MARKETING IN INDIGENOUS AND ASIAN SMALL FIRMS IN THE WEST MIDLANDS

VOLUME ONE

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DOCTOR OF PHILOSOPHY

THE UNIVERSITY OF ASTON IN BIRMINGHAM

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ABSTRACT

This study is concerned with examining the application of marketing during the start-up, development and growth of small firms in the West Midlands. As an exploratory study, it provides evidence to support the central hypothesis of the thesis that whilst many small firms have the potential to progress through to the successful growth stage of development, they fail to do so because of their owner-managers' orientation towards production and selling and because they do not apply formal marketing during the initial stages of business development. A comparative approach to studying marketing in indigenous and Asian firms is adopted in an attempt to fill a gap in the literature on the characteristics and differences in the formation and development processes of these two groups of enterprises.

The study has three main objectives and is based on qualitative research techniques of in-depth interviews, case studies and longitudinal studies among sixty-six firms representing the key activities of the small firms sector of the local economy. Firstly, it investigates owner-managers' orientation in developing and managing new and established businesses and explores the sources of, and changes in their orientation during the various stages of development. Secondly, it assesses the owner-managers' awareness and understanding of what constitutes the marketing function and investigates what aspects of marketing are applied during the different stages of business development. Finally, the study monitors and evaluates the outcomes and implications of applying formal marketing techniques in a small sample of firms over a period of two years.

The thesis concludes by using the findings of the study to contribute additions to existing models of growth and by proposing new models of evolution and application of marketing in small firms.

KEY WORDS: MARKETING, INDIGENOUS, ETHNIC, SMALL, FIRMS.

This thesis is dedicated to my mother, Pindy, Gauri, Harmil and Eamon for all their support, encouragement and patience during the past six long years.

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Introduction

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CHAPTER ONE

AIMS AND PURPOSES

INTRODUCTION

This exploratory study is concerned with examining the application of marketing techniques during the start-up, development and growth of small firms in the West Midlands. The study focuses on answering the main research questions of how entrepreneurs go about the process of starting and developing small businesses, and why so many of these businesses fail to progress beyond the existence and survival stages of business development. As an exploratory study, it aims to provide evidence to support the central hypothesis of this thesis that whilst many small firms have the potential to progress through to the successful growth stage of development, they fail to do so because of their owner-managers' orientation towards production or selling and due to a lack of application of formal marketing in the formation and development of their businesses. Although this study is aimed at examining small firms in general, it places considerable emphasis on comparing and contrasting firms run by indigenous and Asian owner-managers.

The reasons for the apparent proliferation of Asian small business in the UK since the early 1970's have been well researched and documented. These include attributes such as life path changes (Shapero and Sokol (1)), their background, values, social organisation of their communities (Hofstede (2,3)) and more recently, the structure of economic opportunities (Ward (4)) in the locations of their settlements. There is however, a distinct lack of research into why only a very small proportion of Asian firms grow to any considerable size, or why they fail to expand beyond the limitations imposed by serving ethnic markets and, or the flow of work from 'white' contractors. From this viewpoint, this study addresses the questions of, "in what sense, if any, are Asian small businesses different than those run by indigenous owner-managers?" and "is the lack of knowledge and skills necessary to apply marketing techniques a common factor in indigenous and Asian small firms during the start-up, development and growth stages of their operations?".

This study, therefore develops on the work of Churchill and Lewis (5) and Scott and Bruce (6) on stages of business development. Although these models have been criticised on several counts, including their methodological approaches (see Chapter Three), the Churchill and Lewis model has been employed in this project to provide a framework for the research design and measurement criteria for the firms selected. It was also felt that this research offered an opportunity to test the validity of the Churchill and Lewis model in predicting what stage a given business may have reached by assessing how closely the key characteristics of the sixty-six firms studied matched the characteristics of the five stages identified by this model. The small scale studies by Carson (7) and Tyebjee et al (8) on evolution of marketing in small firms are also used to serve as reference points for the development of the research reported here. It is hoped that an in-depth qualitative examination of the role and implications of application and or, non-application of marketing techniques in a small sample of firms run by indigenous and Asian managers in the West Midlands will supplement the previous studies (for example, Gill (9), Wilson (10) and Werbner (11)) carried out in other parts of the country. The objective of this first chapter is to introduce the principal ideas that have provided the framework of analysis in this study and to serve as a basis of discussing the issues raised in the proceeding chapters of this thesis. This chapter also outlines the aims, scope, format of this work and the reasons why it was embarked upon.

1. WHY MARKETING IN SMALL FIRMS

The academic justification for choosing to study the application of marketing in small firms was basically because of the neglect of detailed research in this area. The articles, research papers and books on marketing listed in the London Business School Small Business Bibliography (1984-85,(12)) and other literature search clearly indicated that the subject had not received the same level of research interest as entrepreneurship, finance, production, innovation and the role of small businesses in the economy. In 1985-86, a large proportion of the published literature consisted of reports on regional surveys (13,14) on the role of marketing in small firms, learned papers on strategic marketing planning (15,16,17) and many books and working guides (18,19,29,21) on 'how- to' apply some aspects of marketing in small businesses, based on experience and casual observations. This apparent lack of comprehensive research and literature offered the scope for further exploring the application of marketing in small firms by using qualitative research methods.

Other reasons for the choice of marketing were basically because of the writer's own experience of designing and delivering marketing and business development training programmes to owner-managers of small firms in the West Midlands. The exposure to owner-managers' understanding of what constituted marketing and their inability to translate knowledge to practical action in their businesses triggered the interest to conduct this study.

Previous research studies including the Survey of Marketing Practice and performance in the UK by Hooley et al (22) have touched on ascertaining owner-managers' understanding of the marketing function. But results based on questionnaire returns are often misleading and can be inaccurate in explaining the practices in small firms because of their under representation in the design of the research samples. Owner-managers invariably quote the use of advertising and selling to mean marketing. The fact that they use such techniques in the form of sales literature, business stationery, entry in the Yellow Pages and direct selling imply that they use marketing in its strictest sense. Early attempts (1983-1986) by Government Departments to introduce greater training provision for owner- managers in the key areas of business development failed to take into account the constraints of small businesses to translate knowledge to practice. The major constraints of limited financial and human resources, coupled with serving narrow, local markets and relying on contract work places a considerable barrier on owner- managers' ability to plan and implement even the simplest of the marketing techniques.

From this viewpoint, it was felt too, that the contents of the study might demonstrate the importance of owner-managers' ability to successfully implement the marketing philosophy in the running of the small business. This is a critical issue in an attempt to provide an insight into the role of marketing in the small business, and therefore central to the design of the research methods for this study. Whilst it is useful and necessary to supplement previous studies on owner-managers' perceptions of the term marketing, the overall aim of the study is to understand the processes, problems and outcomes of application or non-application of marketing in small businesses. Any future theoretical model of marketing in small firms must therefore be based on the evidence of the typical owner-manager's ability to translate knowledge and experience to practice within the overall context of the constraints of running a small business.

2. WHY INDIGENOUS AND ASIAN SMALL FIRMS IN THE WEST MIDLANDS

The circumstances that gave rise to this study were to a certain extent complementary. These combined the author's Asian origin with the academic interest of one who has been involved in marketing consultancy and training for Asian small businesses in the West Midlands. Although there have been several research studies and papers (23) aimed at understanding the start-up and development of ethnic business, it was felt that in order to conduct an in-depth investigation into marketing practices, it would be beneficial to concentrate on one group of ethnic businesses in the West Midlands.

This narrowing down of the ethnic group would also provide scope for applying qualitative research methodologies for an exploratory investigation that would not be afforded to a larger, national study, involving representation of various ethnic groups. Furthermore, the large proportion of Asian owned businesses in retailing, manufacturing and services sectors in the West Midlands compared with other ethnic groups provided the rationale to study the development of such firms. In addition to these reasons, the authors' Asian background and ability to speak the main languages of the sub-continent was felt to offer the benefit of gaining confidence of Asian owner-managers, and access to their businesses for conducting an in-depth investigation into the history, development and growth of their firms.

The decision to further confine the study to firms in the West Midlands conurbation again centred around the desire to provide data on Asian firms concentrated in and around Birmingham, Wolverhampton and Coventry which have larger proportions of Asian populations than other ethnic groups. The term Asian in this study is confined to describe the populations from the Indian sub-continent (and those from East Africa) that have settled in Britain. The group under investigation therefore include businesses managed by those of Indian, Pakistani and Bangladeshi origins.

As this study is concerned with the contemporary marketing practices in small firms, it was felt that such an investigation should not be carried out in isolation. It was felt that any analysis of marketing in small firms should compare and contrast the perceptions, practices and problems in firms managed by Asian and indigenous owners and managers. This comparative approach is therefore adopted in the research design with the aim to answering the question of whether or not the lack of owner managers' knowledge and ability to implement marketing techniques is a common barrier to the growth of small indigenous and Asian firms.

3. THE CONCEPTS AND TERMINOLOGY OF MARKETING

It is beyond the scope of this thesis to give a detailed account of the marketing function and its many techniques. This section aims to provide the non-marketing reader a framework of the key elements of marketing theory and techniques that are relevant for application in the formation and development of small firms. The concepts, terminology, marketing processes and techniques outlined in this section also provide a useful backdrop to the research design and investigation reported in part two of this thesis. This section also aims to provide the background to the contents of chapter three which examines the work of Carson (7) and Tyebjee et al (8) on the evolution of marketing in small firms. In chapter three, these theories are examined within the overall context of barriers to and opportunities of growth in small firms, and how past research studies relate to the work on stages of business development carried out by Churchill and Lewis (5) and Scot and Bruce (6).

At this point, some general definitions are necessary because of the need to employ terms in this introduction. One of the basic aims of this thesis is to ascertain whether owner-managers' lack of knowledge of marketing and their orientation towards production or selling is a common factor in explaining why many small firms fail to progress beyond existence and survival stages of development. Definitions are not made easy because the term 'marketing' has been accorded different meanings in popular usage. The very high exposure to media advertising and selling techniques by larger multinationals and retailing organisations is the major influence on the general public's perception of what constitutes marketing.

In small firms, the term marketing is used in a number of ways. Firstly, it is referred to as the expensive and often unnecessary requirement of establishing and running of the business in the early stages of the operations. Secondly, it implies little more than an increase in the advertising and selling efforts of the business when it has survived the initial start-up stage. Thirdly, it can refer to the more complex processes of creating an image for the business through more expensive media advertising, production of glossy sales literature and use of sales representatives. These are narrow interpretations of the meaning and role of marketing. Selling, advertising, product design and packaging are some of the tools of the total marketing effort. In order to understand the precise meaning of the term marketing, it is first necessary to agree on the purpose of any business organisation.

3.1 The Purpose of any Business

The answer to the question: 'what is the purpose of any business organisation?' very often is 'to make a profit'. Obviously, firms must make profits in order to survive by reinvestment and by providing return to shareholders' capital, but it is important to understand that profit comes from sales turnover. There is only one source of sales turnover, and that is from the firm's customers. In many production-oriented firms, there is a belief that the business can continue to operate profitably as long as the products are produced and stocked in sufficient quantities. The mere fact that the firm has made substantial investment in the factors of production and has the capacity to produce any quantity of products does not guarantee that the goods will sell to generate adequate sales turnover. Equally, a firm that places considerable emphasis on selling and promotional effort in moving products and services cannot always rely on its ability to generate the level of revenue from which to realise profit. The purpose of the organisation therefore is much more than simply 'to make a profit' by the manufacture and selling of goods or services.

In 1954, Peter Drucker (24) explained that the purpose of an organisation is to create a customer or a customer base, and expressed it in the following terms:

"If we want to know what a business is , we have to start with its purpose, and its purpose must be outside the business itself. In fact, it must be in society, since a business enterprise is an organ of society. There is one valid definition of business purpose: to create a customer".

In reality, the ideal organisations are the market-oriented businesses, large and small, that create and meet the needs of the 'customer'. The customer is created by means of identifying needs in the market place, finding out which needs the organisation can profitably serve, and developing and offering to convert potential buyers into customers of the firm. Drucker's definition of the purpose of the business in society can be extended to provide an overall explanation of what is meant by the term marketing.

3.2 What is Marketing?

There are a large number of formal definitions of marketing which have been reviewed at various times in the past twenty years (for example by Kotler and Levy (25), McNamara (26) and Lusch and Laczniak (27)) without any clear conclusion being reached. This section does not intend to attempt such a review but to compare the prominent views in the US and UK literature and to present definitions that were used as a backdrop to the research study.

In the UK, definitions by academic writers have included the following.

"Marketing is the primary management function which organises and directs the aggregate of business activity in converting consumer purchasing power into effective demand for a specific product or service and in moving the product or service to the final consumer or user so as to achieve company set profit or other objectives". Roger, 1965 (28)

Marketing is the way in which any organisation or individual <u>matches</u> its own capabilities to the wants of its customers". Christopher et al 1980 (29).

The main professional institute in the UK however, offer the view that:

"Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably". The Institute of Marketing (30).

In the US, in the early eighties, the most prominent writer suggested that marketing management is a process concerned with:

"the analysis, planning, implementation and control of programs designed to create, build and maintain beneficial exchanges and relationships with target markets for the purpose of achieving organisational objectives". Kotler, 1984 (31).

In 1985, the American Marketing Association reviewed over twenty five alternative definitions to arrive at their now universally accepted definition (32,33):

Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individuals and organisational objectives".

These definitions focus on marketing as a process that is managed by the marketing function. More recently, Baker (1985 (34)), Piercy (1986 (35)), Foxall (1989 (36)), Bernard (1987 (37)) and Brown (1987 (38)) have argued that in addition to being a function, marketing is clearly an organisational philosophy - an approach or an attitude to doing business. The abundancy of definitions of marketing is equalled, if not suppressed by prescriptive writings on the 'marketing concept', marketing orientation, marketing 'myopia' and similar philosophical notions. The definition of marketing concept expressed by Kotler, (1984 (31)) and given below is used to provide a reference point to the research on owner-managers' orientation reported in part two of this thesis.

"The marketing concept is a management concept that holds that the key task of an organisation is to determine the needs and wants of target markets and to adapt the organisation to delivering the desired satisfactions more effectively and efficiently than its competitors, and to make a profit".

The implementation of such a concept requires the maintenance of a particular philosophy or management orientation. Kotler maintained that there are three major implications of the marketing concept.

i) Customer orientation as corporate focus. This implied that in order to successfully apply the marketing concept, an organisation must be headed and managed by individuals who are themselves oriented towards meeting the needs of the customers. This attitude, or approach to running the business must then permeate throughout the organisation to ensure that it can survive and grow in a competitive environment. In smaller firms, the owners and or partners represent the top layer of management and are agents for giving the organisation its orientation and direction. The thrust of this thesis is that because small firms are established by individuals with skills, crafts or ideas, the most common orientation and direction for the business tends to be towards production and selling.

ii) The need for integration of all customer-impinging resources and activities in the firm, and

iii) The pursuit of this path as a route to attaining corporate goals.

In attempting to operationalise marketing orientation, Hooley et al, 1985 (22) used the following definitions.

a) Marketing orientation: Places major emphasis on prior analysis of the market needs, adapting products to meet them if necessary.

b) Selling orientation: Placing major emphasis on advertising and selling to ensure sales.

c) Production orientation: Making what the firm can and selling to whoever will buy it.

It has however been argued (Foxall, 1990 (36)) that marketing orientation is the latest in a series of business perspectives and that the three types of orientations have provided a sequence of managerial styles, each suited to, and appropriate for a given set of environmental conditions. Production orientation therefore is a valid and predictable response to conditions of scarcity, where demand exceeds supply either throughout the economy or in a discrete product-market. Baker (1976 (39)) has also defended the 'much despised' production orientation with its emphasis upon manufacturing and volume of output by pointing out that it may be the most appropriate to conditions of chronic under-supply or, it may be added to any conditions which do not compel a more customer oriented marketing outlook. Equally, sales oriented management is the requisite response to more affluent circumstances in which there are fewer constraints on production and an understanding that high levels of sales volume are likely to contribute effectively to the attainment of corporate financial objectives. The argument is extended to marketing orientation which is also regarded as no more than an appropriate response to a given market structure with high levels of intra-industrial competition, the capacity for supply to exceed demand and where consumers have a large measure of discretionary spending power.

Most recently, Hooley et al (1990 (40)), in surveying the meaning and implementation of marketing amongst UK firms, have identified four distinct approaches to marketing. Three of these orientations suggest that there is a natural progression of marketing development within the company from sales support through departmental marketing to the adoption of marketing as a guiding philosophy for the entire organisation. The study identified the fourth group as Unsures whose attitudes, organisation and execution suggested that they are an intermediary step between sales support and departmental marketing. The study indicates that their lack of understanding of what marketing is suggests that they adopt a 'laissez-faire' approach to marketing rather than a conscious orientation. In this present study of small firms it is proposed that a majority of owner-managers are likely to belong to this fourth group of unsures and that marketing in such firms evolves from an intuitive approach to more integrated marketing as the firm grows and develops the function.

In other recent thinking on implementing marketing, Piercy (1991 (41)) has argued that marketing normally poses the question of what is best for the consumer, but that market-led strategic change asks two additional questions as well:

a) What is most efficient for the company from its resources and cost aspects?

b) How can the firm balance between, or match what it is and can be against the need of the consumer?

In developing a framework for implementing marketing in all sorts of organisations Piercy extended Davidson's (1983 (42)) notion of market-led and asset-led marketing to emphasise that organisations must exploit more effectively what they have got (their assets) and to constantly balance this with customer satisfaction demands. Davidson's original concept of market-led and asset-led marketing as shown in Figure 1.1 is of particular relevance to small firms because of owner-managers' tendency to start and develop their enterprises on the basis of their skills, knowledge, resources, capacity and other assets. The research study therefore attempts to explore at what stage do small firms adopt asset-led marketing strategy to cater for existing markets or to exploit needs of new markets.

Market-led and asset-led marketing however, are not conflicting approaches to conducting business. They merely view the marketing process from different perspectives and are complimentary. Market-led marketing takes the classical approach by focusing on the market place as its starting point and asks "what does the customer want and how can the firm satisfy the need profitably?". Asset-led marketing focuses on the company's assets as its starting point and asks the same question in the reverse. It requires management to analyse and define assets as thoroughly as

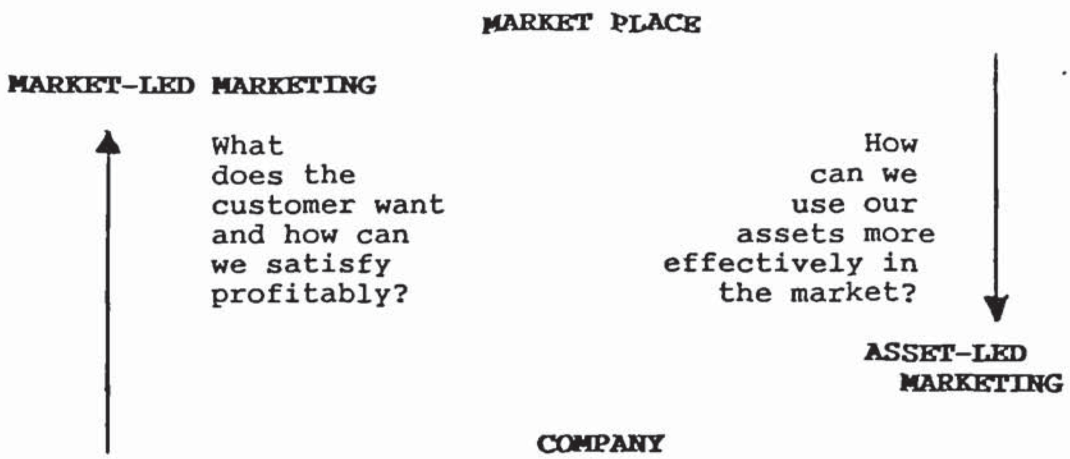


Figure 1.1. Market-led and Asset-led Marketing

Table 1.1. Check List of Types of Asset

PEOPLE	Skills, experience, motivation, organisation, direction, knowledge areas, communications, speed of reaction, outside contacts, training quality, philosophy, creativity.
WORKING CAPITAL	Amount, availability, utilisation location, credit lines.
OPERATIONS	Relative modernity, exclusive elements, shop secrets, flexibility, economies of scale, efficiency in use, capacity utilisation, added value, quality of service.
CUSTOMER FRANCHISES	Brand names, trade or buyer franchises, unique products/services, patents, superior service skills, access to third party resources (joint ventures or agreements)
SALES/DISTRIBUTION/ SERVICE NETWORK	Size, skill, coverage, capacity utilisation, productivity, relations with external distributors.
SCALE ADVANTAGES	Market share, relative and absolute media weight, purchases/leverage, geographical/international coverage, sales/distribution/ service (above), specialist skills due to scale (eg. market research).

markets and to exploit market needs by employing the skills and resources available. Davidson (1985 (43)) has maintained that in order to exploit their assets efficiently in the market place, management must first understand what these assets are and has provided a check list (Table 1.1) to help build an audit of company assets. The audit should then be used to select the 'key exploitable' assets, or the things which the company does best or uniquely well.

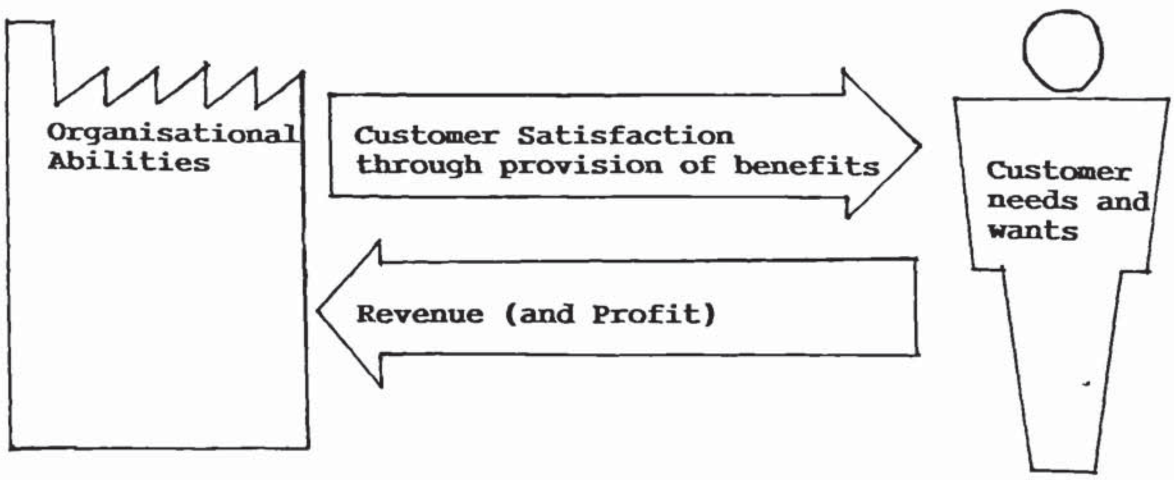
The on-going debate on developing a formal definition of marketing has resulted in the conclusion that marketing is concerned essentially with human exchange relationships and that "marketing = exchange" and "exchange = marketing" (44). A measure of the success in establishing this definition of the nature and scope of marketing has been in its acceptance by many leading authors and academics. Kotler, 1980 (45) for example has long advocated that "marketing is human activity directed at satisfying needs and wants through exchange processes". Kerin and Peterson (46) also confirm this trend by observing that " it is generally accepted that marketing is the process of facilitating mutually beneficial exchange relationships between entities".

In the UK, Oliver (47) has stated that "marketing concerns market exchange processes, and organisations' marketing efforts are designed to facilitate these exchanges". Finally Baker (39) has promoted the view that "the marketing concept is concerned with exchange relationships and that the essence of marketing is a mutually satisfying exchange relationship ... Marketing is a process of exchange between individuals and/or organisations which is concluded to the mutual benefit and satisfaction of the parties".

A simple definition that can be constructed from the various view points and that incorporates an organisation's corporate goal of making a profit is given (and illustrated in Figure 1.2) below. An understanding of the purpose of an organisation (to create customers), the marketing concept (and the underlying philosophy), the concept of market and asset-led marketing and the following definition of marketing are used as a reference point in the research reported in part two of this thesis.

Marketing is a human activity aimed at satisfying customer needs and wants through an exchange process. The exchange process involves the ability of an organisation to provide customers with benefits that satisfy their needs and wants for a payment (from which the organisation releases a profit).

FIGURE 1.2: MARKETING: An Exchange Process



As discussed in the introduction to this Chapter, the aim here is to give an explanation for the non-marketing reader of what very broadly the marketing function in management of business encompasses. The space available allows merely to provide an indication of what the subject covers. The following paragraphs aim to give an overview of the marketing process and briefly give account of environmental analysis, marketing strategies and marketing organisation and control.

3.6 The Marketing Process

With a better understanding of what the term marketing means, we can proceed to examining how it is implemented in different organisations. The marketing process, or practice has three main components that are closely linked and together with the company's stated objectives go towards the preparation of a marketing plan. These are marketing environment, marketing strategies and marketing organisation and control. A simplified version of the marketing process is illustrated in Figure 1.3.

3.7 Marketing Environment and Analysis

The marketing environment can be defined as being made up of uncontrollable forces external to the organisation and that can influence or dictate the selection and implementation of strategic marketing decisions to deliver the desired customer satisfaction. The overall marketing process, outlining the techniques and outcomes is shown in Figure 1.4. The three main components of the marketing process are summarised below. The environment in which all businesses small or large operate is made of six main uncontrollable factors or variables which influence an organisations marketing strategy decisions. These are market demand, political and legal forces, social and ethical influences, competition, technology and variations in the physical environment of the market place.

Because opportunities and threats are within the environment, these six variables or forces must be measured, monitored and analysed by using marketing research and forecasting techniques. The information collected by using these techniques is then incorporated with other sources of information to form a Management Information System. Management charged with making strategic decisions must have this information available in order to ensure that their decisions are not made in isolation or without due regard to what is really happening in the environment. Customer satisfaction for an exchange of revenue can only be achieved if the organisation is in tune with the market place.

FIGURE 1.3: THE MARKETING PROCESS

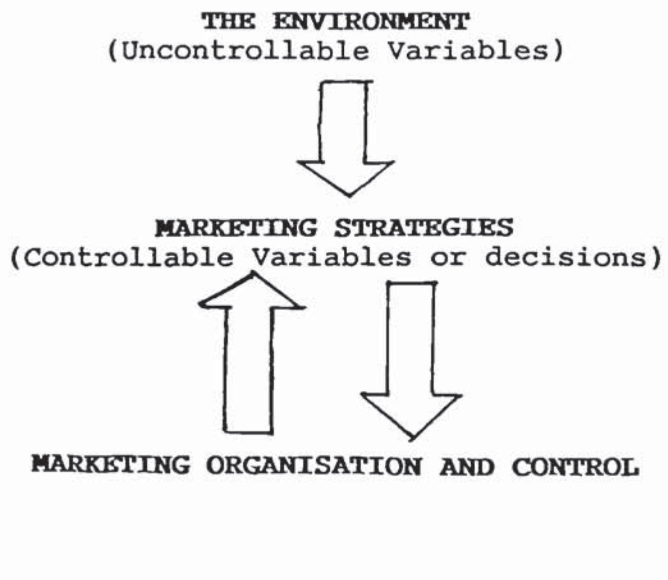


FIGURE 1.4 THE MARKETING MANAGEMENT PROCESSES TECHNIQUES AND OUTCOMES

PROCESS	TOOLS/TECHNIQUES	OUTCOMES
ENVIRONMENTAL AND SITUATION ANALYSIS	1. Market and Marketing research	Information for: 1. Strategic business planning
Analysis and understanding of uncontrollable variables and SWOT analysis	2. Forecasting and measuring demand	2. Market planning
	3. Marketing Information Systems	
FORMULATION OF MARKETING STRATEGIES	1. Marketing segmentation (identifying target markets or gaps in the market)	Decisions on: 1. Markets, targets and product/market positioning
Use of controllable variables that a firm can use to adapt to a competitive environment	2. Marketing-mix (Product, Price, Place and Promotion)	2. Matching the needs of market with right, Product Price, distribution and promotion.
	3. Growth strategies (intensive growth, (integrative growth and diversification)	3. How to achieve growth of the business.
MARKETING PLANNING CONTROL Planning, organising and controlling the marketing effort	1. Marketing plans and budgets	Marketing orientation direction and control of the business
	2. Marketing organisation	

3.8 Marketing Strategies

As discussed earlier, because an organisation cannot control the environment in which it operates, it is forced to change and adapt its methods of operation. For example, a firm has no control over the level and nature of competition or rate of technological change affecting the markets in which it operates. But it does have control over its own operations in terms of product design, branding, pricing, distribution, promotion and market positioning. Increase in competition and introduction of new technology will influence a firm's decisions on its choice of marketing strategies, or its controllable variables. It can decide to take its products into another market segment, or modify the product and launch new models that may appeal to a new class of customers. It may decide to increase its advertising and sales promotion effort and opt for creating brand differentiation. All these are examples of how a firm can respond to changes in the environment by developing specific marketing strategies that help it to survive and grow. The three strategies are market segmentation, marketing mix and growth strategies.

3.9 Marketing Organisation and Control

The process of analysing the environment, company's current situation, establishing objectives and formulating marketing strategies can become an academic exercise if the plan has no definite programme outlining how it will be implemented and controlled. As stressed earlier, marketing is a human activity that requires planning and execution of strategies contained in the marketing plan. The company, therefore, must develop an effective marketing organisation that will carry out the activities needed to implement the strategy. Any activity affecting the future of the organisation must also be continually evaluated to ensure that the stated objectives will be achieved. Plans are written documents that have to be updated, revised and sometimes drastically altered in response to the changes in the market place. Planning process therefore is a dynamic and on-going activity that monitors, controls and implements appropriate action.

Organisation of marketing activity to implement the marketing plan therefore starts with the analysis of current organisation structure. There are four basic types of marketing organisations, namely organisation by functions, products, markets and products/markets. The role of any marketing department or unit is to plan, implement and control marketing activity. There are four types of marketing control: annual plans control, profitability controls, strategic control and control through communications (including marketing audits, budgets, sales forecasts, performance appraisals and scheduling of activity).

This section has attempted to provide an overview of the essential theory and principles of marketing to illustrate that the implementation of the marketing concept in organisations, large and small, requires an understanding of, and differentiation between the terms used to describe the various tools or techniques of marketing. The marketing management process illustrated in Figure 1.4 is employed throughout this thesis in investigating the application of marketing techniques in small firms. It can be seen that what owner-managers may describe as marketing (namely advertising and selling) are some of the techniques or strategies that enables a firm to adapt in a competitive and dynamic business environment and profitably satisfy customer needs. Although these processes and techniques are associated with the management of larger organisation and are equally applicable in all types and sizes of firms, Small firms may however have to adapt their use to match the skills and resources available to achieve specific goals. Every organisation, irrespective of size and or mission (including charities and other non-profit making organisations) has a market-mix and offer its products or services to a group or groups of customers.

Small firms are also capable of growing by taking existing products into new markets, product development, market development, taking over competitors and diversification. But recent research and case studies on growth of small indigenous and ethnic firms by Scase and Goffee (48), Hankinson (49), Gill (9) and Wilson (10) provide little evidence of the planned use of the marketing techniques in small business development. One of the aims of this research therefore, is to ascertain owner-managers perception of the term 'marketing', how marketing techniques are adapted and applied in small firms and to assess what implications they have on the business operations. It is hoped that the findings to these questions will help to trace the evolution of marketing in small firms and to ascertain the reasons why small indigenous and ethnic firms fail to grow to their fullest potential, and in particular those where owner-managers are striving for growth and are not inhibited by their fears of losing independence or control.

4. Hypotheses, Objectives and Scope of the Investigation

This study is concerned with gathering exploratory data to support the following four hypotheses.

1. Small firms fail to progress beyond the existence and, or survival stages of the business development, because their founders start and continue to operate the enterprise from a production or sales perspective and do not apply formal marketing techniques during the initial stages because they do not fully understand what constitutes the marketing function.

2. The marketing function in small firms evolves from the use of basic promotional tools during existence and survival stages towards an integrated approach during the lift-off and maturity stages in line with the changes in the management's orientation from production to sales and marketing.

3. Although there are differences in the problems of start-up and growth of indigenous and Asian small firms, there are no difference in the evolution of marketing in these two groups of businesses.

4. Successful application of marketing and business development techniques requires financial and operational re-structuring that most small firms find difficult to implement.

As there is very limited previous research into the marketing practices in small firms, and none devoted to comparing and contrasting the practices in firms managed by indigenous and Asian owner-managers, this exploratory research is aimed to provide a better understanding of the dynamics of small firms management. It is also aimed at providing some answers to how indigenous and Asian firms operate and why they do not pay the same level of attention to marketing effort as they do to finance and production for instance.

The main objectives therefore, of this research are listed below.

(i) To test the Churchill and Lewis model of stages of small business development by assessing how closely the key characteristics and measurement criteria identified for each stage matches the sixty-six firms studied in this project.

(ii) To investigate indigenous and Asian owner-managers' orientation in developing and managing new and established businesses, and to explore the sources of, and changes to their orientation during start-up and development stages of operations.

(iii) To assess owner-managers' awareness and comprehension of what constitutes the marketing function and to investigate what aspects of marketing are applied in new and established firms during the various stages of development.

(iv) To compare and contrast the development of new and established indigenous and Asian firms in terms of start-up, owner-managers' characteristics and motivations for entering self employment, management orientation, customer base, markets served, business development and organisation.

(v) To assess the outcomes and implications of applying formal planning and marketing techniques in established indigenous and Asian small firms over a period of time.

