



# Marketing in small and medium sized enterprises

Marketing  
in SMEs

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## Abstract

**Purpose** – The purpose of this paper is to report on a full-scale testing of the role of marketing and its relevance in small and medium sized enterprises (SMEs). The objective is to present the results of a rigorous assessment of a new model of marketing in SMEs.

**Design/methodology/approach** – A positivist approach relied on the use of the hypothetico-deductive method to produce the theoretical model. Both quantitative and qualitative research methods were applied to investigate the model. This paper reports on a large-scale questionnaire survey, follow-up interviews with SMEs owner-managers and the use of published accounts to show how companies have performed during this study.

**Findings** – The role and relevance model of marketing in SMEs has been thoroughly investigated and tested. The model offers a straightforward way of diagnosing the situation within an SME. The simplicity of the model allows for a clearer understanding of what is often a complex and messy situation within these companies and their business environment. Some findings suggest a positive link between a company's financial performance and its approach to marketing within the model.

**Practical implications** – The paper concludes that the model goes a long way to explaining the behaviour of SMEs with regard to marketing. The model appears to be viable and could be used to analyse and diagnose the situation regarding marketing within SMEs.

**Originality/value** – The paper offers a unique theoretical and practical insight into the issue of marketing in SMEs.

**Keywords** Small enterprises, Small to medium-sized enterprises, Marketing theory, Marketing models

**Paper type** Research paper

## Introduction

There are many different definitions of marketing given in standard textbooks. For example:

Marketing is the management process for identifying, anticipating and satisfying customer requirements profitably. Chartered Institute of Marketing, UK, (Wilson and Gilligan, 1999, p. 4; Brassington and Pettitt, 2003, p. 4).

Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and



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organizational objectives. American Association of Marketing, (Wilson and Gilligan, 1999, p. 3; Brassington and Pettitt, 2003, p. 4).

Marketing is an organizational function and set of processes for creating, communicating and delivering value to customers and for managing relationships in ways that benefit the organization and its stakeholders. (American Marketing Association, 2006; McDaniel *et al.*, 2006, p. 6).

These definitions suggest a strategic and operational approach to marketing that has been interpreted in terms of the activities that larger organizations undertake when doing “marketing”. However, no definition of marketing for small and medium sized enterprises (SMEs) can be readily found in the literature and those attempts at definition or discussion often link marketing with entrepreneurial behaviour (Carson *et al.*, 1995; Reynolds, 2002). Marketing in small and medium sized enterprises is a contentious issue among both academics and practitioners (Brodie *et al.*, 1997; Gilmore *et al.*, 2001) and has been so for more than 20 years (Cromie, 1990). Marketing theory development in SMEs has been somewhat limited and often relies on the application of classical marketing models used in big businesses to smaller businesses (Chaston and Mangles, 2002). The development of theories to explain the behaviour of SMEs towards marketing have generally been qualitative or descriptive (Carson, 1990) and few have been rigorously tested in practice. This paper sets out to test a relatively new model that describes the behaviour of SMEs towards marketing. This model has been called the Role and Relevance of Marketing model (Simpson and Taylor, 2000; 2002) and relates the role of marketing within the organization to the relevance or need for marketing demanded by the external business environment.

### **Aims and objectives**

The aims of this research were to:

- investigate the role and relevance model of marketing in SMEs with the intention of validating or falsifying the model with a large questionnaire survey of SMEs; and
- critically evaluate the likely value of the model for analyzing and predicting the behaviour of SMEs with regard to marketing and suggesting strategies for SMEs to improve their performance using marketing techniques and practices.

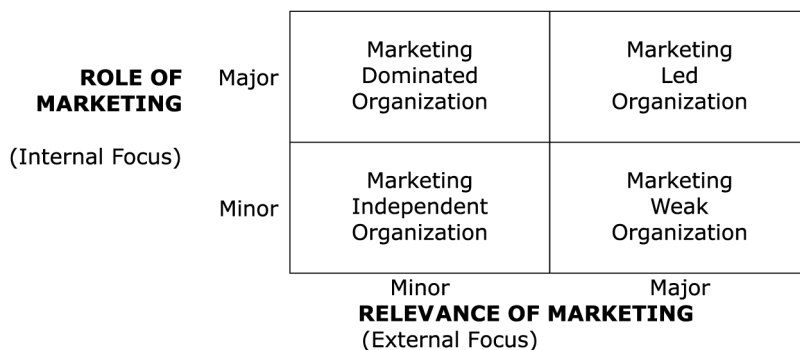
The objectives of this work were to:

- show that the model could be validated to some degree using data collected from SMEs;
- show that the model was capable of explaining the behaviour of SMEs towards marketing;
- show that the model was a genuinely useful step forward in the debate on the marketing activities of SMEs; and
- draw out of the survey any other useful and relevant results.

**The model and some criticisms**

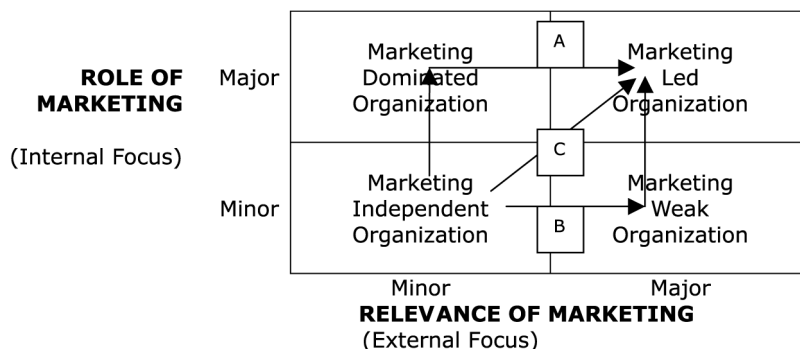
The role and relevance model of marketing in SMEs has been described in theory elsewhere (Simpson and Taylor, 2002). The model was somewhat descriptive in nature and can be summarized in Figures 1 and 2.

