, Lafferty and Hult (2001) recognised four general ideas that were present in all of these perspectives: the emphasis is 1) on customers, 2) on the importance of shared information 3) on the interfunctional coordination of marketing activities and relationships and, finally, 4) on taking appropriate actions based on the information. Liu (1995) also listed elements that are related to market orientation according to the existing marketing literature. In addition to Lafferty's and Hult's view, Liu recognised factors such as profitability, business philosophy, innovation and competitor reference.

The terms "market orientation" and "marketing orientation" have sometimes been used interchangeably synonymously (e.g. Avlonitis & Gounaris 1999, Cadogan et al. 2002). Some researchers have, however, distinguished the terms from one another (e.g. Slater & Narver 1998). Kohli and Jaworski (1990) preferred the term "market orientation" and justify this by giving three reasons: 1) the generation, dissemination and responsiveness to market intelligence is not the exclusive responsibility of the marketing department as the term "marketing orientation" would suggest, 2) "market orientation" does not emphasise the importance of marketing function in an organisation and thus, is not so politically charged as

“marketing orientation” and, finally, 3) “market orientation” turns the focus on markets. In addition, Esteban et al. (2002) argued that as opposed to “marketing orientation”, “market orientation” takes into account not only current customers but also potential customers.

Other often used concepts when discussing market orientation are “market-oriented”, “market-driven” and “driving markets”. Webb et al. (2000) found that in the literature the terms “market-oriented” and “market-driven” are viewed either as interchangeable concepts or as different constructs. Narver and Slater (1998) argued that “market-oriented” refers to a long-term commitment to understanding expressed and latent customer needs and to developing solutions that offer superior customer value. Jaworski et al. (2000) stated that there are two approaches to being “market-oriented”, namely “market driven” or “driving markets”. According to them, a market-driven firm understands and reacts to the preferences and behaviours of customers in a given market structure, whereas the term “driving markets” relates to a firm that affects the structure of the markets and the behaviours of the customers therein in order to enhance its competitive position. In contrast to the view of Jaworski et al. (2000), Schindehutte et al. (2008) argued that market-driving behaviour is not even a part of market orientation. According to them, market-driven behaviour is an aspect of market orientation that precedes innovation and market-driving behaviour is a potential outcome of a breakthrough innovation. In this dissertation the terms “market orientation” and “market-oriented” are used, the latter including both market-driven and market-driving behaviours.

2.2.2 Development of market orientation and the role of capabilities

The creation of market orientation requires a change in the organisation’s culture so that every employee adopts the understanding that the purpose of the organisation is to create superior value for customers (Farrell 2000). Gebhart et al. (2006) argued that the creation of market orientation goes through a four-stage process that includes 1) initiation, 2) reconstruction, 3) institutionalisation and 4) maintenance. They describe the process as starting with the recognition of an external threat, to address which a small group of empowered managers plan for a change. This plan is then presented to the whole organisation, after which a new set of

values and norms is developed and market experiences are shared in order to bring about a consensus for a change. In the next stage the change is institutionalised in the structure, processes and formal rewards of the organisation. In the final stage mechanisms to sustain market orientation are created.

Kohli and Jaworski (1990) introduced organisational factors that enhance or impede market orientation. These antecedents include senior management factors, interdepartmental dynamics and organisational systems (Figure 2). Kohli and Jaworski (1990) suggested that senior management has a very important role in facilitating market orientation: top managers' emphasis on market orientation i.e. commitment to it and communication of this commitment fosters the adoption of market orientation. Another factor that relates to senior management is risk aversion that is said to prevent subordinates being responsive to changes in the markets (Kohli & Jaworski 1990, Aggarwal & Singh 2004).

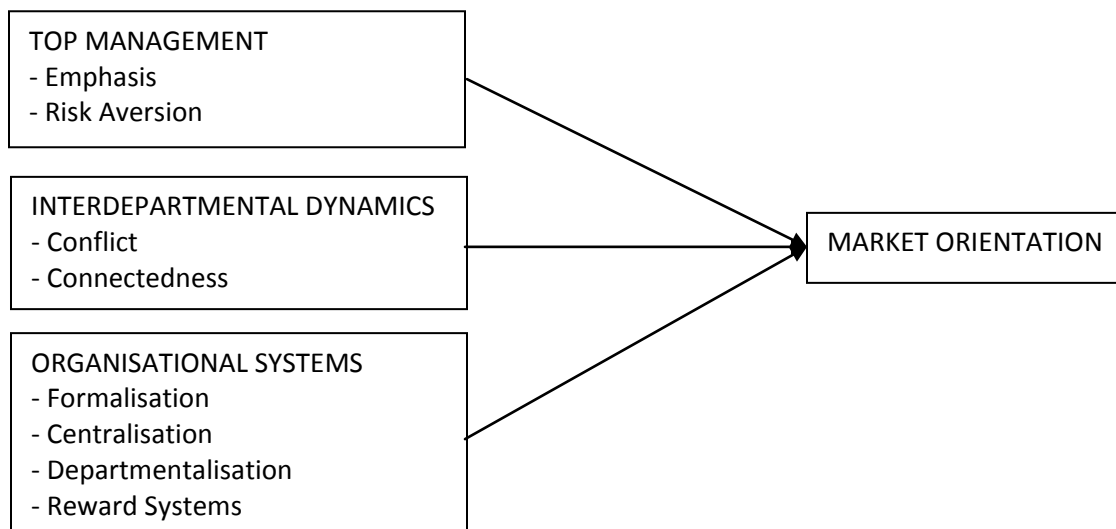


Figure 2. Antecedents of market orientation (adapted from Jaworski & Kohli 1993).

Interdepartmental dynamics describes interactions and relationships between different departments of an organisation (Kohli & Jaworski 1990). Interdepartmental conflict refers to the

tension between departments and is seen to impede dissemination and responsiveness to market intelligence, whereas interdepartmental connectedness, which refers to the extent of direct contact between employees, is deemed to facilitate these tasks (Jaworski & Kohli 1993).

Organisational systems relate to organisational structure and organisationwide characteristics (Kohli & Jaworski 1990). According to Jaworski and Kohli (1993) this set of antecedents includes three structural variables: formalisation (how e.g. roles, authority and procedures are defined through rules), centralisation (how decision-making is centralised) and departmentalisation (how activities are segregated to different departments), and one variable relating to the measurement and reward system in the organisation. In their study, they found that reward systems seem to have the strongest effect on market orientation among the organisational systems whereas formalisation and departmentalisation do not appear to be related to market orientation. Kirca et al. (2005) also found that market-based reward systems seem to have a strong positive impact on market orientation. In their study, the antecedent with the strongest effect on market orientation was, however interdepartmental connectedness, followed by top management emphasis.

The role of the top manager (i.e. owner-manager) in the adoption of market orientation is recognised in SMEs, but interdepartmental dynamics and organisational systems do not as such fit in this context. In the above descriptions they relate to interactions and operations between different departments within an organisation. In small and micro-sized enterprises they usually do not have separate departments. Thus, in the SME context it would be more appropriate to study e.g. what kind of impact tension, direct contact (cf. interdepartmental dynamics) or segregation of different tasks (cf. departmentalisation) between *individuals* has on market orientation. This is not, however, the objective of this dissertation.

Harris (2002) stated that in addition to examining the antecedents of market orientation it is important to know about the different approaches, strategies and tactics that management employs to develop and improve it. According to the results of his study, there are five dimensions, each having a different main emphasis, that explain the differences in management approaches describing how market orientation is developed in the organisation. He defined

these dimensions to be: 1) *hearts and minds*, where the emphasis is on the need to fundamentally change the existing beliefs and attitudes to those supporting market orientation, 2) *behavioural and emotional display*, where the focus is on changing and/or controlling how employees act, 3) *customer relationships*, that highlights the initiation and maintenance of mutually beneficial, long-term customer relationships, 4) *the extent of political activity* where the development of market orientation in an organisation is characterised by political manoeuvrings and 5) *the extent of imitation*, where the focus is on the identification of the key success factors of competitors and, then mimicking them. Harris (2002) proposed that the approach the firm adopts is linked to the organisational and environmental characteristics, such as management, industry and competitor characteristics.

Marketing capabilities play an important role in the creation and development of market orientation. They are regarded as prerequisites of market orientation (Vorhies et al. 1999, Tuominen 2002) and by identifying and building certain capabilities organisations are seen to become more market-oriented (Day 1994). Capabilities are defined to be:

“complex bundles of skills and collective learning, exercised through organizational processes, that ensure superior coordination of functional activities” (Day 1994, 38).

Vorhies et al. (1999) argued that marketing capabilities are developed when employees repeatedly apply their knowledge and skills combining intangible resources with tangible ones in order to solve marketing problems. Capabilities should, however, be separated from resources or assets. Resources are defined to be anything that could be considered to be a strength or a weakness of a firm (Wernerfelt 1984). Assets, on the other hand, are the resource endowments the firm has accumulated and capabilities are the glue that holds the assets together and enables them to be profitably applied (Day 1994).

A firm should have a few distinctive capabilities that are difficult to develop and imitate and with the help of which the firm can create superior customer value and achieve a market position that is valuable and difficult to match (Day 1994). In other words, a firm with distinctive capabilities can gain competitive advantage (Weerawardena 2003). Thus, these capabilities act as key success factors that contribute to a firm’s superior profitability (Day 1994). In his study,

Vorhies (1998) found that in the firms where strategies were developed, market intelligence processed and shared and decision-making centralised the level of marketing capabilities development was higher than in other firms.

Day (1994) argued that as every firm develops its own set of capabilities it is impossible to list all the possible marketing capabilities. However, he stated that they can be usefully sorted into three categories: into inside-out, outside-in and spanning capabilities. Technology development and human resources management are examples of inside-out capabilities that are activated by market requirements, competitive challenges and external opportunities. Outside-in capabilities, such as market sensing, customer linking, connect organisation's processes to the external environment and enable the organisation to compete by anticipating market requirements before competitors do and by creating sustainable relationships with customers, channel members and suppliers. Spanning capabilities, for example strategy development and price setting, are needed to integrate the inside-out and outside-in capabilities.

The capabilities that are typical for market-oriented organisations have been researched. With regard to the above categorisation, Day (1994) stated that market-oriented firms have superior outside-in capabilities related to market sensing, customer linking and channel bonding. Vorhies et al. (1999) argued that a market-oriented organisation has more effective capabilities in market research, pricing, product development, channels and distribution, promotion as well as marketing management and planning.

On the other hand, the factors that constrain the adoption of market orientation in organisations have been studied. Harris (2002) suggested that there are two types of important barriers to market orientation, namely those relating to the actions, attitudes and behaviour of managers and those referring to the organisational characteristics of the firm. According to Liu (1995), the practice of market orientation is constrained by factors such as management capability, corporate and national culture, resources, the nature of technology and industry, organisational structure, key persons' backgrounds and interfunctional conflicts.

2.2.3 Customer orientation and customer relationship management

Although the terms customer orientation and market orientation have sometimes been regarded as synonyms (Deshpandé et al. 1993), they are usually examined as separate constructs. Out of the three components of market orientation classified by Narver and Slater (1990), customer orientation has perhaps gained the greatest attention as an object of individual studies.

Customer orientation is regarded as a cultural and behavioural aspect of market orientation (Strong & Harris 2004, cf. Narver & Slater 1990). Green et al. (2007) stated that it involves a market orientation that highlights and assesses customer needs so that a firm is able to meet those needs with a high quality services and in a 'feel good' manner. Appiah-Adu and Singh (1998) also defined customer orientation to describe an organisation-wide focus on evaluating and addressing customer needs. They argued further that it consists of both customer understanding and customer satisfaction focuses.