In order to conduct an in-depth study of marketing practices and implications of applying formal marketing techniques, the research parameters of focusing on small samples of indigenous and Asian firms in the West Midlands afforded the opportunity of developing an appropriate methodological approach. The primary research design strategy, concentrates on the three main qualitative and exploratory methods of collecting data.

In-depth interviews amongst owner-managers, single point case studies and longitudinal studies of a sample of indigenous and Asian businesses have been employed to provide evidence to support the research hypotheses and to test the validity of the Churchill and Lewis model. The

Churchill and Lewis model was used to provide the basis for selecting the firms to investigate and the type of data to collect that would help to test the model and to develop new models on how marketing evolves in such firms. The research design strategy for this thesis is discussed more fully in chapter four.

The small firms researched for this study represent the key activities of the small firms sector of the West Midlands and include retailing, manufacture and service industries. Although it would be desirable to compare and contrast indigenous and Asian business development by conducting analysis based on matched business types, the profile and concentration of Asian firms in clothing manufacture, jewellery, construction, light engineering and retailing dictated the research design away from this ideal. Matching and access to firms for in-depth analysis was possible in the jewellery trade and to a lesser extent in the engineering sector. Clothing, construction, retailing and other services sectors were more difficult to match and research design has resulted in a combination of matched and un-matched studies of business and marketing practice.

5. Format of the Thesis

This thesis is presented in two volumes. Volume One contains eight chapters of the main text, and is divided into two parts. Part One contains three chapters. Chapter Two is dedicated to introduce the role of small firms in national and local economies and examines the development of ethnic businesses in Britain, with the aim of focusing on the West Midlands. Chapter Three discusses the problems and opportunities for survival and growth of such firms. It examines previous research on stages of business development and highlights the problems and barriers to growth faced by small firms. It also examines the recent models on the evolution of marketing in small firms to provide a framework for the research reported in Part Two of this thesis.

Part Two contains five chapters devoted to the reporting of the study of marketing practices in small indigenous and Asian firms. Chapter Four is given to the introduction to the investigation, and details the parameters, objectives and methodologies of the overall study. Chapter Five is devoted to critically reviewing and testing the Churchill and Lewis model against the data collected on sixty-six firms in the West midlands. This chapter takes account of the criticisms levelled against the stages model and aims to provide evidence on whether the characteristics and measurement criteria advocated by this model can be safely used to predict what stage a given business has reached at a given point in its development.

Chapters Six and Seven contain the results and interpretations of a comprehensive qualitative investigation, employing in-depth interviews, single point and longitudinal case studies into business development and marketing practices in new and established small firms. The case study material is used to gain a more thorough understanding of the dynamics of small firms management than is possible by conducting quantitative research, and provides the means for comparing and contrasting practices in indigenous and Asian firms. In order to gain an insight into the problems, opportunities, barriers and implications of applying marketing techniques in small firms, the method of single point case studies is extended to study two firms over a period of time. The results of the study of marketing practice during the different stages of business development are analysed with reference to the previous studies of stages of business development and evolution of marketing in small firms. Chapter Eight assesses whether or not the data collected support the tentative hypothesis of this thesis. The analyses reported in Chapters Six and Seven are employed to construct new models of the evolution and application of marketing in small businesses.

The second volume contains, in the form of appendices, the research instruments, single point case studies and longitudinal studies that provide the substance for discussions in chapters five, six and seven in Volume One of the thesis. In order to facilitate the cross-reference of material in the two volumes, the contents of Volume Two are divided into three parts.

Part One contains the research instruments and details of methods that were used to gain access into small firms. Part Two contains the details of the firms sampled and case studies of new indigenous and Asian small firms that were conducted to provide qualitative data for Chapters Five, Six and Seven. Part Three contains details of the sample and single-point and longitudinal case studies of established indigenous and Asian small firms.

The thesis has been presented in two volumes for the sake of convenience and clarity, which otherwise would tend to interrupt the flow of the main text. The bibliography referred to, quoted, and or relevant to this study has been included at the end of Volume One of the thesis.

PART ONE

INTRODUCTION AND LITERATURE REVIEW

CHAPTER TWO

SMALL FIRMS IN THE NATIONAL AND LOCAL ECONOMIES AND DEVELOPMENT OF ETHNIC BUSINESS IN BRITAIN

CHAPTER TWO

THE ROLE OF SMALL FIRMS IN NATIONAL AND LOCAL ECONOMY AND DEVELOPMENT OF ETHNIC BUSINESS IN BRITAIN

Introduction

The pre-requisites of researching the use and relevance of marketing techniques in the development of indigenous and ethnic small firms include a clear definition of the term 'small firms', an appreciation of their role in national and local economies, and development of ethnic enterprise in Britain. This chapter therefore has three basic aims. Firstly, to establish a definition of a small firm that can be applied in design and implementation of this research study. Secondly, to concentrate on examining the role of small firms by analysing the available data on size, nature and trends in this sector of the economy. Thirdly, to provide a brief explanation of the development of ethnic business in Britain and in particular to highlight the reasons for the rapid expansion of Asian enterprises in a wide range of industries. Although the scope of this Chapter does not allow a detailed analysis of ethnic business, it attempts to provide an understanding of the national trends and compiles a profile of Asian firms in Birmingham from published data available in 1985/86. The profiles of indigenous and Asian small businesses in the West Midlands reported in this chapter are then applied in the design of the research into marketing practices of these firms.

It is beyond the scope of this thesis to include a very detailed study of United Kingdom small businesses statistics or international comparisons. A greater part of this Chapter is devoted to highlighting the role of small firms in contributing to the national and regional economies by creating employment opportunities, instigating and exploiting technological innovations, generating output and meeting the needs of consumers and larger organisations for components and services.

1. Definition of a Small Firm

One of the greatest difficulties encountered by policy makers and researchers of small businesses is that of definition. Because there is no single, generally accepted definition of a small firm, either internationally or within the UK, the term 'smaller firm' is loosely used to describe firms of very different legal and ownership structures, from different business sectors, at particular stages of development and size. Currently, the definitions used by government departments vary from being based mainly on employment and on sales turnover to the size of premises and the value of exports or profits. For example, the 1981 Companies Act laid down (for the purpose of registering the balance-sheet and profit and loss accounts) that a Company may be classified as small if, for the financial year and the one immediately preceding it, two of the following three conditions apply.

(a) Turnover did not exceed £1.4 million

(b) Balance sheet total did not exceed £0.7 million

(c) Average week number of employees did not exceed 50.

The other definition that is used in analysing the size of the small firms sector, and in particular the birth and death of firms, is the VAT classification. For VAT purposes, a 'small business' is one with a sales turnover of below £250,000. But because certain trades (for example financial services) are exempt, and a very large number of new and existing businesses do not have to register for VAT until their turnover exceeds £21,500 annually, this definition can be misleading and inaccurate in calculating the size of the small firm sector. The Vat threshold has increased annually and by March 1992 reached the level of £36,600.

The Bolton Committee (1) which in 1971 reported on the role of small firms in the UK economy, found it impossible to define a small firm adequately simply in terms of employment, assets, turnover, or any other single quantitative measure. As a starting point of developing an economic definition, the Committee took into consideration the following three main characteristics that differentiated the performance and problems faced by small firms from those of the larger firms.

a) A small firms is one which has a relatively small share of its market. It is also unable to significantly influence prices in the market through its own actions, and it cannot influence its external environment in a manner which would assist its competitive position.

(b) A small firm is managed by its owners or part-owners in a personalised way by actively participating in all aspects of decision-making and management of the business.

(c) A small firm is independent. The owner-manager(s) have effective control of the business and are not subject to the controls applied within larger organisations, though they might be limited in their freedom of action by obligations to financial institutions.

The problem of relying solely on such qualitative characteristics is that they can apply to a vast majority of enterprises in manufacturing employing less than 200 people and equally to those employing 500 or more. For this reason, the Committee also developed a statistical definition that can be used in association with the qualitative measures. The Committee focused on the level of 200 employees in manufacturing as a threshold below which firms would be thought of as 'small'. The Committee however concluded, that it was unrealistic to define a small business in terms of number of employees for all sectors of the economy as small firms differed so widely according to the nature of their business and the markets in which they operated. The report recommended that different criteria should be applied in defining the nine main sectors of the economic activity. Table 2.1 summarises the Bolton Report definitions of the small firm in the UK and also shows the concentration and contribution to employment of the small firms sector to the UK economy in 1963. These statistics provide a useful background to the discussion on the role of the small firm in the economy in section three of this Chapter.

To apply the statistical definition based on sales turnover figures relevant in 1963 in any practical way in research and policy making requires adjustments upwards to account for inflation. The Wilson Committee (1979)(2), which was concerned, inter alia, with the financing of small firms assessed changes in the number of small firms since 1971 and adjusted the upper limits in turnover for small retailers and miscellaneous services enterprises to £185,000, and for motor trades to £365,000. For the purpose of this research project, the updated version of the Bolton Committee's definition of small firms that accounts for inflation between 1963 and September 1982 provides a useful reference point for the design of the research strategy. Table 2.2 shows the statistical definitions of small firms adopted by Bolton Committee at 1963 prices and a revised definition to allow for inflation as at September 1982 prices. This revised definition, published in the CBI (3) report on small firms was the only one that could be found in the literature search at the beginning of this research study in 1985.

TABLE 2.1: BOLTON REPORT DEFINITION OF THE SMALL FIRM AND PROFILE OF UK ECONOMY AS IN 1963

Industry	Definition	Small Firms as a Percentage of all firms in the industry	Proportion Total Employment in Small Firms (Percentage)	Average Employment per Small Firm
		1963	1963	1963
Manufacturing	200 employees or less	94	20	25
Retailing	Turnover 50,000 or less p.a.	96	49	3
Wholesale Trades	Turnover 200,000 or less p.a.	77	25	7
Construction	25 employees or less	89	33	6
Mining/Quarrying	25 employees or less	77	20	11
Motor Trades	Turnover 100,000 or less p.a.	87	32	3
Miscellaneous Services	Turnover 50,000 or less p.a.	90	82	4
Road Transport	5 vehicles or less	85	36	4
Catering	All excluding multiples and brewery managed pubs	96	75	75

SOURCE: Small Firms, Report of the Committee of Inquiry on Small Firms, Cmnd. 4811, London HMSO, 1971, Table 1.1 p3.

TABLE 2.2 BOLTON COMMITTEE'S DEFINITION OF SMALL FIRMS AT SEPTEMBER 1982 PRICES

INDUSTRY	Statistical definition of Small Firms adopted by Bolton Committee (turnover at 1963 prices at 1963 prices)	Revised definition to allow for inflation *(turnover at September 1982 prices).
Manufacturing	200 employees or less	200 employees or less
Retailing	Turnover 50,000 p.a. or less	Turnover 300,000 p.a. or less
Wholesale Trade	Turnover 200,000 p.a. or less	Turnover 1,200,000 p.a. or less
Construction	25 employees or less	25 employees or less
Mining/Quarrying	25 employees or less	25 employees or less
Motor Trades	Turnover 100,000 p.a. or less	Turnover 600,000 p.a. or less
Miscellaneous Services	Turnover 50,000 p.a. or less	Turnover 300,000 p.a. or less
Road Transport	5 vehicles or less	5 vehicles or less
Catering	All excluding multiples and brewery-managed public houses	All excluding multiples and brewery-managed public houses

*Figures for turnover have been revised to allow for inflation since 1963.

Source: Smaller Firms in the Economy, CBI, London 1983

Although statistical definitions have been revised since 1985, for example, in retailing the sales turnover figure for 1982 of £300,000 has been increased to £410,000 for 1989, there has been little change in the official definition of what constitutes a small firm. In 1989 and 1991 the Department of Employment (Small Firms in Britain (4)), reported that an examination of 1986/87 statistics indicate that more than 90 per cent of businesses registered for VAT had turnover below £1 million, and at least half of all self employed people were not even registered for VAT, mostly because their turnover was below the threshold for company registration. The report suggested that whilst a wide range of definitions have been used in practice for various purposes, each valid in its own context, the best description of the key characteristics of a small firm remained as in the Bolton Report in 1971: that a small firm is an independent business, managed in a personalised way by its owner or part owners, and with a small market share.

Defining the size of firms quantitatively has also been reviewed and criticised over the past decade. Curran and Burrows (1989 (5)) have for example, argued that 'size' expressed quantitatively is not usually very interesting or very important in relation to interpreting how an economic unit functions when viewed along side other influences such as economic or industrial sector, technology, locality, labour and particular product market or wider economic structure of the economy as a whole. An associated problem of quantitative definitions of size is that they often imply a false homogeneity among small firms grouped together by reference to some quantitative indicators. This implies that a small firms sector share a set of characteristics which separate them from other larger firms. Recent studies (for example, Scase and Goffee, 1982 (6), Curran, 1986 (7), 1987 (8)) suggest that it is now becoming clearer that small business owners and small firms are highly variable in terms of their outlooks, managerial strategies, types of employees and nature of their operations.

Alternative approaches to quantitative definitions have recently been put forward by Rainnie (1988 (9)) and Burrows and Curran (1989 (10)). Rainnie, who has developed the work of Shutt and Whittington (1987 (11)) has argued that although it is large firms in the main that determine the environment faced by small firms, the relationship between small firms and the environment varies to produce the following four distinct types of firms.

i) Dependent: Small firms which exist to serve the interests of larger firms, most commonly through sub-contracting relations.
ii) Dominated: Small firms which compete with large firms but only by intense exploitation of their machinery and labour.
iii) Staid: Firms which operate in safe market niches unlikely to be invaded by larger firms because the profit and growth potentials are so low.

iv) Innovative: Small firms which develop new products and pioneer new markets but are vulnerable to large firms who may muscle in on their innovative work once the product is proven and the market sufficiently attractive.

The approach put forward by Burrows and Curran takes the legal independence of small firms as a starting point and suggests that size of a firm has to be seen as specifically in relation to the subculture of the economic sector being studied. It is suggested that this approach requires prior investigation of the conceptions of 'small' as perceived by those involved in the business for example, owner-manager, employees and others involved in particular kind of economic activity.

For the purpose of this thesis, the definitions and statistics that were available and in use in 1985/86 were employed in guiding the selection of the firms to be included in the research.

As pointed out by Ganguly and Bannock (12), the problems associated with defining small firms are not restricted to the United Kingdom. They differ from country to country, leading to conflicting opinions and problems with comparability. West Germany for example, regard ten employees as the upper limit for small firms, whereas Sweden and France agree with the Bolton Committee, and define manufacturing small firms as those with less than two hundred employees. The EEC, on the other hand tends to concentrate on developing policies for the small and medium sized enterprises (SME's), and define them as those employing less than 500 employees. Table 2.3 summarises the definitions of small and medium-sized firms in eight EEC countries and serves as a useful perspective in comparing international statistics on small firms development and policies.

2. Small Firms and the National Economy.

2.1 An International Perspective

As an introduction to the profile and role of small firms in the West Midlands, it is useful to have an understanding of the make-up of the national economy and to compare this with developments in other countries. The Bolton Committee drew attention to the fact that the process of decline in the small firm sector, which had characterised the developed countries in the post-war period appeared to have gone further in the UK than in other countries. The report showed that in the UK, the proportion of total manufacturing employment accounted by small firms between 1954 and 1963 declined by 2 per cent (from 33 to 31 per cent). More recently, an international small firms survey (13) showed that in the UK small manufacturing establishments contributed 30 per cent of employment. This figure was confirmed by Ganguly and Bannock's data, which indicated that small establishments (those employing less than 200 employees) in the UK were responsible for 27 per cent of manufacturing employment in 1973, but this grew to 30% in

1979. The 1982 Census of Production also suggested that (allowing for changes in the standard Industrial Classification) this increase has probably continued since 1979 to reach 35 per cent of the manufacturing labour force. Ganguly and Bannock's data from other industrial economies also confirmed the Bolton Report's conclusion that no other advanced industrial country has such a low proportion of its manufacturing employment in small establishments (see Table 2.4). The United States, for example, is recorded as having 39 per cent of the manufacturing labour force in small establishments whereas Japan, with 68 per cent, has the highest proportion of employment in this sector.

The OECD (14) study of the importance of the small firm sector for employment in EEC member countries went further and provided data by enterprise size bands. Table 2.5 shows that for the UK manufacturing sector, firms in the smallest enterprise size band, employing 1-19 employees, increased their share of employment over the period 1973-81. The statistics also show that small firms are an important source of employment everywhere, but that their contribution to total employment varies between nations. Japan is noteworthy for the high proportion of its employment in very small firms, with less than 25 per cent in establishments employing 100 or over. At the other extreme, Belgium had over 55 per cent in this category. Although larger establishments were not quite so dominant in the UK, it comes second after Belgium in the importance of large firms.

TABLE 2.3 DEFINITIONS OF SMALL AND MEDIUM-SIZED FIRMS IN EIGHT EEC COUNTRIES

COUNTRY	DEFINITION
Belgium	1 - 50 employees
Denmark	6 - 50 employees
Federal Republic of Germany	1 - 499 employees
France	6 - 499 employees
Eire	1 - 50 employees (small business)
Italy	1 - 500 employees
Netherlands	1 - 100 employees
United Kingdom	1 - 200 employees (small business)

Source: "Report on the Future of Small and Medium-sized Business in Europe." Document No. 4555 presented to the Parliamentary Assembly of the Council of Europe by the Parliamentary Assembly Committee on Economic Affairs and Development, 1980. (in Smaller Firms in the Economy 1983, CBI, London).

TABLE 2.4: PROPORTION OF MANUFACTURING EMPLOYMENT IN SMALL ESTABLISHMENTS IN UK AND SELECTED INDUSTRIAL SOCIETIES

Countries	Per Cent % and year of data
United Kingdom	30 (1979)
United States	39 (1977)
Japan	68 (1978)
Federal Republic Germany	31 (1979)
Sweden	41 (1979)
France	51*(1963)
Italy	65 (1971)
Australia	60*(1963)

Note: An "enterprise" is defined as a business consisting of either a single establishment or two or more establishments under common ownership and control. An "establishment" is the smallest unit which can provide the information normally required for an economic census, eg employment.

Source: UK Small Business Statistics and International Comparisons, P. Ganguly and G. Bannock, 1985.

The OECD report indicated that the importance of small firms to the Japanese economy has been seen as one of the major reasons why Japanese industry in general has shown itself highly flexible and able to respond quickly to major changes in the world economic environment. The belief that the dominance of small firms has been a particular strength of the Japanese economy may be one reason why western governments have given greater priority to the growth of a healthy small firm sector within their own economies.

TABLE 2.5: DISTRIBUTION OF EMPLOYMENT BY ESTABLISHMENT SIZE, IN DIFFERENT OECD COUNTRIES, 1981 EXPRESSED AS PERCENTAGES

Countries	Establishment size (number employed)			
United States	Very Small (1-19)	Small (20-99)	Medium (100-400)	Large (500+)
Austria*	33.6	27.9	23.1	15.4
Belgium+	22.2	22.6	26.0	29.0
France+	32.1	28.0	23.4	16.5
Italy	43.4	30.4	14.2	12.1
Japan	49.4	27.7	14.6	8.2
Great Britain	26.1	22.6	26.1	25.2
United States	26.1	28.4	24.0	21.5

* Wage and salary earners
+ 1983 figures

NOTE: The first two bands for Italy and Great Britain are 1-9, 10-99 and 1-24, 25-99 respectively

Source: OECD Employment Outlook, September 1985, p.71.

Since 1979, with the publication of Birch's (15) study on job generation in the United States, even greater attention has focused by many developed countries on the ability of small firms to create employment . The major findings of the Birch Study, based on data supplied by the credit rating agency, Dun and Bradstreet, were that

a) 82 per cent of new jobs came from small firms employing less than 100 employees.

b) Of these new jobs, 32 per cent were from firms less than five years old.

c) Two thirds of the increase in employment in the United States between 1969 and 1976 was in firms employing less than 20 employees.

d) There was a definite move from manufacturing towards service sector.

The Birch report provided the statistical underpinning for much of the recent profusion of policies to help small firms which has occurred in Europe and the United States. But because of the nature of Dun and Bradstreet data, a dispute between Birch and a group of researchers at the Brooking Institute resulted in another study that examined the period 1978-80 using the same Dun and Bradstreet data file.

The Brooking Group (Armington and Odle (16)) claimed to find that only 39 per cent of jobs were created in small firms and which was approximately in proportion to their share of total employment in the economy. The Group also explained that Birch's results were due to a confusion between enterprises and establishments (see notes under table 4) and to an inappropriate allocation of establishments where data was missing. Other similar studies outside the United States, in particular, in the UK by Fothergill and Gudgin (17), Storey (18), Macey (19), Hamilton et al (20), whilst critical both of the methodology used by Birch and of the magnitude of the contribution to employment made by small firms, found broadly that small firms were net creators of jobs at a time when larger firms were shedding labour due to recession in the economy.

A more recent study by Gallagher et al (1991 (21)), commissioned by the Department of Employment, shows that between 1987 and 1989 the majority of job creation in the UK occurred in the smallest firms, considerably outweighing the contribution of larger businesses. The study revealed that firms employing fewer than 10 people created over half million jobs during the study period. This was almost half the total net job growth, even though they contained less than one-fifth of the employment. The study also found that net job creation by firms was proportionately greater amongst firms employing fewer than five people and fell rapidly to the 10 - 14 size band. It was similar across all size bands from 15 to 2,000 people employed after which it fell sharply again. A recent study by Bannock and Daly (1990 (22)) has suggested that the reason for the decline in job creation amongst firms in the 10 to 19 band is because small firms tend to reach a particularly difficult stage of development at this point. It has been suggested, for example that the management style of a business necessarily changes at around this time and firms stop growing due to their over reliance on a narrow customer base.

2.2 Small Firms in the UK Economy

In another similar study to Birch's, Gallagher and Stewart (23) examined the role of UK small firms in creating employment between 1971 and 1981 and found that they were an important contributor to employment growth, but that their importance was not so pronounced as in the United States. More recently, Doyle and Gallagher (24) have shown that between 1982 and 1984, only firms with fewer than 20 employees were net creators of jobs, whereas in the US the figure is nearer to 100. In particular, it found that small firms together with the self employed, created about one million new jobs in this period. The study concluded that it was the birth of new firms and expansion of firms from the smallest size bands which were creating the new jobs in the economy. Storey and Johnson's (25) review of job generation studies throughout the EEC countries also found that small firms experienced positive employment growth compared with job losses in larger firms. A survey carried out by Storey (26) for the Occupation Study Group in 1986 also predicted that small independent firms in the UK would increase their level of employment by between 700,000 and 1,300,000 during the years 1985 - 1990.

The results of a more recent study by Bannock and Daly (22) showed that of the estimated 2.5 million businesses in the UK at the end of 1986, no fewer than 96 per cent employed less than 20 people, and less than half of one per cent employed 200 or more. The share of enterprises with fewer than 200 employees also increases from 49.2 per cent to 61.4 per cent of the total private sector employment between 1979 and 1986. A large proportion of this increase was accounted for by the growth in the number of very small firms. The number of firms however, increased in all but two designated size bands: the 20 - 49 and 100 - 199 groups, and the total employment increased in all but these two and in 1,000 plus band. A profile of small firms in the UK can be constructed by studying the distribution of firms by turnover, and by examining the data on business starts and stops. The third possible way of measuring the share of economic activity held by small firms is net output, or measure of work done by each industry.

2.2.1 Distribution of Firms by Turnover

The value added tax (VAT) statistics provide a useful source of information on the size of firms by turnover and in business registration (starts) and de-registration (stops). Although the coverage of businesses is incomplete due to the lack of records of activity of trades exempt from VAT (such as insurance, health and financial services) and those below the VAT threshold, it provides an overall picture of the make-up of the UK industry. Table 2.6 summarises the percentage of legal units in the UK classified by turnover in 1985. Almost two-thirds of all firms classified belong to the service sector, with over four-fifths of the business units falling into the smallest size band. With the exception of the extractive industries and public utilities, manufacturing contains the smallest proportion of small companies, and the largest number of business units with turnover in excess of 1m. Conversely, agriculture, forestry and fishing and construction are characterised by a high proportion of small firms.

A closer examination of the manufacturing and service sector reveals differences in the size distribution of businesses according to industry sector. Industries which are characterised by the presence of higher research and development costs and/or substantial economies of scale are dominated by larger business. Aerospace, for example, has only 45 per cent of business in the smallest size band, and basic metal industries constitute 48 per cent. In some manufacturing sectors, however, small firms make up a larger proportion of the total number of businesses. For these sectors, the small firm is at an advantage compared to the larger firms in servicing small market niches in a highly personalised way. For example, in some of the sectors of the textile and mechanical engineering industries, gross value added per head is higher for enterprises with less than 200 employees, than for other employment size bands. The highest proportion of small firms amongst the service industries is to be found in catering and retailing.

TABLE 2.6: DISTRIBUTION OF FIRMS BY TURNOVER, 1985 (%)

	Turnover size (£)			
Industry	Up to 250,000	250,000 to 1m	1m +	% of total stock of business
Agriculture, forestry and fishing	91.1	8.0	0.9	9.5
Mining and Quarrying and public utilities	55.5	23.3	21.1	0.1
Manufacturing	69.1	18.8	12.3	10.6
Construction	86.5	10.3	3.2	14.3
Services	83.4	11.4	5.1	65.4
All business	83.0	11.7	5.2	100

Source: Business Monitor, PA1003, 1985

2.2.2 Business Starts and Stops

The VAT register also gives an indication of what is happening to the stock of businesses in the economy. The number of registrations for VAT shows the rate of births, and deregistration, the rate of deaths of firms. Table 2.7 shows the business starts, stops, stocks and profile of UK industry at the end of 1979 and 1984. The profile of UK industry, expressed as percentage of total number of registered businesses serves a useful reference for comparison with the profile of West Midlands industry, and for the research design strategy. It can be seen from Table 2.7, that all sectors, with the exception of retailing experienced a growth in the stock of businesses between 1980 and 1984. The reduction in the stock of retail businesses is likely to have been a reflection of the continued growth of retail multiples, leading to increased concentration of activity in the sector. Industrial sectors experiencing the largest increase in their stock of businesses included other services (31.2%), wholesaling (19%), construction (18.5%) and production (14.2%). The breakdown of this data by regions is also helpful in attempting to construct a comprehensive picture of small business growth in the UK. The percentage increase in net stock of businesses between 1980 and 1984 ranges from almost 13 per cent in the South East, to a low of 7.8 per cent in the North West. Excepting Northern Ireland, the regions farthest away from the South East experienced the lowest increase in the net stock of businesses.

TABLE 2.7: Business starts, stops, stocks and profile of UK industry (expressed as percentage) 1980-4

INDUSTRIAL SECTOR	Stock end 1979 (000's)	Profile of UK industry in 1979 (stock as % of total)	Births 1980-84 (000's)	Deaths 1980-84 (000's)	Stock end 1984 (000's)	Net Change 1979-84 (%)	Profile of UK industry in 1984 (stock) as % of total)
Agriculture	176.6	13.7	34.0	28.9	181.7	2.8	12.7
Production	121.0	9.4	83.9	66.7	138.2	14.2	9.6
Construction	181.4	14.1	124.7	99.2	214.9	18.5	15.1
Transport	55.6	4.3	26.1	33.2	58.5	5.2	4.1
Wholesale	94.5	7.3	75.4	57.4	112.5	19.0	7.9
Retail	269.3	20.9	165.5	171.2	263.5	-2.2	18.5
Finance Property & Prof. Services	78.8	6.1	54.5	36.1	97.2	23.3	6.8
Catering	117.2	9.1	83.2	77.8	122.7	4.7	8.6
Motor Trades	68.0	5.2	45.5	40.4	73.1	7.5	5.1
All Other	125.5	9.7	126.0	86.8	164.7	31.2	11.6
TOTAL	1287.9	100	828.8	689.8	1426.9	10.8	100

Source: Adapted from Table on Number of businesses that registered and deregistered for VAT in the UK, 1980-84, British Business Aug. 1985 p354-55.

From the end of 1979, through to the end of 1985, the stock of businesses increased by almost 12 per cent over the six year period as a whole. The net change however, was the outcome of much larger numbers of new registrations and deregistrations. New registrations averaged over 12.5 per cent of the existing stock each year, with deregistrations averaging under 11 per cent. There are several reasons why firms deregister. In the period 1980-4, over 70 per cent went out of business or had a turnover below the exemption limit, and 25 per cent were bought by other businesses. The remaining 5 per cent reflected no more than a change of legal identity. Table 2.8 summarises the overall business registration, deregistration and stock in the UK between 1980-85.

TABLE 2.8: Business Registration, Deregistration and Stock in the UK: 1980-85 (1000)

Year	Stock at Start of Period	Registration %	Deregistration %	Net Change %
1980	1,288	158 (12.3)	142 (11.0)	16 (1.2)
1981	1,304	152 (11.6)	120 (9.2)	32 (2.4)
1982	1,336	166 (12.4)	146 (10.9)	20 (1.5)
1983	1,356	180 (13.3)	146 (10.8)	34 (2.5)
1984	1,390	182 (13.1)	153 (11.0)	29 (2.1)
1985	1,419	183 (12.9)	163 (11.5)	20 (1.4)
1980-5		1,021	870	151 (11.7)

Source: British Business, 19th September 1986

In the period 1979-84, the number of businesses registered for VAT increased by 138,982, or 10.8 per cent. An indication that much of the growth in VAT registrations occurred in small firms is evident from a more detailed analysis by their sales turnover. This shows that the greatest increases for the period between 1980-83 were in those firms with turnover between £50,000 and £499,000. Table 2.9 summarises the surplus of starts over stops by turnover and all sectors in the UK between 1980-83.

TABLE 2.9: Surplus of Starts over Stops of Firms by Turnover and all Sectors in the UK, 1980-83

Sales Turnover (£000s)	Surplus of Starts over Stops	Percentage of total surplus
0	-28,549	-24.1
1-49	53,463	45.1
50-499	89,228	75.3
500-1999	4,577	3.9
2000+	-238	-0.2
Total	118,481	100

Source: Adapted from Ganguly and Bannock's table on surplus of starts over stops of firms by turnover and sector in the UK, 1980-83 in UK Small Business Statistics and International Comparison, 1985

Analysis of more recent VAT registration data by turnover size band (27) show that over 80 per cent of all registered businesses operate under £250,000 turnover range. The summary of statistics is as follows:

Turnover Size (£000)	Numbers	Percentage
20 - 50	510,509	38
50 - 100	297,313	22
101 - 250	262,446	20
251 - 500	108,275	8
501 -1000	62,370	5
1001+	78,882	7
	1,319.795	100

Source: Business Monitor, PA 1003, 1987

2.2.3 Net Output by Industry

"Net output" is used here in the sense customary in the Census of Production. It is a measure of the work done by industry and is obtained by taking the value of its sales and subtracting from it the value of materials purchased. It must be noted that net output is not identical to the contribution of the industry to the gross domestic product (GDP). The appropriate net output of the small firms sector in 1963 was £3,500 million, representing one-fifth of the total output at that time and a quarter of the private sector output (Bolton 1971). Bannock (1981) (28) stated that the 1963 output figures were equivalent to 20 per cent of the GNP, and that it is unlikely that this has changed drastically over the years.

3. Small Firms in the West Midlands

Prior to outlining the size and nature of the West Midlands, it is important to define the geographical area under study. Official statistics for the West Midlands use the following three main definitions.

(a) The West Midlands Region. This refers to the counties of Hereford and Worcester, Warwickshire, Staffordshire, Shropshire, and the West Midlands before the latter's abolition in April 1986.

(b) The West Midlands County. This refers to the metropolitan district council areas of Birmingham, Solihull, Dudley, Sandwell, Wolverhampton, Walsall and Coventry.

(c) The West Midlands conurbation. This term is used in official statistics before the creation of the West Midlands County Council in 1974 to cover the county boroughs of Birmingham, Solihull, Warley, West Bromwich, Wolverhampton, Walsall and Dudley, the municipal boroughs of Halesowen, Stourbridge and Sutton Coldfield; and the districts of Aldridge - Brownhills.

This research study is concerned with small firms in the West Midlands County as described in (b) above. The data on industry, employment and stock of business however is not always confined to conform to this definition. Where this is the case, data on the West Midlands region has been used as it is felt to be both relevant and valuable to providing a background to the area.

The West Midlands region has the reputation of being a prosperous and a successful part of the United Kingdom through its ability to adapt to economic and industrial changes over the past century. The prosperity of the region was founded upon the core industries of coal, steel and metal working. With the decline of these basic industries, the engineering industries, made up of many small firms sub-contracting or supplying to larger consumer and industrial goods manufacturing firms were developed. The growth of the engineering industries helped the West Midlands to emerge as Britain's industrial heartland. Even in periods of depression, the West Midlands economy remained buoyant. In the 1930 recession, Birmingham and Coventry unemployment levels were lower than national average. Up to the mid 1960's the West Midlands was one of the fastest growing regions, with high wage levels and high economic activity rates leading to family incomes above those in all other regions except the South-East. The foundation was a seemingly strong manufacturing base in vehicles of metal manufacturing and engineering. The growth of these industries resulted in creation of manual and semi-skilled jobs which could not be filled locally and West Midlands saw the flow of migrant workers from the New Commonwealth countries and in particular from the Caribbean and Indian sub-continent. As Peach (29) has pointed out that the immigrants came primarily as a replacement labour force to meet the output needs of an expanding economy.