The basic descriptive matrix (Figure 1) gave rise to a new typology of SMEs based on the internal organization for marketing activities (i.e. the role of marketing) and the demands of the external competitive business environment (i.e. the relevance of marketing). This approach was similar to some early portfolio analysis methods (Bettis and Hall, 1981). The description of the model suggested various strategies that might be adopted by SMEs within the proposed model or framework (Figure 2). “Strategy A” was the proactive strategy in which “Marketing Independent” companies would strive for greater market penetration or increased market share or develop new markets. It was suggested that the reactive strategy (“Strategy B” in Figure 2) was the most likely approach to be taken by an SME attempting to become “Marketing Led”. “Strategy C” was simply an incremental approach to marketing activities as the intensity of competition in the business environment increased. One of the assumptions given was that SMEs could and should attempt to become “Marketing Led” organizations where



**Figure 1.**  
The role and relevance of marketing: the new model

Source: Adapted from Simpson and Taylor (2002)



**Figure 2.**  
Routes or strategies to becoming a marketing led organization

Source: Adapted from Simpson and Taylor (2002)

possible rather than “Marketing Weak” or “Marketing Dominated” and that by doing so SMEs would achieve better performance. However, little evidence was presented for this view at that time. The idea of balance between internal needs of the organization and the demands of the external competitive environment was described. The “Marketing Independent” category simply described those firms able to operate without significant recourse to marketing activities due to the stability of their business environment and their own lack of ambition. Similarly, the logical development (and growth?) of SMEs from “Marketing Independent” to “Marketing Weak” to “Marketing Led” organizations via “strategy B” was discussed. There is some similarity here with the work of Moller and Anttila (1987) in that the internal and external fields of marketing capability are described in much the same way. However, Moller and Anttila (1987) did not arrive at the two-dimensional matrix described by Simpson and Taylor (2002).

The approach taken by Simpson and Taylor (2002) was novel in that it has resulted in a relatively new matrix with some capability for explaining the behaviour of SMEs towards marketing. The model was developed in a hypothetico-deductive way (Sekaran, 2000) but based on some considerable knowledge and experience of small and medium sized businesses. The initial theoretical outline of the model relied heavily on classical or traditional marketing concepts rather than post-modern approaches such as networking and e-commerce (Brodie *et al.*, 1997) or evolutionary approaches to understanding the development of SMEs (Oskoui-Jones, 2002). It should be noted that the work of Moller and Anttila (1987) had the same weaknesses. The effects of entrepreneurial behaviour by owner-managers were also largely ignored. Thus the model proposed by Simpson and Taylor (2002) may have some inherent weaknesses in its conception but may lead to some interesting conclusions if it were rigorously tested. This paper sets out the results of such a test.

### **Literature review**

It is generally accepted that the basic principles of marketing are universally applicable to large and small businesses (Siu and Kirby, 1998; Reynolds, 2002). The study of marketing in SMEs has been recognized as a problematic area for researchers for over 20 years (Chaston and Mangles, 2002; Siu and Kirby, 1998). SME marketing in practice is thought to be largely done through networking (Gilmore *et al.*, 2001) or a combination of transaction, relationship, interaction and network marketing (Brodie *et al.*, 1997). More recently the use of Internet marketing (Chaffey *et al.*, 2000) or e-commerce (Rayport and Jaworski, 2001) has become popular in all types of businesses including SMEs. However, academic research appears unable to resolve a number of questions about small businesses and their relationship with and use of marketing. Siu and Kirby (1998) point out that empirical evidence has been generated in an ad hoc manner as a consequence of a general absence of a systematic approach to the subject. Insufficient knowledge about marketing in small business remains and a small business marketing theory specifically related to the understanding and knowledge of strategic marketing is needed (Siu and Kirby, 1998).

### *Marketing models for SMEs*

Research on small businesses and their marketing activities has been largely limited to explanations of certain types of behaviour observed in small businesses (Hannon and

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Atherton, 1998; Smith and Whittaker, 1998; Huang and Brown, 1999), or on the search for factors that are missing or present barriers in smaller businesses, accounting for their apparent inability to apply or use marketing ideas and concepts that were often developed for larger businesses (Barber *et al.*, 1989; O'Brien, 1998; Freel, 2000). Theory development in SMEs research seems to be somewhat limited in general. The work that has been done is more applied in nature, taking the form of prescriptive or descriptive frameworks and "models", on how to apply certain business and management theories to the smaller business (e.g. Carson, 1990; Brooksbank, 1996; Valos and Baker, 1996; Brooksbank, 1999). Some authors are investigating the applicability of alternative paradigms based on creativity, semiotics and art and employing alternative methodologies such as biography (Fillis, 2002).

Work specifically on marketing models in SMEs has resulted in six interlocking exploratory and qualitative models (Carson, 1990). Hannon and Atherton (1998) suggested a matrix relating strategic awareness to planning effectiveness. None of these models resemble the role and relevance model since they do not tackle the same variables and dimensions of marketing. These frameworks and "models" all make intrinsic sense of the situation in SMEs and other organisations. However, these frameworks and models are not, to our knowledge, "proven" or tested in any formal way and so could be regarded as descriptive in nature. Moller and Anttila (1987) devised a marketing capability framework, which was used to collect data with 36 Finnish and Swedish companies but they described their model as "a qualitative tool for examining the 'state-of-the-art' of marketing in small manufacturing companies." (Moller and Anttila, 1987, p. 185). This model consists of two major components: the external and internal field of marketing capability and therefore, potentially, has some similarity to the role and relevance model of marketing under discussion in this paper. The final matrix arrived at by Moller and Anttila (1987) was different in structure and application.

#### *Theoretical approaches to marketing in smaller businesses*

According to Romano and Ratnatunga's (1995) extensive literature review, marketing in small businesses can be categorised as: marketing as a culture; marketing as a strategy; and marketing as tactics. Marketing as a culture was defined as analysis of consumer needs and wants and assessment of competitiveness of small enterprises. Marketing as a strategy was defined as strategy development to enhance actual and potential market position of small enterprises. Marketing as tactics was defined as analysis of the 4Ps to influence the performance or growth of small enterprises. Romano and Ratnatunga (1995) also identified seven methodologies and three study objectives. However, in their study Romano and Ratnatunga (1995) admit that the categorisation of marketing in SMEs is somewhat arbitrary and invited the reader to devise their own categories.

Siu and Kirby (1998) identified four theoretical approaches to marketing in small firms: the Stages/Growth model; the Management Style approach; the Management Function model and the Contingency approach. The stages/growth model suggests that any model of small firm marketing must take into account the stage of development of the business but does not explain how the changes occur or account for the effects in variability of marketing skills between different owner-managers. The stages/growth model does not allow for leap-frogging due to technological advances

such as the use of the internet. The management style approach acknowledges the limitations and constraints of the small firm (resources and capabilities) and provides a useful explanation for the poor development of marketing in small firms but does not explain the marketing practices actually used by small. The management function approach acknowledges that marketing is both an important business function and an essential concept in small firm growth and survival but many owner-managers simplify and misunderstand marketing as the 4Ps or interpret marketing as advertising. The management function approach has been vigorously criticised and few small business researchers have adopted this approach (Siu and Kirby, 1998). The contingency approach acknowledges that various factors affect the small firm's marketing performance and that there is no universal set of strategic choices that is optimal for all businesses regardless of their resources or business environment in which they operate. The contingency approach is positioned between two extreme views, which state that universal marketing principles exist and are applicable to all firms, or that each small firm is unique and each situation needs to be analysed separately (Siu and Kirby, 1998). There is no grand unifying theory, the marketing concepts may be the same but the process of implementation is different in each firm. Excellent reviews of the literature in this complex area can be found in Hill (2001a and 2001b) and Siu and Kirby (1998).