Strong and Harris (2004) identified three antecedents of customer orientation. These are relational tactics, human resource tactics and procedural tactics. The aim of relational tactics is to achieve long-term reciprocal customer alliances. The human resource tactics involve the training, evaluation and empowerment of employees and their goal is to support employee activities that offer marketing solutions to customer problems. The purpose of procedural tactics, such as focusing, caring and visiting customers, is to look after the customers.

Customer orientation has, traditionally, been analysed at two levels: organisational (e.g. Appiah-Adu & Singh 1998, Strong & Harris 2004) and individual (Donovan et al. 2004, Macintosh 2007) levels. Stock and Hoyer (2005) explained the difference between the two levels as follows. Studies on the organisational level relate to market orientation and firm's behaviour with respect to its customers is examined. At the individual level, the focus has been on the interpersonal contact between employees and customers. They state further that at the individual level customer orientation can be divided into customer-oriented behaviour (e.g. the ability of a salesperson to help customers to achieve their goals) and customer-oriented attitude (the extent of a salesperson's affect for or against customers). If a firm truly wants to implement

a long-term customer orientation strategy the focus should be on both behaviours and attitudes (Stock & Hoyer 2005).

As discussed earlier in this dissertation, marketing concept highlights customer relationships (Grönroos 1989, Svensson 2001), but the relational perspective still seems to be missing from the dominant conceptualisations of market orientation (Helfert et al. 2002). Helfert et al. (2002) stated, however, that market orientation activities can be translated into relationship management activities, such as exchange (satisfying the needs and requirements of the partners in a relationship), coordination (synchronisation of those partners' actions), conflict resolution (timely reaction to the conflict, readiness for compromises and a sense of justice) and adaptation (meeting the special needs or capabilities of a partner). They argued further that these tasks are in many ways connected to the components of market orientation: Firstly, customer orientation can be seen as an enabler for relationship management tasks, because the emphasis is on understanding the needs of customers and on committing to customers. Secondly, competitor orientation can lead to an understanding of competing orders and, consequently, forms the basis for conflict resolution and coordination. Finally, interfunctional coordination is the key to serving customers in complex exchange situations.

Baker et al. (1999) found that the perception of high market orientation in a relationship partner will lead to a more positive perception of the whole relationship and that the relationship partner is seen as credible, benevolent, trustworthy and a true expert. They argued further that perception of high market orientation leads to believe that both partners are aiming at common goals and that they are more committed to and satisfied with the relationship. Consequently, high value is put on the relationship and both parties want to remain in it (Baker et al. 1999).

The interrelationships of the four constructs – marketing concept, market orientation, customer orientation and customer relationship management - are manifold. It should be noted here that in this dissertation the focus is on customer relationships instead of the whole array of relationships covered by relationship marketing. A summary of the interrelationships of the four constructs is offered in Table 1. Market orientation and customer orientation are founded on

marketing concept (Kohli & Jaworski 1990, Jaworski & Kohli 1993, Appiah-Adu & Singh 1998, Reinartz et al. 2004). Customer orientation is one aspect or a behavioural and cultural element of market orientation (Narver & Slater 1990, Strong & Harris 2004). Customer relationship management and market orientation affect one another reciprocally and the same goes for customer relationship management and customer orientation. Market orientation and customer orientation form the basis for customer relationship management (Ryals & Knox 2001, Javalgi et al. 2006). On the other hand, it enhances market and customer orientations (Strong & Harris 2004, Coltman 2007).

	MARKETING CONCEPT	MARKET ORIENTATION	CUSTOMER ORIENTATION	CUSTOMER RELATIONSHIP MANAGEMENT (CRM)
Definitions	"The marketing concept says that an organization's purpose is to discover needs and wants in its target markets and to satisfy those needs more effectively and efficiently than competitors." (Slater & Narver 1998)	"a market orientation refers to the organization-wide generation of market intelligence, dissemination of the intelligence across departments, and organization-wide responsiveness to it" (Jaworski & Kohli 1993)	"customer orientation is the sufficient understanding of one's target buyers to be able to create superior value for them continuously" (Narver & Slater 1990)	"CRM is a strategic approach that is concerned with creating improved shareholder value through the development of appropriate relationships with key customers and customer segments. CRM unites the potential of relationship marketing strategies and IT to create profitable, long-term relationships with customers and other key stakeholders. CRM provides enhanced opportunities to use data and information to both understand customers and cocreate value with them. This requires a cross-functional integration of processes, people, operations, and marketing capabilities that is enabled through information, technology, and applications." (Payne & Frow 2005)
Key aspects	<ul style="list-style-type: none"> - customer focus - coordinated marketing - profitability (Kohli & Jaworski 1990) 	<ul style="list-style-type: none"> - generation, dissemination and responsiveness to market intelligence (Kohli & Jaworski 1993) - customer orientation, competitor orientation, interfunctional cooperation, long-term focus and profitability (Narver & Slater 1990) 	<ul style="list-style-type: none"> - generation, dissemination and responsiveness to customer and market information (Strong & Harris 2004) - focus on customer satisfaction, loyalty, retention and, thus, profitability (Appiah-Adu & Singh 1998) 	<ul style="list-style-type: none"> - establishing, maintaining, enhancing and terminating customer relationships (Grönroos 1997) - customer satisfaction, loyalty, retention and, thus, profitability (Storbacka et al. 1994)
Relation to marketing concept		- market orientation can be regarded as the implementation of marketing concept (Kohli & Jaworski 1990)	- origins of customer orientation are based on marketing concept (Appiah-Adu & Singh 1998)	- building and managing ongoing customer relationships realizes the essence of the marketing concept (Reinartz et al. 2004)
Relation to market orientation	- marketing concept is the philosophical foundation of market orientation (Jaworski & Kohli 1993)		- customer orientation is the cultural and behavioural aspect of market orientation (Strong & Harris 2004)	- a firm with superior customer relationship management capabilities shows a greater tendency to capture market-oriented positions of advantage relative to competitors (Coltman 2007)
Relation to customer orientation	<ul style="list-style-type: none"> - origins of customer orientation are based on marketing concept (Appiah-Adu & Singh 1998) - marketing as a phenomenon represents the customer focus of an organization (Grönroos 2006) 	- customer orientation is one of the three behavioural elements of market orientation (Narver & Slater 1990)		- one of the philosophical bases of customer relationship management is customer orientation (Ryals & Knox 2001)
Relation to customer relationship management	- building and managing ongoing customer relationships realizes the essence of the marketing concept (Reinartz et al. 2004)	- as a firm becomes more and more market oriented the positive outcomes of customer relationship management, such as satisfaction, loyalty, retention and, thus, enhanced customer lifetime value are the results (Javalgi et al. 2006)	- relational tactics (relational management, satisfaction measurement, and inter-group communications) have a positive impact on customer orientation (Strong & Harris 2004)	

Table 1. Interrelationships between the terms marketing concept, market orientation, customer orientation and customer relationship management.

2.3 Outcome of market orientation - performance and success

2.3.1 Assessment of performance and success

The terms “performance” and “success” have often been used as synonyms (e.g. Maltz et al. 2003) and the same measures have also been used in their assessment. However, they can also refer to different meanings. Performance has been defined as the ability of an object to produce results on a dimension that has been determined beforehand, with relation to a target (Laitinen 2002). Performance often relates to *action* and *processes that lead to some outcome* and the result of the action is also generally included in the examination (Lebas & Euske 2007). Success, on the other hand, often refers to the *achievement of goals* or objectives (Pasanen 2003). Beaver (2002) stated that the best and the most accurate way to assess success is to inquire whether the specific goals of the enterprise have been achieved.

Performance is often assessed with financial measures, such as efficiency (e.g. ROI), growth and profit (Murphy et al. 1996). However, Neely (1999) pointed out that these financial measures have been criticised in the literature because they e.g. encourage short-termism, are historically focused, fail to offer information on customers’ wants and competitors’ actions and are often poorly defined. Consequently, non-financial measures, such as time, flexibility and quality have been included in the assessment of performance (Neely et al. 1995, De Toni & Tonchia 2001). Thus, it has been argued that performance should be evaluated by both financial and non-financial measures, as in modern firms financial measures alone are not regarded as sufficient for decision-making (Laitinen 2002).

Performance measures can also be classified into objective and subjective measures. González-Benito and González-Benito (2005) stated that objective measures refer to financial performance indicators impartially quantified and obtained either directly from organisations or through secondary sources. Subjective measures, on the other hand, relate to judgmental evaluations of internal or external respondents and comprise both financial and operational indicators. When comparing the two, González-Benito and González-Benito (2005) suggested that subjective measures are more appropriate when measuring market orientation, because they facilitate 1) the assessment of complex dimensions of performance (e.g. customer

satisfaction), 2) cross-sectional analysis because performance can be quantified in comparison to objectives and competitors and 3) the consideration of lagged effects and the strategy of the firm.

In the academic literature, there has been a similar discussion concerning the role of financial and non-financial and objective and subjective measures in the assessment of success. Traditionally the measures used in the evaluation of success have related to growth, profit, turnover, ROI or number of employees (Walker & Brown 2004, Simpson et al. 2004, Paige & Littrell 2002, Greenbank 2001, Honig 1998). Especially firm growth seems to be closely connected to success (Pasanen 2003) as the assumption of growth is often implicitly related to a successful firm (Walker & Brown 2004). On the other hand, researchers have also proposed non-financial success measures, such as autonomy, job satisfaction and the ability to balance work and family (Walker & Brown 2004). These non-financial measures are often assessed subjectively and refer to personal issues. Financial and objective performance and success measures are quite similar. The subjective measures of each, however differ in some respects. As discussed above, subjective performance measures often relate to financial and operational indicators, whereas subjective success measures may refer to personal issues. However, in this dissertation the terms performance and success are used synonymously. The term success, however, is preferred to refer to measures that also take personal issues into account.

2.3.2 Relationship between market orientation and performance

Narver and Slater (1990) stated that market orientation helps a firm to create superior value for customers and, consequently, achieve superior competitive advantage and, further, above-normal market performance. According to Slater and Narver (1998), market orientation comprises norms of behaviour that lead a firm quickly to learn about and from customer needs and to respond to them in an entrepreneurial manner. They also stated that market-oriented firms identify and exploit discontinuities both in the served and unserved markets through the capabilities arising from market orientation.

González-Benito and González-Benito (2005) made a useful summary of the studies examining the relationship between market orientation and performance. The summary showed that this relationship has been studied in various geographical, economic and political scenarios, in different markets and between different industry types (e.g. product/service, profit/non-profit organisations). Firm size, competitive strategies and competitive environment situations have also been taken into account. In addition, the summary indicated that although there are some studies where the relationship between market orientation and performance was not attested to, in the majority of them a positive link between the two was found and justified. Thus, it can be concluded that researchers are unanimous about the positive impact of market orientation on firm performance (e.g. Kirca et al. 2005, Matear et al. 2004, Pulendran et al. 2003, Matsuno et al. 2002, Kohli & Jaworski 1990). In these studies, performance was measured e.g. by self-reported, judgemental evaluations of profitability (e.g. Kim 2003, Narver & Slater 1990), market share, percentage of new product sales and ROI (eg. Matsuno et al. 2002), market growth (Kim 2003), overall performance of the business unit last year and overall performance relative to major competitors last year (e.g. Pulendran et al. 2003, Jaworski & Kohli 1993). It is argued that the relationship between market orientation and subjective measures of performance is stronger than that between market orientation and objective measures of performance (González-Benito & González-Benito 2005, Kirca et al. 2005). In those studies where no direct relationship between market orientation and performance was detected, there were mediators, such as innovation (Vázquez et al. 2001) and knowledge-related resources (Olavarrieta & Friedman 2008) through which market orientation seemed to positively influence performance. Other factors that have been proven to act as mediators are customer loyalty and quality (Kirca et al. 2005).