In 1978, 49% of employment in the West Midlands county was in manufacturing industry, compared with 32% nationally, while the service sector in the area accounted for 47% compared with 53% nationally. Four key sectors accounted for 71% of total manufacturing employment in 1978 (37% nationally). These were metal manufacturing (15%), mechanical engineering (12%), vehicles (24%) and metal goods (21%). But by the early 1980's, the region was suffering unemployment levels exceeding many of the traditional development areas. The West Midlands had shifted from prosperity and buoyancy to a state of rapid decline and crisis, a situation brought about by a collapse of its strong but poorly diversified manufacturing base.

With reference to the Bolton definition of small firms, 94% of the manufacturing industry in 1965 was made up of firms employing less than 200 employees and accounted for 20% of total employment. The decline of the manufacturing base had a major impact on the small firms sector in the West Midlands. The contraction and/or collapse of many larger manufacturing firms changed the statistics on business stock, starts and stops in the region in two ways. For the period 1980-83 (12) West Midlands experience increase in the stock of small business in industries such as construction, wholesaling, finance, property and professional services. There was also a slight increase in the stock of firms in production and manufacturing. These increases can be explained by shedding of labour by many previously medium sized firms that became classified as small, and by the increase in the number of business start-ups in the service industries. The lack of employment opportunities in the traditional industries and the implementation of Government policies designed to encourage self employment may have contributed to the rise in small business activity during a period of economic recession. The statistics (Table 10) on the number of local units and employment in the manufacturing industries in the West Midlands County by employment size indicates that in 1985, 63% of all business units were made up of firms that employed between 1 and 9 employees, and 97% (compared with Bolton's 94%) of units were made up of firms employing less than 200. These

TABLE 2.10: LOCAL UNITS IN MANUFACTURING INDUSTRIES WITHIN WEST MIDLANDS COUNTY BY EMPLOYMENT SIZE (1985)

West Midlands County	Employment Size								
	1-9	10-19	20-49	50-99	100-199	200-499	500-999	1000+	TOTAL
Local Units	6785	1345	1314	615	347	193	60	38	10717
% of Total	63.3	12.6	12.4	5.7	3.2	1.8	0.6	0.4	100
Employment	21801	18711	41209	42400	47856	57304	40067	91952	361300
% of Total	6.0	5.2	11.4	11.7	13.2	15.9	11.1	25.5	100

Source: Extracted from United Kingdom number of local units in Manufacturing Industries in Counties within Regions by Employment (1985).

Business Monitor PA1003: Size Analysis of United Kingdom Businesses, 1987 statistics also show that 63% (compared with Bolton's 20%) of employment was accounted for by manufacturing firms in the West Midlands employing less than 200 employees.

3.1 Profile of Industry in West Midlands County

Table 2.10 provides useful data on manufacturing industries within West Midlands but does not give an overall profile of the constitution of industry in the county. In the period 1985/86, the only source of data on small firms available from which to construct a profile of industry in the West Midlands were the statistics on stocks, starts and stops; number of local units and employment *published by the* Department of Trade and Industry's Business Statistics Office. Although this data is concerned with statistics on stock of business, number of local units and employment, it is possible to extract data for the West Midlands region and the county and to construct a profile of the industry based on percentage of total figures. Table 2.11 shows the profile of industry in the West Midlands and provides a useful reference for the design of the research strategy reported in part two of this project. The major industries in the County are retailing, manufacturing, construction and wholesaling.

As manufacturing industries have been the main stay of the County a further analysis by industry and number of local units was necessary to construct a more comprehensive profile of this sector of the local economy. Due to the lack of published statistics on the manufacturing industries for the County, data has been extracted from UK statistics to construct the profile of manufacturing industries in the region. Table 2.12 shows the number of local units in manufacturing industries in 1986 by industry and employment size band. The total number of units analysis in this table compare quite well with the total number of firms in the region classified as being involved in production in the statistics on starts and stops (Table 2.11). The West Midlands manufacturing industry is dominated by metal manufacture and mechanical engineering. The other main areas of activity includes manufacture of paper, printing and publishing; timber and wooden furniture manufacture; footwear and clothing; electrical and electronic engineering and extraction and manufacture of non-metallic mineral products. Although the West Midlands is renowned for its car manufacturing industry and Birmingham has a thriving jewellery quarter, these industries only represent 2.4% and less than 1.5% (jewellery is classified under other manufacturing industries) respectively. The motor car industry has a lower number of medium and large sized businesses, but they accounted for over 60,000 employed in the region. Other major employers involved in supplying parts and components for the car industry, such as Lucas and GKN employ a large number of people, but their activity is classified as electrical and mechanical engineering. In terms of the small firms sector, the most revealing aspect of the statistics in Table 2.12 is that 75.8% of manufacturing units in the region employ less than 20 employees and 93% employ less than 100.

4. Development of Ethnic Businesses in Britain

As this research is concerned with comparing marketing practices in small firms managed by indigenous and Asian managers, it is necessary at this juncture to provide a brief background to the development of ethnic businesses in Britain. Much of what follows has been based on published literature available in early 1986 on the emergence of ethnic businesses in Britain. Although substantial literature was available in the early 1980's on the situation of ethnic minorities in employment, housing, welfare and education, research on their participation in business had just begun to emerge. One reason for the increase in research interest was the realisation by many local authorities of the potential of ethnic businesses to create employment opportunities for minority communities. This was particularly the case in the inner-city areas of larger industrial conurbations during the period of economic recession in the early 1980's.

The established stereo-type perceptions amongst the general public of Asian businesses confined to petty retailing and restaurants is not only misleading, but hides the diversity and extent of their development in Britain. According to Ward (30), Asian business in Britain advanced so rapidly over the 70's and 80's that by 1986 there were an estimated 45,000 firms run by Asian entrepreneurs, and the businesses extended into wholesaling, manufacturing, personal services, as well as specialised retailing (for example, chemists). There are a number of reasons and theories put forward to explain the growth of ethnic enterprise in Britain. It is useful to explain briefly the historic pattern of Asian employment and assess the opportunity structure of national and local economies that have facilitated ethnic business development.

TABLE 2.11: PROFILE OF INDUSTRY IN WEST MIDLANDS COUNTY BASED ON DATA ON BUSINESS STOCK, STARTS AND STOPS 1980-83 AND COMPARISON WITH STOCK OF REGION'S INDUSTRY

SOURCE: EXTRACTED FROM BUSINESS STOCKS, STARTS AND STOPS: COUNTY ANALYSIS UK 1980-83. PUBLISHED IN GANGULY, P AND BANNOCK, C, UK SMALL BUSINESS STATISTICS AND INTERNATIONAL COMPARISONS, 1985.

Area	Agriculture	Production	Construction	Transport	Wholesale	Retail	Finance Property Professional Services	Catering	Trades	Other	Total
West Midlands County											
Stock-end 1979	344	8481	6979	1992	4465	11342	2494	3370	2603	4287	46368
Starts 1980-83	71	3827	3824	959	2930	6618	1163	2058	1548	3444	26442
Stops 1980-83	70	3242	3024	996	2113	6489	792	1780	1351	2487	22344
Stock-end 1983	356	9066	7779	1955	5282	11471	2865	3648	2800	5244	50466
Percentage of Total Stock	0.7	18.0	15.4	3.9	10.5	22.7	5.7	7.2	5.5	10.4	100
WEST MIDLANDS REGIONAL TOTAL											
Stock-end 1983	14051	15232	17956	4981	10109	22734	5683	9128	6537	10850	117261
Percentage of Total Stock at end of 1983	12.0	13.0	15.3	4.2	8.6	19.4	4.8	7.8	5.6	9.3	100

TABLE 2.12: WEST MIDLANDS REGION NUMBER OF LOCAL UNITS IN MANUFACTURING INDUSTRIES IN 1986 BY SIC (1980) AND EMPLOYMENT SIZEBAND (1985)

SOURCE: EXTRACTED FROM UK NUMBER OF LOCAL UNITS IN MANUFACTURING INDUSTRIES BY REGION, COUNTY, SIC AND EMPLOYMENT SIZEBAND. BUSINESS MONITOR PA1003 SIZE ANALYSIS OF UK BUSINESSES 1986

Industry	Employment Size 1-9	10-19	120-99	190-499	500+	Total	Percentage of Total WM Region Economy
Extraction and preparation of metal ores and metal manufacture	166	58	150	62	15	451	2.7
Extraction of minerals and manufacture of non-metallic mineral products	513	116	146	109	18	902	5.3
Chemicals and man-made fibres	197	35	*	*	*	332	2.0
Manufacture of metal goods not specified elsewhere	2130	511	770	206	22	3639	21.5
Mechanical engineering	2968	523	634	148	18	4291	25.4
Manufacture of office machines	35	13	*	*	*	58	0.3
Electrical and Electronic Engineering	617	103	155	66	36	977	5.8
Manufacture of motor vehicles and parts	138	46	124	72	25	405	2.4
Manufacture of other transport equipment	78	14	42	12	7	153	0.9
Instrument engineering	110	44	53	8	1	216	1.3
Food, drink and tobacco manufacturing	411	98	121	70	15	715	4.2
Textile Industry	174	21	46	21	3	265	1.6
Manufacture of leather goods	113	24	49	4	-	190	1.1
Footwear and clothing industries	653	133	160	49	1	996	5.9
Timber and wooden furniture industries	1003	127	166	24	-	1320	7.8
Manufacture of paper, printing and publishing	1144	156	191	46	5	1542	9.1
Processing of rubber and plastics	97	31	37	36	2	203	1.2
Other manufacturing industries	218	19	17	6	1	261	1.5
TOTAL Local Units	10765	2072	2902	987	191	16916	100
Percentage of Total	63.6	12.2	17.2	5.8	1.1	100	-

4.1 Reasons for Expansion of Ethnic Enterprise

The origin of Asian entrepreneurs in Britain can be traced back to the lack of sufficient indigenous labour to aid economic reconstruction after the Second World War. In industrial conurbations of London, Birmingham, the Black Country, Manchester and Leeds, the vacancies for manual and unskilled labour over the past forty years were filled by immigrant labour mainly from the Indian Sub-Continent and the Caribbean. As the immigrant populations became more settled, the pattern of their employment concentrated in the metal manufacturing and processing, textiles, construction and other primary sectors of the economy. Although many had skills and knowledge to fill more senior positions in these industries, they were barred from entry due to language problems and lack of formal apprenticeship training and or qualifications. In the 1970's these industries started to experience the effects of economic stagnation, declining demand, labour shedding necessitated by technological innovation and increased world-wide competition. There is also evidence (Smith (31), and Ward (32)) that the level of racial discrimination and social stigmatisation increases when the labour market contracts and competition amongst the total population intensifies. This further reduces the employment opportunities for ethnic minority groups to fill vacancies in the market place, and acts as a catalyst to prompt self employment. The contraction of the labour market and lack of any significant Government intervention to facilitate access of ethnic minorities to employment opportunities in other sectors is one explanation of the increase in ethnic enterprise in Britain. Another factor that helps to explain the increase in ethnic enterprise is the terms of entry for immigrants between 1945 and 1962. This explains both the economic characteristics and conditions of employment open to those who came to settle here. The policy of free immigration for holders of British passports from the new commonwealth attracted workers from a relatively wide range of social and economic origins and included professionals, petit-bourgeois and skilled workers from India (Nowikowski (33)). Research on race and housing (Ward (34)) in the early 1980's confirmed that the occupational distribution of Indian males in Greater London was very similar to that for the indigenous white population. The arrival of Asians expelled from Uganda in 1972 significantly contributed to the number of Asian entrepreneurs who gradually acquired the resources to move into self employment.

As one of the criteria for successful formulation and survival of small business is the skills (both technical and managerial) of the entrepreneur, many Asians were attracted to self employment because they already had these skills, either as a family or caste tradition, or acquired from running small businesses in the country of origin. The caste system and family tradition provide a valuable explanation of the proliferation of Asian trades such as jewellery, clothing, construction and engineering. There are distinct castes that specialise in these skills and trades, and an examination of the origin of those in construction, engineering and jewellery industries in particular would reveal the caste of the proprietor to be the main determinant of the choice of business operation. For example, Asian construction businesses are run by proprietors belonging to the caste of carpenters and metal workers and in the main from the Sikh community. The clothing industry in Birmingham has its origin in the caste of drapers (mainly Hindu Punjabis) who started retail outlets and manufactured anoraks in the back of the shop. This aspect of ethnic business development is relevant to this research project because it helps to explore and explain the reasons for production or product-orientation of most Asian small business that rely heavily on the technical skills of its proprietor.

The role of small businesses in the national economy (as outlined in previous sections and expended here) and opportunities afforded by the structure of the local economy provide another explanation for the growth of Asian participation in business. The relationship between large and small firms working together to achieve economies of scale for de-centralised businesses created opportunities for sub-contracting and supplying components or raw materials. Sub-contracting by larger firms in essence is the bedrock of small firms' survival. In industries such as vehicle manufacture in the West Midlands the large assembly plants are supplied by many small engineering firms working on a sub-contract basis. Jewellery and clothing industries (particularly in Birmingham) rely heavily on sub-contract work for either larger, national retailing firms or for buyers who have won contracts to supply larger organisations.

The revival of London's dying East End clothing trade by Cypriots and Asians, and the creation of a new one in the West Midlands (Ward, Randall and Kremar (35)) can be explained by the ease with which garment manufacture on the basis of sub-contracted 'cut, make and trim' can be secured. This coupled with the low investments and availability of cheap factory premises and Asian female labour (in the 70's and early 80's) meant that many Asian entrepreneurs set up garment manufacturing units to meet the needs of main contractors eager to compete against suppliers buying from countries of the Pacific.

The forces of free market economy have also provided the impetus for ethnic communities to enter self employment. The absence of bureaucratic and restrictive legal requirements for immigrants to trade in Britain (as compared with the strict regulations governing the status and freedom of guest workers to start own businesses in West Germany) has facilitated the process of integrating ethnic communities into business. The free market economy has also allowed ethnic entrepreneurs to expand into such trades as wholesaling, clothing and engineering because of the lack of barriers to entry into these and other industries. Where legislation, qualifications and other requirements determine entry, the second and third generation of ethnic minorities are beginning to overcome these barriers through greater participation in higher education and training. Retail chemists and opticians are examples of self-employment where Asian entrepreneurs in particular are combining enterprise with professional practice.

The most obvious and simplistic reason of ethnic business development is the opportunities created by the ethnic populations both locally and nationally, for demand for goods and services that is not met by indigenous business communities. But the ease and attractions of serving ethnic niche markets is counter-balanced by the concentration of similar businesses, increased competition and lowering of profit margins to the detriment of the business community. The homogeneous nature ('me too' types of businesses) and competitiveness of trades such as retailing has seen the gradual switch of ethnic businesses operating within the ethnic communities of larger conurbations to trading of petty commodities (for example grocer, confectionery,tobacco and newspapers) to meet the needs of wider indigenous communities. The Indian restaurants trade now almost exclusively cater for the white market. Although many are still located within locations of ethnic business communities, there is a tendency to relocate in the sub-urban areas of the bigger cities. The changing pattern of location of ethnic enterprises can be explained by examining the process of changes within the broader local economies. Retailing and wholesaling for example, are concentrated in sectors with low barriers to entry and access to premises vacated by indigenous proprietors. According to a study by Aldrich, Jones and McEvoy (36), the rapid turnover amongst established indigenous proprietors caused by changes in residential populations, need to work unsocial hours, opportunities for alternative employment and/or an ability to complete with larger firms in the same industry has given rise to opportunities for ethnic entrepreneurs to move in to revitalise these small businesses. In Britain, the Asian businesses in particular are able to survive the same economic conditions on their ability to provide the necessary labour and finance from within the family and community, and to work unsocial hours to create a differential advantage over local competition in meeting the needs of the non-ethnic markets. The shift away from serving narrow ethnic markets in other industries however, has been much slower. In the jewellery industry, the majority of retailing outlets and manufacturing businesses concentrate on serving the Asian market. The main reason for this is the lack of Asian proprietors' knowledge of the indigenous markets, their lack of communication skills in selling to buyers of larger local or national organisations and their lack of resources necessary to restructure their business operations. These are some of the major barriers to the survival and growth of many ethnic businesses. These factors and the lack of marketing orientation in small businesses are explored in this research project.

The other theories put forward to explain ethnic participation in business include appropriate motivation

(McClelland (37), cultural values supportive of entrepreneurship (Tambs-Lyche (38)) and work-related values supportive of self-sufficiency and enterprise (Hofstede (39)). Although these theories and in particular, work-related value systems provide useful reference points to explain ethnic business development amongst Jewish and Korean immigrants in the United States, a common objection to these analyses is that they do not take into account the economic environment in which the immigrant entrepreneur have operated in. According to studies by Aldrich et al (40) and Waldinger (41), the conditions conducive to the growth and prosperity of ethnic enterprises include:

(i) Niche markets in which small firms are viable. The niche markets may be those created by ethnic populations or markets not catered for indigenous business communities.

(ii) Access to ownership opportunities. These may be in terms of legal requirements/regulations, barriers to entry and/or vacancies that arise in the existing small business population (Aldrich and Reiss (42)).

(iii) The financial and human resources needed to exploit opportunities identified in the various market niches.

4.2 The Distribution of Ethnic Businesses

A comparison of statistics on the distribution of ethnic businesses in early 1970's and 1980's provides a useful insight into the pattern of self employment amongst Asian and West Indian populations in the UK. These statistics also support some of the reasons discussed above for the growth of ethnic enterprises. Reeves and Ward (43) showed that between 1971 and 1978 the proportion of Afro-Caribbean, Indian and Pakistani/Bangladeshi householders who classified themselves as self employed increased by about 50%. Table 2.13 shows an estimate of the size of the West Indian and South Asian business population based on a national survey carried out by Brown (44) in 1984. This shows the proportion of South Asian men in business (18%) to be 4% higher than for the white population and 11% higher than those of Caribbean origin. These statistics were similar to the patterns of enterprise participation amongst blacks and Asians in the United States. Studies by Light (45) and Fratoe and Meeks (46) have shown that the rates of business activity among Asian minorities were consistently higher than blacks or Hispanic populations.

In 1985, the Wilson and Stanworth (47) study in Brent showed that whilst the rate of participation in business by Asian minorities was continuing to increase, there were signs of contraction in the number of Afro-Caribbean firms. A more recent survey by the department of Employment (1991 (48)) confirms Brown's findings on Asian and Afro-Caribbean participation in small business, but suggests that Asians are almost twice as likely as indigenous whites to be self employed (Table 2. 14). The most reliable figures for business participation rates among ethnic minorities in the UK are those contained in the Employment Gazette for March 1988, based on a re-analysis of statistics from the Labour Force Survey for 1984 - 1986. Ward (1991 (49)) derived the

TABLE 2.13: ETHNIC BUSINESS POPULATION IN THE UNITED KINGDOM

	(a) White	(b) West Indian	(c) South Asian (Indian/ Pakistani/ Bangladeshi	(d) (b) + (c)
Households by ethnicity of head of household (England)(1977/8)[1]	16,240,000	152,000	186,000	338,000
Male self-employed as a percentage of all in work (1982)[2]	14%	7%	18%	
Estimated number of business (1982)	2,273,600	10,640	33,480	44,120
Estimated number of business (1986)[3]		(c.12,000)	c.45,000)	(c.57,000)

Notes: 1. Source: National Dwelling and Housing Survey (1979)
2. Source: Brown (1984)
3. Allowing for (i) increase in households since 1978
(ii) increase in percentage of self-employed since 1982
(iii) number of ethnic minority-owned businesses in Scotland and Wales

figures contained in Table 2.15 from this source to show that 11 per cent of the whole population of working age in employment happens to be self employed. The same figure was found for the white population in the category. By 1986 however, the proportion of the Indian population in self employment was up to 19 per cent, and that for those from Pakistan and Bangladesh had increased to 23 per cent. These figures confirm the previous findings that Asian working population in self employment was about twice that for the white population whilst only 5 per cent of those of Afro-Caribbean origins were self employed.

TABLE 2.14 SELF EMPLOYMENT BY ETHNIC ORIGIN (1987-89) SPRING AVERAGES

	(I) Per cent of economically active	(II) (I) as percentage of white self-employment
Indian	21	175
Pakistani/ Bangladeshi	22	183
West Indian/ Guyanese	7	58
White	12	100
All origins	12	100

Source: Employment Gazette, February 1991.

Table 2.15 **Ethnic Minorities: Business Participation Rates**

	Population of working age in employment					
	All	White	Afro-Caribbean	Indian	Pakistani/Bangladeshi	Other Ethnic Minorities
UK						
In Employment (000)	22,710	21,887	227	286	93	217
% Self Employed (Column)	11	11	5	19	23	13
Self Employed	2,522,860	2,407,570	11,350	54,340	21,390	28,210
% Self Employed (Row)	100.0	95.4	0.4	2.2	0.8	1.1
Greater London						
In Employment (000)	4,362	3,805	175	149	36	132
Self Employed	481,051	418,550	8,750	28,310	8,280	17,160
% Self Employed (Row)	100.0	87.0	1.8	5.9	1.7	3.6
West Midlands Metropolitan County						
In Employment (000)	2,490	2,322	39	55	22	(10)
Self Employed	274,180	255,420	1,950	10,450	5,060	1,300
% Self Employed (Row)	100.0	93.2	0.7	3.8	1.8	0.5

Source: Figures derived from Department of Employment (1988: 167)

A profile of ethnic firms by industrial sectors would provide a better understanding of the concentration of business activity and lead to further analysis of reasons why they are attracted to certain trades. But because there has not been any recording of ethnicity of business proprietors and a lack of directories dedicated to ethnic business in the UK it is not possible to construct such a profile. In 1984, Brown (44) conducted a national survey that classified minority businesses by industrial sectors. Table 2.16 summarised the main finding of this survey. Although the survey was based on a small sample of businesses, it however, showed the expected concentration of Asian businesses in distribution and catering industries. Afro-Caribbean business, by contrast were more concentrated in construction.

For the purpose of this thesis, it was desirable to attempt to construct an indicative profile of ethnic businesses in the West Midlands. In 1985/6 the only list of businesses by ethnicity and industry was compiled by Birmingham City Council in the form of Director of Ethnic Minority Businesses (50). Although Wolverhampton and Coventry Councils were in the process of compiling such directories, there was little information available to construct a meaningful profile for the County. An attempt to use Dun and Bradstreet listings of small businesses in the West Midlands was abandoned because of the difficulty in separating ethnic enterprises on the basis of the name of the business. As a large proportion of non-restaurant and retailing Asian businesses use universal names, local business and telephone directories were also of little use.

TABLE 2.16: DISTRIBUTION OF SELF-EMPLOYED BY INDUSTRIAL SECTOR IN THE UNITED KINGDOM

Industry group	White % (n:120)	West Indian % (n:38)	Asian % (n:265)
Agriculture	4	-	-
Manufacturing	14	(18)	10
Construction	28	(47)	2
Distribution, catering	26	(21)	67
Hotels, repairs	26	(14)	21

Source: Brown (1984, p 210)

Table 2.17 confirms Brown's (44) findings on concentration of ethnic enterprise in retailing (total of over 42%). The statistics also reveal that there was a trend towards manufacturing (14.4%) and professional services. The breakdown of data by numbers employed by sizebands reflect the national profile of small firms with 52% of manufacturing employing up to 25 employees whereas in retailing 75% employed up to 5 people.

In order to use this data to facilitate the research design a further analysis of business activity was carried out by examining the main categories of manufacturing businesses listed in this directory. Table 2.18 shows that in the main, ethnic manufacturing in Birmingham is concentrated in clothing and textiles and jewellery industries. An analysis by ethnicity of the proprietors indicated that almost all the manufacturing businesses were Asian owned. There was little evidence of Afro-Caribbeans moving into these industries. Afro-Caribbean businesses are concentrated in the provision of services such as car repairs, hairdressing, construction, bakeries and catering. In 1985/6 Asians had started to move into engineering and metal based industries. More recent scanning of business directors indicate their emergence in such activity as plastic moulding, double glazing manufacturing, precision engineering, tool making and shoe manufacture.

Ward (1991 (49)) has recently predicted that ethnic business will continue to make an important and growing contribution to the UK small firms sector especially in large urban industrial centres like London and Birmingham. The pattern of participation and type of businesses that will attract ethnic minorities is however likely to change in the 1990s and the following decade. The children of the entrepreneurs will acquire school and higher educational qualifications that will equip them enter professional and managerial jobs. But the presence of racial discrimination and high rates of unemployment may continue to constrain job opportunities and encourage these people to enter self employment. This together with the growth of knowledge based firms, the ethnic minority entrepreneurs are likely to enter the service and franchise sectors as opposed to the manufacturing, retailing and catering industries.

An assessment of available data, business and telephone directories in 1986 indicated that the pattern of ethnic businesses in Coventry, Wolverhampton, Sandwell and Dudley was similar to that found in Birmingham. These parts of the County also saw the gradual rise in number of Asian businesses moving into clothing, construction, wholesale distribution and light engineering. The existence of the jewellery quarter in Birmingham does not however mean that there are fewer Asian jewellery manufacturing units in other parts of the West Midlands. The concentration of jewellery businesses are more likely to be directly proportionate to the size of Asian communities in these locations because of the dependency of this sector to serve the ethnic markets. The profiles of ethnic businesses in Birmingham can be applied in formulating the research design and determining the types of Asian firms in the West Midlands to be included in the sample for qualitative investigation reported in Part Two of this thesis.

TABLE 2.17: PROFILE OF ETHNIC BUSINESSES BY EMPLOYMENT SIZEBANDS AND INDUSTRY IN 1985

	Overall Total		1-5 emp. Range		6-10 emp Range		11-25 emp Range		26-50 emp Range		51-100 emp. Range		100+ Range		Unknown	
Manuf.	227	14.4%	58	25.5%	35	15.4%	26	11.4%	8	3.5%	2	0.8%	1	0.4%	97	42.0%
Who'sle	61	3.8%	23	37.7%	8	13.1%	4	6.5%	2	3.2%	3	4.9%	0	-	21	34.4%
Retail (Food)	292	18.5%	213	72.9%	12	4.1%	1	0.3%	2	0.6%	0	-	0	-	84	21.9%
Retail (non-food)	377	23.9%	264	70.0%	8	2.1%	2	0.5%	7	1.8%	0	-	0	-	96	25.0%
Rest't	219	13.8%	93	42.4%	16	7.3%	2	0.9%	0	-	0	-	0	-	108	49.0%
Prof.	252	15.9%	75	29.7%	7	2.7%	6	2.3%	1	0.4%	0	-	0	-	163	64.6%
Other	148	9.4%	107	72.2%	8	5.4%	5	3.3%	0	-	0	-	0	-	28	18.9%
Totals	1576	100%	833	52.8%	94	5.9%	46	2.9%	20	1.2%	5	0.3%	1	0.06%	577	36.6%

TOTAL NUMBER OF BUSINESSES ANALYSED = 1576

Source: Directory of Ethnic Minority Business - Birmingham City Council, Economic Development Unit

TABLE 2.18: PROFILE OF ETHNIC MANUFACTURING BUSINESSES IN BIRMINGHAM 1985

Industry	No.	Percentage
Textile and Clothing	186	81.9
Shoes	1	0.4
Jewellery	21	9.3
Food Processing	4	1.8
Metal based	6	2.7
Furniture	2	0.8
Paper and Packaging and Printing	4	1.8
Toys	1	0.4
Others	2	0.9
Total	**227**	**100**

Source: Extracted from the Directory of Ethnic Minority Business, Birmingham City Council

5. Conclusions

This Chapter has examined the published sources of information on small firms available in the mid and late 1980's to adopt a workable definition of small firms, their role in the economy and the development of ethnic small business in Britain. A review of published research showed little real advance has been made in defining the small firm since the Bolton Reports (1) recommendations. The Bolton Report's definition has therefore, been refined slightly to take into consideration the effects of inflation over the years on the recommended quantifiable parameters used in defining small firms. The qualitative characteristics used in the Bolton Report are still valid and provide a useful yardstick in assessing the inclusion of firms in the various industries and those utilising new technologies into the small firms category.

In terms of the role and importance of the small firms in the economy, the statistical data confirm the conclusion that although the small firm sector in Britain had suffered a long term decline, there has been a relatively big upturn in the levels of small enterprise over the last fifteen years. The data on the less conventional forms of enterprise such as franchising and co-operatives strengthen this conclusion.

The role of small firms can be highlighted by their contribution to the national and local economy. Small firms are often the most efficient form of business organisation in industries where the optimum size of the production or sales outlet is small. The major contribution of small firms is in helping large firms to achieve economies of scale. They do this by acting as specialist suppliers to larger businesses of sub-assemblies or components, produced at lower cost than can be achieved by larger companies. The opportunities created by large firms' needs for sub-contract work act as a catalyst, or is a facilitating force in encouraging the birth of new smaller firms. Small firms add to the variety of products and services offered to consumers because they can survive by catering to the needs of specialised or niche markets. Although small firms make lower investments in research and development, they are an important source of innovation in products, techniques and services.

For the purposes of this research an investigation on the profile of small firms in the UK, based on distribution by sales turnover, business starts and stops, and by employment size bands provide a useful reference point for examining small firms in the West Midlands. In 1985, the distribution of firms by turnover suggested that 83% of total stock of business were made up of firms with sales turnover of up to £250,000 and another 12% with turnover of between £250,000 and £1m. More importantly, these statistics indicated that the decline of Britain manufacturing base is evident by the fact that only 10.6% of the total stock of business are involved in manufacturing, compared with 65% in service industries. These statistics are confirmed by data on starts, stops and stock of UK business which indicate that 9.4% of firms are involved in production. The statistics on employment by size of firms confirms to a large degree the

Birch (7), and Storey and Johnson (15) studies that, like in the United States, the largest proportion of new jobs created in the economy come from small firms employing less than 100 employees and that nearly a third of those are generated by firms employing less than 20 employees.

The profile of the West Midlands small firms sector, extracted from statistics on business starts and stops, and from regional data on employment by sizeband indicate that the County is dominated by metal manufacturing and mechanical engineering industries. Again the concentration of small firms is in the size band of up to 20 employees. The other main areas of activity includes paper, printing and publishing, timber and wooden furniture manufacture; and electrical and electronic engineering.

Although this research focuses on South Asian small businesses in the West Midlands, most published data deals with ethnic business development in Britain and include Afro-Caribbean, Cypriot and Chinese enterprises. A number of theories have been developed to explain the relatively higher proportion of ethnic minorities participating in enterprise than in other Western European countries. First, the economic opportunity model suggests that essentially there is no difference between ethnic minority and other capitalised entrepreneurial activity. Ethnic minority group members simply take advantage of a niche market created by the ethnic community or cater for the needs of other specialised market in which they have some expertise or advantage. Secondly, the culture model assumes that some groups have a developing cultural predisposition towards business activities and one motivated towards achieving self employment. The third model sees entry into small scale enterprise as a survival strategy in a racist society. This strategy becomes more marked during periods of economic decline when available employment opportunities, even at the lowest level become competitive and more likely to be filled by indigenous unemployed.

A crude analysis (due to lack of published data) of ethnic businesses in the West Midlands indicate that they are concentrated in retailing, wholesale, catering and other service industries. There is however, a trend for Asian businesses in particular, to move into the manufacturing sector. According to statistics on ethnic small businesses in Birmingham, there are about 14% ethnic businesses involved in manufacturing. Of these the largest proportion are in clothing and textile and jewellery manufacture, with small numbers moving into light engineering, shoes and furniture.

PART ONE

INTRODUCTION AND LITERATURE REVIEW

CHAPTER THREE

MODELS OF GROWTH AND THE EVOLUTION OF MARKETING IN SMALL FIRMS

CHAPTER THREE

MODELS OF GROWTH AND EVOLUTION OF MARKETING IN SMALL FIRMS

INTRODUCTION

In the period 1985-7, there was a considerable body of literature embracing very different approaches to understanding the business growth process. These approaches can be grouped into four main categories, namely those relating to the entrepreneurial personality and owner managers' personal goals and visions, business management approaches, sectoral and broader market-led approaches and organisational development approaches. The dominant theme in the literature on organisational development approaches is that of the 'stages' model of growth. In this model, the small firm growth is not conceptualised as a continuous process, but one where the firm passes through a sequence of discreet stages. The research studies also suggest that firms face particular problems at different stages that act as barriers to progression through to the proceeding stages.

The problems faced by new and established small firms have received considerable research interest and there are regular publications (1, 2, 3) that report on the current issues and practices in the management of these firms. The problems and barriers to growth centre around the firm's inabilities to cope with changes in the external environment (for example, interest rates, taxation and supply of skilled labour), raise finance and effectively manage the business functions (such as marketing, human resources, production and finance). The stages and the concept of business life cycle can also be used to assess how and when some or all formal management techniques such as strategic planning, marketing, organisation structure, systems and communications evolve in small firms.

This chapter is divided into three main sections. Section one is given to the explanation of the 'stages' models of small business development. It traces the history of these models and focuses on the reasons why the Churchill and Lewis model was used to provide a framework for this present research study. Section two highlights some of the main problems and barriers to growth facing firms. It provides evidence that suggests that low turnover, lack of customers and application of marketing are amongst the key problems facing new and established businesses. Section three reviews the literature on marketing in small firms and briefly outlines the models developed to explain the evolution of marketing in small firms.

The literature on evolution of marketing in small firms in 1985-87 suggested that there was considerable scope for further research into how and when small firms applied the various tools and techniques of marketing. The models of evolution of marketing also indicated that much needed to be tested on the linking of marketing application to the stages of business development.

1 STAGES OF SMALL BUSINESS DEVELOPMENT: REVIEW OF CURRENT THEORIES AND MODELS

The development of the 'Stages' model has its base in the early 1930s with the works of industrial economists such as Schumpeter (4), Urwick (5) and Penrose (6), who, in the main, were interested in the large and medium sized business. The 1960s saw the emergence of research into the problems and barriers to growth of the smaller firms.