#### *Marketing, strategic thinking and small firm survival*

It is questionable whether small businesses need to practice marketing at all to survive and grow (Hogarth-Scott *et al.*, 1996). The study by Hogarth-Scott *et al.* (1996) concluded that small business owner-managers were often generalists, not marketing specialists and complex marketing theories may not be appropriate for small businesses and probably would not aid in the understanding of their markets. Nevertheless, marketing was practised to some degree by small businesses. In most cases competitive advantage was based on quality and service, while those competing on price were in the highly competitive markets with little or no product differentiation and low entry barriers (see also Campbell-Hunt, 2000, for a discussion on how cost leadership and differentiation strategies can be combined). Product differentiation was a source of competitive advantage in some businesses while others were looking for niche markets (Hogarth-Scott *et al.*, 1996). It would appear from that study that marketing did contribute positively to small business success and the ability to think strategically. This view is supported to some extent by the much earlier work of Rice (1983) where it was clear that there was a difference between big business strategic rational planning and that carried out in small businesses. This difference was due to the amount of data collected about the external business environment by small companies compared to large companies and how this data was analysed. Small businesses collected considerably less data and in a more ad hoc fashion. Yet owner-managers were aware of the strategic nature of their decisions and Rice (1983) suggested that perhaps businesspersons gather enough information to allow them to make decisions at a "permissible" level of probable success. It could be argued that today SMEs have access to much larger amounts of information and greater computing power than was available 25 years ago (see Rice, 1983) but this is still considerably less than that available to large organisations. SMEs owner-managers



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still have very little time to devote to the analysis of information for strategic decision making and therefore the comments of Rice (1983) still appear valid.

Hannon and Atherton (1998) noted that the level of strategic awareness of owner-managers appears to be strongly influenced by the personal competence of the owner-managers and the type, uncertainty and complexity of the business. In businesses where customer relationships were well defined and relatively stable, strategic awareness was often low. This was due to their perception of the external business environment being narrowly defined and stable. In companies that experienced fast growth and turbulent market conditions the level of strategic awareness was uniformly high and the motivation for a continually better understanding of the external business environment was strong (Hannon and Atherton, 1998).

#### *Planning and performance*

The relationship between planning sophistication and performance in 253 small businesses in Georgia, USA was investigated by Rue and Ibrahim (1998). Their results clearly showed that those SMEs with greater planning sophistication also showed greater growth in sales as reported by executives. Yet on objective measures such as return on investment (ROI) performance Rue and Ibrahim (1998) reported these were not affected. Rue and Ibrahim (1998) suggest that small businesses with a sophisticated planning process may reap the benefits of these efforts in the long term. While Perry (2001) suggested that SMEs using sophisticated planning activities (including written business plans) may enhance their chances of survival and success.

#### *Marketing orientation and performance*

There is some debate amongst academics as to the value of a marketing orientation and how it relates to the success of the firm (Narver and Slater, 1990, Henderson, 1998). Pelham (2000) quoting Levitt (1960) suggests that firms who adopt a marketing philosophy/marketing orientation and convert it into actions should have superior performance. However, Pelham (2000) also points out that there are firms that manage to be successful without embracing this concept but by emphasising technical or production capabilities. Henderson (1998) claims that there is no such thing as marketing orientation and that adopting those ideas inherent in a marketing orientation can be shown to account for only 10 percent of business performance. There also seems to be some confusion in the literature regarding the correct terminology to use and authors refer to “market orientation”, “marketing orientation”, “customer-led” or “market-led” (Harris and Watkins, 1998). Harris (1998) contends that since market orientation can be viewed as a form of culture, the impediments to market orientation are categorised via a contemporary organisational culture framework. Thus Harris (1996) found that obstacles to market orientation can be classified as assumptions, values, artefacts or symbols. However, the view from the retail shop floor (Harris, 1998) suggests a similar set of obstacles to those found by Harris and Watkins’ (1998) study, namely: apathy, instrumentality, limited power, short-termism, compartmentalisation, ignorance and weak management support. The solutions proposed involved, *inter alia*, education and empowerment of retail shop floor workers (see also Carson, 1993; Carson *et al.*, 1995).

Denison and McDonald (1995) point out that studies have consistently shown that firms which were marketing orientated, or competent practitioners of marketing, performed better in terms of return-on-investment (ROI) and market share. However ROI can be affected by operational changes and is not a good measure of performance. Rafiq and Pallett (1996) found some limited evidence that marketing orientated UK engineering firms were more likely to have higher profits. Again, profit is not such a good indicator of performance in SMEs as companies' choices regarding pay policy on remuneration and the way they run their operations can reduce their profit and therefore their tax obligations. Siu (2000) showed that, in the opinion of managers, higher performing (in terms of profit, sales volume, market share and ROI) Chinese small firms in Hong Kong gave a higher priority to marketing, particularly strategic marketing planning, than other business functions in their overall approach to business but many still remained sales or production orientated. While the opinions of managers are valuable no objective measures of performance were presented in that paper (Siu, 2000).

The main inhibitor of marketing effectiveness in UK businesses in the late 1980s and 1990s was poor implementation of basic marketing (Denison and McDonald, 1995). This finding is supported by research carried out by Brooksbank *et al.* (1999) in which the "state-of-the-marketing-art" was examined by surveys in 1987 and 1992 resulting in data from 81 medium sized firms. The results showed that the "state-of-the-marketing-art" changed very little in that time despite considerable changes in size and scope of operations occurring in the sample over that period. Brooksbank *et al.* (1999) raised questions about the evolution of marketing in SMEs and questioned the extent to which normative models of marketing practice are applicable to smaller firms. It is interesting to note that 32 percent of Brooksbank *et al.*'s (1999) sample had diversified and 42 percent had moved away from their original market. Denison and McDonald (1995) suggest an explanatory framework for a new marketing orientation. Indeed, there are many other orientations or approaches that might be adopted by a firm and so a marketing orientation may only be relevant under certain business conditions. The business environment in which SMEs operate is dynamic and may well lend itself to a variety of successful approaches and strategies.

#### *SME marketing in practice*

Marketing in practice in small firms seems to rely on personal contact networks (Hill and Wright, 2001; Gilmore *et al.*, 2001; Brodie *et al.*, 1997) and is often driven by the particular way in which an owner-manager does business. According to Gilmore *et al.* (2001) marketing in SMEs is likely to be haphazard, informal, loose, unstructured, spontaneous and reactive and conform to industry norms. Gilmore *et al.* (2001) showed that as a result of networking there was much more communication between the SME owner-manager and his/her competitors than is usually reported in the literature and that competing firms may be quite supportive of each other. Similarly, networking with customers usually involved building a relationship with one or two important individuals in those companies. Should those individuals leave then the relationship with the company would dissolve (Gilmore *et al.*, 2001; see also Hill *et al.*, 1999; Johnsen and Johnsen, 1999). Hence, SMEs owner-managers recognised that building relationships was vital to a company's success and they invested considerable time and effort in maintaining good relations with regular clients (Gilmore *et al.*, 2001). The



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creation and existence of effective networking was concerned with maximising marketing opportunities and ensuring the enterprise's survival and development (Gilmore *et al.*, 2001).