In addition to mediators, there are also moderators that either increase or decrease the impact of market orientation on firm performance. Kohli and Jaworski (1990) proposed that market turbulence (i.e. changes in the composition of customers and their preferences), technological turbulence, competitive intensity and economic situation act as moderators. Empirical studies have offered mixed support for these propositions. In Jaworski and Kohli (1993) the moderating effect of market turbulence, technological turbulence and competitive industry was rejected,

whereas the studies by Olavarrieta and Friedman (2008), Kim (2003) and Greenley (1995) gave support to the moderating effect of market turbulence. In Kim (2003), the results partially supported the moderating effect of competitive intensity but rejected that of technology turbulence, whereas the findings of Greenley (1995) indicated that technological change has a moderator effect. Other moderators that have been examined are e.g. industry type and economic ideology (Sin et al. 2005) as well as cultural context (uncertainty avoidance, power distance, individualism, masculinity, long-term orientation) (Kirca et al. 2005).

Market orientation is regarded to have other positive impacts than that of enhancing firm performance. Kohli and Jaworski (1990) stated that it enhances clarity of focus and vision in the strategy of an organisation, provides psychological and social benefits for employees, improves *esprit de corps* and lead to satisfied customers who spread positive word-of-mouth and remain the organisation's customers. In service firms, market orientation is seen to have a positive effect on customer satisfaction and service quality (Webb et al. 2000). Market orientation also helps a firm to create superior value for channel members and, thus, enhances channel collaboration and, further, performance (Hyvönen & Tuominen 2007).

The academic discussion on *marketing concept*, *market orientation* and *success* is summarised in Figure 3. Marketing concept is regarded as the foundation of market orientation (Jaworski & Kohli 1993) and affects the marketing practices carried out in enterprises. Market orientation, in turn, comprises three behavioural components: customer orientation, competitor orientation and interfunctional coordination (Narver & Slater 1990) and three sets of activities: generating, disseminating and responding to market intelligence (Jaworski & Kohli 1993). Finally, market orientation is considered to enhance firm performance and success (e.g. Kirca 2005, Kohli & Jaworski 1990).

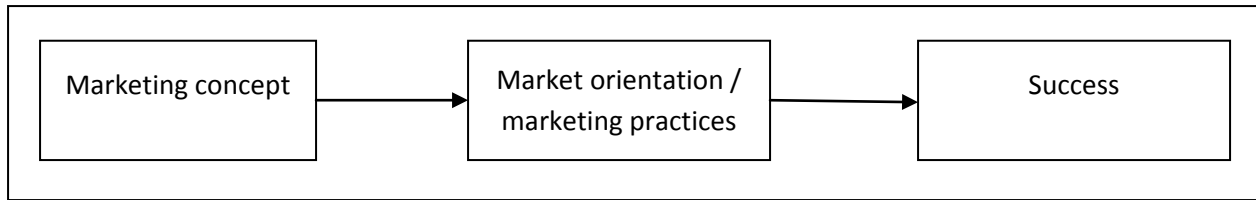


Figure 3. Summary of the relationships between *marketing concept*, *market orientation* and *success*.

2.4 SME context

2.4.1 Marketing in SMEs

Marketing is regarded as relevant to both large and small organisations (Hogarth-Scott et al. 1996) and basic marketing principles are seen to apply to both of them (Reynolds 2002, Siu & Kirby 1998). At the same time it is recognised that small firm marketing has unique characteristics that differentiate it from that of large organisations (Fillis 2002, Gilmore et al. 2001). Small firm marketing has been characterised by attributes such as haphazard, informal, loose, unstructured and spontaneous (Gilmore et al. 2001), that compared to “textbook” marketing seem to have somewhat negative connotations. In addition, small firms appear to have specific weaknesses with regard to pricing, planning, training and forecasting (McCartan-Quinn & Carson 2003). On the other hand, it is argued that a great part of marketing in SMEs is driven by innovation (O’Dwyer et al. 2009). Moreover, small firms are seen to operate close to their customers, to be flexible and to respond quickly to the changing needs of customers (McCartan-Quinn & Carson 2003). Some SMEs place strong emphasis on customer care, concern for employees’ welfare and reliance on intuition and awareness of the environment in their marketing (Blankson et al. 2006).

The special characteristics of small firm marketing are considered to result from various limitations. According to the literature, marketing functions in SMEs are seen to be hindered by poor cash flow, lack of marketing expertise, business size, tactical and strategic customer-led problems (O’Dwyer et al. 2009), narrow customer base, over-reliance on the owner-manager’s marketing competency (Stokes 2000b), limited resources relating to finance and time and

limited impact in the marketplace (Gilmore et al. 2001). With limited resources added to the day-to-day pressures of the business operations, marketing may seem to be peripheral and an unnecessary luxury in small firms (Hogarth-Scott et al. 1996).

Special attention is paid to the role of the owner-manager in SME marketing as s/he is seen to be omnipresent in every function of the small firm. The small business owner-manager is a generalist who has to have a vision of where the business is going and at the same time to take care of the operational details carried out in the firm (Hogarth-Scott 1996). It is argued that marketing in small firms is related to the owner-manager's attitudes to, experience of and expertise in marketing because these are essentially those of the firm itself (McCartan-Quinn & Carson 2003). The marketing practices adopted in a small firm are also greatly influenced by the owner-manager's decision-making and inherent skills and abilities (O'Dwyer et al. 2009). Hogarth-Scott et al. (1996) argued that marketing is often misunderstood and underutilised by owner-managers and they do not always appear receptive to marketing if there is no need e.g. for growth or expansion. Furthermore, owner-managers may define marketing as quite narrowly relating only to selling and promoting, but the actual marketing done may still cover a wide range of marketing practices (Stokes 2000b). Stokes (2000b) stated that owner-managers spend considerable time and resources on marketing, but they may call it by another name. The need for marketing is recognised, but often an ad hoc, reactive approach is adopted and, for example, the traditional way of looking at marketing with the 4P's is not given much attention (McPherson 2007). O'Dwyer et al. (2009) stated that there are specific variables and influences according to which marketing is formulated in a way that maximises benefit for a SME. They argued that marketing activities in SMEs are shaped through a process where competitors, customers, the business environment and the limited resources are taken into account.

According to Siu and Kirby (1998), there are four approaches that try to explain the role of marketing in small firms. These approaches are 1) the stages/growth model, 2) the management style model, 3) the management function model and 4) the contingency model (see Table 2). Siu and Kirby (1998) criticised that although each of these approaches contributes something to the research of marketing, they still fail to give a comprehensive picture of

marketing in small firms. They argued that there is a lack of empirical evidence of the marketing practices carried out in small firms. In this study, not one approach but features of several of them are adopted. Chapter 2.4.3 considers how success measures are affected by e.g. owner-manager's objectives and motivation and how this in turn impacts on decision-making (cf. management style approach). With regard to the examination of marketing practices and market orientation, features of the management function approach are adopted. Finally, in accordance with the contingency approach a balance is sought between the limitations of small firms and marketing as a discipline when the development of marketing theory is discussed with reference to SMEs.

Marketing approach	Description	Critique
Stages/growth model	- describes the development of a firm through several stages	- low predictive power - limited value as a framework for detailed analysis and planning
Management style approach	- marketing behaviour is related to the motivation, belief, attitude and objectives of owner-managers	- ignores e.g. organizational structure, owner-manager's marketing decision process and behaviour
Management function approach	- acknowledges marketing as an important function and essential concept for small firm growth, survival and strategic development	- too much or too little emphasis is put on the limitations and constraints of small firms when applying disciplinary foundation of marketing
Contingency approach	- tries to find balance between the limitations of small firms and marketing as a discipline	- variables are not clearly defined, are arbitrarily selected or cannot be measured effectively - is an outcome model, not a process model

Table 2. Four approaches to marketing in small firms according to Siu and Kirby (1998).

Sashittal and Jassawalla (2001) found in their study that implementing marketing in small firms consists of day-to-day improvisations and adaptations in marketing strategy and activities. According to them, the nature and extent of marketing improvisations and adaptations determine the level of market orientation, growth and strategic effectiveness. They argued that

marketing planning and implementation interact strongly and this shapes the market behaviours of SMEs and affects the strategic outcomes.

2.4.2 Market orientation in SMEs

Market orientation does not seem to be related to any specific firm size (Laforet 2008, Blankson & Cheng 2005). Thus, market orientation is as appropriate to small as to large organisations (Blankson et al. 2006). It is, however, suggested that market orientation gives small firms a potential competitive advantage over their larger counterparts as they 1) are closer to customers and able to respond their needs and wants quickly and flexibly, 2) are able to share customer information quickly and with fewer modifications, because of less organisational bureaucracy and 3) can implement marketing plans quickly, as it is more informal (Keskin 2006).

In the literature it has been argued that the basis of market orientation - the marketing concept - has not been adopted in a great part of SMEs and that one of the reasons for this is that many owner-managers have not had a formal training in marketing (Peterson 1989, Meziou 1991). Peterson (1989) found that many of the small firms researched were, however, predisposed toward applying the concept in the future. In addition, he argued that those small enterprises that had adopted the marketing concept had done so for practical reasons with relation to achieving their business goals. On the other hand, the reason for not adopting the concept was apparently also related with goals. Peterson (1989) stated that in small enterprises they may believe that the adoption of marketing concept would result in greater profits but still they are not motivated to do so because profits are not an overriding goal in their business operations. The goals and their role in SMEs will be discussed more in Chapter 2.4.3.

However, it has been suggested that small firms may follow some form of self-directed and informal customer centric philosophies (McPherson 2007). In empirical findings it has been shown that SMEs demonstrate customer orientation (Hogarth-Scott et al. 1996) but that this may fall short of what would be considered a true component of market orientation with reference to Narver's and Slater's (1990) definition. For example, according to the responsive

market orientation, customer needs are first investigated and assessed and only after that are consistent products and services developed, whereas small firm owner-managers usually do it the other way round: develop an offering and then try to find a market for it (Stokes 2000b).

In Chapter 2.2.2 the role of top managers in adopting market orientation was discussed. In this connection, Barnes (2001) suggested that a customer-oriented atmosphere in a small firm is usually a result of the management style of the owner. He states that a close contact between the owner and the employees can spread the style to the whole personnel and that customer relationship building is in many cases a natural extension of the personalities of the owners and their employees and how they communicate with the customers. Coviello et al. (2000) stated that small firms are more relational than larger firms in some of the marketing processes. For example, they tend to be interpersonal in their contact with primary customers and invest in personal relationships and emphasize marketing communication that is conducted by general management rather than specialist marketers and directed to a specific customer segment rather than the mass market. Moreover, small firms place emphasis on direct relationships with specific customers and other players in the market network (Coviello et al. 2000).

As the significant role of the owner-manager in the SME marketing has been recognised, the meaning of market-oriented behaviour at the level of an individual has been researched. Tregear (2003) suggested that for an individual market orientation means the adoption of a mindset or philosophy the primary purpose of which is to satisfy customer needs and so, ultimately, to gain profits and growth. She stated further that this philosophy gives purpose and meaning to the functions performed by individuals and results in the prioritisation of specific marketing-related activities. She continued that this philosophy competes, however, with other goals and desires of the individual that are derived from value sets and perceived sources of satisfaction in his/her chosen employment. Thus, market orientation can be regarded as a set of behavioural tendencies that is adopted partially and/or temporarily by an individual seeking to fulfil multiple goals (Tregear 2003).