Examples of this early work include Thompson and Mills (7), Lupton (8) and Matthews and Mayers (9) on development of new small firms. These researchers had started to write about the links between the business life cycles and characteristics and management decision making at the various stages of business development. Rostow (10) in 1960, for example, published the work on stages of economic growth on which much of the later work on stages of small firms has been based. It was, however, in the United States that much of the work on business development models was carried out.

A review of literature on the stages models reveals that four models were developed in the 1960s and early '70s that attempted to provide a framework for understanding the development and growth of small firms. The main stages, management and organisational characteristics advocated by these early models are summarised in Table 3.1. The number of stages postulated varies from three or four (Steinmetz 1969 (11), Velu 1980 (12)) to five (Greiner 1972 (13)) or as many as ten (Deeks 1976 (14)).

Table 3.1 Review of Business Development Models of the 1960s and early 1970s

Researcher(s) Authors	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Joseph McGuire (see Ref. 12)	Traditional small company	Planning for growth	Take-off or departure from existing conditions	Drive to professional management	Mass production marked by a diffusion of objectives & an interest in the welfare of society
Lawrence Steimetz	Direct supervision. The simplest stage, at the end of which owner must become a manager by learning to delegate to others	Supervised supervision. To move on, managers must devote attention to growth and expansion, manage increased overheads and complex finances and learn to administer	Indirect control Grow and survive by delegating tasks to key managers. Deal with diminishing rate of return	Divisional organisation. The company has 'arrived' and has resources and organisational structure to enable it to remain viable	
Roland Christensen and Bruce Scott	One-unit management with no specialised organisational parts	One-unit management with functional parts such as marketing and finance	Multiple operating units, such as divisions, that act in their own behalf in the market place		
Larry Greiner	Growth through creativity. Crisis of leadership	Growth through direction. Crisis of autonomy	Growth through delegation. Crisis of control	Growth through Co-ordination crisis of red tape	Growth through collaboration crisis?

The first stage of these models typically stresses the individual founder or partnership setting up in business with a simple organisation and a management style characterised by direct supervision and minimal formal planning. The next stage is attained when the business demonstrates a capacity to survive and is associated with the emergence of a small customer base, division of managerial tasks and need to raise capital to finance growth. At this stage formal planning tends to be rudimentary and the management style is that of personal supervision.

The subsequent stages tend to focus initially upon the critical decision of whether to expand or keep the firm stable and profitable. Organisationally, the firm becomes bureaucratic, recruits functional managers and basic marketing, financial and production systems begin to be installed and used. The main problems at the latter stages centre around the issues of how to grow rapidly and how to finance that growth; whether the owner can delegate responsibility to others to improve managerial performance and whether the owner can develop the managerial skills necessary for long term success.

In proposing an alternative framework of organisational development, Greiner (1972 (13)) suggested that there are five phases of growth, namely creativity, direction, delegation, coordination and collaboration. Each phase is distinguished by an evolution from the prior phase and then a revolution, which causes the firm to move into the next phase. Each evolutionary phase is characterised by a particular management style and each revolutionary period is marked by management crisis. Velu (1980 (12)) modified this model by reducing the five stages to the following three:

i The Pioneer Stage - Here the founder tends to be autocratic, internal communications are easy and activities are developed towards profitable sales.

ii The Differentiated Stage - This begins with the introduction of a scientific and professional approach to business management, planning and systems are introduced and the organisation expands to contain separate departments and functions.

iii The Integrated Stage - Where the management concern is to maintain a growth rate through introduction of a succession of new products.

The early models and stage theories of growth have been criticised on several counts. Firstly there is little discussion or explanation on whether the sequence of growth stages is necessary for progression, or whether under certain conditions one or more stages may be missed out or variations in the sequence occur.

Stanworth and Curran (1976 (15)) have argued that the absence of such qualifications stem from a lack of empirical underpinning of these models. In their evaluation, many of these models have been based on small samples of firms and mainly on studying them at single points in time. The absence of longitudinal research strategies and sufficient linking with data from other studies tend to render these models as little more than heuristic classification schemes rather than conceptualisation of the processes underlying growth.

Secondly, the models assume that a small firm will either grow and pass through all stages or fail in the attempts. Stanworth and Curran (1976) have maintained that the growth or fail hypothesis, implicit in most stages models, is unsatisfactory, and have argued that an adequate theory of small firm growth should be able to account both for the rarity of the process and for the tendency for most firms, once they have survived infancy, to plateau and remain essentially the same for many years. O'Farrell and Hitchens (1986 (16)) argue that there are important differences between characteristics of founders who strive for and achieve growth and those who are content to let their firms remain the same, and have suggested that there are three types of firms: (a) fast growers, (b) satisfiers, who constitute the majority, and (c) those which attempt fast growth but fail to achieve it.

The third main criticism (Churchill and Lewis 1983 (17)) of these models is that they fail to capture the important early stages in the origin and growth of a company. Instead, these models tend to focus upon the growth of a firm from a small unit to a large corporation and as such they do not attempt a detailed understanding of the process of change and growth of the small, independently owned firm itself (Gibb and Scott, 1985 (18)).

Fourthly, these models define company size typically in terms of annual sales or number of employees and ignore factors such as value added, complexity of product lines and the rate of change in products and production technology.

Finally, the body of literature tends to be discursive and based on wisdom - the models tend to reflect the symptoms of growth rather than the process underlying the phenomenon. Stanworth and Curran (1976) criticised these models for being based on theoretical perspective that is highly 'positivist'. They maintain that the object of theory construction is the *generation of law-like propositions that* can be used to predict the behaviour of small firms. However, these models seldom, if ever, attain the level of precision required for development of law-like propositions.

In 1976 Stanworth and Curran offered an alternative view of small business development and growth. They focused on the motivations and objectives of the owner as a major influence on management and subsequent growth of the firm. The authors maintained that the key to growth lies in the meaning attached to participation in the firm by actors involved, a social action perspective links the meanings and actions of participants in the small firm with their wider social environment. Using their own and others' previous research and a longitudinal research strategy, they developed a concept of 'latent social identity' to categorise the changing role of the entrepreneur. Three latent identities emerged from this research, namely the artisan (or the worker), the classical entrepreneur and the manager. The artisan entrepreneur's role centres around the intrinsic or personal satisfaction, whereas the classical entrepreneur is defined as a person who is much more concerned with profit maximisation rather than intrinsic satisfaction. As financial returns are maximised through growth, a new identity, that of a manager, emerges as the entrepreneur takes action to ensure the continued success of the firm. The new identity incorporates delegation of managerial functions and development of a more formal organisational structure. The findings of this research revealed that owner managers' personal characteristics are the most important factor in determining managerial strategies.

In this and later research (Scase and Goffee 1980 (19), 1982 (20) and Goffee and Scase 1985 (21)) the small business owner manager is seen to place great value on independence and autonomy. As a result, owners show a marked reluctance to delegate management tasks and authority and set up well defined role structures. From their viewpoint, reluctance to grow is perceived as much more to do with the consequence of growth; to embark on a high risk growth strategy might well threaten independence. While stage models offer an idealised view of growth, the social action perspective identified by Stanworth and Curran offers one reason why growth is, on the whole, much less common than this prevalent ideology might indicate.

Although Stanworth and Curran are careful in not offering their alternative 'view' as any developed theory of the small firm, their insight has been regarded as essential because it brings in self actualisation as a driving force behind observable developments in small firms. The only recent criticism that has been levelled (Clifford et al 1991 (22)) at their view is that the authors go too far in seeking to undermine the 'stages' model of growth (Stanworth and Curran 1976, pp 97-100) when their alternative may also operate in much the same manner. Clifford et al suggest that this is because with their view, size can alter the social context of small firms and so allow changes in latent social identity which in turn may call for further growth and/or greater formalisation of the management structure. Clifford et al have stressed that they have long since seen the importance of Stanworth and Curran's paper as "... one which contributed rather than challenged the stages of development approach".

Clifford et al have used Stanworth and Curran's concept of latent social identities to put forward a small business development framework that is based on size (as measured by number employed), structure and self. This framework suggests that the entrepreneur's role changes from owner-operator (artisan) when the firm employs between 8 and 10 people to owner-manager (classical entrepreneur) when the firm employs between 40 and 50 people to owner-director (manager) when specialised functional managers are in place and the firm employs more than 50 people. Clifford et al have suggested that their framework, like Stanworth and Curran's view, hover uneasily around the 'stages' model of small business development.

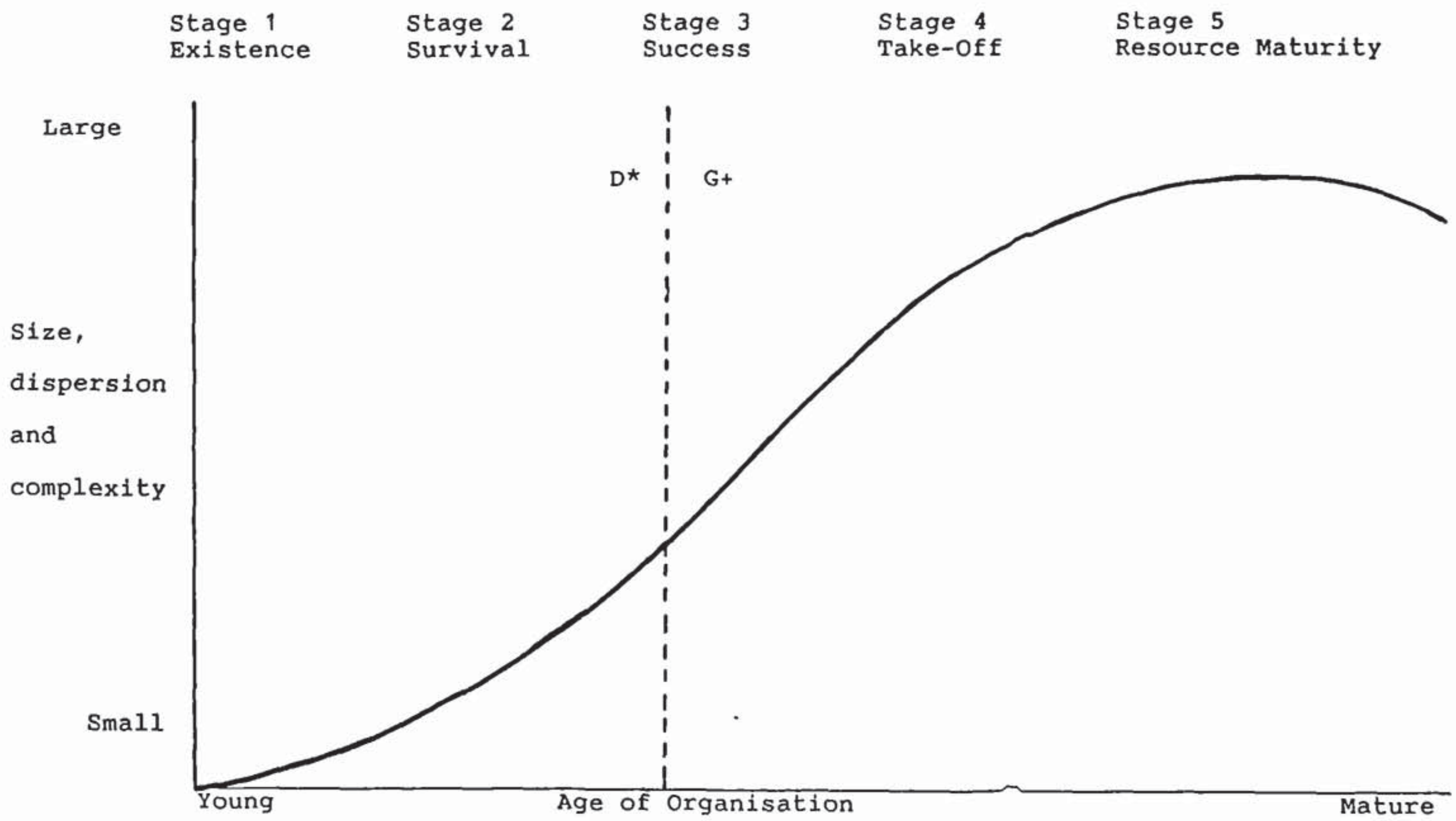
A study in 1983 by Churchill and Lewis (17) attempted to remedy some of the criticism of the earlier 'stages' models. They developed the work of Steimetz (11) and Greiner (13) and based their findings on responses from 83 owner managers of successful small businesses. The framework that evolved from this work suggested that there are five stages of small firm development. Each stage is characterised by an index of size, diversity and complexity. The model also identified the changes in the management style, organisation structure, extent of formal systems, major strategic goals and owner's involvement in the business that occur over the five stages of development. The main characteristics of the five stages are summarised in Table 3.2 and the S-curve that emerges over the life of the business is shown in Figure 3.1. The study also identified eight factors which change in importance as the business grows and develops, and that are prominent in determining the firm's ultimate success or failure. Four of these factors are related to the business and four to the owner. These factors are summarised in Table 3.3.

Although this study developed some aspects of the theory in more detail, the model has been criticised for not overcoming many of the central weaknesses inherent in the earlier stages model and, perhaps more significantly, because of the research methodology employed. The respondents in the research were asked to recall the stages their companies had passed through after reading Greiner's article on stages model of growth. Curran (1984, (23)) has maintained that to the normal methodological problems associated with respondents' recall of previous events was

TABLE 3.2: CHARACTERISTICS OF SMALL BUSINESSES AT EACH STAGE OF DEVELOPMENT (CHURCHILL AND LEWIS MODEL)

	Stage 1	Stage 2	Stage 3 - D	Stage 3 - G	Stage 4	Stage 5
Characteristics	Existence	Survival	Success - Disengagement	Success Growth	Take-off	Resource Maturity
Key Problems	Securing customer base and delivery of the required product or service. Business folds due to lack of business and capital.	Cash flow Inadequate customer base to generate revenue	Decision to expand or remain stable to enable owner to disengage. Has a customer base, serves a niche market	Consolidation of resources for growth. Risk in financing growth.	How to grow rapidly and how to finance that growth	control of business and finance
Management Style	Direct supervision and owner does most tasks, and makes all decisions.	Supervised Supervision owner still makes key decisions.	Functional. Managers brought in at middle management level.	Functional. Owner taking key decisions and risks but delegating tasks to functional managers.	Divisional Development	Line and Staff
Organisation	Simple. Owner provides direction. Use of family and friends as subordinates.	Few employees from outside family. May employ a manager or supervisor.	Owner delegates to functional managers, such as finance, marketing and production.	Employ middle managers to functional positions	Decentralised and divisionalised (sales and production) Delegation and managerial competence are key requirements.	Functions have departments with managers and supervisors.
Extent of formal systems and planning.	Minimal to non existent. Little or no business planning.	Minimal some cash forecasting. of budgets emerge.	Basic system develop planning in form of of operational plans	Developing systems Operational plans and extensive strategic planning involving the owner.	Systems more refined and maturing. Operational and strategic planning done by divisional managers. Stock control becomes crucial.	Extensive and well developed.
Major Strategy	Existence	Survival	Maintain profitable status quo	Secure and manage resources for growth.	Growth	Maximise return on investment.
The importance of the owner in relation to the business.	The owner is the business	Owner is still synonymous with the business.	The owner is equally important but moves apart to engage in other activity.	The business becomes more important and owner still deeply involved.	The owner is reasonably separate but influence is dominant.	The owner is separate from business - financially and operationally.

FIGURE 3.1: GROWTH STAGES OF THE CHURCHILL AND LEWIS MODEL OF SMALL BUSINESS GROWTH



*D = Stage 3 disengage

TABLE 3.3: KEY MANAGEMENT FACTORS RELATING TO THE FIRM AND OWNER THAT DETERMINE SUCCESS OR FAILURE OF SMALL BUSINESS DEVELOPMENT

FACTORS RELATING TO THE FIRM	FACTORS RELATING TO THE OWNER
1. Financial resources, including cash and borrowing power.	1. Owner's personal goals and goals for the business.
2. Human resources, in term of numbers, depth, quality, competences and skills, in particular at management and supervisory levels.	2. Owner's operational abilities in carrying out important tasks such as marketing, inventing, producing and managing distribution.
3. Systems resources - information, planning and control.	3. Owner's managerial ability and willingness to delegate responsibility and to manage the activities of others.
4. Business Resources, including - customer relations - market share - supplier relation - manufacturing and distribution processes - technology - reputation	4. Owner's strategic abilities and vision for future and matching company strengths and weaknesses to his/her personal goals.

the added problem of 'leading' respondents' answers by asking them to read the article.

The Churchill and Lewis model has been criticised on several other counts. Firstly, the model attempted to cover a very broad range of firms in the economy by basing the findings on a small, unrepresentative sample of firms studied at a single point in time. Secondly, Curran (1984) has maintained that as a social phenomenon, the owner-managed enterprise simply does not function in the linear, casually linked pattern required by such a theory. Thirdly, the model is described on only one time scale, from young to mature, with stages in terms of size and maturity at intervals along the life-cycle. Hall (1991 (24)) agrees that some small firms with adequate funding and a professional management team, whilst still being very young, can reach the same life-cycle stage and be much larger than a small business that has been growing slowly for some time and is now mature but still relatively small. Scott (1991 (25)) has attempted to show this to be the case with a growth trajectories model. Fourthly, as with earlier models, the Churchill and Lewis approach does not allow a business to skip stages, which may happen in a fast growth, fast death situation. Fifthly, the growth, non-growth dichotomy is explicit in this model. Hall (24) has suggested that as a business can stop growing at any stage, there should perhaps be a non-growth stage for every growth stage. The sixth criticism of this model is that it uses size of the firm as one of the independent variables and, therefore, the stages of development have to be interpreted by reference to the definition of small firm employed. The problem of definition gives rise to the criticism that although the model is concerned with small business, only the first three stages may be relevant as the last two stages may be related more to medium sized businesses.

Finally, this model implies that there is only one business per owner. Storey et al (1987 (26)) and Scott (1990 (25)) have shown that this is not typical for several types of business.

Scott and Bruce (1987 (27)) developed the Churchill and Lewis model and put forward an alternative (but very similar) five stages of growth in small business model. The criticisms levelled at earlier Churchill and Lewis models are also applicable to this latest contribution.

In 1986 Stevenson and Jarillo-Mossi (28) offered yet another alternative view to growth which recognised that there may be some scope for the preservation of 'entrepreneurship'. They have argued that "the strict functional format of organisations has become an anachronism in the modern corporation" and should not be regarded as a necessary model for the growing firm. Nonetheless, in a review of literature on small business growth, Gibbs and Davis (1990 (29)) perhaps offer the most profound criticism of stage theory. The authors argue that "the reductionist and somewhat normative theories of stages of growth can largely be credited with characterising various types of company, without throwing substantial light on what are the growth 'triggers'. Indeed, it can be argued that they obscure real issues in terms of preserving the role of entrepreneurship as the business grows and they underpin the metaphor of the business becoming both more 'professional' and the leadership style necessarily changing substantially from entrepreneur to manager with the company becoming more functionally managed."

Although mindful of the criticisms and weaknesses of the stages model, it was decided to base this present research on the work of Churchill and Lewis for a number of related reasons. Firstly, it was felt (in 1986) that this present research offered an opportunity to test the model on a comparable number (66) of small firms. It was felt that in the absence of any attempt at replicating the original research, some of the criticisms may have been too strong and without much foundation. Secondly, the research project offered the opportunity to apply the model in identifying stages reached by a sample of firms by testing the fit between the measurement criteria and the researcher's assessment of the firms' development. The research methodology also removed the major weakness of the original method - that of asking firms to assess their own stages of development. Thirdly, the model provided a framework and a set of measurement criteria that could be used to group the sample of firms by stages of their development. It was felt that such a grouping would aid the researcher to gather data to support the tentative hypothesis developed for studying the application of marketing in the firms sampled. Fourthly, the stages model was used because it related well with the models of evolution of marketing in small firms that were found in the literature search in the period 1985/86. These models were essentially based on stages and life-cycle models of small business development.

The eight factors identified by Churchill and Lewis (Table 3.3) can be seen in conjunction with the qualitative attributes used to describe small firms to provide an insight into the problems and barriers to the development of such businesses. The qualitative attributes put forward by the Bolton Report (30) and Schollhammer and Keirilof (31) to describe small firms have much in common and are contained in Table 3.4, together with the main small business management problems identified by the Bolton Report in 1970. Fifteen years later, a review of post-Bolton small business research (Curran (32)) concluded that, despite a significant increase in knowledge about the sector, the broad problem areas remained much the same. Indeed, 'marketing, selling, finding customers' is the main management function usually identified by owners and managers themselves as their single most important small business problem (Gray and Stanworth, 1985 (33)). The Confederation of British Industry (CBI) Survey on the management training needs amongst its members from small firms revealed that there were some differences in response from small firms of different sizes (see Table 3.5). Nearly two thirds of firms employing between 1 to 20 people recognised a need for training in finance, followed closely by marketing, and (a large 42%) in people skills. The owner-managers of firms with more than 20 employees were also interested, albeit to a lesser extent, in further developing their financial skills, but presumably having introduced some form of delegation of personnel control, were much less interested in managing people than in marketing and production issues.

TABLE 3.4: QUALITATIVE ATTRIBUTES OF SMALL FIRMS AND IDENTIFICATION OF MAIN PROBLEMS IN THEIR DEVELOPMENT

Bolton Report's Qualitative Attributes (UK 1970)		Bolton Report's Identification of Problem Areas		Schollhammer and Kurilof's Qualitative Attributes (USA 1979)	
(i)	A small firms is one which has a relatively small share of its market. It is also unable to significantly influence prices in the market through its own actions.	(i)	Raising and using finance	(i)	Scope of operations - small firms serve predominantly a local or regional market rather than a national or international market.
		(ii)	Costing and Control Information		
		(iii)	Organisation and delegation.		
		(iv)	Marketing		
		(v)	Information use and retrieval.	(ii)	Scale of operations - small firms tend to have a very limited share of a given market; they are relatively small in a given industry.
(ii)	A small firm is managed by its owners or part-owners in a personalised way by actively participating in all aspects of decision-making and management of the business.	(vi)	Personnel Management		
		(vii)	Technological Change		
		(viii)	Production Scheduling and purchase control.		
				(iii)	Ownership - The equity of small firms is generally owned by a one person or, at most, a very few people. They are managed directly by their owner or owners.
				(iv)	Independence - small firms are independent in a sense that they are not part of a complex enterprise system such as a small decision of a larger enterprise. The owners have effective control and authority over the business.
				(v)	Management style - small firms are generally managed in a personalised fashion and take all major decisions

TABLE 3.5: TRAINING NEEDS OF CBI SMALLER FIRMS 1986

Training Area		All	1-20	21-50
		(percentages)		
i)	Planning and raising finance/ Project Appraisal	46	62	44
ii)	Marketing/Selling/Exporting	36	58	27
iii)	Personnel Management/ Industrial Relations	27	42	12
iv)	Production/Operations	22	15	24
v)	Commercial or Contract Law	21	-	-
vi)	Cost/Management Accounting	20	-	-
vii)	Computer/Information Technology	7	-	-

NB - Total exceeds 100 due to multiple responses.

Source: Confederation of British Industry
Management Training for Small Business,
CBI, London, 1986

An assessment of continuous feedback from owners and managers of small firms on the most important problems facing them reveals interest rates and tax burden to be of uppermost concern. Low turnover, or lack of business is also consistently ranked the third most important issue facing smaller firms. Table 3.6 summarises analysis of owner-manager responses to the NatWest Quarterly Survey of Small Business in Britain (1) over a three year period to 1986 on their opinions of the most important problems they face in running their businesses. These and other statistics on problems and barriers to growth of small firms clearly indicate that a very large proportion of owners and managers tend to blame external, uncontrollable factor such as interest rates and tax burden on the failure of their business to prosper and grow. The ranking of low turnover or lack of business is also interpreted as something that is

TABLE 3.6 RANKING OF THE MOST IMPORTANT PROBLEMS EXPERIENCED BY SMALL FIRMS 1984-1986 (PERCENTAGE)

Problems	1984 and Ranking	1985 and Ranking	1986 and Ranking
Finance and Interest Rates	19 (1)	23 (1)	26 (1)
Tax Burden	16 (2)	16 (2)	19 (2)
Low Turnover or Lack of Business	15 (4)	15 (3)	15 (3)
Government Regulations	14 (4)	12 (4)	7 (6)
Competition from Big Business	12 (5)	12 (4)	11 (4)
Skill Shortages	5 (6)	6 (5)	9 (5)
High Pay	4 (7)	3 (6)	2 (7)
Inflation	3 (8)	3 (6)	1 (8)
Shortage of Supplies	1 (9)	2 (7)	1 (8)
Others	14 (10)	12 (8)	14 (9)
Total	100	100	100
Base (Number of Respondents)	4,079	3,915	3,324

beyond their control. As outlined in Chapter One, sales turnover has to be generated by identification and satisfying of customer needs. This exchange process is the essence of the marketing function, and it is one aspect of small firms management that is most often totally neglected, misinterpreted and confined to advertising and selling.

The lack of formal marketing in small firms has been explained mainly in terms of the managerial competences of their owners and managers. Research studies by Goffee and Scase (21), Hankinson (34), Gill (35) and Hodgetts (36) have shown that most small enterprise owners and managers do not have the managerial capabilities to cope with growth. There is also some statistical evidence (Dunn and Bradstreet's Business Failure Records (37) for example) to support the argument that the calibre and experience of managers are the most important input factor in determining business success. The owners' lack of managerial abilities manifest as barriers to growth, and in many instances to survival, in such areas as in strategic planning, securing resources for investment (both capital and equipment), using human resources, marketing and using outside specialists. The principal reason put forward for the weakness of management is the limited formal business education and training received by most owner-managers before and after the formulation of an enterprise (Curran and Stanworth (38)).

A recent study by ACOST (1990 (39)) on overcoming barriers to growth in small-technology firms has maintained that "... it is apparent that growth creates major management and organisational problems. The principal dimensions of this relate to the need to develop a balanced managerial team, which combines appropriate marketing, financial and technical skills; and the need to create an organisational structure which supports an appropriate delegation of decision making".

In addition to poor management of the business functions, the owner-managers face problems of personal management, use of time and with investigating and seeing through new projects that would help the business to operate more effectively. These characteristics of small firms' management, therefore, provide an insight into why owner-managers, even when they are trained and made aware of management and marketing techniques, fail to apply them in their business. The alternative to owner-managers applying management techniques is the use of outside specialists and experts. Broom, Longenecker and Moore (40) have observed that a general weakness in marketing by small firms is that they find it difficult to attract and afford qualified and experienced personnel. The use of management consultants and specialists is also often rejected on the grounds of cost and no immediate or short-term return on investment. Although the Government assistance in the form of subsidies for the use of consultants (for example, the DTI Enterprise Initiative Scheme) has done much to help small firms to make the most effective use of outside expertise, the effectiveness of such schemes is doubtful and they do not equip managers with skills to make them self sufficient in the future.

3 EVOLUTION OF MARKETING IN SMALL FIRMS

The stages of business development and the characteristics of small firms and their management provides a base for assessing how marketing evolves in business over a time period. In 1985/86, only two papers on the evolution of marketing in small firms could be traced that were relevant to this present study.

A study by Tyebjee, Bruno and McIntyre (44) suggested that the evolution of marketing in small firms, like growth of the firm, is also characterised by four distinct stages. They termed these stages as: entrepreneurial marketing, opportunistic marketing, responsive marketing and diversified marketing. The study concluded that it is not until stage three that owner-managers recognised the need for operating the business from the customer perspective and hence begin the process of applying formal marketing techniques and buying in expertise. Although some marketing, namely advertising and selling, is used during the preceding two stages, the focus is very much on the business and its products rather than on the customer. The study also found that owners and managers were too busy 'fire fighting' and coping with day to day survival of the business and had no time for planning and applying management or marketing tools to respond to the changing environment. The main criticism of this model is that it does not adequately define the term marketing that was used in the study, and it assumes that at stages three and four the firm will have functional and product managers to apply formal marketing techniques in the business.

A qualitative study by Carson (45) in Northern Ireland on the evolution of marketing in business is more relevant to this project. The Carson study, based on the business life cycle framework suggested a pattern of evolutionary process similar to Tyebjee et al, but with significant differences in the explanation of what happens over the various stages. The four stages emerging from this study are:

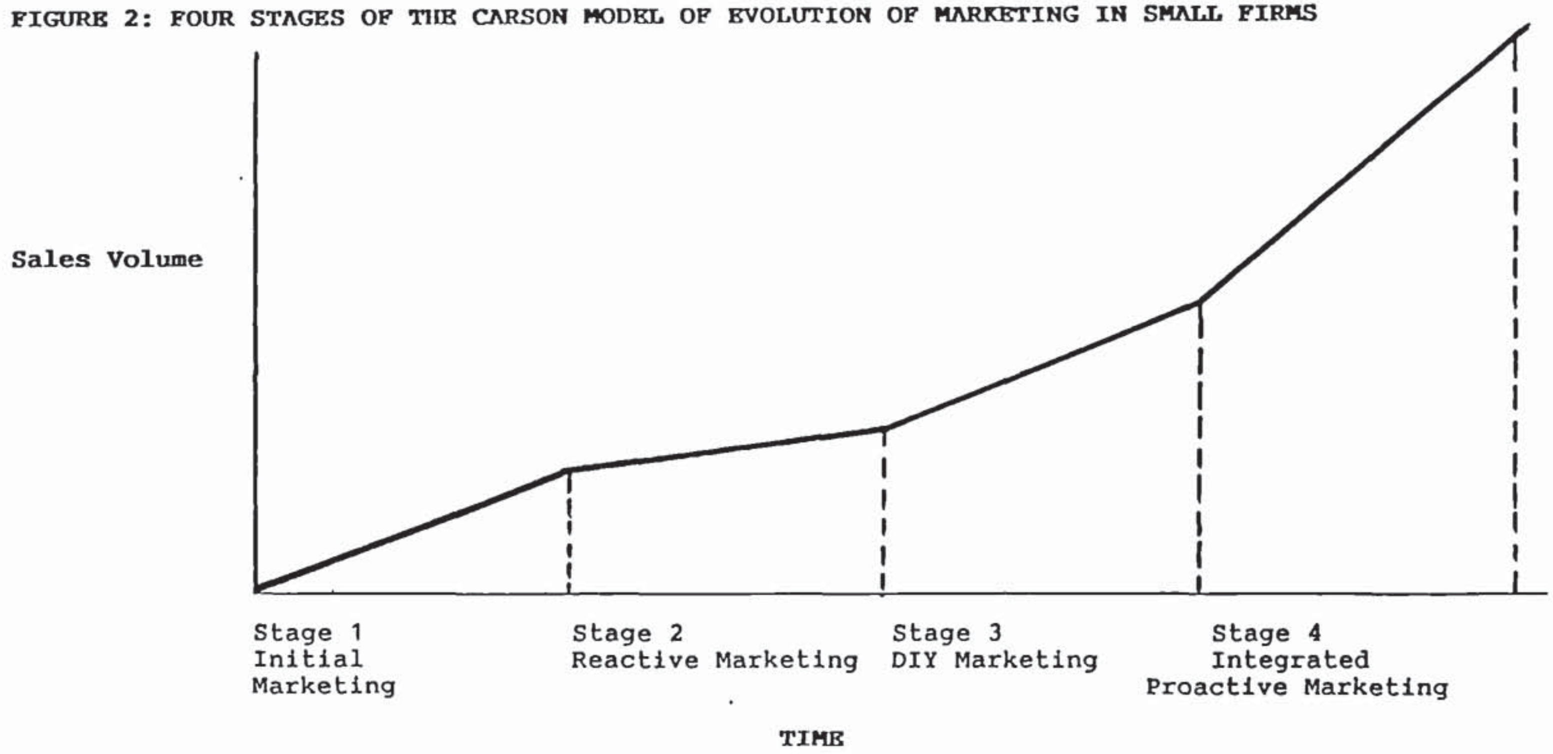
Stage One	: Initial Marketing Activity
Stage Two	: Reactive Selling
Stage Three	: DIY Marketing Approach
Stage Four	: Integrative Proactive Marketing

The main characteristics of the Tybejee et al and Carson models are shown in Table 3.7 and the sales curve over time is shown in Figure 3.2. The criticisms of the Carson's tentative model is that, like studies of growth stages of business development, it has been based on a small sample and on analysis of firms at single points in time. The model also suggests that if small businesses survive, they inevitably adopt an integrative and proactive marketing approach to their business operations. Yet other studies (Davidson (46) for example) indicate that the use of offensive marketing remains the exception rather than the rule (even in medium and large firms) and that there is a wide and growing gap between the minority companies which practice it and the majority which do not. The Carson model also suggests that the growth of most small firms follows the S-curve and that they do take off and grow to become progressive medium sized businesses. Again, in reality, a very large proportion of small businesses remain static

Table 7. Summary of Models of Evolution of Marketing in Small Firms and their Association with Stages of Business Life Cycle

		Churchill and Lewis Life Cycle Stages	
Stage 1 Existence	Stage 2 Survival	Stage 3 Success	Stage 4 Take-Off
a) Tyebjee et al Model of Evolution of Marketing			
Entrepreneurial Marketing	Opportunistic Marketing	Responsive Marketing	Diversified Marketing
Customers created by personal contacts. Production orientation. Focus on the company & its products.	New customers sought. Marketing begins in the form of selling & promotion. Product line changes. Focus still on company & products.	Owner-manager begins to delegate to product managers or functional managers. Focus begins to shift towards customers.	Divisionalisation of company. Marketing functions needed and developed at corporate level. Planning, strategy & direction becomes evident and necessary.
b) Carson Model of Evolution of Marketing			
Initial Marketing Activity	Reactive Marketing	DIY Marketing	Integrated Marketing
One major customer or few small customers created by personal contact. Emphasis on product quality, price & delivery. *Production orientation. Poor profitability* Encourage 'word of mouth'. Some promotion.	Customers increase, more geographically spread. Some promotion begins - mainly brochures & price lists. Customers creating by reacting to their enquiries. *Company needs more* sales. Overheads raise, niche market begins to saturate. Competition intensifies. Production orientation persists. Attitude change necessary as is the use of experts to market the company.	The lack of resources at Stage 2 to buy in experts prompts DIY marketing. But there is lack of knowledge of marketing television available. *Company* seeks Govt grants & assistance to help it implement some some marketing. Knowledge increase but marketing effort is unco-ordinated.	Marketing activity begins to be co-ordinated and integrated with other functions to achieve short & long term objectives. Firms buy in marketing expertise *(own employees or* consultants). *Marketing budgets still* limited.