#### *Issues arising from the literature*

There is no clear definition of marketing in SMEs and those definitions of marketing that do exist relate to either larger businesses or are linked to entrepreneurial behaviour in smaller businesses. There are many theoretical and practical approaches to investigating marketing in SMEs and none of these approaches seems to be generally accepted. There is no grand unifying theory of marketing in SMEs. In addition, marketing in SMEs does not appear to evolve or mature even when the market conditions and business activities change considerably (Brooksbank *et al.*, 1999).

The measurement of the performance of SMEs appears to be problematic. There is very little objective data relating marketing activity to business performance in SMEs yet there are claims by academics and managers that marketing activities do improve business performance. The performance of SMEs is difficult to assess because of normal fluctuations in activities arising from year to year. This is further exacerbated by the potential to manipulate the measures such as Return on Capital Employed (ROCE) and ROI, which are typically used to measure performance. One of the general problems with accounting ratios is that there is no absolute definition as to what constitutes a "correct" ratio. In many ways, this is not surprising. If one tries to calculate how profitable the business is, there are several profit figures one might use – operating profit, net profit before interest and taxation, net profit before taxation, net profit after taxation, net profit after taxation and preference dividend – and all of these would give a different result. Basically, therefore, the profit figure used in ratio analysis should be justifiable, consistent and relevant to the relationship measured. A similar problem exists where the notion of "capital" is concerned. Should the figure at the bottom of the balance sheet be used (equal to net assets), or shareholders' equity (that is, share capital) and should this include preference shares? To what extent should reserves be included? Ratios involving capital and profit, in particular, the Return on Capital Employed (ROCE) and the Capital Gearing Ratio therefore are capable of several different calculations.

Although marketing is an important business function, its role within the organisation and its relevance with regard to the business environment in which the company operates has a complex relationship (Moller and Anttila, 1987). In fact, it is so complex that many other strategies and orientations seem to be equally successful in SMEs (Huang and Brown, 1999; Carter *et al.*, 1994). This makes investigating marketing in SMEs and relating these marketing activities to business performance extremely problematic.

#### **Methodology**

The principal paradigm in approaching this research was initially positivist and relied on the use of the hypothetico-deductive approach (Sekaran, 2000) to produce the theoretical model, which was then tested. In order to achieve the aims and objectives set out earlier the research methods adopted included literature search, exploratory case studies, a pilot questionnaire, a large-scale survey of SMEs, interviews with

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managers of SMEs, local interest groups and associations (Chamber of Commerce and Industry, Engineering Employers Federation, SME owner-managers, Institute of Management etc.). The exploratory case studies were used to emphasise the differences between the categories in the model (Simpson and Taylor, 2002).

The questionnaire survey was intended to populate the matrix with scores for SMEs in each dimension given reasonably reliable data. The questionnaire was targeted at marketing managers, marketing directors or managing directors, whichever was appropriate and who had knowledge of marketing within the company. The questionnaire was sent to 853 SMEs of which 43 per cent were micro businesses (0-9 employees); 38 per cent were small businesses (10-49 employees) and 19 per cent were medium sized businesses (50-249 employees). The questionnaire was developed by designing questions based on the ideas summarized in the original work (Simpson and Taylor, 2002, p. 374) (see Appendix). The idea was to operationalise the concepts as questions in each dimension of role and relevance and score the answers in such a way that the matrix could be populated. Likert scales with 5 and 6 points were used so that they could be scored for the dimensions of role (a maximum of 80 points) and relevance (a maximum of 64 points) similar to Kotler's (1977) marketing effectiveness questionnaire. It should be noted that for the six-point Likert scale an additional category of "unable to respond" was used on some questions. For ease of interpretation the scores on each scale are presented in the form of percentages and the arbitrary 50 per cent level was used to delineate the quadrants of the matrix. Experiments with a 60 per cent arbitrary delineation of the quadrants did not significantly alter the overall conclusions of this study but merely changed the category in which some marginally scored SMEs fell. The "Marketing Dominated Organization" category merely swapped one marginal company for another in the final study.

The interviews were used to gain greater practical insights into marketing within the SMEs being studied. The interviews gave insights into the way marketing activities had changed and evolved (Brooksbank *et al.*, 1999) within these companies over time (i.e. illuminated the strategies through the matrix in Figure 2). In addition, the FAME (Financial Analysis Made Easy) database was used to obtain accounts for some of the companies in this survey. Longitudinal performance data were obtained on the profit, turnover, Return on Capital Employed (ROCE) and number of employees for the companies studied over the period of this study, 1999-2003. These accounts were also subject to rigorous scrutiny by an accountant in order to obtain a greater insight into the performance of SMEs in this study and then related to the category in the Role and Relevance model of Marketing. This overall approach to the research in general could be reasonably described as a mixed methodology despite our initial positivist paradigm (Tashakkori and Teddlie, 1998).

### Results and discussion

The pilot study resulted in 13 replies (12 useable questionnaires, and one incorrectly completed) from 28 questionnaires sent to SMEs within a 60Km radius of Sheffield, South Yorkshire, UK. This gave a relatively high response rate of 46 per cent. A telephone questionnaire was used to gain feedback on what the respondents thought of the questionnaire. Generally the feedback was good, although some respondents were confused by the questions being asked and this proved to be due to the way the questionnaire separated the issues of role and relevance rather than being a straight



The sample of companies obtained from this survey consisted of 49 per cent ( $n = 70$ ) Manufacturing and 51 per cent ( $n = 73$ ) Service SMEs. This sample differed from the national picture for SMEs, where the ratio of manufacturing to services is 60:40 and where manufacturers are more prominent in electrical and electronic engineering, metal goods, paper and printing (Cosh and Hughes, 2000). Manufacturing companies in our sample were largely based around metal products of various types. The products ranged from high technology products such as surgical instruments, electronic equipment and connectors for aerospace applications to traditional castings, bright bar, printing and packaging but there were insufficient companies in the sample to reasonably subdivide this group further and make sensible conclusions about specific industry sectors. Service companies were equally diverse from management, training, recruitment, financial and tax consultants to steel stockholders, piston ring distributors, theatres, TV production services, catering companies, removals, couriers, dog training and IT software and web site design. As expected only senior managers responded to the questionnaire and 73 respondents gave their position within the company. These managers were variously described as partners (4), chairman (2), chief executives (2), managing directors (13), directors of various kinds (19), marketing directors (6), marketing managers (4), sales directors (11), sales managers (3), sales and marketing directors (2), sales and marketing managers (5), managers (1) and collective responsibility (1). A further 70 respondents did not state their position within the company.