In the same way as the owner-managers play important roles in developing market-oriented culture in their enterprises (Alpkan et al. 2007) they are usually also crucial in the

implementation of market-oriented activities. They are often the seekers and assimilators of information (Lybaert 1998), although they may not necessarily recognise the need for it (Fuelhart & Glasmeier 2003). In a great part of small firms, no formal marketing research is conducted (Meziou 1991). According to Appiah-Adu and Singh (1998), this is explained by a limited range of products and customers that is seen to minimise the requirements for formal procedures to collect and process customer information. It is, however, argued that many SMEs are interested in information on their customers and competitors in order to be able to differentiate their offerings and positioning, but, at the same time, it is only the highly entrepreneurial SMEs that are seen to be likely to be active in information acquisition and utilisation (Keh et al. 2007). Most of the SMEs are regarded as opportunistic in their information seeking behaviours (Fuelhart & Glasmeier 2003) and the main sources of market intelligence appear to be informal (Renko et al. 2005). According to the study by Renko et al. (2005) carried out among biotechnology SMEs, market intelligence dissemination was not perceived as problematic and was done within an individual enterprise and within a network of firms. At the same time, however, they argued that the interpretation of the information gathered may prove to be challenging in SMEs. On the other hand, in order for SMEs to truly benefit from the information it should be used (Keh et al. 2007). In their empirical analysis, Keh et al. (2007) found that the use of information for the basis of marketing decisions especially concerning promotion and place have a significant positive influence on small firm performance.

Vorhies et al. (1999) argued that capabilities are prerequisites of market orientation. In the context of SMEs it is appropriate to discuss the role of competencies. Hill (2001) defined competencies as underlying characteristics of a person that result in effective and superior performance in a job and that show themselves as an effective mix of motives, traits, skills, aspects of one's self-image or social role or as a body of knowledge used by that person. He distinguished competencies that are related to a person from capabilities that integrate the skills, abilities and learning of several people.

Hill (2001) identified several competencies that relate to effective marketing in SMEs and categorised them at three levels so that each new level is based on the lower level (see Figure

4). Most of the competencies are also linked to one another. Hill (2001) highlighted judgement as a key competency in the decision-making process. He stated that the competency of good judgement is embedded in a combination of other competencies, such as the ability to systematically gather and use market intelligence, the capability to objectively analyse the intelligence as well as the results of one's own actions and decisions and the ability to learn from experience (cf. market orientation).

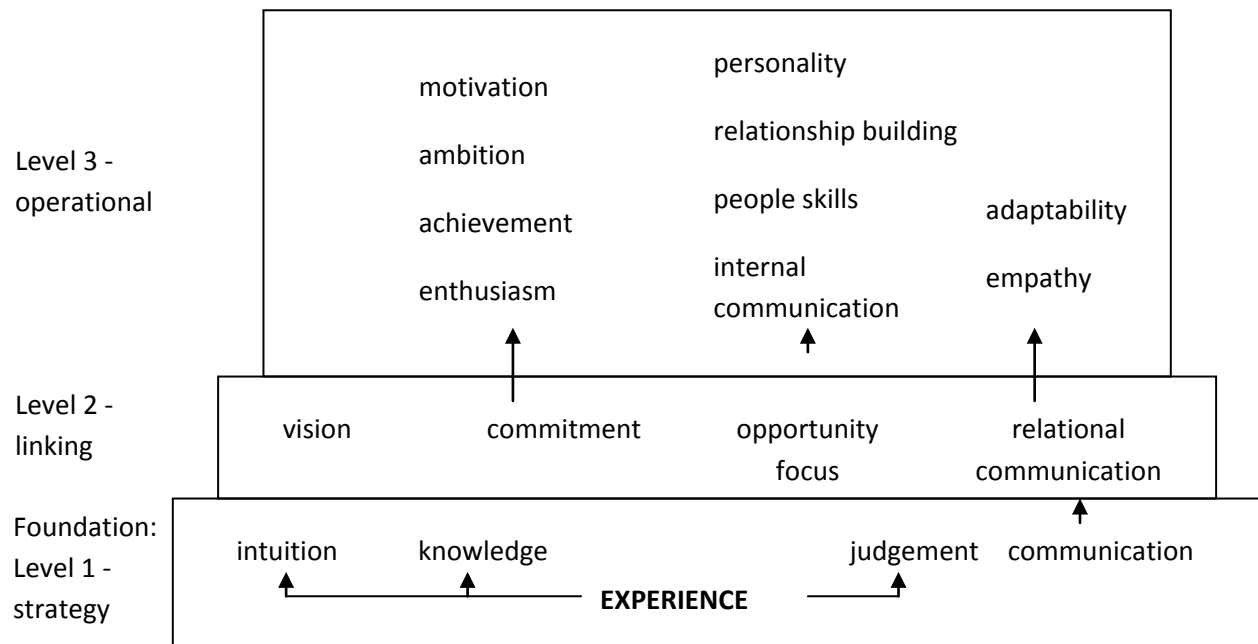


Figure 4. Marketing competencies according to Hill (2001).

The effect of market orientation and customer orientation on firm performance has been researched in the context of small firms (e.g. Megicks & Warnaby 2008, Kara et al. 2005, Pelham 1999, Appiah-Adu & Singh 1998). It seems that the adoption of market or customer orientation enhances the performance of them. According to Appiah-Adu and Singh (1998), small firms with a higher degree of customer orientation are likely to be more profitable than their less customer-oriented counterparts. Moreover, innovativeness and proactiveness may

positively moderate the relationship between market orientation and small firm performance (Li et al. 2008).

2.4.3 Assessment of success in SMEs

There is no consensus as to what success is in SMEs and usually it is defined in the personal terms of the owner-manager (McCartan-Quinn & Carson 2003). Thus, it has been suggested that the starting point for assessing firm success in SMEs should be the owner-manager and his/her perceptions (Simpson et al. 2004). Simpson et al. (2004) argued that because owner-managers have their own perceptions of success the financial measures of it may turn out to be inappropriate, misleading and meaningless for them. Simpson et al. (2004) stated further that although owner-managers may regard themselves as successful using subjective measures, such as personal satisfaction and flexible lifestyle, looking from the outside and using traditional financial measures their businesses may have attained different levels of success. Walker and Brown (2004) stressed, however, that in small firms both financial and non-financial criteria are used when measuring success, although the latter criteria tend to be more important to the owner-managers. Consequently, success is affected by factors that relate directly to the owner-manager, such as self-efficacy, opportunity recognition, perseverance and social skills (Markman & Baron 2003) and to the business environment and to the firm itself, such as market opportunities, number of business partners, financial capital and strategies used to reach firm goals (Frese et al. 2000, Schutjens & Wever 2000, Honig 1998).

It has been suggested that success means achieving one's goals and, thus, goal-setting is essential for becoming successful (Dobbins & Pettman 1997). Furthermore, a goal-setting theory suggests that one's conscious goals affect what one actually achieves (Latham 2004). Thus, it could be argued that goals have an important role in success assessment: they form the premise of success, direct one's behaviour towards success and, finally, operate as measures of success. Greenbank (2001) argued that owner-managers set themselves explicit or implicit goals that may be personal economic and non-economic goals as well as business objectives.

According to his study, the owner-managers tended to emphasise personal goals and the most frequently stated ones were to earn a satisfactory income, to have job satisfaction and control over business operations. It should be noted, however, that small business owner-managers differ in their goal setting and, consequently, the non-economic and economic goals are of different importance to them. Cooper and Artz (1995) found that those who emphasise economic goals tend to be more sensitive to financial performance, whereas those who emphasise non-economic goals are satisfied with lower levels of financial performance if it is sufficient to allow them to pursue their non-economic goals.

Motivation to start a business seems to be significantly related to the criteria used to measure success (Buttner & Moore 1997). It has been suggested that this motivation is traditionally based on the aspiration to increase personal wealth and, consequently, success would be assessed in terms of revenue growth, profitability and, thus, creation of personal wealth (Amit et al. 2001). On the other hand, studies have shown that there are also different sources of motivation and, thus, corresponding success criteria (Walker & Brown 2004). According to Buttner and Moore (1997), many female entrepreneurs gained motivation from the search for new challenges, and consequently they had internal measures of success that related to self-fulfilment, such as personal growth, professional development and improving one's skills.

The theoretical discussion about marketing in SMEs is summarised in Figure 5. It is suggested that in small firms some form of self-directed and informal customer centric philosophies are followed (McPherson 2007) and in empirical findings it has been shown that SMEs demonstrate customer orientation which, however, may fall short of what may be regarded as a true element of market orientation (c.f. Narver's and Slater's 1990 definition) (Hogarth-Scott et al. 1996). Otherwise, marketing practices in SMEs have been described as haphazard, informal, loose, spontaneous, but also as innovative and close to customers (Gilmore et al. 2001, O'Dwyer et al. 2009, McCartan-Quinn & Carson 2003). These characteristics of marketing are regarded as a result of the limited resources of SMEs (e.g. Gilmore et al. 2001). Market orientation is deemed to enhance the financial performance of the firm also in the context of SMEs (e.g. Pelham 1999) but, at the same time, it is recognised that success is often assessed by

non-financial measures that may relate to personal issues (e.g. Walker & Brown 2004, Markman & Baron 2003). Goals and motivation affect how success is assessed (Dobbins & Pettman 1997, Buttner & Moore 1997). The set goals have an influence on whether or not marketing concept is adopted in the SME (Peterson 1989). Thus, the success that is aimed at plays an important role in the adoption of a business philosophy. Finally, the role of the owner-manager is seen to be very important in the marketing of small firms. It is argued that SME marketing is related to the owner-manager's attitudes to, experience of and expertise in marketing because these are essentially those of the small firm itself (McCartan-Quinn & Carson 2003).

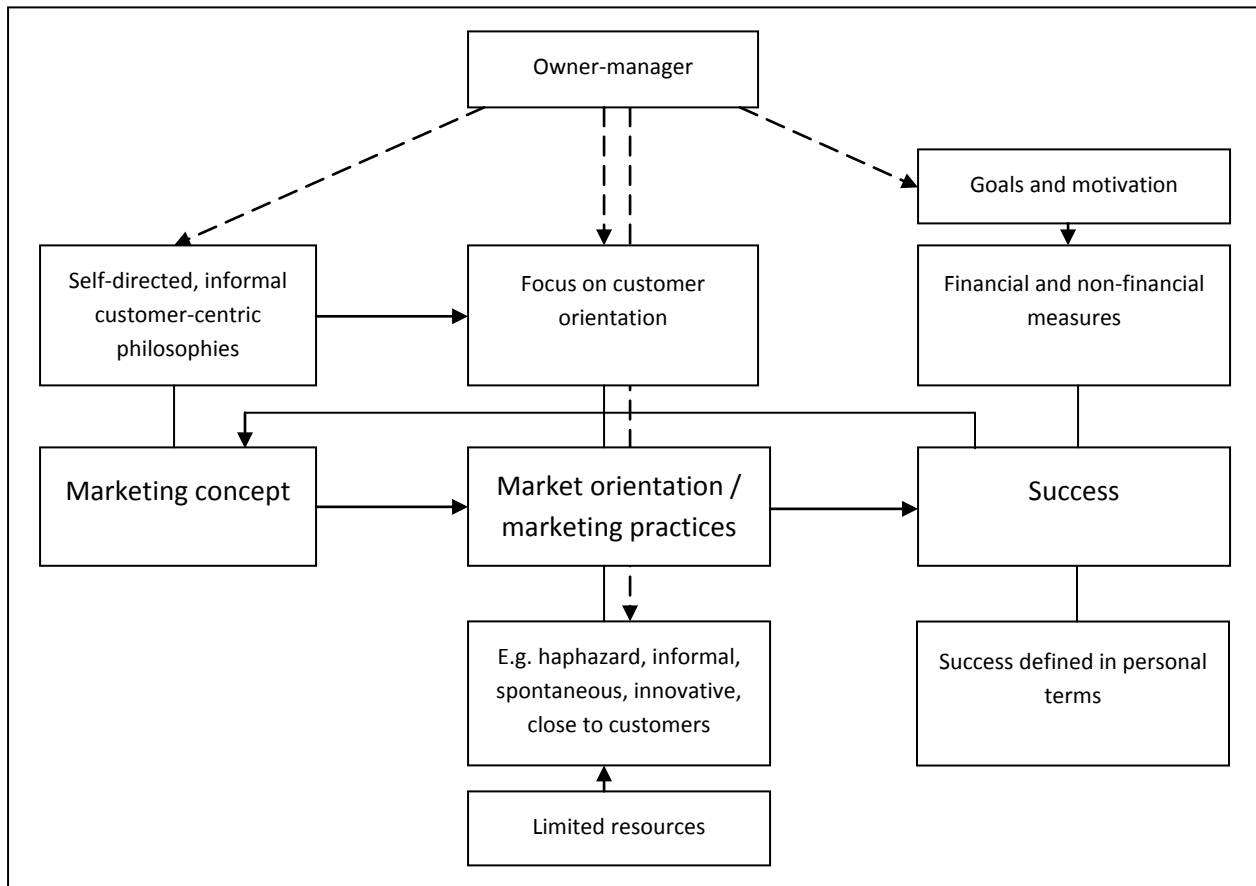


Figure 5. Summary of marketing characteristics in SMEs according to the existing literature.