FIGURE 2: FOUR STAGES OF THE CARSON MODEL OF EVOLUTION OF MARKETING IN SMALL FIRMS



(1) This reflects the initial sales surge due largely to repeat orders and word-of-mouth activity.

(2) This reflects the reactive marketing stage which leads to the levelling of sales and the need for more sales.

(3) This reflects the haphazard marketing activity of the owner/manager and ends with his having to address the same problem as at the beginning of this stage - how to acquire marketing expertise.

(4) This is the stage at which sales will justify and support a marketing expert on a full-time basis. The problem facing many small firms is how to progress to stage (4), that is, how to overcome the "Catch 22".

Source: Carson, D J, 'The Evolution of Marketing in Small Firms'. In European Journal of Marketing,

after the survival stage. The model does, however, suggest that if owner-managers can be trained at the outset of new business formation to be marketing-oriented and to run the business on the basis of well researched products/services, aimed at target markets and use the other marketing tool, the business would follow the stages of development along the S-curve hypothesis.

Since 1985, Carson has developed his work on models of evolution of marketing in small firms. His most recent paper (Carson, 1989 (47)) describes a number of models that have been developed from a longitudinal study of marketing development and change of twelve small firms in Northern Ireland over a period of three years. The findings from this longitudinal study have been verified by a wider database of 68 small firms. The six models that emerge from this study are based on four main hypotheses that examine the marketing constraints that are inherent in small firms, the need to adapt marketing theories, strategies and methodologies for application in small firms and the difficulties in planning the transfer and coordination of marketing technology. Related to this work is the paper by Carson and Cromie (1989 (48)) on marketing planning in small enterprise. In this publication, the authors emphasise that owner-managers of small businesses have a different approach to marketing to that displayed by professional marketing managers in larger firms. In a study to assess the degree of rigour and sophistication of marketing planning among owner-managers of small firms, the authors found that two thirds of the sample used a non-marketing approach, almost a third were 'implicit marketers' and only a few could be described to be applying formal or sophisticated marketing.

4 CONCLUSIONS

This chapter has attempted to review and evaluate the early and more recent contributions towards the development of stages models of small business growth. Most of the contributions to the stages models (and to other approaches) that attempt to explain small firm growth fail to provide evidence of the determinants of growth. Gibbs and Davis (29) have argued that the main reason for this is that there is no comprehensive theory of small and medium enterprise development which clearly brings together all the relevant parameters into a model and which indicates how each part interacts with the others. A review of literature suggests that there is an overall acceptance of the conclusion that at present an adequate explanatory framework within which to analyse the growth of small firms has not been developed, nor is it likely to emerge in the near future.

In the absence of a definitive model of small firms' growth, this chapter has critically evaluated the Churchill and Lewis model and outlined the reasons why it was used to provide a framework for studying the application of marketing in this project. Although stages models have many weaknesses and have been criticised on several accounts, the Churchill and Lewis model was used because it provided a set of measurement criteria that could be tested on a comparable sample of small firms.

This chapter also briefly reviewed the recent models of the evolution of marketing in small firms. These tentative models are also based on the concept of the stages of business life cycle and as such provided further justification for using the Churchill and Lewis model to provide a framework for analysing the application of marketing. The review of literature on barriers to small firm growth leads to the overall conclusion that if a firm is to establish itself successfully on the path of sustained expansion, it must obviously satisfy a number of requirements for growth: it must expand its customer base and sales; it must have access to additional resources input; and it must improve its managerial competences and management function to benefit from technological innovation and by applying marketing techniques.

Each of these growth requirements involves a different set of problems for the management of the firm to solve. The increase of sales is one of the major barriers to growth of the firm. This difficulty normally arises from the small firm's tendency to be production or sales oriented (O'Farrell and Hitchin (16)), which places all the emphasis, resources and energies into getting the product right and then trying to sell to whoever will buy it. In small firms that do expand, sales growth often comes as a result of a general growth of the market rather than through a planned approach to exploiting market opportunities. Where expansion of sales comes as a result of owner-managers' efforts, it invariably is due to intuition to attack particular targets with certain types of promotional and awareness generating techniques. There is little evidence to suggest that firms achieve sales growth through planned extension of the product range involving entry into new markets or through integration or diversification (Rothwell & Zegreld, 1982 (49)).

Some of the most difficult problems facing growing firms relate to their managerial competences and needs. For the monitoring, coordinating and controlling of business activities, a growing firm requires the use of increasing amounts of information and decision making. The lack of expertise, experience and management training places a considerable burden on the owner-managers, and in many cases the goal for growth is abandoned without giving the strategies time to be implemented. As the business grows, the founding entrepreneurs must ultimately be willing to relinquish many of the day to day control functions and delegate these tasks to an enlarged and specialised management team. Current literature, however, suggests that another important barrier to growth is the inability of many owners and managers to implement appropriate changes in the firm's internal organisation and to use experts to exploit market opportunities.

The research study reported in Part Two of this thesis uses the Churchill and Lewis model, Carson's model of evolution of marketing and recent findings on the barriers to growth (and to applying marketing) in the design of the research hypotheses and strategies. It examines the orientations and marketing practices of entrepreneurs starting new businesses and concentrates on a qualitative study of a number of established businesses. The single point and longitudinal case studies of indigenous and Asian businesses are used to provide a more thorough understanding of how marketing is applied during the various stages of small firms' development.

PART TWO

METHODOLOGY, RESULTS AND CONCLUSIONS

CHAPTER FOUR

RESEARCH DESIGN STRATEGY AND METHODOLOGY

Introduction

1. Research Questions, Hypotheses and Objectives
2. Research Design Strategy and Methodology
3. Data Collection and Presentation

CHAPTER FOUR

RESEARCH DESIGN STRATEGY AND METHODOLOGY

INTRODUCTION

Chapter two of this thesis reviewed the literature on the role of small firms in local and national economies, examined the statistics on the profile of small firms in the West Midlands and highlighted the development of ethnic business in Britain. Chapter three reviewed the literature on the recent theories and models on the stages of business development, barriers to growth and evolution of marketing in small firms. The background information from these chapters has provided the basis for the generation of the research questions and hypotheses of the study reported in this second part of the thesis.

The aim of this chapter is to detail the research design strategy and methodology that was developed to collect the data to provide evidence to support the main hypotheses of this thesis. This chapter is divided into three main sections. The first outlines the research questions, hypotheses and objectives that this project has attempted to achieve. Section two describes the overall research design strategy and methodology that was developed to meet the objectives of the study. Section three, very briefly outlines the organisation, and presentation of the results and conclusions of the two stages of the investigation.

1. RESEARCH QUESTIONS, HYPOTHESES AND OBJECTIVES

The literature review in chapter two highlighted that like other industrial economies, the UK is predominantly an economy of small firms with 83 per cent of all enterprises in 1985 having a sales turnover of less than £250,000 and in manufacturing just over 96 per cent of employment being accounted for by firms employing less than 100 people. Further analysis indicates that this dominance is in part a reflection of the composition of the stock of enterprises. Approximately 65 per cent of all enterprises are in the service sector which is dominated by retailing and catering activities. Manufacturing, which is more prone to large scale units, only accounts for 10 per cent of enterprises. Chapter two also explained that the small firms sector enjoys a considerable turnover, with 'births' of all enterprises averaging 12.5 per cent and 'deaths' of enterprises averaging 10.5 per cent in the first half of the 1980s. Recent evidence (Evans, 1987(1)) indicates that the probability of survival increase with the size of the firm.

The various UK statistics also indicate that 94 per cent of manufacturing firms employing less than 200 people employ less than 30 employees. This data can safely be interpreted to suggest that most firms do not grow to any considerable size in terms of number employed, and that many businesses tend to pass from one generation to the next without much progress through to success or lift-off stages of the business development.

This study however, is not concerned with the reasons or factors encouraging the start-up of new firms, nor with the reasons why many of them are likely to fail. The study is more concerned with the question, 'why so few small firms progress beyond the existence and survival stages of the business development?'. In order to provide evidence to this central question, a number of additional questions and hypotheses suggesting possible answers were formulated for this investigation. The principle hypothesis put forward is that owner-managers start and continue to operate their businesses from a production or sales perspective and that only the most basic promotional aspects of the marketing function are applied during the formation, existence and survival stages of development. As there has been a proliferation of Asian small businesses in the UK since the early 1970's and stereotyping of Asians as successful entrepreneurs, this study is also concerned with comparing and contrasting the development of small businesses run by Asian and indigenous owner-managers in the West Midland.

1.1 RESEARCH QUESTIONS

(i) How do owner-managers go about the process of starting and developing their enterprises and why so many small businesses fail to progress beyond the existence and survival stages of business development?

(ii) How and what aspects of marketing evolve in small businesses and why don't owner-managers apply formal marketing during the formation and development of their enterprises?.

(iii) How do owner-managers acquire or buy-in marketing knowledge, skills and expertise, and what are the outcomes and implications of applying formal marketing techniques in small established businesses?

(iv) What are the differences, if any, between the ways in which Asian owner-managers start and develop their businesses, and do they face similar barriers to progression through the stages of business development as indigenous small firms?

1.2 HYPOTHESES

The research questions and the framework for analysis derived from the review of literature on the theory and models of business development and marketing (chapter three) led to the generation of the following tentative hypotheses for this study. The aim of this investigation is to provide evidence to support or assist in the development of more refined hypotheses for future research.

(i) Small firms fail to progress beyond the existence and survival stages of business development because their owner-managers start and continue to operate the enterprise from production or sales perspective and do not apply formal marketing techniques during the initial stages because they do not fully understand what constitutes the marketing function.

(ii) The marketing function in small firms evolves from the use of basic promotional tools during the lift-off and maturity stages in line with the changes in the management's orientation from production to sales and marketing.

iii) Although there are differences in the problems of start-up and growth of indigenous and Asian firms, there are no differences in the application and evolution of marketing in these two groups of businesses.

(iv) Successful application of marketing and business development techniques requires financial and operational re-structuring that most small firms find difficult to implement.

1.3 OBJECTIVES

To facilitate the design of research methodology, these hypotheses were translated into the following objectives for the study.

(i) To test the Churchill and Lewis model of stages of small business development by assessing how closely the key characteristics and measurement criteria identified for each stage matches the sixty-six firms studied in this project.

(ii) To investigate indigenous and Asian owner-managers' orientation in developing and managing new and established businesses, and to explore the sources of, and changes to their orientation during start-up and development stages of operations.

(iii) To assess owner-managers' awareness and comprehension of what constitutes the marketing function and what aspects of marketing are applied in new and established firms during the various stages of their development.

(iv) To compare and contrast the development of new and established indigenous and Asian firms in terms of start-up, owner-managers' characteristics and motivations for entering self employment, management orientation, customer base, markets served, business development and organisation.

(v) To assess the outcomes and implications of applying formal marketing techniques in established indigenous and Asian small firms over a period of time.

2. RESEARCH DESIGN STRATEGY AND METHODOLOGY

The "how" and "why" types of questions posed and the need to seek evidence to support the propositions of this investigation provided the rationale for the use of qualitative and exploratory research methods of collecting data. It was decided that case studies of small firms would be the most appropriate method of gaining an insight into the operations, development and how marketing is practised in new and established businesses. In order to design the instruments and procedures so as to ensure that the case studies generate valid and reliable data, in-depth interviews were incorporated in the research design methodology. The strategy to conduct in-depth personal interviews also enabled the researcher to gain access and co-operation of owner-managers in carrying out the more detailed case histories of the firms.

In addressing the research questions, two types of case study methods were used. Single-point case studies were employed to provide answers to the questions relating to how and why owner-managers establish, operate and develop their businesses, and why formal marketing techniques are not applied. The questions relating to the implications and outcomes of applying marketing in established firms required the events and decisions to be observed over a period of time, and therefore, made it necessary to conduct longitudinal studies. The scope and nature of the investigation however, only allowed small samples of firms to be studied. The time and resources available for the project also constrained the number of firms that could effectively be studied over time.

Figure 4.1 outlines the framework that was adopted to guide the research strategy. Figure 4.2 outlines the overall research design and methodology that was developed by reference to the main objectives of the study, units of analysis (indigenous and Asian small firms at the different stages of business development) and the desired outcomes from the data collected.

The research design strategy was developed by focusing on the units of analysis, sample design and criteria for measuring the relative position of the firms on the life cycle. To meet the research objectives, it was necessary to study the following two distinct types of firms.

Figure 4.1 FRAMEWORK ADOPTED FOR THE RESEARCH DESIGN STRATEGY AND METHODOLOGY

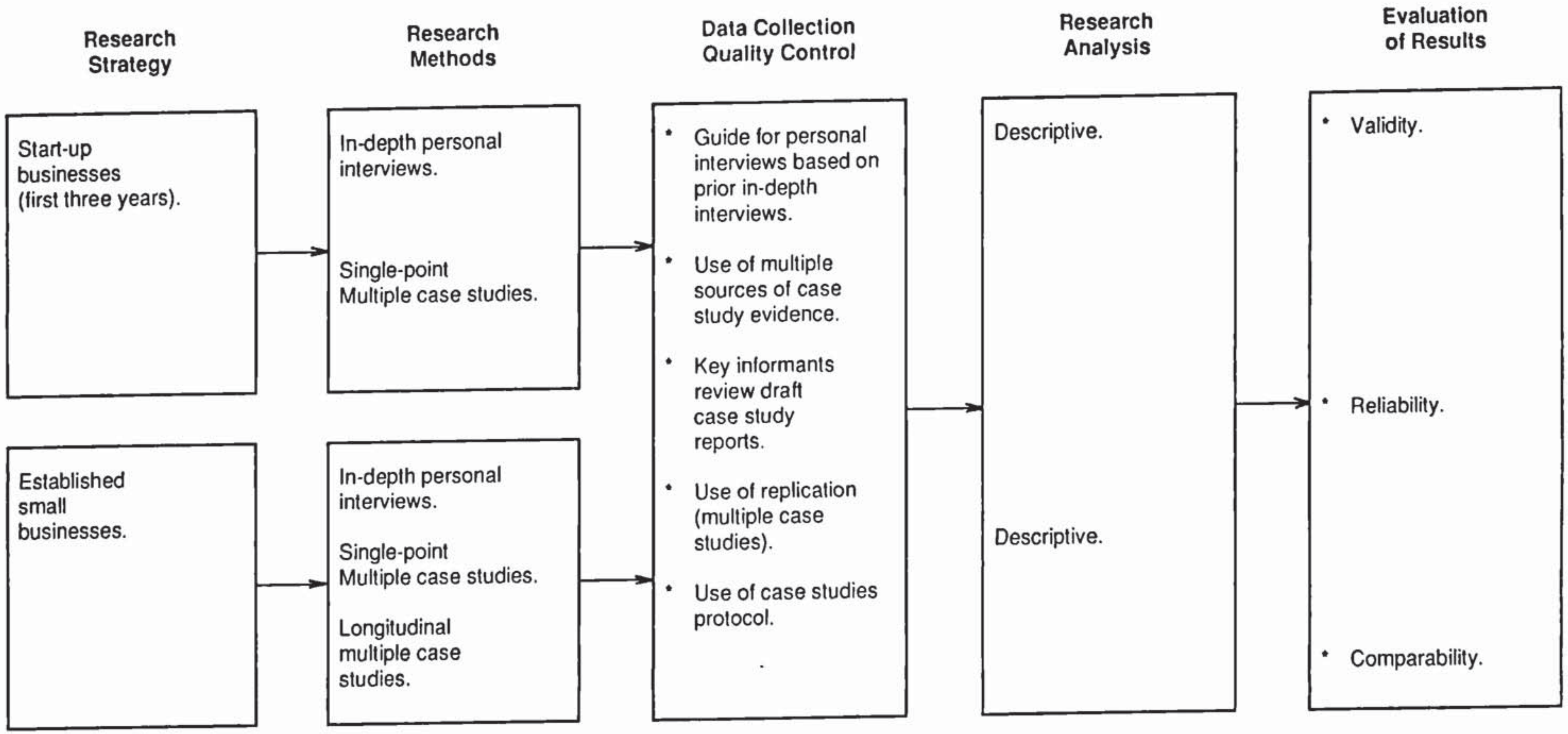


FIGURE 4.2: AN OUTLINE OF RESEARCH DESIGN STRATEGY AND METHODOLOGY

OBJECTIVES OF RESEARCH	TYPES OF FIRMS	METHODOLOGY	SAMPLE SIZE INDIGENOUS	ASIAN	OUTCOME
1. Investigate owner-manager's awareness of marketing as a business function and its role in the establishment of small indigenous and Asian businesses.		(a) In-depth interviews	10	10	Highlight the ways in which small businesses are are set up and whether marketing is given consideration in the planning of the business. To ascertain owner-managers views on progress during the initial months of the businesses and their views on the application and knowledge of marketing.
	Start-up stage Firms in the first three years of operation.				
2. To assess the problems faced by new firms in attempting to exist and survive, and assess the extent and nature of marketing in these businesses.		(a) Case Studies	3	3	In depth understanding of the dynamics of start-up firms and how they secure continuity of orders for the business.

OBJECTIVES OF RESEARCH	TYPES OF FIRMS	METHODOLOGY	SAMPLE SIZE INDIGENOUS	ASIAN	OUTCOME
3. Compare and contrast the development of established indigenous and Asian firms in terms of orientation, markets served and use of resources.	Established firms operating for more than 3 years.	a) in-depth interviews	15	15	A thorough understanding on how these firms started and survived the initial stages of the business. Provide exploratory and explanatory data on the operational practices of small firms and the extent and nature of applying marketing. An analysis of managerial skills and knowledge for managing the business for survival and growth. Provide evidence on the reasons why small firms fail to progress to survival and success stages of business development.
4. Ascertain the problems faced by these firms in attempting to sustain and grow, and assess the extent and nature of marketing applied in these firms.		b) Case studies (Single-point in time)	4	4	
5. Monitor the effects of applying formal planning & marketing in a small number of selected indigenous and Asian firms.	Established firms operating for more than three years and attempting to grow by changing market(s) and or products.	Case studies (longitudinal)	1	1	Provide evidence on the effects of applying marketing in small firms. Explore the implications of serving new markets or customers on product designs, production, facilities, finances and restructuring of the firm. Explore the implications of managing such change on the owner-managers skills, knowledge and attitudes.

2.1 FIRMS AT THE START-UP STAGE

These were defined as firms in their first three years of operation and irrespective of their size in terms of number employed or sales turnover (but within the Bolton Committee definition). Although this study is concerned with longer established firms, the rationale for examining more recent enterprises was to gain an insight into how the start-up processes followed during initiation stage imposed constraints on subsequent development of the business. As one of the hypotheses is that owner-managers start and continue to run the business from production or sales perspective, a study of recently established firms would supplement the histories of the start-up processes of the more established small firms and provide an insight into the reasons why owner-managers find it difficult to abandon the initial orientation.

2.2 ESTABLISHED FIRMS OPERATING FOR MORE THAN THREE YEARS

To understand the operations and marketing practices of businesses at the existence and survival stages of development and reasons why they do not progress through to successful growth stages, it was necessary to study firms of various sizes, ages and business activity. But to ensure that the study concentrated on the small firms sector, the Bolton Committee (2) definition (as discussed in chapter two) was used to guide the sample of firms to be included in the design. Though the case study method of relying on a small sample of units of analysis cannot be representative of the population, the research design attempted to reflect the practices in the main areas of business activity in the

West Midlands by designing the research sample with reference to the profiles of indigenous and Asian small firms in the area as reported in chapter two.

2.3 COLLABORATION AND ACCESS INTO THE FIRMS

To implement the strategy to conduct a qualitative study required the co-operation of a number of start-up and established small firms. For in-depth interviews, the owner-managers had to be willing to discuss in detail, the history and operations of the firm and to disclose information on their background and company finance. The interviews, extended observations, extraction of data from multiple sources and assessment of outcomes of management decisions over a period of time for the single-point and longitudinal studies required the owner-managers to allow the researcher reasonable access into firms.

To gain the co-operation of new and established firms to participate in the project, a combination of methods and incentives had to be devised and implemented. Although it was appreciated at the outset of the project that small firms are reluctant to participate in research, it was not until the first approach that the enormity of the challenge was realised. The logical sequence of conducting the research required the start-up firms to be studies first followed by a larger sample of more established firms. In June 1986 a list of recently established firms was compiled from data extracted from local chambers of commerce bulletins, trade directories and offices of Manpower Services

Commission (MSC) dealing with the Enterprise Allowance Scheme. Fifty proprietors of new firms in the West Midlands were approached by letter and followed by telephone calls explaining the aims of the research and seeking their co-operation. Only 11 firms agreed to participate, 32 refused and 9 were no longer in business. Out of the eleven, 9 firms matching the sample requirements were selected and interviewed during the months of September and December 1986.

The low response to direct approach necessitated the use of referrals and introductions by intermediaries. To achieve this, an accountancy firm dealing with start-ups, local enterprise/business advisory agencies (in particular those aimed at helping ethnic business and set up by economic development units of local councils), DTI Small Firms Services and Counsellors were approached to seek their help. Another 50 recent businesses were approached by letter and through intermediaries. The much improved positive response from 21 firms resulted in 17 matching the sample design. These firms were interviewed between November 1986 and January 1987.

The recruitment of a sample of forty established firms for participation in the research proved much more difficult. Between June and September 1986 a list of established indigenous and Asian firms was compiled from information extracted from Enterprise/Business Advisories agencies, trade directories and Dun and Bradstreet sales prospects cards. The Dun and Bradstreet cards give such useful information on the companies as, sales turnover, age, SIC, number employed and names of directors. Fifty firms in the West Midlands were approached by letter followed by telephone requests. This approach resulted in only 7 firms agreeing to participate. Thirty firms, refused and 7 were no longer in business. Of the 7 that agreed, five were selected to be included in the study. Two (one Asian and one indigenous) firms were assigned for the longitudinal studies because of the nature of their business and the types of activity/decisions that they were involved in. The longitudinal studies of these firms was scheduled to commence in January 1987 and end in December 1988. Of the remaining three firms two were earmarked for single point case studies and one for an in-depth interview. These firms were researched between January and May 1987.

An analysis of the reasons for refusal to participate in the research indicated that small firms were constantly asked to complete official questionnaires, surveys by banks, enterprise agencies and universities. There immediate response to letters and phone calls requesting yet another study tended to be a flat refusal. Owner-managers also felt that they did not receive any benefit from such studies and would only allow academics and researchers into their firms if they had something of value to the firm.

In order to gain the co-operation of 35 more established firms it became necessary to devise some means of helping small firms that would allow researcher access into the firm. During September 1986 and March 1987, the researcher negotiated with the Birmingham Office of the Manpower Services Commission (MSC and later the Training Agency) to develop and run two Graduate Gateway Programmes from Birmingham Polytechnic. The Graduate Gateway Programme (GGP) aimed to place unemployed recent graduates from various disciplines in small firms to undertake 12 week projects that would aid the efficiency and development of firms. A copy of the brochure explaining the GGP is included in Appendix One (Volume Two). The programmes were targeted at the types of firms identified in the sample design and advertised in the local media and direct mailed to small firms in the area. The campaign generated over 100 enquiries for the two programmes. Twenty four firms were selected for the first programme and 18 for the second. Of these, 16 were included in the study. One of the key MSC requirements of the programmes was that the owner-managers had to be interviewed prior to the placement of the graduate and an audit of the business had to be conducted in the first week of placement period. This allowed the researcher to conduct in-depth interviews with the selected companies and secure co-operation to gain access into the firms for more detailed case studies. The other MSC requirement of periodic monitoring of the graduates in the firms allowed the research with opportunities to visit the selected firms at least three times over the duration of the 12 weeks placements. This facilitated the process of observation, further interviewing and referring to multiple sources of company information.

To secure the co-operation of firms in Wolverhampton and the Black Country, the researcher worked closely with Wolverhampton Polytechnic's GGP programme that was also running in 1987. Four firms from the Wolverhampton programme were selected and the researcher acted as a tutor on the programme in order to gain access into these firms.

Although the strategy of using the GGP programmes to recruit firms proved effective to gain the co-operation of indigenous firms, it failed to generate the interest of the required number of Asian Firms. There still was also a need to recruit more indigenous firms from retailing, wholesaling and service industries. To complete the sample of firms required, the researcher, in his capacity as Head of the Management and Business Development Centre at the Polytechnic, negotiated with Birmingham City Council and the City Action Team to develop and run three innovative action-based business development training programmes. The Business Development for Clothing and Jewellery Industries and Business Development for Inner City Small firms were launched from Birmingham Polytechnic in late 1987 and early 1988. Copies of brochures outlining these programmes are contained in Appendix One. These programmes were developed in partnership with the Clothing Manufacturers Federation and supported by Chamber of Commerce and other local organisations. Thirty-two clothing firms (mostly Asian) and twenty five jewellery firms applied to join the programme and 45 owner-managers were recruited. Five of these firms were selected to be included in this study. Twenty-one inner-city firms applied and sixteen were recruited to the programme. Five of these were included in the study for interviews and case histories. As with the GGP programmes, the funding organisations required that an independent audit of each firm must be undertaken prior to the commencement of the training. This allowed the research to conduct in-depth interviews and subsequent case studies amongst the terms selected for the research project.

2.4 DETAILS OF THE FIRMS SELECTED FOR THE STUDY

An overview of the sample design of the two types of firms that were to be studied using the three qualitative research methods is given in Tables 4.1 and 4.2. The sample was selected on the basis of stages of development, business activity and the origin of the owner-mangers. The sample consisted of a total of 66 firms: 26 at the start-up stage and 40 established firms at different stages of development. The sample was divided equally amongst indigenous and Asian firms. Of the 26 firms at the start-up stage, 20 were to be studied by the use of in-depth interviews and six by conducting single-point (or snap shot type) case studies. Appendix 1a and 1b give details of the samples of indigenous and Asian start-up firms by industry and research methodology that were selected for the study.

The sample of established firms was also equally divided amongst indigenous and Asian businesses and 30 were to be studied by in-depth interviews, 10 by single-point case studies. Of these two were extended to become longitudinal studies. Appendix 2.2 gives brief details of the forty established indigenous Appendix 2 firms selected for in-depth interviews, single-point case studies and longitudinal studies. With the exception of the names of the firms (which had to changed to respect the confidential nature of the information contained in the reporting of the interviews and the case histories), all other details reflect the real situation at the time of the study. The samples of both start-up and established firms were selected on the basis of the characteristics required to answer the research questions. The start-up firms included enterprises from all groups of business activity, employing between 2 and 80 people and that had been in existence between one and three years. Likewise, the sample of established firms included those that had been in existence for between 6 and 153 years, with sales turnover ranging between £100,000 and £18 million, employing between 5 and 150 people and reflecting the main business activity of the West Midlands small firms sector.

TABLE 4.1: AN OVERVIEW OF THE SAMPLE OF START-UP INDIGENOUS AND ASIAN START-UP FIRMS SELECTED FOR IN-DEPTH INTERVIEWS AND CASE STUDIES

INDUSTRY	START-UP FIRMS			
	INDIGENOUS		ASIAN	
	In-depth Personal Interviews	Case Studies	In-depth Personal Interviews	Case Studies
Manufacturing	3	2	2	2
Retailing	2	-	2	-
Wholesaling	1	-	1	-
Construction	1	-	2	
Catering	1	-	1	-
Miscellaneous				
Services	2	1	2	1
TOTAL	10	3	10	3

TABLE 4.2: AN OVERVIEW OF THE SAMPLE OF ESTABLISHED INDIGENOUS AND ASIAN ESTABLISHED FIRMS SELECTED FOR IN-DEPTH INTERVIEWS, SINGLE POINT AND LONGITUDINAL CASE STUDIES.

INDUSTRY	ESTABLISHED FIRMS					
	INDIGENOUS			ASIAN		
	In-depth Personal Interviews	Case Studies	Longitudinal Studies	In-depth Personal Interviews	Case Studies	Longitudinal Studies
Manufacturing	7	2	1	8	3	1
Retailing	3	-	-	1	-	
Wholesaling	3	-	-	2	1	
Construction	-	-	-	2	-	
Catering	1	-	-	1	-	
Miscellaneous	1	2	-			
Services	-			1	-	
TOTAL	15	4	1	15	4	1

2.5 MEASUREMENT CRITERIA

The Churchill and Lewis (3) model suggesting that small firms pass through five stages of development and Carson's (4) tentative model of evolution of marketing were used to provide the framework for examining the firms selected for this study. As one of the main hypotheses of this study is that most small firms fail to proceed beyond the existence and survival stages of development because owners and managers start and continue to operate the business from a production or sales perspective, the research design concentrated on analysing the five main management factors identified by the growth model. The auditing of these factors were necessary to help identify what stage each of the firms studied had reached. Although age, sales turnover and number employed are useful measures for tracking the growth of firms, they however are not adequate indicators of the stage of development achieved by the firm. For example, a two year old firm in the service sector may employ over 100 employees and have a sales turnover of £5 million may still be at existence stage of development in terms of its management structure, organisation, strategies and the importance of its owner in relation to the business. The number employed and sales turnover reflect the nature and line of business activity. In labour intensive industries such as catering and clothing manufacturing the rapid expansion of the number employed during existence and survival stages alone is not a valid measure of business success. Also as discussed in some detail in chapter three, the hypotheses of this study is not concerned with why firms fail, but with why they do not progress beyond the initial stages of development. To examine this aspect it was therefore essential to include age and background history of the business in measurement criteria. It was hoped that a combination of measures such as age, size, rate of growth, complexity and management, organisation structure and importance of the owner would give an explanation for why many firms evolve and reach a particular stage of development, but then plateau and remain the same for many years.

To study the evolution of marketing in the sample of firms, the characteristics identified by the Carson model were used as a starting point to develop measurement criteria for the research. In addition to assessing the nature and extent of marketing practices amongst recent and established firms, it was necessary to include measures of marketing activity during the pre start-up stage. The characteristics and measurement criteria that guided the design of the research instruments are summarised in Table 4.3.

TABLE 4.3: SUMMARY OF CHARACTERISTICS AND MEASUREMENT CRITERIA IDENTIFIED FOR RESEARCH INSTRUMENT

a. **STAGE IDENTIFICATION:** (Churchill and Lewis model of development).

1. Customer base and key problems.
2. Management style and organisation.
3. Extent of formal systems and planning.
4. Major strategy.
5. The importance of the owner in relation to the business.
6. Size (sales turnover and number employed), diversity (business activity complexity (number of sites and organisation) and rate of growth (in terms of profitability and ROI).

B. **MARKETING PRACTICES** (Carson model of evolution of marketing plus orientation sources of customers and pre start-up activity).

1. Changes in orientation (or business philosophy) during pre start-up, start-up and growth.
2. Pre start-up marketing activity (feasibility, market research and planning).
3. Sources and methods of securing customers during existence, survival and growth stages.
4. Awareness of what constitutes marketing and what techniques are applied during the different stages.
5. Responsibility for the marketing function.
6. Application of formal marketing, sources of knowledge, expertise and outcomes.

2.6 RESEARCH INSTRUMENTS AND PROCEDURES

The characteristics and measurement criteria identified in Section 2.5 were used to design the instruments of the qualitative research techniques for this study. As a starting point, eight in-depth interviews were conducted amongst start-up and established firms using a schedule of topics. The open-ended and exploratory nature of these initial interviews allowed the researcher to test out the list of topics and to refine the sequence, questions and type of additional data required to answer the research questions. A copy of the initial schedule for in-depth interviews is contained in Appendix 1.1.

The experience of conducting the initial interviews pointed to the need for a more detailed guide or listing of questions and a mechanism to record the responses to a long list of topics of discussion. The use of a tape recorder, although acceptable to most respondents proved to be very impractical. The majority of interviews lasted more than two hours and were constantly interrupted by telephone calls, visitors and other urgent business that required the owner-manager's attention. The verbatim recording of the interview by writing notes on a separate note pad also proved impractical because the respondents tended to discuss a number of related issues that confused and disrupted the sequence of topics raised. The open-ended, free-flowing discussions however, proved very useful in providing guidance in the design of a more practical instrument. The revised, more detailed list of questions with space for recording responses and making notes (Appendix 1.2) was tested for its efficiency on six respondents. With the exception for more space required for recording responses, the design was felt to be effective and used for all subsequent in-depth interviews. The businesses at the start-up stage were interviewed between July and December 1986, and established firms between January 1987 and February 1988.

The experience and outcomes of conducting in-depth personal interviews also helped in the design of an instrument to record the information gained by interviewing, observations and referring to documents for the single-point and longitudinal case studies. In order to ensure that the data collected by using case studies method had validity and was reliable to generalise about the practices in small firms, the replication approach advocated by Yin (1983 (5)) was slightly modified (Figure 4.3) and adopted for this project.