The characteristics of the companies in the sample are summarized in Tables I and II. The DTI definition has been used for the number of employees (Alsbury, 2001, p. 5). The age of the company is our own interpretation of the business growth life cycle (Alsbury, 2001) and is open to criticism. The annual turnover figures are also arbitrary categories. Size in terms of number of employees can be compared with DTI statistics

		Per cent	Number
Age	Very young (less than 1 year)	10.0	14
	Young (1-5 years)	14.3	20
	Established (6-10 years)	12.9	18
	Mature (over 10 years)	62.9	88
		100.0	140
Annual turnover (£000s)	0-500	24.4	32
	501-1000	13.0	17
	1001-2500	16.0	21
	2501-5000	20.6	27
	Over 5000	26.0	34
		100.0	131
Number of employees (Grossed up DTI figures as % in brackets) (see Alsbury, 2001, p. 5)	0	0.7 (22.5)	1
	1-4	11.2 (19.8)	16
	5-9	13.3 (12.1)	19
	10-19	16.1 (12.8)	23
	20-49	19.6 (12.1)	28
	50-99	19.6 (8.5)	28
	100-199	15.4 (9.4)	22
	200-249	4.2 (2.9)	6
		100.0	143

**Table I.**  
Characteristics of  
companies in the survey  
( $n = 143$ )

		<i>n</i>	Median	Range
Number of employees	Marketing led	81	45	1-230
	Marketing dominated	1	56	–
	Marketing weak	52	17	0-200
	Marketing independent	9	13	3-220
	Total	143	30	0-230
Age	Marketing led	79	15	0-301
	Marketing dominated	1	16	–
	Marketing weak	51	21	0-189
	Marketing independent	9	45	3-168
	Total	140	19	0-301
Turnover (£000s)	Marketing led	74	3200	30-60000
	Marketing dominated	1	2600	–
	Marketing weak	49	1500	50-20000
	Marketing independent	7	1000	300-18000
	Total	131	2400	30-60000
Marketing ratio (% of turnover)	Marketing led	60	2.00	0.00-29.02
	Marketing dominated	1	0.77	–
	Marketing weak	33	0.56	0.00-8.33
	Marketing independent	3	1.39	0.40-3.50
	Total	97	1.33	0.00-29.02

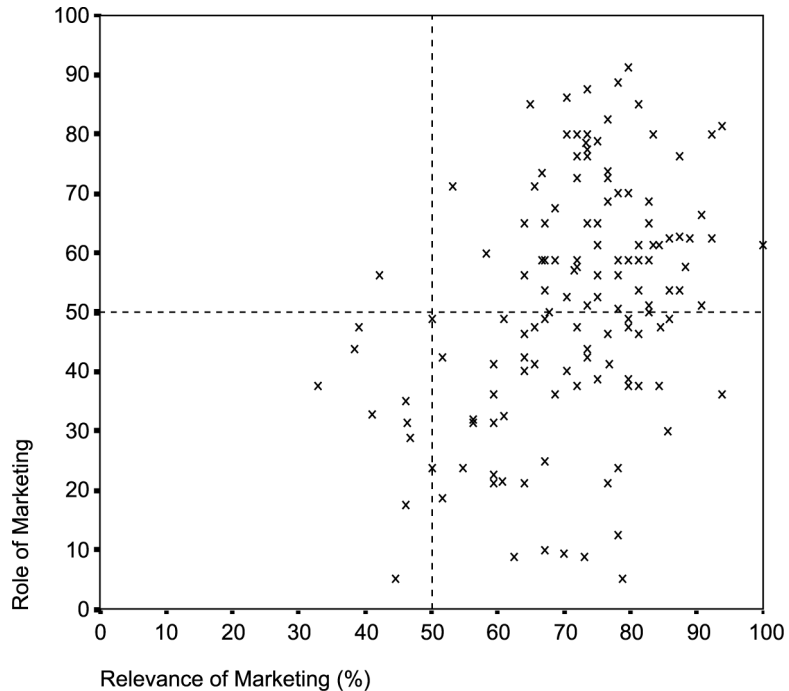
**Note:** Because of the asymmetric nature of the data, the median and range have been used as summary measures

**Table II.**  
Characteristics of the  
SMEs in each quadrant  
(*n* = 143)

in percentage terms if the DTI's figures are grossed up for SMEs only (Alsburly, 2001, p. 5; DTI, 1995 & DTI, 1996). It is noted that, with respect to this measure, the main difference between our figures and the DTI's figures is that in our sample micro companies with fewer than 5 employees are under-represented and medium sized businesses are over-represented.

The results in Figure 4 show the responses of the sample using the scores of role and relevance of marketing plotted on the matrix. The "Marketing Led" category contained 81 companies, the "Marketing Weak" category contained 52 companies and the "Marketing Independent" category contained 9 companies. There was only one company that appeared in the "Marketing Dominated" quadrant of the matrix giving a total of 143 companies within the matrix. From our earlier discussion this was a predictable result. This may also be preliminary evidence that "Strategy B", the reactive approach to adopting marketing practices, was adopted by SMEs. It should also be noted that networking was not addressed by our questionnaire and that perhaps older companies would have been more experienced and established in this area and therefore distinguishable from younger companies which might be more active but less experienced.

"Marketing Led" companies seemed to have more employees and had significantly greater turnover than companies in the other categories. This suggested a positive relationship between marketing activity and financial performance and growth of the companies in terms of turnover and number of employees and agrees with some authors (Denison and McDonald, 1995; Rafiq and Pallett, 1996; Siu, 2000). This result is reinforced to some extent by the ratio of marketing budget to turnover, although the respondents were generally less forthcoming in providing this information and thus



**Figure 4.**  
Plot of the full-scale  
questionnaire survey  
results ( $n = 143$ )  
(expressed as a percentage  
on each axis)

the results of this analysis are less reliable. Nevertheless “Marketing Led” companies were investing a significantly higher proportion of turnover in marketing than companies in the other categories. Burnett (1993, p. 582) suggests that advertising to sales ratios can vary from 0.1 per cent to 16.5 per cent depending on the industry in which the company operates with an average of 4.1 per cent overall. Our study did not result in sufficient data to test the results by industry type but Burnett’s (1993) average figure is more than twice our median marketing budget to turnover ratio figure suggesting that even in “Marketing Led” SMEs investment in marketing was generally relatively low. One unusual company, in the “Marketing Led” category had a very high marketing budget to turnover ratio of 29 per cent.