3 RESEARCH SETTING

3.1 Research framework

As discussed above, the marketing concept centring on customers and their needs forms the philosophical foundation of market orientation which, in turn, is the implementation of the marketing concept (Kohli & Jaworski 1990). From the cultural perspective market orientation comprises three elements: customer orientation, competitor orientation and interfunctional coordination (Narver & Slater 1990). The behavioural aspect suggests that it consists of sets of activities that relate to the generation, dissemination and responding to market intelligence (Jaworski & Kohli 1993). Marketing capabilities are regarded as prerequisites of market orientation (Vorhies et al. 1999) as it is argued that by identifying and building certain capabilities organisations become more market-oriented (Day 1994). Finally, market-oriented firms are seen to outperform their less market-oriented counterparts (e.g. Narver & Slater 1990). The effect of market orientation is examined especially on such financial measures as profitability and ROI (e.g. Kim 2003, Matsuno et al. 2002), but other measures, such as employee and customer satisfaction (e.g. Webb et al. 2000, Kohli & Jaworski 1990) have also to a lesser extent been included in the examination.

Traditionally, marketing theory has largely been based on studies on large organisations (Stokes 2000b). However, it has been argued that it cannot be applied directly to the context of SMEs, where the practices and activities may differ considerably from those of large firms (e.g. Fillis 2002, Gilmore et al. 2001). In small firms, marketing philosophy and practices are heavily dependent on owner-managers, their attitudes, experiences and expertise (McCartan-Quinn & Carson 2003). Thus, in order to gain a more profound understanding of marketing in SMEs it is appropriate to start the study by examining the perceptions that small firm marketers have of marketing and its role in their business operations. Market orientation has to some extent been examined in the context of SMEs. However, there is a lack of studies concentrating on the degree to which the culture and its behavioural aspects are adopted and carried out in them. Furthermore, as it is argued that marketing concept highlights customer relationships (Svensson 2001, Grönroos 1989), it is relevant to examine how customer information is

gathered and responded to in order to enhance customer relationships and thus profitability. Profitability has been suggested to be one of the positive outcomes of being market-oriented. At the same time, it is one of the frequently used financial measures of firm performance and success. It has been argued, however, that small firm owner-managers tend to use measures that relate to personal issues when assessing the success of their enterprises (e.g. Simpson et al. 2004). Consequently, it is interesting to examine the nature of the success that owner-managers aim at in their business operations and further discuss how this affects the perceptions of marketing, the adoption of market orientation and the marketing activities carried out in the SME.

Figure 6 describes the research framework of this dissertation and how the articles included in the second part of the dissertation relate to it. The first article relates to the marketing concept and discusses the perceptions of owner-managers in SMEs regarding marketing and its role. The second and third articles address the adoption of market orientation and the market-oriented practices carried out in SMEs. The final article is concerned with the goals owner-managers set themselves and how these drive the behaviour and act as measures of success.

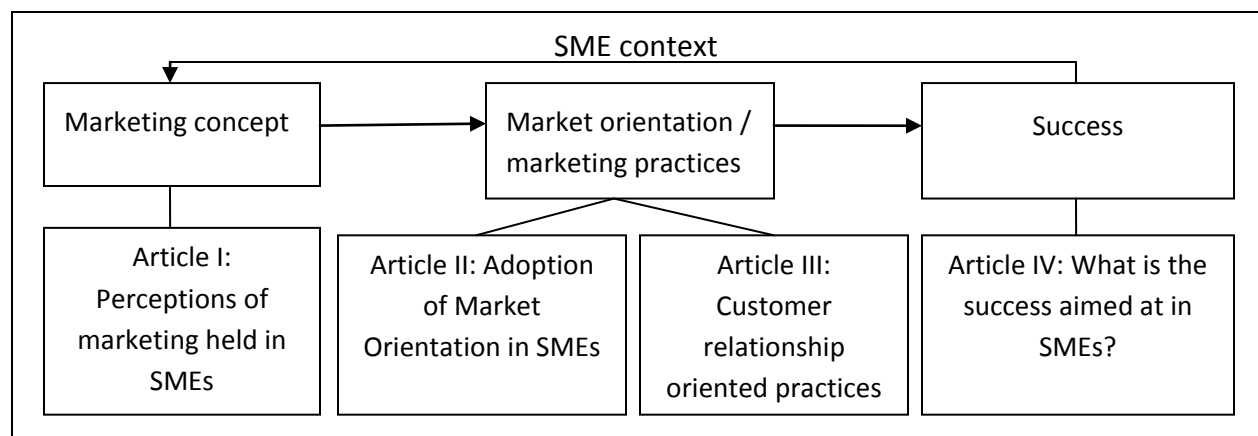


Figure 6. Articles in relation to the framework of the dissertation.

3.2 Research objectives

The overall objective of this thesis is to gain a more profound understanding of the role and practices of marketing in SMEs. The more precise research questions are:

1. What are the perceptions held in SMEs about marketing?
2. What are the marketing practices adopted in SMEs?
3. What is the success aimed at in SMEs?

In Article I, "Do All SMEs Practice Same Kind of Marketing", the purpose is to examine how the concept of marketing is seen and put into practice in SMEs. The article discusses how the perceptions of marketing held in small firms are related to the traditional elements of marketing, such as marketing as 1) philosophy, 2) strategy, 3) tactics / methods and 4) market intelligence. In addition, the article explores whether the importance of different marketing tasks and the role and relevance of marketing differ according to the size, industry and customers of the SMEs.

In Article II, "The Adoption of Market Orientation in SMEs: Required Capabilities and Relation to Success", the aim is to offer an integrated view of the adoption of market orientation in SMEs. The goal is to examine to what extent the SMEs have adopted market orientation, what factors are considered important to business success and how these factors relate to market orientation and different marketing capabilities. The article further studies how well these success factors are perceived to have been mastered in SMEs and whether or not related marketing capabilities are lacking. The more precise research questions are as follows: 1) How has market orientation been adopted in SMEs? 2) How does market orientation relate to success in SMEs? 3) What capabilities are required in successful business operations?

In Article III, "Customer Relationship Oriented Marketing Practices in SMEs", the focus is on a marketing process that included customer information gathering, customer segmentation, creating value by differentiation and managing customer profitability. The article examined to what extent customer information was gathered and acted on in SMEs keeping in mind the

profitability of the business operations. The article further explored whether size, industry or customer markets affect the extent to which these tasks were performed in the SMEs.

The purpose in Article IV, "Understanding the small business owner: what they really aim at and how this relates to firm performance. A case study in North Karelia, Eastern Finland", was to examine how owners of micro firms perceive success and how that perception may influence the growth of their enterprises. This article endeavoured to ascertain the goals and motivations for running a business and what were the measures with which the small business owners assessed success.

There is no comprehensive definition or theory of marketing in SMEs as the definitions and theories in marketing literature usually relate and interpret the marketing done in large organisations (Simpson et al. 2006). Consequently, the attempt is to find whether there are special features specifically characteristic of small firm marketing. In addition the differences between different types of SMEs are examined.

4 RESEARCH METHODS AND DATA

4.1 Methodological approach and choices

From an ontological point of view, the dissertation adopts an assumption of subjectivism. In other words, it is assumed that reality is based upon perceptions and experiences which may differ from person to person and change over time and context (Eriksson & Kovalainen 2008). The purpose is not to make broad generalisations and it is understood that the empirical findings represent samples of different realities. The aim, however, is to increase our understanding of the research object under examination (cf. Long et al. 2000, Hill & McGowan 1999).

The term constructivism is often used instead of the term subjectivism (Eriksson & Kovalainen 2008). Hill and McGowan (1999) advocated constructivism as an appropriate approach when studying small firms as it refers to a notion according to which all individuals construct their own reality as they interpret and perceive the world. They suggested further that when taking into account the special characteristics of small firms (e.g. the important role of the owner-manager in every business activity) researchers should adopt an epistemological stance where their studies are carried out by closely interacting with the subjects of the study. This refers to anti-positivism (e.g. Nwokah et al. 2009). In this dissertation it, however, is conceded that knowledge produced through research is seldom based on only one idea of science and research and that there exist different and equally legitimate philosophically embedded views in relation to how and in what ways the world can be known (Eriksson & Kovalainen 2008). Consequently, the epistemological stance adopted in this dissertation does not represent pure anti-positivism, as it is assumed that, besides interacting with the research subjects, knowledge can also be obtained from some distance.

The dissertation follows a mixed method programme. Johnson et al. (2007) defined mixed method programme to involve mixing and combining elements of qualitative and quantitative research approaches across a closely related set of studies. Mixed methods research is regarded as the third research paradigm along with qualitative and quantitative research paradigms (Johnson & Onwuegbuzie 2004). It is an approach to knowledge that attempts to

take into account several viewpoints, perspectives, positions and standpoints (always including those of qualitative and quantitative research) (Johnson et al. 2007). The fundamental principle of mixed methods research states that methods should be mixed in such a way that the strengths of the methods are complemented and that no overlapping weaknesses remain (Johnson & Turner 2003). Thus the aim of mixed methods is not to replace qualitative or quantitative approaches but rather to gain from their strengths and minimize their weaknesses within a single study or across closely related studies (Johnson & Onwuegbuzie 2004). Table 3 presents a summary of the strengths and weaknesses of each research approach in the context of small firm research. According to Curran and Blackburn (2001), some of the strengths and weaknesses of quantitative and qualitative approaches appear complementary. For example, a quantitative approach makes it possible to examine SMEs at the macro level, but does not give answers to why things occur. A qualitative approach, on the other hand, tries to establish why events occur and focuses on the micro level. Curran and Blackburn (2001) stated further that although these strengths are exploited and weaknesses countered in mixed methods, the problems of each paradigm still persist.

	Quantitative approach	Qualitative approach	Mixed methods approach
Strengths	<ul style="list-style-type: none"> - constructive role in establishing knowledge on how small enterprises function in relation to the wider economy - helpful in providing information on the numerical dimensions of the processes known to occur 	<ul style="list-style-type: none"> - especially advantageous for investigating human and social phenomena - attempts to establish <i>why</i> things occur - ability to focus on the micro level, the everyday lived activities 	<ul style="list-style-type: none"> - exploit the strengths of quantitative and qualitative approaches and counter their weaknesses
Weaknesses	<ul style="list-style-type: none"> - inability to explain <i>why</i> events occur - many of the phenomena under study are dependent on context or subject to continuous change and, thus, cannot be treated as invariants for statistical purposes - extreme heterogeneity of small firms reduces the value of statistically based analysis 	<ul style="list-style-type: none"> - inability to focus on the macro level - limited scale that weakens generalisability - lack of authoritativeness, because of labour intensity and dependence on the skills of the researcher - more difficult to conduct 	<ul style="list-style-type: none"> - at the philosophical level the division persists - the problems of each paradigm persists

Table 3. Strengths and weaknesses of quantitative, qualitative and mixed methods paradigms in small firm context (adapted from Curran & Blackburn 2001).