The approach required the design of a data collection protocol that could be applied in conducting all the case studies. Validity and reliability of using case studies was ensured by designing the format for collecting data (Appendix 1.2) to prompt the use of multiple sources of evidence (observations, interviewing other people in the firms and referring to documents and accounts) and by testing its use by others to obtain the same results. The sequence and types of topics and observations contained in this form reflected the criteria for measurements outlined in Table 4.3. The form for case studies also tracks the origins of the enterprise to identify stage of development and then audits the application of marketing over the years. The single-point case studies were conducted over two years between January 1987 and December 1988.

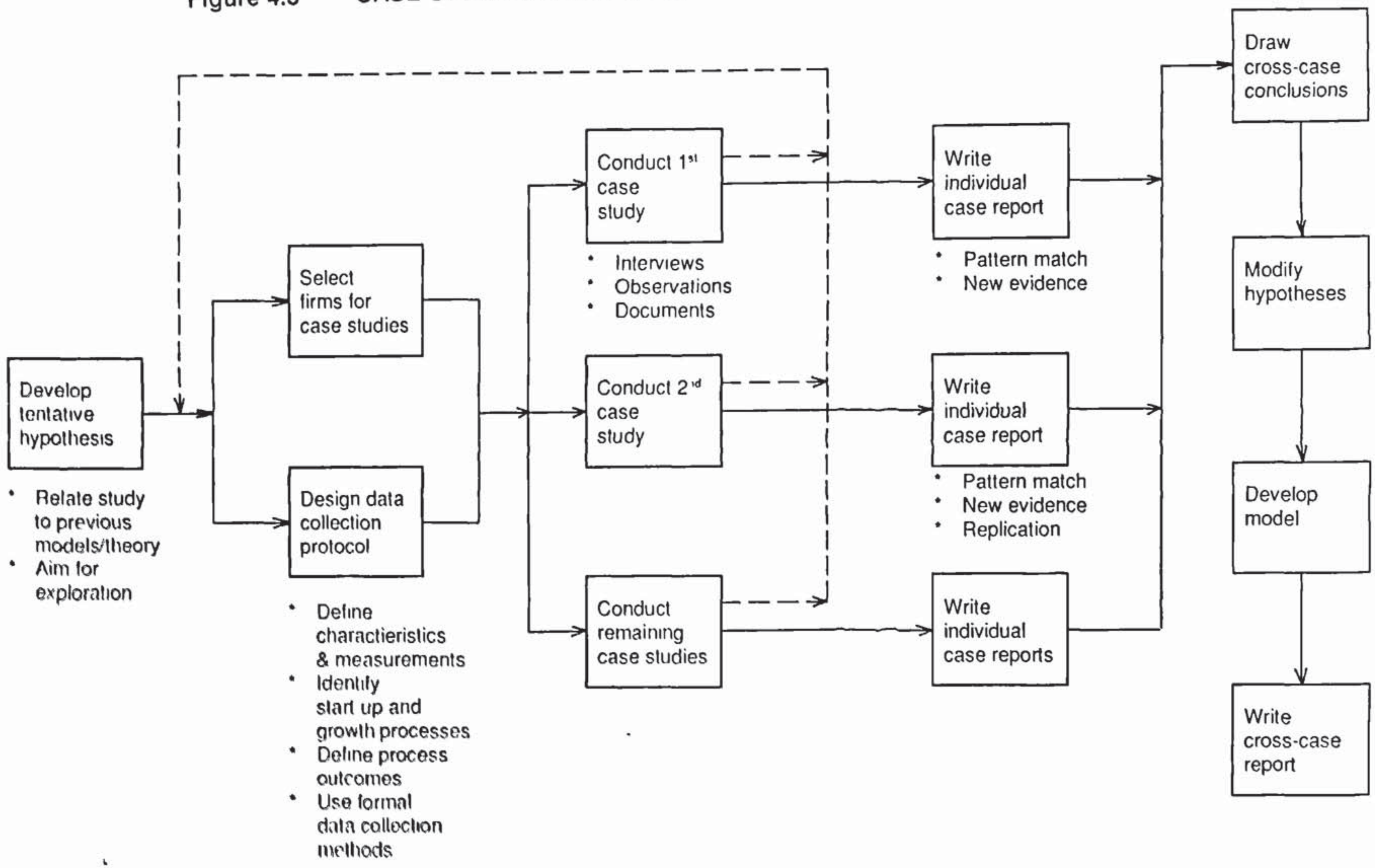
For the longitudinal studies, the same form was used to collect data on the history and current situation of the selected firms and logs were kept to record the events, decisions and outcomes over the two year period of the study. The longitudinal studies were also conducted during a two year period between January 1987 and December 1988.

3. ORGANISATION AND PRESENTATION OF RESULTS AND CONCLUSIONS

The volume of data gathered by the use of qualitative techniques, and the need to keep the thesis to a manageable size required some restrictions to be imposed on the reporting of the interviews and case studies. As fifty in-depth interviews were conducted, it was decided to present the results in summary form in chapters six and seven as they related to start-up and established firms. The qualitative responses, in the main, quotations, opinions and explanations are used in the reporting of the results. The outcomes of the in-depth interviews are also used to supplement the case histories on start-up and established firms in these chapters. The reports on the single-point and longitudinal case studies are contained in parts two and three of the appendices in Volume two of this thesis.

Chapters six and seven discuss the analysis and interpretations of the qualitative data on marketing during the start-up, early development and growth stages of business development. The results are presented within the framework of the research questions and the measurement criteria identified in these chapters, and reference to the longitudinal studies is made under the relevant sections dealing with the application of marketing in new and established firms. Chapter eight draws conclusions from the research findings and refines the hypotheses for future research. A new, yet tentative model of evolution and application of marketing is developed and presented in Chapter eight together with suggestions of adding more characteristics to the Churchill and Lewis model.

Figure 4.3 CASE STUDY METHOD ADOPTED



PART TWO

METHODOLOGY, RESULTS AND CONCLUSIONS

CHAPTER FIVE

REVIEW AND TESTING OF CHURCHILL AND LEWIS MODEL OF SMALL BUSINESS GROWTH

CHAPTER FIVE

REVIEW AND TESTING OF CHURCHILL AND LEWIS MODEL OF SMALL BUSINESS GROWTH

INTRODUCTION

The literature review in Chapter three included a critical evaluation of the earlier models and Churchill and Lewis model of stages of small business development. The review suggested that these models can be criticised on several counts and that they all have some fundamental weaknesses that render them to be of limited use as frameworks for analysing and studying the growth and development of small firms. In the absence of a universally accepted model of small firms growth, however, this thesis adopted the Churchill and Lewis model to provide a framework for analysing the application of marketing during the various stages of small firms development. The measurement criteria and the five stages of small business growth emerging from the Churchill and Lewis study were used to develop the tentative hypothesis and a research design strategy for this thesis.

In view of the weaknesses and criticisms of the stages model of small business growth, it is essential that the analysis of the results should commence with a critical review and testing of the Churchill and Lewis model through examining the fit between the model and the data collected. The central aim of this chapter, therefore, is to test the Churchill and Lewis model against the data collected on 66 small firms in the West Midlands.

This chapter is divided into three main sections. The first takes account of the criticisms levelled against the stages model and section two provides evidence on whether the measurement criteria employed by the authors of the original model can be safely used to predict what stage a small business has reached at a given point in its development. Section three outlined how the model had to be modified before it could be used in analysing the application of marketing during the different stages of development reported in the subsequent chapters.

1 EVALUATION OF CHURCHILL AND LEWIS'S AND EARLIER STAGES MODELS OF SMALL FIRMS DEVELOPMENT

As mentioned above, Chapter Three of this thesis contains an explanation and critical evaluation of the 'stages' models of small business development. It briefly traces the history of these models, reviews the literature assessing the various contributions and focuses on the reasons why the Churchill and Lewis model was used to provide a framework for this present study. In order to avoid excessive repetition, the criticisms and weaknesses of Churchill and Lewis's and earlier stages models of small firms development discussed in Chapter Three are summarised in Table 5.1.

From the commentary in Chapter Three, it can be concluded that the stages models essentially seek to characterise both the necessity for changing the style of management of the owner-manager as well as the changing organisation. The models characterise the former as moving from an entrepreneurial mode to a professional management mode. The

TABLE 5.1 : SUMMARY OF CRITICISMS AND WEAKNESSES OF CHURCHILL AND LEWIS AND EARLIER STAGES MODELS OF SMALL FIRMS DEVELOPMENT

CRITICISMS/WEAKNESSES OF EARLIER STAGES MODELS (1960-1980)	CRITICISMS/WEAKNESSES OF CHURCHILL AND LEWIS MODEL (1983)
1 No explanation of whether sequence of growth stages is necessary for progression.	1 No explanation of whether sequence of growth stages is necessary for progression.
2 Lack of longitudinal research and empirical underpinning.	2 Lack of longitudinal research to support the small scale survey results.
3 Models assume that a firm will either grow and pass through all stages or fail in the attempt. Ignores that majority of firms remain the same for many years.	3 Methodological problems - asking respondents to recall the stages their companies had passed through after reading an article on stages model of growth.
4 The models fail to capture the important early stages in the origin and growth of a company. Tend to focus on growth of a firm from small to a large corporation.	4 The model covered a very broad range of firms in the economy.
	5 Model suggests that small firms function in linear and sequential pattern.
5 Company size is defined typically in terms of annual sales or number employed and ignores complexity and diversity of the business.	6 The model is described on only one time scale - from young to mature, with stages in terms of size and maturity at intervals along the life cycle concept.
	7 Model does not allow firms to skip stages.
6 The models are based on theoretical perspective and tend to reflect the symptoms of growth rather than the process underlying the phenomenon.	8 The model uses size of the firm as one of the independent variables and, depending on the definition used, only the first three stages may be relevant in studying the small firm.

latter suggests a move from rather holistic forms of management through to stages of team building, functionalism and leading on to ultimate professionalism of the organisation. These models postulate changes in markets, in finance, control, management and leadership styles.

The major criticism of these models is that they tend to be normative in nature and are not developed from substantial empirical evidence and largely because of the absence of longitudinal studies. As a result, these models make many loose generalisations about the processes underlying the growth and development of small firms.

The other main weakness of the stages models is that they focus primarily upon the internal dynamics of the firm and they tend to underestimate the importance of external factors influencing the growth and development of small firms. The models also ignore other factors such as the dependency of small firms upon larger organisations and the unequal power relationships that manifest themselves in such commercial arrangements as sub-contracting, franchising, licensing and access to venture capital.

2 TESTING THE CHURCHILL AND LEWIS MODEL

To test the model, the research design used Churchill and Lewis's six characteristics and measurement criteria (summarised in Table 5.2) to group the 66 firms into different stages of development. The research methodology of conducting in-depth interviews and case studies improved upon the original method of self completion questionnaires.

A more detailed and personal approach to identifying what stage each individual firm had reached also overcame the deficiency of self-assessment used in constructing the original model.

The details of the sample of firms researched and their stages of development are given in Appendices 2.1a to 2.1b and 3.1a to 3.1d in Volume Two. Each of the 16 case studies contained in Volume Two also include a summary of measurement criteria and stage identification. To test the fit between the model and data collected it was necessary to conduct stage identification of the firms sampled by reference to each of the six characteristics used in the research design. A good fit is defined as one where there is no (or a very low degree of) overlap of stages to which individual firms can belong by reference to the characteristic used.

i   <u>Stages Identification by Customer Base and Key Problems</u>

The analysis (Table 5.3) indicates that overall the sampled firms fell quite neatly into the different stages of development when the criteria of customer base and key problems was applied.

There were no new firms that were making a transition from one stage to the next and only three established firms fell into more than one stage of development. These firms (one Asian and two indigenous) were in the transitional phase between success-growth stage and lift off stage as they expanded their customer bases for a more diverse range of products and services.

TABLE 5.2 : SUMMARY OF CHARACTERISTICS AND MEASUREMENT CRITERIA USED IN STAGE IDENTIFICATION OF FIRMS SAMPLED

1 Customer Base and Key Problems.

2 Management Style and Organisation.

3 Extent of formal systems and planning.

4 Major strategy or goals.

5 The importance of the owner in relation to the business.

6 Size (sales turnover and number employed), diversity (number of sites and organisation) and complexity (including product lines, markets and use of technologies).

ii Stage Identification by Management Style and Organisation

Stage identification by reference to management style and organisation (Table 5.4) proved to be more difficult to analyse than by other characteristics. Many firms that clearly belonged to the survival and growth stage continued to exhibit characteristics of the existence stage, with the owner-manager playing a dominant role in the management of the business. Many established firms were simply organised and employed members of the family to implement key management decisions. Overall, only ten firms could not be easily categorised as having reached distinct stages of development.

TABLE 5.3 : STAGE IDENTIFICATION OF FIRMS SAMPLED BY CUSTOMER BASE AND KEY PROBLEMS (PERCENTAGES)

CUSTOMER BASE AND KEY PROBLEMS	NEW FIRMS		ESTABLISHED FIRMS		TOTAL
	Indigenous N=13	Asian N=13	Indigenous N=20	Asian N=20	N=66
1 Few local customers from personal contacts or for sub-contract work or serving small niche market. Problem: securing customers and delivering the required product. (Existence)	92	85	0	40	47
2 Increased customer base for sub-contract work and distributors as new customers for own design. Cash flow problems. (Survival)	0	15	65	40	35
3 Increased sales to existing customers. Customer base expanded but reliant on few customers for regular business. Problem: Consolidation of resources for growth. (Success-Growth)	8	0	35	20	18
4 Diverse customer base for diverse product/service lines. Targeting introduced but not fully developed. (Lift-Off)	0	0	10	5	5
TOTAL	100	100	110	105	105

Totals exceed 100% due to firms developing customer base, therefore some firms fall into more than one category.

TABLE 5.4 : STAGE IDENTIFICATION OF FIRMS SAMPLED BY MANAGEMENT STYLE AND ORGANISATION (PERCENTAGES)

MANAGEMENT STYLE AND ORGANISATION (AND STAGE OF DEVELOPMENT)	NEW FIRMS		ESTABLISHED FIRMS		TOTAL
	Indigenous N=13	Asian N=13	Indigenous N=20	Asian N=20	N=66
1 Direct supervision. Owner undertakes most tasks and decisions, simple organisation, use of family. (Existence)	84	84	15	65	56
2 Supervised supervision and owner makes key decisions. Few employees from outside family. Managers/Supervisors in place. (Survival)	8	26	90	45	45
3 Functional Managers employed at middle management level. (Success-Growth)	8	0	15	15	11
TOTAL	100	110	120	125	112

Totals exceed 100% due to firms developing into next stage.

Established indigenous firms seemed to be reluctant to employ functional managers at middle management level and tended to continue operating with sales or general managers supervising small teams of employees. In contrast, established Asian firms made little progress in management style and organisation, with the owners continuing to drive the business.

iii Stage Identification by Major Strategy Pursued

An assessment of the firms' major strategy (Table 5.5) revealed that a majority of new indigenous and Asian businesses strived to merely exist by pursuing strategies of serving small numbers of customers in narrowly defined markets or by catering for whoever wished to buy from them. A small proportion (8% of indigenous and 16% of Asian firms) had progressed from pursuing existence type strategies to a position where they were attempting to survive by building on their customer base.

Only one firm (indigenous) was aiming to secure and manage resources for growth and was implementing strategies designed to broaden both its customer base and products/services offered. This firm, however, can be regarded to be exceptional in having progressed from existence stage through to successful growth stage of development in three years of operation. This case does, however, demonstrate that firms can indeed skip stages of the model and progress, for example, from existence stage to success-growth stage in a relatively short period of time.

TABLE 5.5 : STAGE IDENTIFICATION OF FIRMS SAMPLED BY MAJOR STRATEGY PURSUED (PERCENTAGES)

STRATEGY	NEW FIRMS		ESTABLISHED FIRMS		TOTAL
	Indigenous N=13	Asian N=13	Indigenous N=20	Asian N=20	N=66
1 Existence	84	84	10	60	54
2 Survival	8	16	85	40	42
3 Main profitable status quo	0	0	0	0	0
4 Secure and manage resources for growth	8	0	30	10	14
5 Growth	0	0	5	10	5
TOTAL	100	100	130	120	115

Total exceeds 100% due to a number of firms that were pursuing a number of strategies.

The pattern of development amongst established firms differed considerably, with 60% of Asian firms remaining at the existence stage, compared with only 10% of indigenous firms.

A large majority (85%) of indigenous firms had reached and remained at the survival stage for many years. Of the Asian firms, 40% that had reached the survival stage had done so by broadening their customer base beyond servicing Asian markets and by designing and manufacturing their own products. These firms, mainly in manufacturing (and in common with indigenous firms) had gradually reduced their reliance on sub-contract work and were attempting to sell direct to organisations and end users.

A larger proportion (30%) of indigenous firms had progressed to the success-growth stage of development, compared with Asian firms (10%). Overall, only 10 firms were pursuing combinations of strategies that placed them into more than one stage of development.

iv <u>Stage Identification by Extent of Formal Systems and Planning</u>

A review of the extent of formal systems and planning also revealed that two thirds of indigenous and Asian new firms had no systems, undertook no planning and had remained at the existence stage of development (Table 5.6). Although nearly a third of the remaining new firms had minimal or evolving systems and had started the process of planning in the form of

TABLE 5.6 : STAGE IDENTIFICATION OF FIRMS SAMPLED BY EXTENT OF FORMAL SYSTEMS AND PLANNING (PERCENTAGES)

EXTENT OF SYSTEMS AND PLANNING (AND STAGE OF DEVELOPMENT)	NEW FIRMS		ESTABLISHED FIRMS		TOTAL
	Indigenous N=13	Asian N=13	Indigenous N=20	Asian N=20	N=66
1 No systems and little or no planning (Existence)	69	62	15	70	52
2 Minimal and evolving systems and planning in the form of cash-flow forecasts and budgets (Survival)	23	38	60	35	41
3 Developing systems. Operational plans and extensive strategic planning involving the owner. (Success-Growth)	8	0	35	10	15
TOTAL	100	100	110	115	108

Tctal exceeds 100% because extent of planning was evolving in some firms and therefore fell into two categories.

cash-flow forecasts and budgets, most were still at the existence stage of development when other criteria was applied.

The profile of established firms closely reflected the major strategies pursued by those firms (Table 5.5) and confirmed the difference in the rate of development between indigenous and Asian firms. Overall, a large majority of firms were easy to categorise and only five firms had evolving systems and planning procedures and therefore fell into two stages of development.

v **<u>Stage Identification by the Importance of the Owner</u>**

The analysis suggests that the importance of the owner in relation to the business itself is one of the most useful criteria in deciding the stage of business development reached by small firms. Of the six characteristics used, the importance of the owner proved to be the easiest to use in identifying the stages of development attained by the firms in the sample. Only three firms were in a transitional phase and had to be grouped under two stages of development.

Table 5.7 also provides further evidence that a very large majority of new firms remain at the existence stage after three years of operation. Amongst the established firms, about two thirds of Asian firms failed to progress beyond the existence stage. Established indigenous firms by contrast tended to be concentrated at the survival stage and most had remained there for many years. Overall, only 15% of

TABLE 5.7 : <u>STAGE IDENTIFICATION OF FIRMS SAMPLED BY THE IMPORTANCE OF THE OWNER IN RELATIO TO THE FIRM (PERCENTAGES)</u>

THE IMPORTANCE OF THE OWNER (AND STAGE OF DEVELOPMENT)	NEW FIRMS		ESTABLISHED FIRMS		TOTAL
	Indigenous N=13	Asian N=13	Indigenous N=20	Asian N=20	N=66
1 The owner is the business (Existence)	92	92	20	60	61
2 The owner is still synonymous with the business. (Survival)	0	8	50	40	29
3 The business becomes more important and the owner is still deeply involved. (Success-Growth)	8	0	30	10	14
4 The owner is equally important but has moved apart to engage in other activity. (Success-Disengagement)	0	0	5	0	2
TOTAL	100	100	105	110	106

Total exceeds 100% due to development of some firms.

firms in the sample progressed to the success-growth stage of development.

Only one firm was classified as having reached success-disengagement stage. This firm, however, had all the other attributes that would place it under the success-growth stage of development. This firm was established over 150 years ago, now belonged to a group of companies and employed a managing director to run the operations.

vi Stage Identification by Size, Diversity and Complexity of Operations

As Churchill and Lewis did not provide any details of how they used this characteristic in their original model, it was necessary to construct categories of size, diversity and complexity of business operations for the different stages of development. The categories used in Table 5.8 were compiled by interpretation of the profile of the sample used in the original model and by reference to the data from the present study.

This characteristic proved the most difficult to use in identifying stages of development and resulted in 13 firms being classified into more than one stage of development. Some firms in the sample had the required number of employees and sales turnover to fall into one stage, but lacked the diversity and complexity of operations at that level. Others did not have very high sales turnover but had the diversity of product

TABLE 5.8 : STAGE IDENTIFICATION OF FIRMS SAMPLED BY SIZE, DIVERSITY AND COMPLEXITY OF OPERATIONS (PERCENTAGES)

SIZE, DIVERSITY AND COMPLEXITY OF OPERATIONS	NEW FIRMS		ESTABLISHED FIRMS		TOTAL
	Indigenous N=13	Asian N=13	Indigenous N=20	Asian N=20	N=66
1 Up to 20 employees, simple business and sales turnover of up to £2 million. (Existence)	100	100	45	85	79
2 Up to 50 employees, developing products/markets and sales turnover of up to £5 million. (Survival)	8	0	60	30	29
3 Up to 100 employees, diverse product lines and serving many customers and sales turnover of up to £10 million. (Success-Growth)	0	0	30	10	12
4 Up to 200 employees, diverse products/ markets, complex organisation and sales turnover of up to £20 million. (Lift-Off)	0	0	0	5	2
TOTAL	108	100	135	130	122

Total exceeds 100% because firms fall into more than one category.

lines and served a large number of different markets and could therefore be classified to have attributes of more than one stage of development. Overall, by using this characteristic, nearly 80% had reached survival stage and only 12% qualified to belong to the success-growth stage of development.

3 CONCLUSIONS

The testing of the Churchill and Lewis model using the six characteristics has shown that it can be used to predict the stage of development a small firm has reached at a given point in time. There are, however, some reservations on the precision of the model because of the difficulties in categorising a small number of firms to one single stage of development. The testing has shown that although a majority of the firms in the sample could be categorised to belong to a specific stage quite easily, a small number of firms were in the transitional phase between two stages of development. The testing has demonstrated that whilst a number of firms appeared to be at a given stage of development, they were, on closer examination, at one stage with reference to one characteristic and at another with regard to others. Table 5.9 shows the distribution of the 66 firms in the sample by both distinct stages and transitional phases. Of the 66 firms, only 16 had to be categorised as belonging to more than one stage of development. It can also be concluded that all the firms that could be categorised into two stages were only one stage ahead or behind their overall classification by reference to all six characteristics.

TABLE 5.9 : GROUPING OF FIRMS SAMPLED BY STAGES AND TRANSITION BETWEEN STAGES OF DEVELOPMENT

STAGES OF DEVELOPMENT	NEW FIRMS				ESTABLISHED FIRMS				TOTAL	
	Indigenous		Asian		Indigenous		Asian		N=66	
	No	%	No	%	No	%	No	%	No	%
1 Existence	12	92	11	84	0	0	8	40	31	47
2 Existence/Survival	0	0	1	8	2	10	4	20	7	11
3 Survival	0	0	1	8	11	55	5	25	17	25
4 Survival/Success-Growth	1	8	0	0	4	20	1	5	6	9
5 Success-Growth	0	0	0	0	2	10	0	0	2	3
6 Success-Growth/Lift-Off	0	0	0	0	1	5	2	10	3	5
7 Lift-Off	0	0	0	0	0	0	0	0	0	0
8 Resource Mature	0	0	0	0	0	0	0	0	0	0
TOTAL	13	100	13	100	20	100	20	100	66	100

TABLE 5.10 : STAGE IDENTIFICATION OF FIRMS SAMPLED BY REFERENCE TO MEANS OF RESPONSES TO THE SIX MEASUREMENT CRITERIA (PERCENTAGES)

STAGES OF DEVELOPMENT	NEW FIRMS		ESTABLISHED FIRMS		TOTAL
	Indigenous N=13	Asian N=13	Indigenous N=20	Asian N=20	N=66
1 Existence	92	92	0	55	53
2 Survival	0	8	75	35	35
3 Success-Growth	8	0	25	10	12
4 Lift-Off	0	0	0	0	0
TOTAL	100	100	100	100	100

The evidence (means of responses to stage identification in Table 5.10) suggests that overall 90% of new businesses remain at existence stage, only 4% progress to survival stage and 4% to the success-growth stage of development. The pattern of development of established firms indicates that over 70% of indigenous firms remain at survival stage and 55% of Asian firms remain at existence stage of development. Only 12% of the firms sampled could be classified as having progressed to success-growth stage. Although three firms exhibited some characteristics of lift-off stage, they did not fully qualify to belong to this stage of development.

The analysis of the data collected revealed four main variations from the original model. First, the grow-or-fail hypothesis implicit in the model and in earlier models was invalid. A number of firms in the sample had passed through the survival stage and then plateaued and remained essentially the same at success-growth stage, with some marginally profitable and others very profitable over a period between 4 and over 100 years. A relatively large number of established firms had progressed from existence stage and plateaued and remained the same at the survival stage of development. This was more marked amongst Asian firms than indigenous firms.

Secondly, the testing also showed that successful, fast-growth firms do skip stages of development. Although the model has been criticised for not catering for such firms, the analysis indicates that the model can cope with fast-growth firms and it continues to be a useful tool in identifying the stage of development reached by a firm at a given point in time. Thirdly, there was only one firm in the sample that could be classified under success-disengagement stage. The main characteristic that puts firms in this category is the owner's involvement or importance in the business. The data suggests that such firms are normally part of holding companies or belong to a group of companies where the owner no longer plays an active role, or is involved at a corporate level.

As the other five characteristics used in identifying firms at this stage tend to be the same as for firms at success-growth stage, it is suggested that it is not necessary nor valuable to split the success stage into two different sub-categories. For analysing and studying a large majority of small owner managed businesses that conform to Bolton's qualitative and quantitative definitions of small firms, the model should be modified to have only one success-growth stage of development.

Finally, the analysis suggests that as firms near or reach lift-off stage, they start to exhibit the characteristics of medium sized firms, and firms that reach resource maturity stage are in fact 'big businesses'. Although it has been suggested in chapter three that perhaps only the first three stages of the model are relevant to small firms, this study suggests that firms at lift-off stage continue to exhibit a number of characteristics that qualify them to be classified as small. It is therefore concluded that the original model had to be modified before it could be used as a framework in analysing the application of marketing in small firms.

The original model was modified in two ways. The first modification was to eliminate the success-disengagement sub-stage of success from the model. The second modification was to reduce the number of stages from five to four. The result was a four stage model: (i) Existence, (ii) Survival, (iii) Success-Growth, (iv) Lift-Off.

The analysis of the results of the qualitative studies reported in chapters six and seven are based on the modified four stage model of small firms development. In chapter eight, the research hypotheses are also tested against the framework provided by this revised model. The additions to the Churchill and Lewis model that have resulted from this study have been made by reference to the original and revised models. New models of evolution and application of marketing in small firms have also been developed on the concept of stages of business development.

PART TWO

METHODOLOGY, RESULTS AND CONCLUSIONS

CHAPTER SIX

OWNER-MANAGERS' BACKGROUND AND THEIR ORIENTATIONS TO RUNNING SMALL BUSINESSES

CHAPTER SIX

OWNER-MANAGERS' BACKGROUND AND THEIR ORIENTATIONS TO RUNNING SMALL BUSINESSES

INTRODUCTION TO CHAPTERS SIX AND SEVEN

To test the central hypothesis of this thesis that most small firms fail to progress beyond the existence and survival stages of development because their founders start and continue to operate the enterprise from production or sales perspective and do not apply formal marketing, the research design strategy required the study of new and established firms. Although this study is mainly concerned with established firms, the rationale for including new firms (those in the first three years of operation) in the research design was to supplement the findings amongst established firms on how the founders' background and start-up processes they followed during the initiation stage influenced their orientation during the development stages of the enterprise development. It was felt that because the research design defined established businesses as those operating for more than three years, the sample could include some very old firms whose origin and start-up processes would be difficult to trace. As this study is based on distinct samples of new and established small firms, chapters six and seven are devoted to presenting and discussing the results of the qualitative research amongst indigenous and Asian small firms at the start-up, early development and growth stages of their operations.

The aim of these chapters is to assess whether or not the data collected support the tentative hypotheses of this thesis. They concentrates on examining the background of the founders, their business orientation, and the business planning and marketing activity that they undertook during the different stages of development. In order to provide answers to the supplementary questions raised by the research hypothesis concerning the similarity and differences between indigenous and Asian firms, these chapters also compare and contrast the backgrounds, orientation and practices of these two groups of owner-managers. The outcomes and implications of applying formal marketing in small firms are also discussed by reference to the longitudinal studies of two firms.

Although the use of personal interviews and case studies provided a wealth of qualitative information which would not have been available from using survey methods, it is necessary to point to their limitations for statistical analyses. Because of the difficulties encountered in gaining co-operation of owner-managers to conduct this research, the time consuming nature of personal interviews and case studies and the modest resources available, these chapters are based on a study of sixty-six firms. The results presented in these chapter have been extracted from studies of twenty-six new firms (involving twenty in-depth interviews and six case studies) and forty established firms (thirty interviews and ten case studies) shared equally amongst indigenous and Asian owners. To assess the outcomes and implications of applying formal marketing in small firms, the research design extended the study of two firms (one indigenous and one Asian) from a single point in time to longitudinal studies over a period of two years.

In view of the volume of data collected it was decided not to include detailed reports of interviews in the thesis, but to present summaries of the results by categorising them according to the main topics contained in the interview guide and schedule (Appendices 1.1 and 1.3) that were employed. As some of the responses to the research topics were recorded verbatim, the actual words used by owner-managers themselves are combined with tabular analysis and reported in these chapters. The six case studies of new businesses, eight case studies and two longitudinal case studies of established businesses are contained in Appendices 2.2 to 2.7 and 3.2 to 3.11 respectively in Volume Two of this thesis. The results derived from interviews and case studies are presented as relative frequencies as they relate to indigenous and Asian businesses and as a total of small firms sampled. The results by new and established firms are presented separately to comment specifically on start-up and development stages and are combined to discuss the results of the total sample, where appropriate. This also serves to compare and contrast the development of firms run by indigenous and Asian owner-managers and to discuss the general characteristics, attributes and practices of small firms at the various stages of development.

Chapter six is divided into five sections and examines the background of the founders, including origin, age, qualifications, work experience and previous managerial and business development experience to explore whether there is an association between background and the tendency of founders to adopt production or sales orientated approach to running new business. It also assesses the changes in the owner-managers' orientation during start-up, early development and growth stages to provide evidence to support or reject the central hypothesis. The last section is devoted to examining the owner-managers' awareness and understanding of the term marketing. Chapter seven is divided into three main sections. Section one reports on the extent of business planning and application of marketing before and during business start-up, early development and growth stages of operations. As one of the major barriers to the development of small firms is the lack of adequate customer base (see Chapter Three), this section also examines how small firms secure customers during the different stages of development. The owner-managers' assessment of past performance, future prospects of the business and some of the reasons for their optimism and pessimism are reported in section two. The analyses of the study of two firms over time highlighting the outcomes and implications of applying formal marketing are summarised in section three and also referred to in the report on marketing in established firms in section one. The following sections rely heavily on the sixteen case studies and should therefore be read with reference to Appendices 2.2 to 3.10 in Volume Two of this thesis.

OWNER-MANAGERS' BACKGROUND AND THEIR ORIENTATIONS TO RUNNING SMALL BUSINESSES

A number of previous research studies (for example, Scase and Goffee (1), Bragard et al (2), Pickles and O'Farrel (3), Binks and Jennings (4) and Jones, McEvoy and Barrett (5)) have examined the background of entrepreneurs with the aim of explaining why individuals start small businesses. The aim of this present study is to ascertain whether certain types of backgrounds influence the initial (and in many cases subsequent) orientation adopted by owner-managers in running the business. The hypothesis that most small firms fail to progress beyond the existence or survival stages of development because their founders started and operated the business from production of sales perspective was based on the assumption that this orientation was in a large part determined by the background of the owner-managers. To provide evidence to support the hypothesis as it relates to the start up of the business operation, this study included age, previous experience, qualifications and motivations for starting in business as important aspects of background.

1. Age Of Owner-Managers And Motivations For Starting A Business

The analysis of the interviews and case studies indicate that the age patterns of indigenous and Asian entrepreneurs running new businesses differed markedly in 1986/87. The Asian owner-managers were concentrated in the age bands less than 30 and 40 years, with over half of founders in the

36-40 years range. The indigenous firms were in the main (8 firms) started by founders between the age of 41 and 50. The tendency for Asian entrepreneurs to start in business at a younger age than their indigenous counterparts can be explained by an examination of their motivations for choosing self employment. The main reasons for Asians to go into business are lack of opportunities and frustrations in their last job, lack of employment opportunities and family tradition or caste. Although there is little published research on the association between caste and Asian entrepreneurial activity in the UK, the interviews and case studies of new businesses indicate that the possession of knowledge and skills of a family trade is an important motivator for individuals to start their own businesses. The case studies (Appendices 2.2 to 2.7) indicate that family tradition is reinforced particularly where Asians are brought up by parents already running small firms and who bear pressure on their children to join the business at an early age. This is particularly marked where the businesses are founded by first generation Asians and who encourage their sons to come into the business because they can communicate in English. Many Asians seem to enter family businesses after finishing secondary education and then start their own enterprises between the ages of 31 and 40 years. The main reasons for breaking away from the parents' businesses tend to be related to their frustrations at not being in control of the direction of the firm and to the lack of future prospects of the business.