“Marketing Led” SMEs were more likely to have a marketing department (59.3 per cent), have an active business plan (95.1 per cent), have a marketing database (100 per cent) and have representation at board level (71.3 per cent) (see Table III). This result fits with classically accepted views of marketing orientated companies and could be argued to be responsible for the generally higher turnover of these SMEs (Denison and McDonald, 1995, Levitt, 1960; Pelham, 2000; Rafiq and Pallett, 1996; Siu, 2000), although some authors would dispute this (Henderson, 1998). The overall result in our sample for SMEs having an active business plan (80.3 per cent) (Table III) contrasts with the results of Rue and Ibrahim (1998) with 60.1 per cent of companies in their sample having a written plan of some type. Rue and Ibrahim (1998) suggested that small businesses with a sophisticated planning process might reap the benefits of these efforts in the long term.



		% within quadrant
Marketing department	Marketing led	59.3
	Marketing dominated	0.0
	Marketing weak	2.0
	Marketing independent	11.1
	Total ( <i>n</i> = 143)	35.2
Active business plan	Marketing led	95.1
	Marketing dominated	100.0
	Marketing weak	61.5
	Marketing independent	50.0
	Total ( <i>n</i> = 143)	80.3
Marketing representation at board level	Marketing led	71.3
	Marketing dominated	0.0
	Marketing weak	38.0
	Marketing independent	11.1
	Total ( <i>n</i> = 143)	55.0
Marketing database	Marketing led	100.0
	Marketing dominated	100.0
	Marketing weak	62.7
	Marketing independent	66.7
	Total ( <i>n</i> = 143)	84.4

**Table III.**  
Percentage of companies  
within each quadrant  
possessing the four  
factors shown

#### *Analysis by turnover*

Analysis by turnover (Table IV) of all the SMEs in the survey produced some interesting results in that those SMEs with greater than £2.5m turnover were more likely to have a Marketing Department and be considered as “Marketing Led” in the Role and Relevance model of marketing. SMEs with a turnover in the range £1m-£2.5m were less marketing active when compared with the other higher or lower turnover categories. That is, they were:

- Less likely to have a marketing database.
- Less likely to have an active business plan.

	Turnover (£000s)				
	0-500	501-1000	1001-2500	2501-5000	5001+
Number in category	32	17	21	27	34
Adopts principles and practices of marketing (% agree)	43	29	15	36	30
Marketing is an unnecessary burden (% agree)	6	0	15	8	3
Yet to reap the benefits of marketing (% agree)	17	19	11	13	13
Unaware of the benefits of marketing (% agree)	10	13	24	12	18
Marketing efforts have been abandoned (% agree)	16	25	37	5	6
Presence of a marketing department (%)	13	25	14	52	56
Marketing representation at board level (%)	45	65	38	58	65
Designated marketing director (%)	9	0	5	5	27
Database used (%)	81	82	70	80	97
Active business plan (%)	72	100	52	92	94
Presence of a marketing budget (%)	66	82	57	68	85

**Table IV.**  
Analysis by turnover  
(*n* = 131)

- Less likely to have marketing representation at board level.
- Most had less than 50 employees (81 per cent). The rest had less than 100 employees.
- Most were over 10 years old.
- A total of 66 per cent were “Marketing Weak” and 33 per cent were “Marketing Led”.

At this stage we are unable to explain this result but it may indicate a plateau or transitional stage in the development and growth of SMEs (see Brooksbank *et al.*, 1999). That is, those SMEs with a turnover of less than £1m would be expected to be relatively young and still have to report to external stakeholders on their business plans and marketing activities. While those SMEs with a turnover greater than £2.5m may well have developed the trappings of a marketing orientation (a marketing department, marketing director, a budget, database, marketing plan etc) whereby marketing practices and formal structures are clearly embedded in the operation and culture of the company. Although, we are not arguing for the stages/growth model (Siu and Kirby, 1998) we can recognise that some of our data points to this kind of explanation for the behaviour of these SMEs.

*Analysis by Size (number of employees)*

Analysis by the number of employees showed that larger SMEs were more likely to have a Marketing Department. Specifically, those SMEs with more than 50 employees were more likely to have a Marketing Department. Larger SMEs were more likely to have marketing representation at Board Level and have a Marketing Director. Again, this result offers more data that could be interpreted as evidence for the stages/growth model (Siu and Kirby, 1998). In addition, independent of size there was a fairly uniform consensus amongst these SMEs that a marketing database, an active business plan and a marketing budget were required.

*Analysis by stage (age)*

This analysis (Table V) was carried out on the whole sample to try and explain some of the issues raised earlier concerning differences between younger and older companies. The idea of stages in the development of the companies in terms of age was our own interpretation of the stages/growth model and could be criticized (Tyebejee *et al.*, 1983). It should be noted that the original conception of the stages/growth model did not relate the stages to age of the organization but did relate to the rate of growth in terms of turnover in rapidly growing high technology manufacturers (Tyebejee *et al.*, 1983). However, our data did show some interesting trends that linked with the earlier discussion of the stages/growth model in this paper. Younger companies clearly adopted the principles and practices of marketing and had active business plans, a marketing budget and a database while older companies were less enthusiastic about these things. Older companies seemed to be less aware of the benefits of marketing, some had abandoned their marketing efforts and some thought it was an unnecessary burden. This finding is the reverse of the argument of Tyebejee *et al.* (1983). There is a major limitation in this data in that we could not analyse by business/industry sector due to the relatively small sample size. In addition, we felt that very young companies were something of an anomaly in that external stakeholders were more likely to insist

Stage	Very young (less than 1 year)	Young (1-5 years)	Established (6-10 years)	Mature (over 10 years)
Number in category	14	20	18	88
Adopts principles and practices of marketing (% agree)	58	50	35	23
Marketing is an unnecessary burden (% agree)	0	5	12	6
Yet to reap the benefits of marketing (% agree)	0	28	12	12
Unaware of the benefits of marketing (% agree)	0	15	11	17
Marketing efforts have been abandoned (% agree)	8	6	18	19
Presence of a marketing department (%)	17	45	28	36
Marketing representation at board level (%)	42	60	44	58
Designated marketing director (%)	0	15	11	14
Database used (%)	100	90	94	80
Active business plan (%)	100	75	83	78
Presence of a marketing budget (%)	67	65	61	72

**Table V.**  
Analysis by stage (age)  
(*n* = 140)

on business plans whereas in older and more established companies external stakeholders were less likely to be able to insist on such things. Further research is needed to describe how, and if, SMEs' marketing activities and their attitudes towards marketing change as companies grow and develop over time. Our data suggests that activities and attitudes do change but much more work is needed to determine why this is so. The fact that we see marketing activity vary with age suggests that evolution of marketing within these companies may plateau at some point or even regress under certain circumstances (see Brooksbank *et al.*, 1999)

### *Financial Analysis*

Longitudinal financial data obtained from published accounts were analysed over the period 1999 to 2004 and the results were found to be disappointing. This analysis was intended to look for any differences in performance between the companies in each quadrant of the model and was similar in approach to that of Rue and Ibrahim (1998). A sample of 31 company accounts was readily obtained from the FAME database, however a large number (over 100) company accounts were not available via this means. These available accounts were examined and it was found that the median ROCE of the "Marketing Weak" companies was consistently lower than the ROCE of the "Marketing Led" companies. The significance of this finding is uncertain given the size of the sample, the diversity and mix of companies and industries covered and the fact that ROCE (as a measure of performance) is subject to interpretation. No clear patterns of performance emerged for profit, turnover or number of employees from these published accounts. This was to be expected in SMEs as their operating activities vary considerably from year to year. This result has major implications for research claiming to show a relationship between marketing activity and business performance in our opinion.