It is argued that a mixed methods approach allows researchers to combine design elements that offer the best opportunity to obtain answers to their specific research questions (Johnson & Onwuegbuzie 2004). Based on the literature, Johnson et al. (2007) listed several reasons as to why it is useful to combine qualitative and quantitative methods. These reasons included 1) triangulation (seeking corroboration of findings from different methods investigating the same phenomenon), 2) complementarity (seeking elaboration, enhancement, clarification of the findings from one method with the results of another method), 3) development (using the findings from one method to help inform another method), 4) generation of new research questions, 5) expansion of the breadth and range of inquiry, 6) participation enrichment (optimising the sample), 7) instrument fidelity (e.g. assessing and creating instruments), 8) treatment integrity (assessing the appropriateness of an intervention), and 9) significance enhancement (e.g. enhancing the thickness and richness of data). Sale et al. (2002) argued that the most prevalent arguments in the literature for integrating qualitative and quantitative approaches are the needs 1) to achieve cross-validation or triangulation to study the same phenomenon in order to obtain a fuller understanding of it, and 2) to achieve complementary results by using the strengths of one method to enhance the other. In this study the justifications for applying mixed methods approach were primarily related to the two latter reasons. It was also believed that the use of mixed methods would enhance the ability to achieve a more profound understanding of the research object. In Articles I, II and IV both qualitative and quantitative methods of analysis were employed whereas in Article III quantitative methods were used. Limitations of the data are discussed separately in each article. In the next chapter the collection and analysis of data concerning each article is elaborated.

4.2 Empirical data collection and analysis

Each of the four articles has a different set of empirical data, even though there is overlap. The data for the first article “Do All SMEs Practice Same Kind of Marketing?” and for the third article “Customer Relationship Oriented Marketing Practices in SMEs” was collected through the same

questionnaire. An online or postal questionnaire was sent to 679 SMEs in North Karelia, Eastern Finland. The survey was targeted at SMEs in three different industries 1) manufacturing, 2) real estate, renting and business activities, and 3) other service activities (such as hairdressing, laundry and dry cleaning). These industries were selected discretionarily in the belief that a diverse group of SMEs would be represented (e.g. different size, customers: consumers/business or public organisations, offerings: products/services). Respondents' contact information was obtained from an Internet-based North Karelia company register and a systematic sampling method was used among those companies that had provided their email addresses for the register. The sampling was performed in such a way that about 30 per cent of the firms in each industry were included in the sample. In the industry "other service activities", only 13 per cent of the enterprises had provided their email addresses and, consequently postal questionnaires were also used. The response rate was 16 per cent.

The questionnaire included open-ended as well as structured questions. For the purposes of the first article open-ended questions were used to obtain a better understanding of the respondents' subjective perceptions of marketing. In the examination of the responses, content analysis was used and words and phrases were identified referring to the traditional elements of marketing. With the help of structured questions the relevance of different marketing tasks and the general attitude towards marketing was examined. In the analysis of these structured questions basic statistical techniques, descriptive statistics, were applied. In addition, univariate statistics (tests, such as Kruskal-Wallis or Mann-Whitney U) were used to analyse the differences between different groups of SMEs.

For the purposes of the third article, 14 statements relating to customer relationship oriented marketing practices were given and the respondents were asked to indicate how frequently they carried out these activities. In the analysis, principal component analysis was applied and, consequently, the variables loading on each factor were combined into composite measures. Finally, these composite measures were used as dependent variables in the ANOVA examining the differences between different groups of SMEs.

The data for the second article “The Adoption of Market Orientation in SMEs: Required Capabilities and Relation to Success” was collected in several phases. Different researchers took part in the data collection and analysis. Three different branches of industry, namely 1) tourism, 2) metal and plastics, and 3) information and communication technologies (ICT) were chosen as they represent three focal areas of development in North Karelia. Thus firstly, a total of 490 postal questionnaires were sent to privately-owned independent SMEs in these industries in North Karelia. Altogether 215 respondents returned the questionnaire giving a response rate of 44 per cent. In the questionnaire, the respondents were asked to evaluate certain variables regarding their importance to business success. Moreover, they were asked to assess their enterprises’ performance in relation to these variables. The data was analysed by factor analysis based on which 10 sum variables were formed that were compared between the respondents from the three industries. Then, 13 respondents from tourism industry, eight from metal and plastics, and six from ICT were interviewed. In the thematic interviews, the focus was on the three sets of activities of market orientation, namely generation, dissemination and responsiveness to market intelligence. In the analysis, content analysis was applied.

In the fourth article the results of three separate studies were analysed. The enterprises studied represented two industries, namely crafts and rural tourism in North Karelia. The common themes of these studies were success and growth in SMEs. The data was collected through thematic interviews and postal questionnaires and again different researchers took part in the data collection and analysis. In the first study, a questionnaire was sent to 54 female craft entrepreneurs of whom 30 responded giving a response rate of 56 per cent. The data was analysed with descriptive statistics. In the second study the empirical data of the first study was complemented with eight interviews with craft entrepreneurs who did not take part in the first study. This data was compared with that obtained through 59 interviews from respondents in rural tourism enterprises in North Karelia. The statistical results and the results from the interviews regarding identical themes were compared. For the purposes of the third study the data was collected as a part of a more extensive survey described in relation to Article II. In this study only one industry, namely rural tourism, was taken into account. Of the 490 questionnaires sent out, 214 postal questionnaires were directed to privately owned small and

micro businesses in rural tourism. Of these, 92 returned the questionnaire giving a response rate of 43 per cent. The third study examined the factors that affect the success of rural tourism enterprises and how highly the respondents assessed their firms' expertise to be with regard to these factors. Importance-performance analysis was used to ascertain 1) what the level of importance and expertise of each success factor was and 2) whether the expertise exceeded or fell short with regard to each success factor. In addition, the importance-performance analysis yielded suggestions for appropriate strategies regarding the success factors.

5 RESEARCH FINDINGS REVIEWED AND SUPPLEMENTED

5.1 Article I: Perceptions of marketing held in SMEs

In the article “Do All SMEs Practice Same Kind of Marketing?”, the purpose was to gain a more profound understanding of how the concept of marketing is perceived and put into practice in SMEs. In addition, the article examined whether the perceptions and practices differed between SMEs of different sizes, industries and customer groups. Ottesen and Grønhaug (2002) suggested that individually held concepts are important because they give focus, drive attention and contribute to what is noted. Consequently it is appropriate to start the study by ascertaining the perceptions of marketing held by SME marketers.

Romano and Ratnatunga (1995) argued that there are three thrusts in terms of which the role of marketing in SMEs has been studied: marketing as 1) a philosophy/culture, 2) a strategy or 3) tactics/methods. Stokes (2000b) added a fourth thrust to this list: market intelligence. Marketing as a philosophy/culture and market intelligence refer to the marketing concept and its implementation in market orientation, whereas marketing as a strategy or as tactics/methods relates to how a firm competes in its markets applying basic marketing tools, such as segmentation, targeting, positioning and marketing mix.

The findings showed that the respondents emphasised the tactics/methods side of marketing. Not all the elements of marketing mix, however, were regarded as important. The focus was heavily on promotion, whereas issues related to product, price and place were considered to carry much less weight. On the other hand, marketing was regarded as paving the way and creating prerequisites for sales. The aim of marketing was to make a sale. The second most emphasised dimension was marketing as a strategy. Marketing was perceived to include activities related to charting the customer base, attracting potential customers and targeting the right customer segments. Many of the respondents were aware of the importance of customer relationships. Creating and maintaining customer relationships was regarded as the second most important task of marketing after making the firm and its products known. The open question “In your opinion, what is marketing?” did not prompt many of the respondents to allude to marketing as a philosophy (cf. marketing concept) or market intelligence (cf. market

orientation). Some of the respondents reported that satisfying customer needs is a focal part of marketing, but many of them wanted to help customers identify a need and then see their existing offering as a satisfier of that need. Therefore, contrary to the original idea of the marketing concept, respondents tended first to develop an offering and then tried to find a market for it. Only one respondent referred to market intelligence by mentioning the gathering and analysing of information.

With the help of eleven statements, the general attitude toward marketing was elicited. The results showed that the respondents regarded marketing as an important function in SMEs in general and in their own enterprises in particular. The majority of them had integrated marketing into their everyday business operations and, for example, regarded their every employee as a marketer. The great majority also considered marketing useful to their business operations. A little less than a half of the respondents thought, however, that they had enough knowledge about marketing and only a half thought they exploited marketing sufficiently. The respondents also had ambivalent views regarding the scope of marketing. For example, about 30 per cent agreed and just under 60 per cent disagreed that marketing generally means advertising.

One purpose of this article was to examine if there were differences regarding these issues between SMEs of different sizes, industries or customer groups. Industry was not a differentiating factor. Significant statistical differences were found, however, in the attitudes toward marketing between the smallest and largest SMEs (according to annual turnover and number of employees), and between those operating in consumer and in business-to-business markets. When firms operating in consumer markets or having annual turnovers of below 100 000 € were compared to enterprises in business-to-business markets or with annual turnovers exceeding 100 000 €, the smaller firms in the consumer markets considered marketing more as mere advertising. They also agreed more with the statement that each customer is equally important to them. Furthermore, in medium-sized enterprises with 50-249 employees, marketing was regarded as being an integral part of and useful to their business operations and, thus, done daily, whereas in micro businesses with 0-9 employees this was not

felt as strongly. In summary, it could be argued that in smaller SMEs operating in consumer markets marketing is adopted in some form but viewed from a narrow perspective and not seen to be very suitable to their everyday business operations.

5.2 Article II: Adoption of market orientation in SMEs

The purpose of Article II, “The Adoption of Market Orientation in SMEs: Required Capabilities and Relation to Success”, was to obtain an integrated view of the adoption of market orientation in SMEs. Of interest was how market orientation relates to the success factors identified by the owner-managers and what marketing capabilities are required for successful business operations. Finally, the level of which market orientation was adopted in the small enterprises was assessed.

As discussed earlier, researchers are quite unanimous in claiming that market orientation has a positive impact on business performance either directly or through mediators. The influence of moderators, such as market turbulence, has also to be taken into account. In the context of SMEs this relationship between market orientation and firm performance has also been to some extent examined and the same positive impact has been found. There are, however, a limited number of studies investigating the link between market orientation and the subjective success factors of the owner-managers, i.e. those that the owner-managers subjectively assess as important. Furthermore, the actual market-oriented behaviour in SMEs has also been little researched.

In order to ascertain what success factors owner-managers regarded as important, 50 different variables were offered in the questionnaire and the respondents were asked to assess their importance on a 5-point Likert scale from 5 “very important” to 1 “not important”. To achieve a more concise view of the elements a factor analysis was performed based on which 10 sum variables were formed. The results showed that although there was some variation in the assessment of the success factors between the respondents from different industries (tourism, plastics and metal, and ICT), the sum variable *customer orientation* formed the most important

success factor in each of them. *Market intelligence, human resources and price and accessibility* were also regarded as very important success factors in each industry. *Customer orientation and market intelligence* refer directly to market orientation. In addition, it could be argued that in order for an enterprise to act in a market-oriented way the human resource management should support the development of a market-oriented culture in the organisation. Thus, it can be concluded that market orientation also plays a significant role in the subjectively important success factors of the small firm owner-managers.

At the same time as the respondents were asked to evaluate the importance of the given success factors, they were also asked to evaluate their own expertise with regard to each factor on a 5-point Likert scale. As with the assessment of importance, the corresponding sum variables were formed related to expertise. The same four sum variables: *customer orientation, human resources, price and accessibility* and *market intelligence* came up as the best managed, thereby supporting the argument that success measures tend to drive the behaviour in the firm. It should be noted, however, that when the means of importance with the means of expertise were compared, the figures concerning expertise were lower than those for the importance. Thus, there seems to be room for improvement.