The following quotations by Asian founders of new businesses highlight some of the reasons for their early participation in a small business.

> "When I was at school, I wanted to follow a career in the motor industry, either as a designer or an engineer. But because my father, who does not speak or write English very well, and who ran his own clothing firm wanted me to join the business, I had to devote myself totally to helping the family. I came into the business when I was 19 and by the age of 32, I started my own business because I was fed up of my father and his partner making all the decisions. I think their business failed because they were not willing to try new ideas and would not let go of the control."
>
> Managing Director (36), Clothing Manufacturing Company.

> "I did not do very well at school, partly because I did not enjoy the school I went to and partly because I used to work in my father's jewellery business most days after school. We are jewellers by family tradition and I learned the trade from my father and started to work in his workshop at the age of 16. At the age of 25, I am now running a similar jewellery business with my wife who also comes from a family of jewellers."
>
> Owner (25) of small Asian jewellery retail and manufacturing business.

> "My father had built a successful construction company in Kenya, and I knew a lot about the business when I came to England in 1971 to study for a career in civil engineering. I did not do well at my 'A' levels and decided to work as a production controller in a medium-sized firm in Birmingham that manufactured ladies handbags, picture frames and other pressed products. I could not see any future in this job, and at the age of 32, I decided to start a small construction company with a partner who had many years of experience in this industry. The skills required in the construction business, such as carpentry, bricklaying, design and plumbing are part of my family's tradition, and I had no difficulty in turning my hands to all of them when we first started and had to do most of the work ourselves."
>
> Partner (35) Construction Company.

The reasons for late participation by indigenous entrepreneurs tend to be linked with the threat of unemployment and redundancy as the main motivators for starting a business. Bearing in mind the timing of this study (1986/87), the sample of firms contained a number of entrepreneurs who were made redundant from the metal manufacturing industry and who were in their mid-forties. The small number of younger entrepreneurs started in business due to a lack of employment opportunities and who were tempted to become self employed by the Government's Enterprise Allowance Scheme. Only two businesses were started by indigenous entrepreneurs between the age of 30 and 35 who saw market opportunities for their products and services.

An analysis of the age profile of owner-managers of established businesses (Table 6.1) reveals a slightly different pattern to those starting new firms. Asian owner-managers were concentrated in the age bands between less than 30 and up to 40 years (95%) at the time when they started in business. This compares with 65 per cent of indigenous owner-managers in the same age range with 25 per cent in the 46+ bands. As a majority of Asian businesses studied were started in the early to mid 1970s, the main motivations were family tradition (35%), having the skills and expertise to start a trade (40%) and the desire for independence. Although 25 per cent indicated that they started in business because of the lack of employment opportunities for their skills, most also had the necessary skills (either from previous experience or from family tradition) to start a trade. Although only one Asian

TABLE 6.1 AGE AND MOTIVATIONS OF OWNER/MANAGING DIRECTORS OF ESTABLISHED BUSINESSES

Personal Attributes	**Indigenous Firms**		**Asian Firms**		**Total**	
1. AGE(When starting business business or becoming MD)	**N = 20** No.	**%**	**N = 20** No.	**%**	**N = 40** No.	**%**
Less than 30	5	25	6	30	11	28
36-35	5	25	5	25	10	25
36-40	3	15	8	40	11	28
41-45	5	25	0	0	5	12
46-50	1	5	1	5	2	5
51+	1	5	0	0	1	2
TOTAL	20	100	20	100	40	100

	Indigenous Firms		**Asian Firms**		**Total**	
2. Motivations for starting a Business	**N=20** No.	**%**	**N=20** No.	**%**	**N=40** No.	**%**
Lac. of Opportunities and frustration in my last job	1	5	0	0	1	3
Unemployment or threat of unemployment	0	0	1	5	1	3
Redundancy	0	0	0	0	0	0
Lack of employment opportunities for my skills/background	0	0	5	25	5	13
Desire for independence	4	20	5	25	9	23
Market Opportunity	4	20	4	20	8	20
Family business/tradition/caste	6	30	7	35	13	33
Had skills/training/experience to start own business	7	35	8	40	15	38
Takeover/Others	2	10	0	0	2	5
TOTAL	**24**	**120**	**30**	**150**	**54**	**135**

Total exceeds 100% due to multiple responses.

founder was unemployed prior to starting in business, the majority were employed in jobs that did not utilise their skills and experience and were mainly concentrated in manual occupations in engineering, construction and transport industries in the West Midlands. Twenty per cent of Asian businesses were started in response to the market opportunities mainly amongst the Asian and ethnic markets for products and services not provided by the wider business community.

Amongst indigenous owner-managers, over a third (35%) started own businesses because they had the necessary skills and experience, and 30 per cent joined or became directors of family businesses in their early to mid thirties. The high proportion of indigenous and Asian owner-managers of both new and established firms started in business because of family tradition and having the necessary skills indicates that motivation is an important determinant of the founders' orientation towards production in running the business at the initial stages of business development. The following quotations from owner-managers of established businesses lend some support to this proposition.

> "I gave up my job as Regional Sales Manager with a medium-sized electrical distribution company to set up a small business assembling and selling equipment for temporary networks on construction sites. I was 42 years old and had had many years of experience, both of manufacturing and selling in the industry and knew that I could easily sell my own range of products to the markets that I had served over the years with my last employer. I started by manufacturing small batches to order from our garage and have gradually built the business to employ 30 people in just under eight years."
>
> Managing Director of an Electrical Components Manufacturing Company (Indigenous).

"I came to England at the age of 23 and worked as a manual labourer in a die casting firm in Smethwick. I started a small garments manufacturing business with my family when I was 26 and we now employ 40 people and have a sales turnover of over £1 million. Although I belong to a caste of drapers and tailors, I had no previous experience of garment manufacture. We learned the trade very quickly by taking on outwork from other Asian anorak manufacturers for two years before starting our own business."

Managing Director of Asian Garments Manufacturing Company.

"I was a primary school teacher in Pakistan but because I could not speak English I worked as an operator on the assembly lines of engineering companies for many years. I got fed up of the boring job and at the age of 49 I started a small shop to sell second-hand furniture. We slowly started repairing furniture and then moved into manufacturing bed settees and other upholstered furniture to sell to Asian people in Birmingham. I used my experience of assembling products to start our own factory to make furniture".

Founder of Upholstered Furniture Manufacturing Company.

"My partner and I had many years of experience of graphic design and typography in the advertising and printing industry and started a small studio to service advertising agencies in the Midlands. We worked as freelance designers and had many contacts who gave us regular work. When we started, we spent most of our time doing the design work and relied heavily on orders from a local printer and our contacts in the advertising industry".

Partner of a design and photography studio (indigenous).

1.2 Educational Qualifications of Owner-Managers of New And Established Businesses

The patterns of educational attainment amongst indigenous and Asian owner-managers have to be interpreted within the constraints of small samples of new and established firms interviewed. The results indicate that the educational attainment of founders of new businesses differ considerably and that the difference is more pronounced amongst Asian firms. The new indigenous businesses were started by those with vocational qualifications, first degree or those without any qualifications. The pattern of attainment differs amongst founders of established businesses with a greater number having vocational and school qualifications and fewer with degrees or postgraduate qualifications (Table 6.2a). New Asian businesses were founded by those with school and vocational qualifications and those without any qualifications. Three out of the thirteen Asian founders however, did have first degree and postgraduate or professional qualifications. This is a much higher proportion than the figures indicated by the most recent study of ethnic business start-up (Jones et al, 1992 (5)) and is largely due to the small sample of firms studied. The pattern of attainment amongst founders of established firms was very different with 85 per cent having school or vocational qualifications and only 5 per cent with first degree. The differences between the two groups can be explained by the time lag of about twelve years between the start of established and new Asian firms. The established firms were started by founders who had received their school education in the countries of origin

TABLE 6.2a EDUCATIONAL QUALIFICATIONS OF OWNER-MANAGERS OF ESTABLISHED SMALL FIRMS

Qualifications	Indigenous Firms		Asian Firms		Total N = 40	
	No.	%	No.	%	No.	%
School Qualifications (O/A levels School Certificate etc	5	25	12	60	17	43
Vocational and Technical (City & Guilds, OND/HND etc)	8	40	5	25	13	32
Membership of Professional Institute	1	5	0	0	1	2
Post-graduate	0	0	0	0	0	0
No Qualifications	4	20	4	20	8	20
TOTAL	**21**	**105**	**22**	**110**	**43**	**107**

Total exceeds 100% because some owner-managers had more than one qualification.

TABLE 6.2b EDUCATIONAL QUALIFICATIONS OF OWNER-MANAGERS OF NEW AND ESTABLISHED SMALL FIRMS (Percentages)

Qualifications	Indigenous Firms	Asian Firms	Total N = 66
School Qualifications (O/A level, School Certificate etc	18	48	33
Vocational and Technical (City & Guilds, OND/HND etc)	33	24	28
Membership of Professional Institute	3	3	3
First Degree	21	6	11
Post-graduate	3	3	3
No Qualification	24	21	28
TOTAL	**102**	**105**	**106**

Total exceeds 100% due to multiple qualifications.

and who had come to the UK and worked in manual or semi-skilled occupations. Founders of new businesses reflected the educational attainment of the second and third generation of Asians settled in the UK and who had school, vocational and degree qualifications.

Of greater interest to this study however, was to explore whether there is an association between the educational attainment of the founders and their orientation or approach to starting and developing the business. The evidence suggests that the type of education influences or directs the founder's orientation. For example, founders educated at degree and postgraduate levels in engineering, science or technology tended to be much more production-orientated and started their businesses on the basis of their knowledge or inventions of new and improved products, and paid little attention to the needs of the market. Those with school and vocational and technical qualifications also relied heavily on their skills and knowledge of their trade in starting the business. To test this proposition further, the research design also probed the occupation and experience of owner-managers prior to starting in business.

1.3 Occupation And Experience Of Owner-Managers Prior To Starting In Business

This section attempted to investigate several key issues that would assist in highlighting how individuals go about starting a small business. In formulating the central hypothesis of this study it was assumed that founders' previous experience greatly influenced their choice of business activity and the orientation that they adopted in operating the businesses. Table 6.3 reveals some interesting and different patterns of indigenous and Asian owner-managers' occupation and experience prior to starting in business. A majority (79%) of indigenous founders had had previous experience of working in small, medium and large organisations that were engaged in similar business activity as their own line of businesses, compared with only 42% of Asian founders. Over a third (36%) of Asian founders worked in occupations and industries not related to their line of business but who had knowledge, skills or experience of their chosen trade from their family background and tradition, or who were compelled to join a family business. Amongst the founders of established indigenous firms, 18 per cent joined (or became managing directors of) family businesses.

In both groups, the evidence suggests that the skills and knowledge gained either from previous employment or from within the family determined the industry and or activity that founders of new businesses pursued. The possession of certain skills and knowledge of an industry therefore inevitably encourages individuals to start new ventures by placing emphasis on the products/services or production capabilities over and above considerations of the market place. This is particularly marked amongst Asian founders who follow their family traditions and start in business on the basis of having the necessary skills of the trades.

TABLE 6.3 PREVIOUS OCCUPATION AND EXPERIENCE OF OWNER-MANAGERS OF NEW AND ESTABLISHED BUSINESSES

	A. Experience and occupation prior to starting business	**Indigenous Firms N= 33**		**Asian Firms N= 33**		**Total N = 66**	
		No.	**%**	**No.**	**%**	**No.**	**%**
1.	Previous experience of running small business	0	0	5	15	5	9
2.	Previous experience of working in a small firm involved in similar business activity	9	27	7	21	16	24
3.	Previous experience of working in a medium/large organisation	17	52	7	21	24	36
4.	Previous experience not related to current line of business activity	4	13	12	36	16	24
5.	Family business	6	18	0	0	6	9
6.	Family tradition/pressure	0	0	13	39	13	20
7.	No previous experience	0	0	1	3	1	2
TOTAL		**36**	**110**	**45**	**136**	**81**	**123**

	B. Managerial and Business Development Experience						
1.	No previous experience	21	64	27	82	48	73
2.	Managerial experience	12	36	5	15	17	26
3.	Business Development experience	4	12	3	9	7	11
TOTAL		**37**	**112**	**35**	**106**	**72**	**109**

Totals exceed 100% due to multiple responses.

As one of the major barriers to growth of the small firms (Bosworth (6), Gill (7), Stanworth and Curran (8) and Storey (9)) is the owner's managerial ability, the study attempted to ascertain the extent to which founders of new businesses had had previous management and business development experience prior to starting in business. Table 6.3 shows that 73 per cent of all firms sampled were started by founders who had no previous experience in these areas. Although more indigenous founders had previous managerial experience than Asian founders, their involvement in management had been limited to *supervisory, lower to middle* management and sales management positions. The small proportion (11%) of founders with previous business development experience had been involved in running family businesses.

4. Owner-Managers' Orientations To Running The Business During Start-up, Early Development And Growth Stages

An analysis of the ways in which owner-managers of new firms sampled explained how they had started their businesses were grouped into five main categories. These are shown in Table 6.4 and are further grouped into three approaches or management orientations that were adopted in business start-ups. The most common approach to starting new business was by owner-managers focusing on their skills, ideas or abilities to make/offer products and services. Over 60 per

TABLE 6.4 OWNER MANAGERS' APPROACH (ORIENTATION) TO RUNNING THE BUSINESS (NEW BUSINESSES N 26)

Orientation adopted in Starting the Business	Indigenous No.	%	Asian No.	%	Total No	%
1. Production Orientation						
a) I/We had the skills, experience, qualifications and ability to start a business in this field.	6	46	5	38	11	42
b) I/We had the idea for this product service and I/we knew it would sell without much difficulty.	0	0	1	8	1	4
c) I/We knew that we could make/offer some products/service as competition and sell to whoever would buy.	2	15	4	31	6	23
2. Sales Orientation						
I/We knew that once we could produce good quality product (or offer a service), we would place major emphasis on advertising and selling to ensure sales.	4	31	2	15	6	23
3. Marketing Orientation						
I/We placed major emphasis on prior analysis of market needs, adapted our product/service to meet customer needs and attracted customers to the business.	1	8	1	8	2	8
TOTAL	**13**	**100**	**13**	**100**	**26**	**100**

cent of indigenous and 76 per cent of Asian founders had started the business with an emphasis on their production/operations capabilities. This production-orientation was typical of founders who were motivated by having the skills and knowledge to start a business and who either had previous experience in the same industry or who had technical and engineering qualifications. Amongst Asian founders, the production-orientation essentially stemmed from previous experience, qualifications and from the family tradition where the skills of the trade tended to push the individual to start a business on the basis of having the capability to produce the products. The following individuals may be regarded as typical of those adopting production-orientation in setting up new ventures.

> "I was made redundant in 1981 from a medium-sized metal fabrications company in Bilston and I decided to work for myself in the same line of business. I had many years of welding experience and started the business, with my partner, offering aluminium welding and fabrications to other businesses in the area. We got some work from contacts we had in the industry and later developed our own aluminium boats for sale in the leisure markets. We made what we could and were willing to sell to whoever would buy from us".
>
> Founder of an indigenous firm.

> "I completed a BSc and a MSc degree in Chemistry and Technology but could not get a suitable job in the polymers industry. I got a job as an Extrusions Operator in a local plastics moulding company and after three years decided to start my own business. I used my academic training and experience of plastic extrusion machines to develop a heating tape that could be made from silicone rubber and cost less than half the price of PVC varieties that were available in the market. I managed to raise the necessary capital to start manufacturing the product and sold to industrial companies and whoever else who wanted to buy it from us".
>
> Founder of an Asian firm.

> "I have over 35 years of experience as a design engineer and took early retirement from a major multinational company. The idea of starting my own business came from a friend who worked in the printing industry and who suggested that there was a demand for specialist machines that I could design and make. Although I sold a few machines, I had to start offering my skills and knowledge to other firms. I got some work from my old colleagues from the multi-national company to make prototype machines and other tools. I have also invented a few new products for the graphics industry, but have not yet found any customers for them."
>
> Founder of indigenous engineering firm.

Nearly 31 per cent of indigenous and 15 per cent of Asian founders adopted the approach of producing the products and then placing considerable emphasis on advertising and selling to ensure sales. Sales orientation was found to be typical in such businesses as wholesaling, retailing, catering, computing and other services. Emphasis on selling was also found in businesses manufacturing products for the consumer markets, such as double glazing.

Only one firm from each group started the business on the basis of prior analysis of market needs and adapting the products/services to meet customer needs to ensure sales. The marketing-orientation was evident amongst founders who had either employed the services of business advice agencies/consultants of who had undertaken some comprehensive and advanced programme of enterprise training prior to starting the business. In the sample of firms examined, those adopting marketing-orientation to direct their operations happen to be at the extreme ends of the catering industry. One started by raising venture capital and quickly growing to employ over 50 people within the first two years, and the other started on the Enterprise

Allowance Scheme as a one-man business. The experience of the following founders highlight the sources of their orientation towards marketing.

> "The experience of working as a chef and as a manager in a large hotel that employed a whole range of modern management practices helped me to realise the importance of meeting customer needs in running a business. I was very fortunate to secure a substantial venture capital and financial backing of a large business that enabled me to thoroughly plan my start-up operations. I employed the services of venture capital company to help me prepare a business plan that was based on a comprehensive feasibility and market research study. My confidence in the business venture and the availability of finance helped me to employ a marketing manager at the outset of starting the business. I knew that having the best or unique catering facilities alone would not be enough to make the business successful."
>
> Founder of a marketing-orientated indigenous catering business.

> "In the final year of my degree course in Engineering at Warwick University, I had the opportunity to join the Government funded Graduate Enterprise programme aimed at encouraging and training new graduates to start their own businesses. A comprehensive package of training and financial assistance helped me to carry out market research and a feasibility study of manufacturing and supplying frozen Indian meals to the catering industry. I had little understanding of marketing before I joined this course and I soon realised that I had to devote a lot of effort into researching the relatively unexploited market before starting my business. I spent over six months researching what would sell in pubs, clubs and canteens and developed a range of suitable frozen products for the different target markets. Without a knowledge of marketing and market needs I would have wasted a lot of money in getting a unit to manufacture these products. I operate my business on the basis of developing customers who would regularly buy from me in bulk and I sub-contract the manufacture of the Indian dishes to two well established restaurants in Coventry."
>
> Founder of a marketing-orientated Asian catering firm.

The data on the orientation adopted by owner-managers of established businesses during the start-up, early development and growth stages of their businesses (Table 6.4a) is very similar for the start-up stage to that of new firms. Seventy-three per cent of established firms were started with emphasis on production and 20% with sales orientation. Three firms (one indigenous and two Asian) were started because the founders saw market opportunities and developed products and services to cater for the needs of the market place.

To test the hypothesis that owner-managers start and continue to run their businesses from production and or sales perspective, the research design traced how the sampled firms progressed through early and growth stages of development by analysing factors such as customer base, sources of customers, product range, markets served and application of marketing techniques. The summary of findings (Table 6.4a) indicates that a very large majority of firms continued to be production orientated during their early development phase. The figures for indigenous and Asian firms are very similar and indicate that production orientation is a common characteristic amongst founders of most manufacturing firms. The fact that over a third (37%) of all firms adopted sales orientation during the early development stage can be explained by retailing, wholesaling and other service firms that placed considerable emphasis on selling and by some manufacturing firms that started to invest in the selling effort to move their products. The firms that shifted their emphasis from production to selling during early development are

TABLE 6.4a OWNER-MANAGERS' APPROACH (ORIENTATION) TO RUNNING THE BUSINESS DURING THE START-UP, EARLY DEVELOPMENT AND GROWTH STAGES (PERCENTAGES)

ORIENTATION ADOPTED IN RUNNING THE BUSINESS	INDIGENOUS FIRMS AND STAGES (N=20)			ASIAN FIRMS AND STAGES (N=20)			TOTAL AND STAGES (N=40)		
	START	EARLY DEVELOP	GROWTH	START	EARLY DEVELOP	GROWTH	START	EARLY DEVELOP	GROWTH
1. Production Orientation	70	60	35	75	65	55	73	63	45
2. Sales Orientation	25	40	60	15	35	45	20	37	52
3. Marketing Orientation	5	0	5	10	0	0	7	0	3
TOTAL	100	100	100	100	100	100	100	100	100

characterised by increased effort in personal selling to new and existing customer by the owner-manager and by increase use of publicity and other promotional activity.

The shift from production to sales orientation becomes particularly marked as firms become more established, start to increase their customer base and product range and hence sales turnover and number employed. This exploratory study shows that although 45% of all firms continued to operate from production perspective, over half (52%) became sales orientated during the development and growth stages of their business operations. Although only 7% of all firms sampled started from a marketing perspective, it is interesting to note that these firms abandoned this orientation and adopted either sales or production orientation during the early development and growth stages. The analysis of the in-depth interviews and case studies of such firms reveal that their founders had started the businesses in response to identifying demand and gaps in the market and by offering the desired products/services. But as these firms developed, they turned their focus on production (or operation of a service), the product range on offer and the sales effort in keeping existing customers. This was particularly marked in Asian businesses that were started to cater for the Asian markets for a range of foods, drinks, leisure, textiles and other specialised products and services.

Amongst the indigenous firms, an example of this is the Narrow Track Limited. This firm was founded on the basis of a gap in the market for fork lift trucks that could operate in Warehouses designed to maximise the efficiency of the space available. The founder (who had worked for a trucks manufacturing firm) developed a product that met the needs of the market and started a business by assembling components and parts bought in from other companies. But within a period of three years the company had increased its labour force and had organised to selling the large stocks that had been made. The Asian businesses that had been started to meet the needs of the market are Midlands Meat Limited and Eastern Foods Limited (see Appendices 3.8 and 3.9). Midlands Meat was founded to supply Halal meat to the increasing Muslim community in Birmingham and West Midlands. Eastern Foods was established as a wholesale business to meet the needs of Asian retailers for a very wide range of Indian packaged and processed foods. Both these businesses developed rapidly and expanded their operations to such an extent that their capacity far exceeded the demands of the narrow ethnic markets that they served. During the development and growth stages, these businesses started to develop products lines for the general (non-Asian) markets without much knowledge or research into their requirements and buying processes. The meat company moved into processing pet foods and diversifying into manufacturing packaged meat products such as spicy burgers for the consumer markets. The food company also diversified and invested heavily in processing and packaging Asian produce for sale to multiple retail outlets.

To further explore owner-managers' approach to running their businesses, they were asked to rank the importance of the main business functions. The functions of finance, marketing, personnel, production and research and development were explained to the respondents and they were asked to rank them in order of importance as they related to their businesses. The order of ranking by indigenous and Asian managers of both new and established firms was identical and Table 6.5 shows the mode of responses of the total sample with production (or operation of a service) being considered the most important business function.

TABLE 6.5 HOW OWNER-MANAGERS OF NEW AND ESTABLISHED FIRMS RANKED THE IMPORTANCE OF THE MAIN BUSINESS FUNCTIONS.

Business Function	**RANKING** **Indigenous Firms** **N = 33**	**Asian Firms** **N = 33**
Finance	2	2
Marketing	3	3
Personnel	4	4
Production (or operation of a service)	1	1
Research and Development	5	5

The following opinions and comments are typical of owner-managers of new and established businesses who considered production capability or making the product or service available as a primary pre-requisite to starting and running their business.

"We would have had nothing to offer if we did not produce the products first. For this reason I think my knowledge, skills and abilities to produce the products is the most important factor in my business. I started my business by getting the premises, machines, tools and raw materials together so that I was able to start manufacturing the orders as soon as I started trading".

Founder of a new light engineering company (indigenous)

"Because of our experience of coal and gas-fired equipment, we had decided to start a retail and repair business specialising in coal fires. We put all our effort, capital and energy in getting the shop premises and securing a supply of living fires. When we started trading, we had the products and services to sell to the public. To us, the shop and the finance needed to make us operative were the most important aspects of the business. Apart from our wives helping in the business, we do not employ anybody, do very little marketing and do not need research and development".

Founder of a new indigenous retail firm.

"As a family, we had the skills and knowledge to make garments but we needed a factory unit and machines to start manufacturing. For this reason we feel production was very important to our business. To manufacture garments in bulk, we needed skilled machinists and other workers and consider personnel function also to be quite important. Marketing is less important to us because we cannot afford to advertise or produce colour leaflets on our products. We mainly get our business from other clothing companies and contractors and we do not need much marketing to keep us going.

Founder of a new Asian clothing manufacturing business.

"Production and making sure that we are geared up to manufacturing good quality pressworks and turned parts is what our business is about. Because most of our work involves making products from our customers' drawings and specifications, we do not need research and development. As thirty of the thirty-three people we employ are involved in production, I do most of the hiring and firing and I have an administrative assistant who looks after the paperwork side of employing people. Although most of our work comes from word-of-mouth recommendations and from larger firms on a sub-contract basis, I do most of the selling and promotion of the business".

Owner-manager of established light engineering firm.(indigenous).

"Because of our franchise arrangements to buy a minimum quantity of Time Systems for the UK operation, we started the business by putting all our efforts into selling the training programmes and the stocks of systems. As the business developed we added new products and courses for our customers and now find new product development and marketing to be very important for our business. But one thing that distinguishes our company is the professionalism and proficiency of all our staff. We regard our staff as a very valuable resource and invest heavily in their performance and personal development".

Owner-manager of established indigenous sales and service firm.

"I think finance and production are most important for our business. We need finance and better financial control to help us increase and improve our production capacity. If we had bigger premises and modern machinery, we would be able to design and make a new range of three piece suites to sell to the English market".

Owner-manager of established Asian furniture manufacturing firm.

Finance was considered to be the second most important business functions. Most founders expressed the view that without finance, financial control and management, their firms could not achieve the goals for production, personnel and marketing. A large proportion of founders felt that they did not have adequate capital to resource the start-up and development of their businesses. They also found that it was the lack of cash flow and turnover that prevented their businesses from growth. Most lacked adequate resources for investment in appropriate machinery, equipment and premises and regarded the function of finance very much in terms of availability of funds to meet the costs and investment in the future.

The reasons for ranking marketing as the third most important business functions were essentially a reflection of the founders' understanding of what this term meant. Most founders expressed the view that they either could not afford to advertise and promote their products/services or could not see the need for marketing because of the nature of their business and sources of the customers. Personnel and research and development were ranked in fourth and fifth place mainly due to the size of the businesses, employment of immediate members of the family and the inapplicability of the functions to their businesses. Amongst established firms, marketing was extended to include selling and owner-managers expressed this function not to be essential as they personally directed or got involved in all aspects of promotion. Marketing was considered to be the second most important function by owner-managers of relatively larger firms and who employed managers with specific responsibility for it.

5. Owner-Managers' Awareness And Understanding Of The Term Marketing

Prior to discussing how owner-managers went about the process of business planning and applying marketing during the different stages of business development, it was important to assess their awareness of what they thought constituted the term 'marketing'. In order to ascertain whether owner-managers' understanding and views of the term changed over time, the responses of new and established firms were analysed. Table 6.6 therefore presents the summary of findings as they relate to owner-managers of new and established businesses. The interviews and case studies amongst founders of new firms revealed that only 8% of the sample (one manager from each group) had sound awareness and understanding of the term marketing as a business function. These founders described themselves to be market orientated, who had received professional help or training prior to start-up and who were applying marketing in their businesses. A very large proportion (54% of indigenous and 70% of Asian) of owner-managers thought marketing to mean selling, promotion, advertising and improving the image of the business. The following are typical of founders who confined the term to the promotional aspects of the function.

> "The effort to increase market awareness of the types of products offered and their advantages to the customers?"
>
> Indigenous engineering firm.
>
> "Selling the products and the company".
>
> Asian engineering firm.
>
> "Establishing potential customers and selling my company's services".
>
> Indigenous computer products/services firm.
>
> "Getting potential customers to buy from you, selling your image and your company".
>
> Indigenous wholesale firm.
>
> "The promotion by means of effective advertising etc of your product range in order to gain sales".
>
> Indigenous service firm.

TABLE 6.6 AWARENESS OF WHAT CONSTITUTES MARKETING AMONGST OWNER-MANAGERS OF NEW AND ESTABLISHED FIRMS (PERCENTAGES)

	NEW		ESTABLISHED		
Awareness of Marketing	**Indigenous Firms N=13**	**Asian Firms N=13**	**Indigenous Firms N=20**	**Asian Firms N=20**	**Total N=66**
Had a sound awareness and understanding of the term marketing as a business function	8	8	5	5	6
Thought marketing to mean selling, promotion, advertising and company image.	54	70	55	50	56
Thought marketing to mean having the right product/ service that will meet customer needs (but did not know how)	23	14	15	25	20
Thought marketing to mean finding customers/markets for company's product or service.	15	8	25	20	18
TOTAL	**100**	**100**	**100**	**100**	**100**

"Trying to influence buyers to buy or use our equipment and tools".

Asian builders merchant.

"Identifying customers and selling the products".

Indigenous retailers.

The remainder of the founders in the sample of new firms discussed marketing in terms of customer needs and finding customers, but were either unable to explain how, or related them to their production/service capabilities. Twenty-three per cent of indigenous and fourteen per cent of Asian managers thought marketing to mean having the right product/service that will meet customer needs. Overall, twelve per cent thought it to mean finding customers/markets for the company's products or services. The following are examples of how founders expressed their understanding of marketing. Those mentioning customer needs and market research had indicated that they had come across the definition of marketing on the training courses that they had attended.

"The complete sale of a product or service to the customer, ie from finding the particular market, researching, deciding what you can and are able to provide for your market to accurate accounting of the business you aim to create".

Asian shipping agents.

"I think marketing is the vehicle of getting the product to the customer at the right time, place and price".

Indigenous light engineering firm.

"Satisfying the customer needs".

Indigenous wholesaling firm.

"Marketing to me means finding customers or markets for my company's products".

Asian clothing firm.

All the interviews and case studies indicated very confused perception of the term marketing amongst owner-managers of newly established firms. Founders background, experience, skills, production-orientation coupled with their confinement of marketing to the promotion aspects can help to explain why marketing was not regarded to be very important or relevant to the start-up and development of most businesses.

Awareness of what constituted marketing amongst owner-managers of established firms did not differ greatly than new firms and overall, only six per cent had an accurate understanding of the term with 56% confining it to the promotional aspects of the function. As with new firms, over a third thought it to mean having the right product that will meet customer needs or finding customers/markets for their products or services. The emphasis on promotion, selling and finding customers for the firm's products reflects strongly the production-orientated approach of the majority of owner-managers. The following quotations highlight the narrow, promotion and product-centred views of the established firms sampled.

"Establishing what the market place requires and then establishing your policies on how best to sell to that market".

Managing Director of company manufacturing enamelled products. (indigenous).

"A means of finding outlets for products made".

Joint Managing Director of company manufacturing dies and tools. (indigenous)

"Selling"

Managing Director of jewellery manufacturing company. (indigenous).

"Establishing where sales can be achieved and presenting products to these people through advertising, selling and sales promotion".

Director of wire, rods, tube components and assemblies. (indigenous).

"Advertising, selling and promotion of your products - marrying, if you like, customers with products!"

Proprietor of shoe repair and retail outlet. (indigenous).

"Promoting the company externally and selling to make sure that we don't carry too much stock".

Managing Director of Asian clothing manufacturing company.

"Identification of selective areas where our products can be sold to maximise profit".

Proprietor of Asian light engineering company.

"Organising all parts of the company to maximise the volume of products that we can sell to give maximum returns and make the business viable in the future".

Managing Director of Asian shoe manufacturing company.

> "Attracting customers to our ability to manufacture ladies garments to a high quality by advertising, promotion and selling".
>
> Managing Director of Asian clothing manufacturing company.

This section of the investigation provided considerable evidence to support the tentative hypothesis that owner-managers of a large majority of businesses do not fully understand what marketing entails and that they confine it to mean the promotional and selling activity necessary to sell products and services. This lack of understanding of the marketing function can also be explained by limited, or if any, formal business education and training received by owner-managers of small firms. The results of further investigation into what marketing techniques are applied therefore have to be interpreted with caution as most owner-managers did not equate techniques such as targeting, pricing, research and new product development, developing channel strategy and diversification as part of the overall marketing function.

PART TWO

METHODOLOGY, RESULTS AND CONCLUSIONS

CHAPTER SEVEN

MARKETING IN NEW AND ESTABLISHED SMALL FIRMS

1. Business Planning in Small Firms.
2. Application of Marketing During Start-Up, Early Development and Growth Stages of Small Business Development.
3. Owner-Managers' Assessment of Past Performance and Future prospects.
4. Outcomes and Implications of Applying Formal Marketing in Small Firms.

CHAPTER SEVEN

MARKETING IN NEW AND ESTABLISHED SMALL FIRMS

1. BUSINESS PLANNING IN SMALL FIRMS

As discussed in Chapter Three, Churchill and Lewis (1) and other writers on barriers to small firm growth (Gill (2), Storey (3), Hodgetts (4)) have identified the lack of formal systems and planning as one of the main characteristic of firms at the existence and survival stages of development. Although this chapter is concerned with marketing in small firms, it was necessary to assess the nature and extent of business planning that owner-managers engaged in because any pre-start-up, annual or other form of planning cannot be complete without considerations of markets and products. In order to investigate business planning and application of marketing during the different stages of business development, *the research design focused on the samples of* new and established firms to trace how owner-managers implemented these processes. The following two sections therefore reports on planning and marketing during start-up stages by examining new firms and early development/growth stages by analysing practices in new and established firms.