*Comments from the interviews and questionnaire*

Follow-up interviews and comments from the questionnaire were analysed to determine the strategy adopted by these SMEs through the matrix (Figure 2) and any other issues that were common to respondents in this sample. There were 41 free responses from the questionnaire survey and follow-up interviews were carried out with 20 other companies. The interviews established that “strategy B” was the preferred route through the matrix by a majority of SMEs and is the most important finding from this work. These companies were in favour of increasing marketing activities when the owner and managers felt that there was a real need for marketing and when they felt that their marketing efforts would be rewarded by increased sales, successful entry into a new market or the successful launch of a new product. That is, moving up the matrix from marketing weak to marketing led (Figure 2.) However, many respondents (including those that scored well on our questionnaire) felt that financial stability and having sufficient resources was a prerequisite before increasing expenditure on marketing activities or employing a marketing specialist. For example:

It is difficult to sustain a case for taking such resources away from operational areas in pursuit of uncertain benefits – especially when experiments in doing so have been perceived as unsuccessful! (A television production and outside broadcast services provider, with 19 employees. A Marketing Led Organisation).

And:

We have a good level of sales and repeat business for the staffing levels at the moment. To grow beyond a £3-400k turnover we will need to address marketing more closely and attract customers from outside the core clients who already know us. (A software engineering systems provider for the manufacturing sector, with 5 employees. A Marketing Led Organisation).

There were general misconceptions that marketing equated to advertising and sales and this agreed with the results of Huang and Brown (1999). For example:

The greatest barrier to success resulting from a comprehensive marketing plan is the misconception at the most senior level in this organisation that marketing equates to advertising and sales literature. (A manufacturing company making orthopaedic implants and orthopaedic surgical instruments with 105 employees. A Marketing Led Organisation).

There were also instances of genuine hostility towards marketing with some owner-managers relating bad (i.e. expensive and ineffective) experiences with marketing consultants. However, some strategically driven companies were actively pursuing “strategy A” through the matrix (Figure 2.) and intentionally investing in strategic marketing activities in the hope that this proactive strategy would result in increased sales and awareness, faster growth and greater market penetration (see Simpson and Taylor, 2002 for an example). These companies did not consider waiting for marketing to become necessary as an appropriate strategy for the company. In many cases it was hard to distinguish “strategy C” from “strategy A” in discussions and further work may be needed with these companies to determine their actual approach to marketing within the proposed model.

Some companies were attempting to adopt a marketing orientation within the resources constraints they had. Other companies were doing what they could and were more operationally focused and limited in terms of their marketing activities. In some

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cases this resulted from limited resources and in other cases it was due to limited understanding by senior managers of strategic marketing activities (see quote above). This finding tends to agree with the ideas of Hannon and Atherton (1998) on the level of strategic awareness of owner-managers being strongly influenced by the personal competence of the owner-managers and the type, uncertainty and complexity of the business.

### Conclusions

This research has addressed all the aims and objectives outlined earlier. That is, we have critically examined the theory, the model and the shortcomings of the model and attempted to validate or falsify the model. So far the model remains fairly robust but with a few shortcomings due to the concentration on classical marketing strategy and practices and the omission of post-modern marketing such as networking, Internet marketing, e-commerce and e-business. However, there is considerable evidence in the literature that SMEs are also weak in the use of Internet methods of marketing (see Sparkes and Thomas, 2001). We therefore conclude that at this stage such an omission in the way the model was tested may not be so critical and that future further research should be done to make up for this shortcoming. The omission on network marketing is perhaps a more serious matter (see O'Donnell and Cummins, 1999) that may impact on the position of some SMEs in our model and again should be investigated further.

Criticism has been received regarding the delineation of the abscissa (x-axis) that is the relevance of marketing. The main criticism is that this axis is less well defined since it is the result of attempting to define the external business environment and the aspirations of the company with a limited number of questions (see Appendix). These questions may not capture the full impact of the external business environment in which these companies operate. The questions also relied heavily on classical approaches to marketing and business environment issues (e.g. Porter, Ansoff). The position on this axis is also the result of the owner-managers' interpretation of the external business environment and the aspirations for the future of the company. This is dependent upon the owner-managers' own perceptions and strategic awareness, which would be expected to vary considerably across this sample of SMEs (see Hannon and Atherton, 1998). A more carefully selected set of questions may improve the delineation of this axis and result in a more robust model.

The sample of companies obtained from this survey was too small to analyze in terms of industry sector and this is a major limitation of this research. It can also be easily argued that placing SMEs into one single category rather than analyzing by industry sector is simplistic and naïve. However, we believe that some useful data has been collected and that the analysis does indicate some interesting results but further work is needed with a larger sample of companies.

This study presents a synchronic look at the situation of SMEs in terms of their marketing activities and the perceived need for marketing in these companies in late 2001. Despite the anomalous results for younger companies, which seem to start out as "Marketing Led" probably due to the influence of certain stakeholders, the model goes some way to explaining the behaviour of SMEs towards marketing. The model and data collected also leads to the conclusion that "Marketing Led" organizations perform better and invest more in marketing and this result was expected (Denison and

McDonald, 1995). The scatter of data points was interesting and could be indicative of SMEs adopting "Strategy B" the reactive strategy (see Figure 2) through the matrix. Follow-up interviews established that "Strategy B" is often the most convenient way for SMEs to adopt marketing practices and that often enlightened employees are frustrated by their company's lack of enthusiasm for marketing and the company's confusion of marketing with advertising and selling. Some notable exceptions using the proactive approach of "Strategy A" were also found but these were often strategically orientated and highly motivated SMEs with a dynamic, well trained and committed management team. Differentiating between "Strategy A", the proactive approach and "Strategy C", the incremental approach through the matrix was hard to do using the interviews and the telephone interviews. However, it appeared that few companies were adopting these strategies and that "Strategy B" was the preferred approach. This result tends to suggest that the stages/growth approach (Siu and Kirby, 1998) may have an effect as many SMEs only felt ready for marketing after reaching a certain size or level of turnover. These SMEs also felt that marketing was only appropriate when the competitive environment required a more carefully considered strategic approach (see McLarty, 1998) and when the company had the resources to implement a marketing programme. Some owner-managers were more hostile towards marketing and thought it expensive and not very effective. Owner-managers with poor experiences of marketing consultants generally took this view.