The marketing capabilities relevant in supporting successful business operations were also discussed. The classification by Day (1994) was adopted and it was argued that outside-in capabilities are required e.g. in *customer orientation and market intelligence*; inside-out capabilities are required e.g. in *human resources*, and spanning capabilities in e.g. *price and accessibility*. Consequently, it could be argued that a multi-faceted set of marketing capabilities is required in order to promote the success of the firm.

The purpose of the interviews was to take a closer look at what kind of market-oriented behaviour occurred in the SMEs studied. The themes of the interviews followed the set of market-oriented activities defined by Jaworski and Kohli (1993), namely generation, dissemination and responding to market intelligence. In light of the interviews, it could be stated that SMEs generate customer information especially, but this is not necessarily done systematically or continuously. The collection of information is rarely planned or established.

The interviewees, however, were satisfied with the quantity and quality of the information obtained. SMEs tend also to gather information about competitors. Only about half of the firms stated, however, that they knew their main competitors well. Information about potential competitors was not actively collected. However, the interviewees were fairly satisfied with the competitor information. The main sources of both customer and competitor information were customers and the Internet.

In many of the enterprises interviewed, customer information was saved in some kind of register. Competitor registers were not used like this. The gathered data was not necessarily thoroughly analysed or shared with the personnel. In many cases, the dissemination of the market intelligence was not regarded as important. In addition, the market intelligence gathered was not actively responded to. It was stated, for example, that it depended on the resources whether customer feedback was reacted to or not. Many acknowledged the importance of customer information, but could not necessarily point out how this information affected their business operations. Thus, it could be argued that the exploitation of the information was not regular or systematic.

Kohli and Jaworski (1990) suggested that the extent of market orientation in a firm could be examined based on degrees. In this article, the enterprises were placed at different levels of market orientation based on the interviews. Five levels were identified. At the highest level were those who gathered information about present and potential customers and competitors from several sources and also shared this information with employees. The enterprises at this level were the largest in terms of number of employees and they had been in business for over ten years. At the lowest level were those enterprises that gathered market intelligence occasionally or not at all and did not share this information with the employees. These firms were among the youngest firms interviewed. Nevertheless, they had been in business for five years. The lack of interest in market intelligence was explained by the interviewees by limited resources or by highly specialized products with no competition in the markets. Only few enterprises were situated either at the highest or the lowest levels, most of the enterprises

interviewed showed mid-level or lower mid-level market orientation by gathering and sharing market intelligence to some extent. The focus was especially on customer information.

In summary, it could be suggested that market orientation plays a significant role in the subjectively assessed success factors and that a versatile set of marketing capabilities is required in successful business operations. In addition, SMEs have adopted market orientation to some extent. In order to act in a truly market-oriented way they should, however, cultivate capabilities that support the generation, dissemination and responsiveness to market intelligence.

5.3 Article III: Customer relationship oriented practices in SMEs

The aim of Article III, “Customer relationship oriented marketing practices in SMEs” was to examine to what extent SMEs gather customer information and act on it keeping in mind the profitability of their business operations. Differences in these activities according to firm size, industry or customer groups were also ascertained.

A customer relationship oriented marketing process was taken to be the basis of the study. This process started with *customer information gathering*, as it is claimed to be essential for marketing decision-making and to form the foundation for customer segmentation, which in turn, is considered to be the basis of customer relationship management. The second phase of the process was *customer segmentation*, which is deemed to enable a firm to provide a differentiated marketing mix to different customer groups. In the third phase, *creating value by differentiation*, it is thought that customised treatment will act as glue and hold customers and firms together as customers perceive greater value and want to retain the customer relationship. Finally, long-term relationships are thought to result in customer profitability and, ultimately, in firm profitability. Thus, the final phase is *managing customer profitability*. Because profitability and customer value are not static, customer information gathering, analysing it and changing measures accordingly constitute an ongoing process. The aim to attain profitable customers determines what kind of customer information should be gathered.

The idea behind this suggested process is in accordance with the assumptions of market orientation and especially of customer orientation. In both of them the starting point is to gather customer information so that the enterprise can provide offerings that create value for customers. The ultimate goal is profitability. In addition, the suggested process is consistent with the argument that customer relationships are the core of marketing (cf. Svensson 2001, Grönroos 1989).

In the empirical part of the study, SMEs' activities related to the different phases of the above described process were examined. The results indicated that there are great differences in activity in different marketing tasks. SMEs tended to customise their products or services often, whereas marketing communication or pricing were customised less frequently. In addition, following how customer relationships developed and pursuing profitable customers were done often, but the task of segmenting customers e.g. by their profitability, was neglected.

A factor analysis was performed in order to condense the multi-item information obtained from the questionnaire into smaller sets of factors underlying in the data. This factor analysis suggested few changes into the customer relationship oriented marketing process. The enhanced process included four phases: *customer information gathering*, *customer targeting*, *orientation to customer retention* and *managing customer profitability*. The first and last phases remained almost the same. *Customer targeting* combined the stages of *customer segmentation* and *creating value by differentiation*. This is in accordance with the suggestion that segmentation is not a goal in itself but rather a means to enable firms to differentiate and target their marketing efforts at appropriate customer segments (Jonker et al. 2004). Two of the variables that were originally thought to be included in *managing customer profitability* in the factor analysis formed their own factor: *orientation to customer retention*. This new factor, however, relates closely to the management of customer profitability in that it refers to the assumption that long-term customers become profitable customers (e.g. Storbacka et al. 1994).

Next, differences in the activity of performing the marketing tasks related to each phase of the enhanced process was explored according to the size, industry and customer group of the SMEs studied. Some differences were found. In summary, it could be claimed that the SMEs that

were micro sized (with 0-9 employees and turnover below 100 000 €), operated in the industry of “other personal services” or consumer markets put less effort into marketing. Size could partly explain why the enterprises operating in “other personal services” differed from the other firms studied. These enterprises offering e.g. hairdressing and laundry and dry cleaning tend to be micro firms with limited resources. The fact that the SMEs operating in business-to-business markets are more active in their marketing than their counterparts in consumer markets could perhaps be explained by the special characteristics of business markets. Marketing tends to be more formal, because several decision-makers may take part in the buying process, the time for making decisions is longer and the consequence of making a poor purchase more critical.

5.4 Article IV: What is the success aimed at in SMEs?

In the fourth article, “Understanding the small business owner: what they really aim at and how this relates to firm performance”, the results of three separate studies were analysed. The aim of this article was to examine how business owners in micro enterprises perceive success and to discuss how that perception may influence the growth of their enterprises.

The terms *success* and *performance* are closely connected. Both are traditionally assessed by financial measures, such as ROI, profitability or growth. In addition, both of them can be evaluated objectively (referring to financial performance indicators impartially quantified) or subjectively (referring to self-reported assessment). However, it is argued further that there are subjective success measures that relate to personal issues, such as job satisfaction. Thus, traditional, financial measures of success may be inappropriate, meaningless and misleading for owner-managers, each of whom may have their own perception of success (Simpson et al. 2004). Furthermore, goals play an important role in success: they form the premise of success, direct behaviour toward success and, finally serve as measures of success. It is suggested that all entrepreneurs set themselves implicit or explicit goals that may be related to personal economic or non-economic goals or other business objectives (Greenbank 2001). Consequently,

it is important to examine what goals the owner-managers set themselves in order to examine how they assess their success. Furthermore, it is interesting to see how these success measures relate to the traditional, monetary measures of success. Market orientation is seen to impact positively on financial business performance and on such factors as customer and employee satisfaction. The self-reported success measures of the respondents can thus be compared with the proposed positive outcomes of market orientation in order to examine whether there might be an incentive to adopt market orientation.

The results indicated that the goals of the respondents were not oriented toward growth in terms of increased turnover or number of employees. The self-reported goals were related to good quality of life, job satisfaction and satisfied customers. Consequently, the respondents tended to evaluate their success with measures such as job satisfaction, quality of products and satisfied customers. From an economic point of view, making a reasonable living constituted a measure of success. The respondents had apparently set themselves a notion of what a reasonable living means to them and to that point they seemed to be willing to grow their businesses but not much beyond that. It could be argued that growth was not actively pursued once the primary goal of making one's living was achieved.

In relation to the findings of the second article "The Adoption of Market Orientation in SMEs: Required Capabilities and Relation to Success", the perceptions of the respondents in the three industries, namely tourism, plastics and metal and ICT of the most important success factors and how they felt they performed with regard to these success factors were discussed. In this article, only the responses from tourism enterprises were included and the 50 variables were examined as individual variables. The results indicated that the variables related to customer orientation, product, price and accessibility, human resources and finance were the ones that were perceived to be important success factors and also well mastered in the small tourism enterprises. The overall results suggest that the owner-managers studied felt they were at least fairly successful, because the important success measures were fulfilled.

There is empirical evidence showing the positive impact of market orientation on financial performance of the firm. As the subjective measures of success in SMEs relate to financial

performance only to a very moderate extent it could be argued that to fully adopt market-oriented behaviour is not deemed relevant in SMEs. Perhaps in this context, the positive effect of market orientation on customer and employee satisfaction should be examined further.

6 CONCLUSIONS AND DISCUSSION

The aim of this dissertation was to gain a more profound understanding of the role and practices of marketing in SMEs. The research object was related to the three interrelated terms of *marketing concept*, *market orientation* and *success*. The perceptions of marketing held, the marketing practices adopted and the success aimed at in SMEs were examined.

What perceptions are held in SMEs about marketing?

Marketing concept refers to a business philosophy (Kohli & Jaworski 1990). When the representatives of SMEs were asked to define what marketing is in their opinion they rarely referred to any business philosophy. They rather concentrated on concrete marketing tasks, such as promotion, and the ultimate aim of marketing seemed to be making a sale. In addition, contrary to the idea of the marketing concept, they tended to develop an offering first and then tried to generate a need for it. This would suggest that many SMEs have adopted the sales concept where a firm looks for exchange partners for established offerings (Houston 1986). Möller and Anttila (1987) also argued that in SMEs marketing is often viewed from a narrow perspective of sales orientation. Hill (2001) and Hogarth-Scott et al. (1996) suggested that one reason for this might be that the survival of the firm is often dependent on the sales.

On the other hand, it is stated that small firms may follow some form of self-directed and informal customer centric philosophies (McPherson 2007). The results of this study support this view. Customers had a pivotal role in the marketing of the SMEs studied. Creating and maintaining customer relationships were seen as important and success was measured by customer satisfaction. It could be proposed that instead of following a single business philosophy, the SMEs may have adopted features of several philosophies (e.g. marketing concept, sales concept) that seem to best fit their goals, enterprises and the environments they operate in. Houston (1986) emphasised that it is important to acknowledge that in certain circumstances sales or production concepts could be more appropriate business philosophies than the marketing concept.

The results showed that there were differences in attitudes to marketing between the smallest and largest SMEs and between those in consumer and business markets. It seemed that the smallest SMEs operating in consumer markets viewed marketing from a narrower perspective and regarded it as less relevant to their everyday business operations. As suggested in the literature, the probable reasons for this lay in limited resources and in the experience and expertise of owner-managers. This study emphasised the role of success measures in shaping attitudes and thereby guiding the adoption of a business philosophy. The success that SMEs aspire to is discussed later on in this chapter.

In sum, SME marketers perceived marketing through concrete practices that often related to promotion, selling and customer relationships. They professed no single business philosophy but rather features of several philosophies that they perceived most relevant to their business operations.

What are the marketing practices adopted in SMEs?

Although the importance of marketing in the enhancement of business operations was acknowledged, the results of this study supports the view that marketing in SMEs is nevertheless somewhat haphazard, unorganised and unplanned (Gilmore et al. 2001). The basic marketing activities, such as segmentation and targeting were paid varying attention. Furthermore, there were differences in the activity of these practices between largest and smallest SMEs and between those operating in customer markets and those operating in business-to-business markets. In the largest SMEs and those operating in business-to-business markets more attention was paid to the marketing practices studied. It could be suggested that in these marketing was carried out rather more formally than in the smallest of SMEs.