There is evidence that the Role and Relevance of marketing model offers some new insights into the behaviour of SMEs regarding marketing. However, there are differences in approach to researching marketing in SMEs and there are different approaches adopted by SMEs towards marketing (Brodie *et al.*, 1997). We recognise that our paradigm may well have left many questions unanswered, particularly where very young companies are involved (Oskoui-Jones, 2002). However, the Role and Relevance model does show that SMEs can be categorised to some extent and that these categories do make intrinsic sense of the situation. The categories in the model are good descriptors of the companies studied in our opinion. The quantitative results are not enough to fully understand what is going on in these companies. Some results appear to partially support other models and ideas such as the stages/growth model (Siu and Kirby, 1998) or the idea that marketing does not evolve in these companies (Brooksbank *et al.*, 1999) and may even regress. This suggests to us that the situation in SMEs regarding their approach to marketing is complex, dynamic and probably influenced by many more factors than we have been able to capture and examine in this work. We conclude that our model is firmly positioned as a contingent model (Siu and Kirby, 1998) but that other factors, which manifest themselves as data in support of other approaches, are probably superimposed on companies in this sample. The sample of SMEs used in this research may be biased due to the use of mailing lists from local interest groups, whose members may well be more responsive to this type of research. While the Role and Relevance model may be imperfect it is self-consistent, adaptable and extendable and additional questions could be included and scored in a modified questionnaire to cover Internet marketing, e-commerce, customer relationship marketing and networking for example.

We also conclude that some companies have a clear idea of what they are doing about marketing and strategy but many do not know what they are doing and are "Marketing Weak". The model does offer some new insights into



marketing in SMEs and from our results there appear to be certain basic requirements for “Marketing Led” SMEs, that is: a marketing database; an active business plan; marketing representation at Board level; and a marketing department. This result is not new and is not simply an artefact of the data collection method in our opinion but does suggest some agreement with the ideas of marketing orientation. The fact that the median ROCE of “Marketing Led” companies was greater than the median of “Marketing Weak” companies was interesting (see Rue and Ibrahim, 1998; Denison and McDonald, 1995; Rafiq and Pallett, 1996). This result may be tentative evidence that the performance of these SMEs may be positively related to the differences in marketing activities and organization for marketing within these companies in each quadrant of the model. However, given the limited number of company accounts available from the FAME database this result is tentative and requires further investigation with more data. The interpretation of these accounting measures is not straightforward as variation in accounting practices mean that results may not be comparable across companies.

The arbitrary separation between categories in the model at the 50 per cent level to delineate the categories in the Role and Relevance model could be criticized. However, we have experimented with the reference lines at different levels and have found only a marginal change to the overall results of the data analysis and therefore conclude that this level is adequate and appropriate. It might be added, that there would always be marginal cases in such a model and that the axes represent a continuum of behavior and external forces.

Finally, the Role and Relevance model of Marketing in SMEs appears to be a practical and useful theory and has been qualitatively applied over the last few years by undergraduates, postgraduates and a few practitioners when analyzing case studies and real companies.

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### Appendix. Summary of questions used in the questionnaire survey

A covering letter gave the Chartered Institute of Marketing definition of marketing, introduced the topic (marketing in SMEs) to the respondents and pointed out that the questionnaire would take approximately ten minutes to complete.

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#### *Part 1. Company details*

- Name, address, contact details, Industry sector, major products, major customers, number of employees, annual sales turnover, year began trading.

#### *Part 2. The role of marketing within the organisation (yes/no/don't know):*

- Do you have a marketing department?
- Does your company have representation at board level? If yes, state the representative's job title.
- Do you collate and store information on customers and the market place?
- Does your company have an active business plan?

#### *Time and effort spent on (sixpoint Likert scales, "none" to "a great deal"):*

- Preparing business plans for the future.
- Developing marketing strategies and plans.
- Developing new products or services.
- Preparing external communications/promotions activities.
- Maintaining the customer and market information database.
- Analyzing competitors' offerings.
- Evaluating the performance of marketing strategies and plans.
- Undertaking market research.

What is your marketing budget? (include all activities associated with gathering market information and selling) (Free response).

#### *Extent of marketing activities (six-point Likert scales, "not at all" to "a great deal") (Extent to which you):*

- Modify your external communication/promotional activities as a result of tracking their performance.
- Develop new products and services as a result of marketing information gathered.
- Change the product prices on the basis of marketing information gathered.
- Adapt the channels of product distribution on the basis of marketing information gathered.

*Part 3. The relevance of marketing for the organisation (six-point Likert scales, “strongly disagree” to “strongly agree” plus “unable to respond”)*

- We have guaranteed business in a relatively stable market.
- We are trying to survive against the competition.
- The level of competition in our market produces intense rivalry between competitors.
- We operate in a market where it is relatively easy for new competitors to emerge.
- Our suppliers have few customers and rely heavily upon our business.
- Our customers have a limited choice of suppliers and rely on our ability to supply their needs.
- Marketing is of little use to this organization because we have guaranteed business.
- We are doing fine without marketing and it is not expected to be of much use in the future.
- The achievement of marketing goals involves everybody in the organization.
- All employees of the organization understand their role in achieving an integrated effort to achieve a marketing orientation.
- Marketing is important for expansion and growth of the company.
- In the future we would like to grow the company.
- In the future we would like greater market penetration with our existing products.
- In the future we would like greater market share with our existing products.
- In the future we would like to develop new products for our existing market.
- In the future we would like to diversify into new markets with new products to grow and develop.

*Part 4. Your assessment of your organisation (six-point Likert scales, “strongly disagree” to “strongly agree” plus “unable to respond”). This was a question checking that previous responses were consistent with the organisation’s responses to the questionnaire. The extent to which you agree:*

- This organization has a strong marketing orientation and whole-heartedly adopts and adheres to the principles and practices of marketing.
- Marketing is an unnecessary burden for the organization.
- This organization has invested heavily in marketing but has not, as yet, reaped its benefits.
- This organization is unaware of the benefits that marketing can offer.
- This organization has tried some marketing in the past and, having seen little reward for this effort, has abandoned such efforts.
- There is little need for marketing in this organization because it does not face competition.

*Free response question with a side of blank A4 paper within the questionnaire:*

Finally, if you would like to make any additional comments on any of the topics covered by this questionnaire please do so in the space provided overleaf.

*End of Questionnaire*



### **About the authors**

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