In light of the results, it could be argued that market orientation was adopted to a certain extent, but none of the SMEs studied acted in a truly market-oriented way. Generation and especially dissemination of market intelligence and responding to it were unstructured, unsystematic and occasional. As suggested in the literature (e.g. Hogarth-Scott et al. 1996),

limited resources seemed to hinder the full adoption of market orientation. On the other hand, acting in a truly market-oriented way was not necessarily regarded as meaningful to everyday business operations. Thus, it seemed that SMEs had adopted market orientation to the extent they felt was relevant to their enterprises.

In sum, SMEs differed in the level of activity and attention which they paid to marketing practices. In the smallest of SMEs marketing practices were often carried out unsystematically and occasionally. With regard to market orientation, SMEs had adopted it to a certain extent. The focus was on customer information gathering, whereas to dissemination of and responding to market intelligence were paid less attention.

What is the success aimed at in SMEs?

It was argued that goals play an important role in the assessment of success. They form the premise of success, direct the behaviour and, finally, serve as success measures. Thus, it could be argued that goals, i.e. success measures, also direct the adoption of a business philosophy and the decision-making regarding the marketing practices in SMEs. It is widely acknowledged in the marketing literature that market orientation has a positive impact on the financial performance of the firm. It is seen to improve e.g. profitability, ROI and growth. Is the enhancement of financial performance important to small firm owner-managers? Yes, it is – at least, to the extent of making a reasonable living. The results of this study suggest that growth beyond that is not actively pursued as the primary goal of making a living is achieved. The respondents reported other important success measures to be job satisfaction, satisfied customers and good quality of life. These measures are very personal and difficult to assess objectively.

These personal success measures could offer an explanation for the extent of the adoption of business philosophies and marketing practices. The literature suggests that small firm owner-managers are not always receptive to marketing if there is no need for growth or expansion (Hogarth-Scott et al. 1996). It seems that owner-managers have explicit or implicit notions of

what they want to achieve with their enterprises and, at the same time, they have perceptions of what marketing consists of and what its outcomes will be. According to these notions and perceptions, marketing is applied. Of course, limitations with regard to time, finance, expertise and other factors relating to the firm and its environment should be taken into account. In this study, however, the respondents did not express much discontent with the way they carried out marketing, although they may have acknowledged some deficiencies in relation e.g. to marketing expertise.

In sum, small firm owner-managers stated often personally related success measures, such as job satisfaction and good quality of life. The most important financial success measure was to earn a reasonable living. It could be argued, however, that growth or other financial success was not necessarily pursued beyond this self-set goal.

Evaluations and limitations

In this dissertation, a mixed method programme was followed applying both qualitative and quantitative methods. Quantitative and qualitative researchers tend to have different perspectives on issues of validity and reliability and, in addition, to use different terms when referring to them (e.g. Golafshani 2003). It is argued that although qualitative and quantitative research approaches can measure the same constructs and meanings, this is done differently and the meanings emerging from the data are created differently (Dellinger & Leech 2007). Thus, some mixed method researchers have tried to find a middle of the road position and contemplate the matter from multiple viewpoints (Onwuegbuzie & Johnson 2006). Furthermore, they have suggested terms that can be used in the context of both qualitative and quantitative research. For example, an umbrella term *inference quality* refers to both internal validity (QUAN term) and credibility (QUAL term) and similarly the term *inference transferability* refers to external validity (QUAN term) and transferability (QUAL term) (Teddlie & Tashakkori 2003).

In this study, the inference quality was taken into account by describing the process of collecting and analysing the data as transparently as possible. Through that the accuracy and authenticity of the presented conclusions and interpretations can be evaluated (Teddlie & Tashakkori 2003). The purpose of this study was not to establish causal relationships between different constructs. Some suggestions were, however, made about correlations between e.g. personal goals/success measures and the business success pursued.

According to Teddlie and Tashakkori (2003), inference transferability comprises transferability to other 1) contexts, 2) individuals/groups/entities, 3) time periods and 4) methods of measuring behaviours. Curran and Blackburn (2001) argued that in small business research generalisation is difficult because of the heterogeneity of small firms. In this study, the heterogeneity of SMEs was taken into account by including a diverse group of SMEs in the study, but at the same time, it concerned only a few industries in a small geographical area. Thus, further research is needed before the results can be transferred or generalised to apply to other industries and areas.

The concept of *reliability* that refers to the replicability or repeatability of results has often been regarded as irrelevant in qualitative research, although the term *dependability* which is close to that notion is used (Golafshani 2003). In this study, triangulation (e.g. combinations and comparisons of multiple data source, use of several researchers in data collection) enhance the reliability and dependability. Still, I agree with Curran and Blackburn (2001), who stated that there are no perfect and unchallengeable outcomes from research on SMEs because of their heterogeneity and because the economic, social, cultural, geographical and political environments they operate in are constantly changing.

Thus, the study has limitations. Although both qualitative and quantitative methods were applied, the focus was essentially quantitative. Perhaps, this gave a broader view of the subject, while the more qualitative approach would have given a deeper insight e.g. into the reasons behind the phenomena studied. It is believed, however, that the mixed-methods approach gave more depth to the study.

Summary and future research

In Figure 7, the main results of this dissertation on the role and practices of marketing in SMEs are summarised. In this study, an underlying assumption was adopted highlighting the role of the small firm owner-manager in marketing. Consequently, the purpose was to shed light on how these small firm marketers perceive marketing, the marketing practices carried out in their firms and business success. In the literature, it has been suggested that in small firms some form of customer-centric philosophies are followed (McPherson 2007) and that SMEs often demonstrate customer orientation (Hogarth-Scott et al. 1996). The findings of this dissertation supported these suggestions, but they also gave rise to a proposition that in SMEs they do not necessarily follow a single philosophy but rather combine features of several business philosophies. In addition, the results of an article investigating the generation, dissemination of and responsiveness to market intelligence showed that SMEs have adopted market orientation to a certain extent. Nevertheless the emphasis was on customer orientation. As argued in prior literature, marketing practices were carried out in haphazard, informal and unsystematic a way. With regard to success measures, it was stated that goals and motivation affect the success measures used (Dobbins & Pettman 1997, Buttner & Moore 1997) and that success is often defined in personal terms (McCartan-Quinn & Carson 2003). These arguments were supported by the findings of the dissertation. Although financial success to the extent of a self-set goal of a reasonable living was seen as very important, non-financial success measures, such as job satisfaction and satisfied customers were more emphasised. It is also suggested that these subjectively set success measures affect the business philosophy adopted in the enterprise. All in all, the SME marketers studied were quite satisfied with the marketing carried out in their enterprises. *It could be argued that they had adopted the philosophies and practices of marketing which they felt best to fit their business operations and which they believed to enhance the achievement of their business goals and, thus, business success.*

The main purpose of this dissertation was to enhance the development of marketing theory concerning SMEs with the help of a more profound understanding of the role and practices of marketing in them. The findings, however, raised some questions whether it is appropriate or

even feasible to develop a unified marketing theory applicable to the entire spectrum of SMEs. SMEs are not a homogenous group. The term covers a wide range of enterprises from sole-proprietor businesses to those employing up to 249 people and of firms operating in various industries and customer markets. The results showed that firm size and customer markets especially distinguish SMEs from one another in terms of marketing carried out. Particularly in the smaller SMEs marketing was regarded from a narrow perspective and was perhaps felt to be quite peripheral to their business operations.

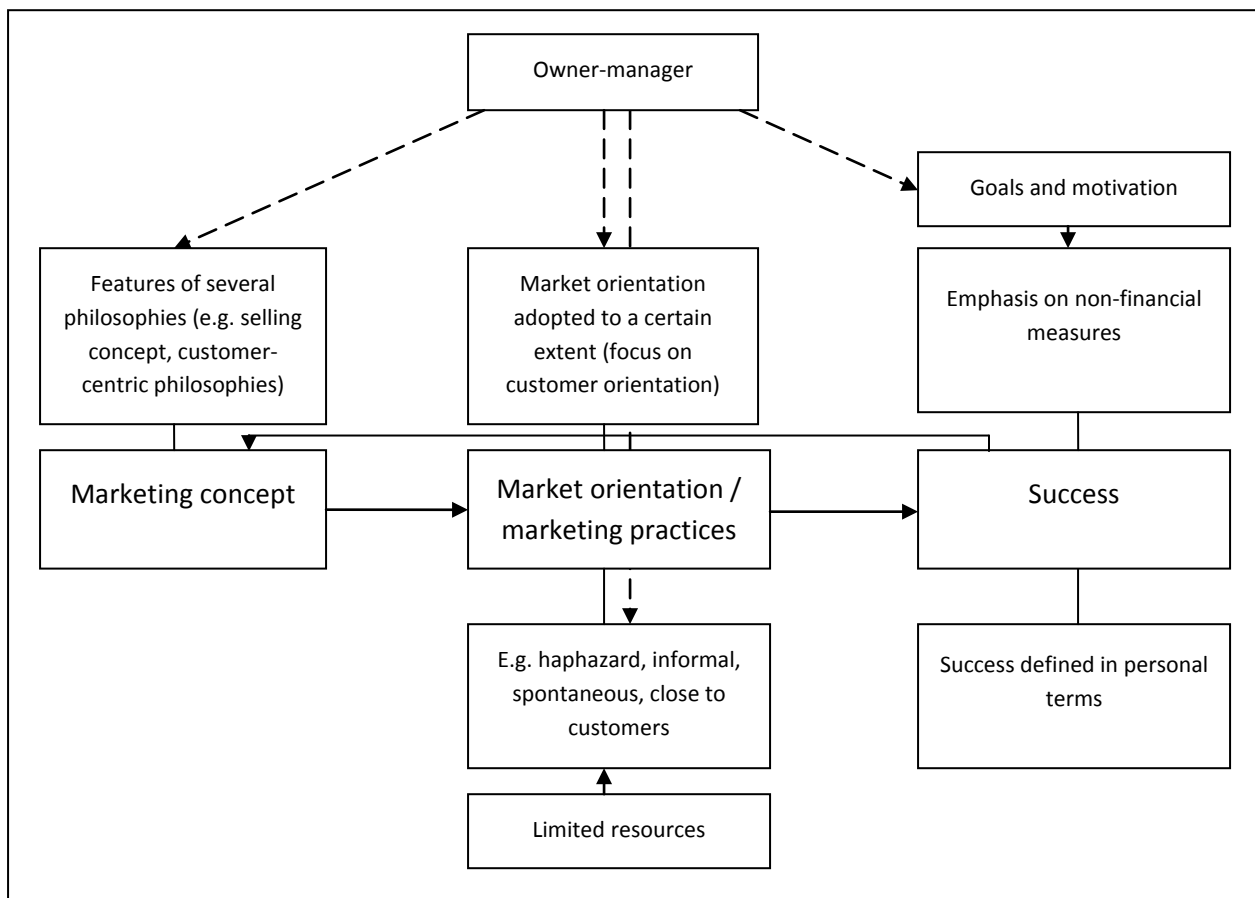


Figure 7. Summary of the main findings on the characteristics of marketing in SMEs.

This study offered an insight into the marketing perceptions and practices adopted in SMEs. It also highlighted the discussion on differences of marketing between SMEs. But for a more

comprehensive view of small firm marketing further studies are required. It would be interesting to scrutinise the possible differences between SMEs and why they occur. It would also be interesting to examine more carefully the role of the owner-manager in the marketing practiced in the enterprise and how it evolves along with the firm. At the same time, the marketing practices carried out in SMEs and the practical implementation of market orientation also need closer examination. For example, what prevents SMEs from applying market orientation in their business operations? There is a lot more to research. As Curran and Blackburn (2001) put it, it is difficult to imagine ever running out worthwhile research topics concerning small businesses.

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