1.1 Pre Start-Up Business Planning

Of the 13 indigenous founders interviewed, eight said that they had prepared business plans prior to starting the business, compared with six Asian founders. Although the proportion of firms engaging in planning are higher than expected, further discussions on the form and purpose of the plans revealed that only two indigenous and one Asian founder had prepared comprehensive plans. The others had prepared plans that outlined the main areas of the business operations or the plans consisted of cash-flow forecasts. Amongst those who said they prepared business plans, only half of Asian founders produced cash-flow forecasts and third used the banks' pre-printed business forms and cash-flow sheets. Most founders indicated that they had prepared plans or forecasts for the main purpose of securing start-up capital and financial facilities from banks or to qualify for the Enterprise Allowance Scheme. Of indigenous founders, only three out of the eight founders had used the plans for giving the business direction and securing finance. Founders who had not prepared any form of business plans had relied on their own capital to start the business. The founders who had some form of plan used external agencies ranging from the Small Firms Services, Local Council Business Advisors, accountancy firms to colleges, enterprise seminars and banks to assist them in the calculations and preparation of the documents. The firms that had comprehensive plans had, in both groups, used Small Firms Services, accountancy firms and specialist business enterprise training programmes. The following were typical of processes followed by most firms in the sample.

"I approached a bank in Wolverhampton with my business idea, but I was refused a loan because the manager did not think there was any future in us offering aluminium welding and fabrications services. He said that many similar businesses had recently closed and that we did not have the managerial experience to run a business so we started by using our redundancy money and did not see the need for a business plan. We knew we could fabricate anything in aluminium and offer our welding expertise to other companies and that once we had the premises and machinery, we would start getting the work in."

Founder of indigenous aluminium welding and fabrications firm.

"I had many years experience of working in a large double glazing company and knew all about how to start my own operation. The bank refused me a loan of £3,000 to buy machinery that I needed because I did not have a detailed cash-flow forecast or a plan that I could show them. With the help of the bank, I prepared a cash-flow forecast and gave them some details of what I was proposing to make and how I would get my customers. This helped me secure a loan of £2,000 (against my home) and an overdraft facility of £4,000 for the first year of the operation."

Founder of double glazing manufacturing firm (indigenous).

I used my own capital to start my business. I rented a cheap industrial unit on short lease and did not even think about preparing a business plan. I knew what I was going to make and that my expertise and experience in engineering would help me to generate enough revenue to keep me going."

Founder of light engineering company (indigenous).

"I prepared my own business plan well in advance of starting the operation. I am fortunate that I have the skills, knowledge and experience of preparing such plans and did not need anybody's help. I prepared a very thorough plan and used it to secure a substantial loan and facilities from the bank. I also used the plan to guide me through the formative years of the operation."

Founder of Training and Business Advisory Service Firm (indigenous).

"I worked in my father's jewellery business for many years and had saved to start my own business. I borrowed some more money from my in-laws and did not approach a bank for a loan. I don't know what a business plan looks like, never mind preparing one.

Founder of Asian jewellery firm.

"I secured £25,000 loan from the bank quite easily because I was investing £60,000 of my own capital, putting my home as security and had a £25,000 DTI grant to start my new venture that would employ over 20 people in the first year. Although I prepared a detailed cash-flow forecast for the first year of the operation, the bank was more impressed by my previous experience of running a similar business and by the fact that I was putting my home against the loan. My accountant helped me to work out the cash-flow forecast, but it was of little use in guiding my business",

Founder of Asian clothing manufacturing firm.

"I started selling insurance policies on a part-time basis and knew a lot about the business when I decided to go full-time. I prepared no plans or forecast because I continued to work from home and did not need to borrow any money or arrange an overdraft facility."

Founder of personal insurance services firm (Asian).

"I did not prepare a detailed business plan but got on to the Enterprise Allowance Scheme by filling in the forms that asked for an outline of what I was hoping to do and how. It was all so simple. I had £4,000 of my own money and got a friend to let me share his office premises at no cost. I did not bother with any bank and did not see the need for a detailed business plan".

Founder of Asian computer sales company.

1.2 Business Planning In Established Small Firms

As discussed earlier, for a business plan to be of any real value, it has to be based on the management's assessment of achievable targets, market demand, competitive activity, marketing strategy and budgets. In order to explore the application of marketing techniques such as forecasting, market research, segmentation and marketing-mix during the different stages of business development, this section focused on first assessing the extent and nature of business planning that owner-managers undertook at the time of the study. It was hoped that an understanding of the planning processes would provide a useful backdrop to marketing practices in these firms.

Although 65 per cent of all established firms prepared business plans, a large majority (69%) took the form of cash-flow forecasts and budgets (Table 7.1). More indigenous firms prepared any form of plans compared with Asian firms but there was little difference in the proportion that produced cash-flow forecasts only.

An analysis of what owner-managers based their forecasts on indicated that methods ranged from using (mainly previous year's) sales data with slight modifications incorporated to reflect inflation and increased targets to intuitive feel for market demand and pure guess work. Even those preparing comprehensive plans or giving consideration to all business areas (12 and 19% respectively) did not use any other method of sales forecasting than relying on recent sales turnover data and estimation of increases that could reasonably be achieved. Amongst the larger, more established firms in the sample, a few (such as meat, food wholesaling and Time Systems companies) had started to use secondary sources of marketing information, such as survey reports (MINTEL and Retail Business) to gain knowledge of trends in the market. All firms preparing plans primarily used them internally and a small proportion (12%) also used them for presentation to the main boards of directors.

TABLE 7.1 NATURE AND EXTENT OF BUSINESS PLANNING IN ESTABLISHED SMALL FIRMS (PERCENTAGES)

Extent and Nature of Planning	Indigenous Firms N=20	Asian Firms N=20	Total N=40
1. Business Plans Prepared.			
Yes	75	55	65
No	25	45	35
TOTAL	**100**	**100**	**100**
2. Form of Business Plan:	**N=15**	**N=11**	**N=26**
Comprehensive plan	13	9	12
Outline covering all areas.	20	18	19
Cash-flow forecasts and budgets.	67	72	69
TOTAL	**100**	**100**	**100**
3. Purpose of the Plan:	**N=15**	**N=11**	**N=26**
For own/business direction.	100	100	100
For securing finance	20	45.	31
For main board	20	0	12
TOTAL*	**140**	**145**	**143**
4. Use of External Agencies in Formulating Plan:	**N=15**	**N=11**	**N=26**
None used	66	82	73
Small Firms Services	7	0	4
Business Advisers (Local Council etc)	0	0	0
Accountancy Firm	20	18	19
College/Polytechnic/ University	7	0	4
Business Enterprise Seminars/ Workshops etc	0	0	0
Bank	0	0	0
TOTAL	**100**	**100**	**100**

* Total exceeds 100% due to multiple uses.

All those who had prepared plans for the purpose of securing finance had based their forecasts on past performance and estimation of what business they were likely to obtain from their existing customers. A majority of all businesses in the sample (72%) prepared plans without the assistance of outside agencies or expertise. Only 19% had used the services of their accountants to assist them in the planning process. These, in the main were firms that required to secure financial facilities and loans.

2. APPLICATION OF MARKETING DURING START-UP, EARLY DEVELOPMENT AND GROWTH STAGES OF SMALL BUSINESS DEVELOPMENT

Prior to reporting the results of the qualitative study, it is necessary to briefly revisit the definition of marketing, the formal marketing processes and marketing techniques on which the thrust of this thesis has been developed. Chapter One discussed that in order to understand the precise meaning of the term marketing, it is first necessary to agree on the purpose of any business organisation. Drucker's (5) definition of 'creating customers or a customer base' as the primary purpose of the organisation provided a sound foundation for using the marketing concept and the definition of marketing to develop the research framework for this study. Figures 7.1 to 7.3 illustrating marketing as an exchange process and an outline of the techniques and outcomes are included here to highlight the context within which the application of marketing in new and established firms were investigated.

The various marketing techniques were grouped into the three main components of the marketing process shown in Figure 7.3: business environment, marketing strategy and marketing organisation and control. The research instruments incorporated the use of the various techniques as discussion topics and the results of the investigation reported in the following sections are presented under the headings of the components of the marketing process.

2.1. Techniques For Environmental Analysis

As outlined in Chapter One, the business environment in which all firms, small and large operate is made up of six main uncontrollable variables of market demand, political and legal forces, social and ethnical influences, competition, technology and the physical environment. The tools and techniques for measuring, monitoring and analysing these variables are market and marketing research, sales forecasting and marketing information systems. Although these techniques are commonly used by large organisations, they are equally applicable in small firms at any stage of development. But whether these techniques are applied in small firms is dependent on the owner-managers commitment to operating the business from the market perspective.

Tables 7.2 and 7.3 summarise the results of the analysis of the qualitative data that assessed the application of the various techniques during the start-up, early development and growth stages of new and established firms' development.

FIGURE 7.1 MARKETING: AN EXCHANGE PROCESS

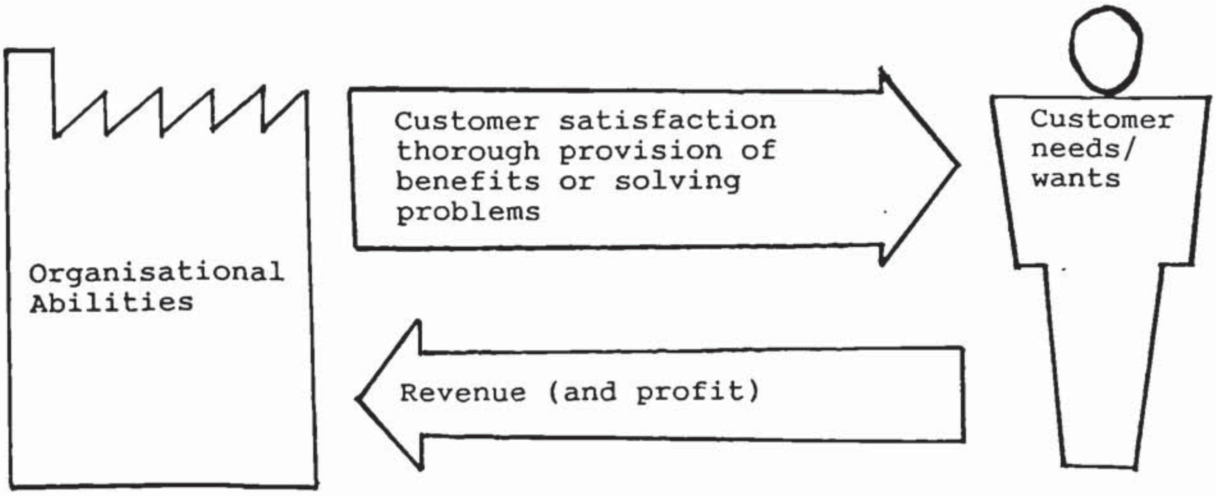


FIGURE 7.2 THE MARKETING PROCESS

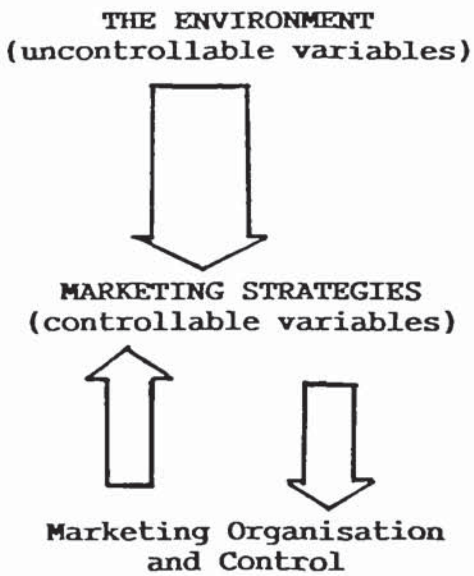


FIGURE 7.3 THE MARKETING MANAGEMENT PROCESS TECHNIQUES AND OUTCOMES

PROCESS	TOOLS/TECHNIQUES	OUTCOMES
<u>ENVIRONMENTAL AND SITUATION ANALYSIS</u> Analysis and understanding of uncontrollable variables and SWOT analysis	1. Market and Marketing research 2. Forecasting and measuring demand 3. Marketing Information Systems	Information for: 1. Strategic business planning 2. Market planning
<u>FORMULATION OF MARKETING STRATEGIES</u> Use of controllable variables that a firm can use to adapt to a competitive environment	1. Marketing segmentation (identifying target markets or gaps in the market) 2. Marketing-mix (Product, Price, Place and Promotion) 3. Growth strategies (intensive growth, (integrative growth and diversification)	Decisions on: 1. Markets, targets and product/market positioning 2. Matching the needs of market with right, Product Price, distribution and promotion. 3. How to achieve growth of the business.
<u>MARKETING PLANNING CONTROL</u> Planning, organising and controlling the marketing effort	1. Marketing plans and budgets 2. Marketing organisation	Marketing orientation direction and control of the business

TABLE 7.2 APPLICATION OF MARKETING TECHNIQUES DURING PRE START-UP AND START-UP STAGES OF BUSINESS DEVELOPMENT

Marketing Techniques	Indigenous Firms N=13				Asian Firms N=13			
	Pre-Start		Start-up		Pre-Start		Start-up	
	No.	%	No	%	No.	%	No.	%
Market Research/Feasibility Study	3	23	2	15	3	23	0	0
Sales Forecasting	2	15	1	8	1	8	1	8
Targeting/Segmentation	2	15	2	15	1	8	3	23
Product/Service Planning								
Physical Product/Service/NPD	2	15	10	77	2	15	11	84
Branding and Packaging	0	0	2	15	0	0	2	15
Quality, Features & Options	0	0	4	31	0	0	5	38
Pricing								
Cost - plus	0	0	11	84	0	0	12	92
Market determined	0	0	1	8	0	0	1	8
Others	0	0	1	8	0	0	0	0
Developed Channel Strategy	0	0	0	0	0	0	2	15
Promotion								
Advertising	0	0	6	46	0	0	5	38
Sales Promotion	0	0	2	15	0	0	0	0
Merchandising	0	0	8	61	0	0	6	46
Personal Selling	0	0	10	77	0	0	11	84
Publicity (leaflets, catalogues, etc)	0	0	9	69	0	0	5	38
Growth Strategies	0	0	3	23	0	0	2	15
Marketing Organisation	0	0	1	8	0	0	0	0

TABLE 7.3 APPLICATION OF TECHNIQUES DURING START-UP, EARLY DEVELOPMENT AND GROWTH STAGES OF BUSINESS DEVELOPMENT

Marketing Techniques	Indigenous Firms N=20 Start		Growth		Asian Firms N=20 Start		Growth		Total N=40 Start		Growth	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Market/Marketing Research/ Feasibility Study	0	0	2	10	0	0	0	0	0	0	2	5
Sales Forecast	0	0	0	0	0	0	0	0	0	0	0	0
Targeting/Segmentation	1	5	3	15	2	10	3	15	3	8	6	15
Product/Service Planning												
Physical Product/ Service Planning/NPD	20	100	20	100	20	100	20	100	40	100	40	100
Branding and Packaging	2	10	5	25	0	0	7	35	2	5	12	30
Quality, Features and Options	3	15	14	70	3	15	9	45	6	15	23	58
Portfolio Analysis/ Prod. Planning	1	5	1	5	0	0	0	0	1	3	1	3
Pricing												
Cost - Plus	15	75	15	75	20	100	20	100	35	88	35	88
Market Determined	4	20	7	35	1	5	2	10	5	13	9	23
Others	3	15	1	5	1	5	4	20	4	10	5	13

TABLE 7.3a APPLICATION OF TECHNIQUES DURING START-UP, EARLY DEVELOPMENT AND GROWTH STAGES OF BUSINESS DEVELOPMENT(Continued)

Marketing Techniques	Indigenous Firms N=20 Start		Growth		Asian Firms N=20 Start		Growth		Total N=40 Start		Growth	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Developed Channel Strategy	0	0	1	5	5	25	7	35	5	13	8	20
Promotion												
Advertising	6	30	16	80	2	10	10	50	8	20	26	65
Sales Promotion	0	0	2	10	0	0	1	5	0	0	3	8
Merchandising	14	70	18	90	11	55	18	90	25	63	36	90
Personal Selling	17	85	15	75	5	25	19	95	22	55	34	85
Publicity (leaflets, catalogues)	2	10	16	80	1	5	2	10	3	8	18	45
Public Relations	2	10	4	20	0	0	0	0	2	5	4	10
Growth Strategies												
Intensive Growth	2	10	6	30	0	0	1	5	2	5	7	18
Integration	0	0	0	0	0	0	0	0	0	0	0	0
Diversification	2	10	6	30	1	5	2	10	3	8	8	20
Marketing Organisation	0	0	2	10	0	0	1	5	0	0	3	8

*N.B. All figures relate to corporate identity (logos, company stationary and livery) and exhibition aspects of merchandising only.

As with business planning, this section placed considerable emphasis on tracing the pre start-up processes that founders had followed. It was assumed that for a small firm to be successful, it would employ techniques such as market research and feasibility studies to identify needs of the market before planning the product(s) or service(s) that it intended to develop. These finding would then be used in formulating a business plan based on sound sale forecasts, pricing and costing prior to starting the operation. But as very few founders of new businesses had prepared comprehensive plans, it is not surprising that only three firms (23%) in each group had undertaken market research or feasibility studies (Table 7.2) as pre start-up activity. Only one indigenous firm had continued to use market research during early development of the business. Only three firms in the sample had used some method of sales forecasting and had based their cash-flow projections on an understanding of the market environment. Only one firm in each group had continued to use sales forecasting during the development of the business. The following responses are typical of founders' use of market research and sales forecasting during the start-up of new businesses.

> "We did not need to do a feasibility study to carry out any market research before starting Saturn Casualwear Limited. I had seventeen years experience in the trade and ran a similar business for five years before starting this new venture. I knew the market for promotional wear and had many old contacts to sell to without much difficulty. The method that I use for forecasting sales is my intuition and the 'feel' for the market place. Our business is different from many others in that we can always get sub-contract work reasonably quickly when we need to achieve our monthly sales targets."
>
> Founder of Asian clothing manufacturing firm.

"I had made a deal with my last employer, a large precision tool making company to do sub-contract work for them before I started my own business. I was busy making the orders as soon as I started operating so there was no time or no need to carry our research or feasibility study."

Founder of light engineering firm (Asian)

"I don't know how we could have done any market research or feasibility study for a business that was going to offer building repairs, extensions, plumbing and electrical work. We started like most other construction businesses - get work from any source and just do it."

Founder of indigenous building and construction firm.

"I did some desk research and found out the value of the heating tapes market and who the main competitors were. I used trade directors for this and also managed to get the competitors price lists to help me work out how much I should be charging for my product. Because I was sure of getting a patent on my product, I did not think a feasibility study was necessary. I managed to get quite a substantial grant from British Coal without showing them any results of market research or feasibility study. I based my sales forecasts on how much I could manufacture in a month."

Founder Asian manufacturing firm.

"I paid for a professional market research and feasibility study service and used the findings to target at specific business and private groups. The findings also helped me and the venture capital company to calculate cash-flow forecasts based on some factual information."

Founder of indigenous banqueting and conference firm.

"There was a tremendous expansion of the schools' market for computer software when we first started. We had experience of teaching in schools and knew the market and did not do any research or forecasting. We were reasonably successful and grew rapidly until the schools' market became saturated and competition intensified. We decided to move into the Computer Based Training (CBT) market without any research and found that the schools and colleges were not ready for these developments. We established a new company to distribute national publishing companies products because somebody approached us with a proposition."

Founder of computer software firm.

Although a small proportion of new indigenous and Asian firms had used market research and forecasting methods (Table 7.2) during pre start-up stages, none of the established firms founded their operations on any analysis of the market place. All firms in the sample were started either on the basis of the founders' skills, knowledge and previous experience or because of market opportunities. The owner-managers who had started to trade by using their skills explained that they started in a modest way by securing orders from personal contacts and did not see the need to conduct market or feasibility studies. Though most owner-managers did not have previous experience of running business, they had acquired knowledge of the market from working for other firms in the same industry. This was particularly marked amongst founders of indigenous firms, and Asian founders were encouraged to start trading in clothing, jewellery, catering and retailing by observing the apparent success of other Asian entrepreneurs and relative ease of entry into these industries. Founders exploiting market opportunities also started by developing products and services that their background, knowledge or previous experience suggested were required in the market place. Asian founders responding to market opportunities started by catering for the needs of the Asian markets and knew what was required and therefore did not see the need to conduct market research.

During the early development stage of operations (between 3 and 5 years of starting) all firms had developed their original products and or introduced new range of products and services. In most cases the new products were either extensions of original offerings or the firms had diversified marginally to move into new markets. But as highlighted in the case studies (Appendices 3.1 to 3.11), the decisions by owner-managers to expand and diversify their product range were not based on any market research, planned approach or business strategy. Most firms had expanded in order to utilise capacity and focused on their production processes and capabilities. It is not until the firm becomes well established and progresses through to success-growth stage that any form of formal market research is used. In the sample of firms tested only two indigenous firms had started to use market research to gather data on market trends, demand for existing or proposed new products and on competitive activity. The use of market research in most cases coincided with the firm's decision to invest in employing staff with specific responsibility for marketing. In both Asian and indigenous firms that were at existence or survival stages of development, market research was introduced and conducted by outside consultants and specialists that the firms had appointed through grant assisted schemes (such as DTI, Enterprise Initiative and Local Council schemes).

It was not surprising to find that none of the firms had used marketing research during any stage of development. Although a very small proportion overall (5%) of the firms had used market research, most owner-managers were aware of what it meant and some knew how to gather data on the market(s) they served. The term marketing research was confused with market research and most owner-managers did not invest in time or resources into assessing and monitoring how well their existing products and services were doing in the market place. Only one firm (Time Systems Limited) had recently started to publish brief questionnaires in their monthly newsletter to their customers to ascertain how satisfied they were with their products and courses, and what improvements should be made in the future. All other firms explained that because of the nature of their business, sub-contract work and selling to middlemen they normally got direct feedback on their output from their customers and often in terms of lost business.

As outlined in Section 1 above, none of the firms in the sample had ever used any formal methods of sales forecasting on which to base their business plans or cash-flow forecasts. As many firms at the start-up and existence stages did not prepare business plans or cash-flow forecasts, the use of forecasting methods were of little relevance to them. Although they were aware of the term and how it may benefit them, most owner-managers had no knowledge of forecasting methods. The firms that prepared business plans and cash-flow forecasts made the mistake commonly also made in some larger organisation of basing the plan around a forecast or setting of a sales target. The most common method of setting revenue targets was to rely entirely on past sales figures and to simply apply a percentage increase to the volume achieved last year or to the average of the past few years.

In most cases, the target sales figures anticipated sales turnover for the whole business rather than for every product line. The figure also did not reflect any strategies that the firm may wish to pursue to exceed the pre-determined targets. This was explained by the lack of any strategic or marketing plans in almost all the firms sampled. Owner-managers of firms at success-growth stage indicated that they relied on their personal judgment, intuition and knowledge of the market to determine the level of the percentage increases that they applied to their cash-flow forecasts. Whilst this was true and a useful means of anticipating sales in the traditional markets that the firms had served, there was little evidence to suggest that owner-managers had adequate experience or knowledge of new markets that they were attempting to penetrate. For example, the Asian Meat Company had moved to serving the multiple chains, wholesalers and retailers of the wider market (non-Asian) with limited knowledge of the consumer markets that they in turn served (Appendix 3.8). The indigenous enamelled products company (Appendix 3.10) that moved into manufacturing enamelled boxes for the consumer market based its cash-flow forecasts without understanding the nature, size and complexities of the giftware markets in the UK and abroad.

The use of Management Information Systems was discussed with owner-managers and most were aware or understood the concept of such a system, but no firm in the sample had implemented one. Although some firms at survival and success-growth stages which had invested in computerised financial control, stock control and payroll systems said they could produce internal data and reports, overall there was a lack of commitment (and understanding of the benefits) to investing in integrated systems.

2.2. Marketing Strategy

The framework of marketing management adopted (and outlined in Figure 7.3) for this thesis centres on market segmentation, marketing-mix and methods of growth as the main groups of techniques that are applicable in both small and large firms to formulate strategy. To investigate the application of marketing in small firms therefore involved tracing and assessing the extent to which owner-managers applied these techniques during the various stages of the firms' development. The results of the qualitative research are presented and discussed in six parts in this section. Tables 7.2 and 7.3 summarises the extent of use of the various techniques and the results are discussed with reference to the case studies contained in Volume Two and owner-managers' responses to the interview topics.

2.2.1. Market Segmentation

Market segmentation, or target marketing approach to business operations is an essential technique that centres around the recognition that customers (for consumer and industrial products/services) have different needs and characteristics and that what a firm develops and offers should be targeted to specific groups of people. Many production-orientated businesses however, rely on the 'shotgun' approach by trying to sell the same product or service to anybody who will buy it by investing in its selling and promotional offers. Other businesses adopt the 'half-way' approach and produce two or more products that have different features, styles, quality, size etc and offer variety to a large number of buyers. As the purpose of any business organisation is essentially to create customers, or a customer base, this section examined the type and sources of customers that new and established firms had developed, and the extent to which methods of market segmentation were applied during the start-up and development of the businesses. As the size and nature of customer base is also one of the main characteristic and measurement criterion identified by Churchill and Lewis model, it was incorporated in the research instrument to supplement the findings on the use of market segmentation.

Table 7.2 shows that the understanding and use of market segmentation was limited to only two indigenous firms during pre start-up and development stages, one Asian firm during pre start-up and three during early development. Two new indigenous firms had researched and made deliberate decisions to serve the target markets identified. Two out of the three Asian firms had done this and aimed to serve the Asian market locally. This indicated that there was some move by more progressive and younger Asian founders to avoid competing in the narrow Asian markets for products and services, but to exploit the opportunities in the wider market. This was particularly the case where Asian businesses were attempting to take Asian products such as foods and drinks to the wider (indigenous) communities (see Appendices 2.2 to 2.7).

The lack of targeting by new businesses is further reinforced by Table 7.4 showing that indigenous and Asian firms had similar patterns of customer base and sources of customers. Over two thirds (69%) of founders of new firms mentioned that they did not aim their product/services at particular group of customers, but served whoever wished to buy from them. This was either because of the line of business they were in, for example, retailing and wholesaling, or because they had started by producing stocks of products and needed to sell them to generate revenue from any source. Almost a third (31%) of indigenous firms compared with 23 per cent of Asian firms had between one and five main customers who gave them work on sub-contract, dealership or commission basis. The most common sources of such customers tended to be the founders' previous employers (especially in the case of light engineering businesses) who placed orders for small batches of work, or personal contacts and word-of-mouth recommendations in the trade.

Overall, nearly a third (31%) of all new businesses relied on a small number of customers from personal contacts, word-of-mouth recommendations and advertising for direct supply of their own designed and manufactured products/services. Only one firm in each group had large numbers of customers spread out locally, regionally and nationally who were secured by targeting and marketing efforts. Although it was expected that most Asian firms would start in business by serving the needs of ethnic markets, only one (jewellery) firm relied solely on this category of customers. Two Asian firms (mainly in clothing) served a small number of wholesalers, retailers and traders through advertising and personal contacts.

The use of market segmentation during start-up and early development stages by established firms was also limited to one indigenous and two Asian firms. Although the Asian founders had started their businesses by aiming to serve the needs of the ethnic markets, they did not fully apply the principles of market segmentation. In simple terms, market segmentation is the breaking down of supposedly uniform markets sub-groups by reference to the different needs and characteristics of the customers. The Asian firms did not not identify or cater for any distinct sub-groups of Asian markets they served, but in common with many of the established firms, catered for communities in general. With the exception of the Meat Company (catering for the Muslim community), all other Asian firms in consumer products, foods, wholesaling, retailing, catering and miscellaneous services started on the basis of products required, lower prices, average or low quality and aimed at Asian communities locally.

TABLE 7.4 CUSTOMER BASE AND SOURCES OF CUSTOMERS OF NEW AND ESTABLISHED SMALL FIRMS (PERCENTAGES)

CUSTOMER BASE SOURCES OF CUSTOMERS	NEW FIRMS Indigenous N=13	Asian N=13	ESTABLISHED FIRMS Indigenous N=20	Asian N=20	TOTAL N=66
1. Between one and five main contractors (including previous employers) from personal contracts who give work on a sub-contract basis.	31	23	5	20	18
2.More than five contractors for sub-contract work from personal contacts, word-of-mouth and advertising	0	8	20	25	15
3.A small number of wholesalers, retailers and traders from personal contacts, advertising	0	15	5	35	15
4.We serve the needs of markets/communities not met by others	0	8	5	35	15
5.A small number of customers from personal contracts, word-of-mouth and advertising for direct supply of our own designed and manufactured products/ services	38	23	15	20	23
6.A small number of customers from personal contracts, word-of-mouth reputation and advertising for direct supply of our own designed and manufactured products/services	0	0	55	30	26
7.Large number of local regional/ national customers from marketing effort	8	0	25	10	12
8.We serve whoever wishes to buy from us	69	69	60	85	71
TOTAL	**138**	**146**	**190**	**270**	**197**

Total exceed 100% because of multiple sources of customers.

The firms in clothing and jewellery manufacturing were also started on the basis of serving Asian markets. In the case of clothing, founders started by setting up small manufacturing units either at home or in small industrial units to do work on sub-contract basis for other Asian garment manufacturers who were either making products to sell to wholesalers or who had secured contracts to 'cut, make and trim' large production runs from main contractors. In the Asian jewellery trade, all jewellers continued in their family tradition and set up retail units with small scale manufacturing capacity. All Asian jewellers catered for Asian customers and no one specialised in breaking down the market by age, sex, social class, life style or other methods of segmenting consumer markets.

Table 7.3 indicates that overall small firms tend to start using, if only marginally, the concepts and techniques of market segmentation when they become more established and move towards success-growth stages of development. This is reinforced when comparing the customer base and sources of customers of established firms with new firms (Table 7.4). Although the number of firms which continued to operate by serving whoever wished to buy from them remained very high (especially for Asian firms (85%)), there was a general increase in the number who had developed more customers. Although there was significant increase in the number of both Asian and indigenous firms relying on more than five sub-contractors, there was a more marked increase in the firms developing many customers through personal contacts, word-of-mouth reputation and promotional efforts for direct supply of their own designed and manufactured products.

Amongst the firms that had reached success-growth stage of development a third had started to develop and employ more co-ordinated effort to create greater number of customers whilst still at the survival stage. These firms had intuitively started to target their products/services at more distinct groups of customers. But in most cases these firms still developed new and improved products without any market research amongst pre-defined segments. In most cases they promoted their existing range of products to new groups of customers. One explanation of the lack of application of formal market segmentation, as highlighted by case studies of Time Systems Ltd and Harrisons Engineering, is that even where the company employ marketing managers, the overall direction for marketing effort and new product development continues to come from the managing director.

2.2.2. Marketing-Mix

Every business organisation, whether manufacturing products, retailing or providing a service has a marketing mix. Many organisations however, do not realise that they have a marketing-mix and therefore do not plan or devise strategies to gain maximum return for the business. Marketing-mix has been defined by Kotler (6) as the set of controllable marketing variables that the firm can use to produce the response it wants in the target market. There are many techniques and decisions associated with marketing-mix which can be grouped into four sets of controllable variables namely product planning, pricing, distribution (or place) and promotion. This part of the research attempted to ascertain the extent to which small firms applied marketing-mix techniques during the various stages of their development. The result findings are discussed here after brief description of the four main elements of the marketing-mix and techniques associated with them.

Product Planning

The term product means the physical item, service, event, idea or organisation that is offered to the market as means of meeting customer needs, solving problems or providing benefits. As such the product is the most essential ingredient of the business organisation. But in order to be successful, the product must be planned and completed (in terms of quality, features, options, style, branding, packaging and warranties etc) before it is offered in the market. The important aspect of purchasing behaviour and motive is that customers do not want the physical product or service. They want what the product does - the benefits that come from its use. The other aspects of product planning are the strategic decisions that ensure the product can survive in competitive market situations. In most markets, when a new product is developed by one company, the competition follows very quickly with 'me too' or homogeneous products. This leads to the availability of several alternatives for the customers to choose from. In order to create customer preference towards their products and services, organisations have to differentiate their offerings from those of competition. These differences may not be inherent in the product and may have to be created through product planning, quality, packaging, pricing, company reputation, branding, advertising and targeting to specific groups of customers.

The Product Life Cycle (PLC) analysis can help management to calculate the stage the product has reached and to devise strategies (for example, advertising, pricing and distribution) for its continuation in the market. The company must also decide on what products should be allocated more resources and those that should be eliminated from the product portfolio. Every business should have a balanced portfolio of products to include cash generators, new developments that absorb resources and products that have reached the end of their useful life and which should be withdrawn. When products are withdrawn from the market, they must be replaced by new products that will one day become the company's cash generators. Product planning (making it complete), product differentiation, product portfolio (or contribution analysis) and new product development techniques were included in the research design as discussion topics to ascertain whether they were employed in established small firms. Only basic techniques of product planning are included in results presented in Table 7.2 as none of the new firms had used the other techniques, and findings of product differentiation are shown for all firms in the sample in Table 7.5. Table 7.3 includes analysis of use of product portfolio analysis by established firms.

Amongst new firms, only 15 per cent of the sample had planned the product/service before starting in business. These firms had conducted feasibility studies and had prepared comprehensive business plans. The founders described the product planning undertaken during the pre start-up stage to consist of formulating clear ideas and descriptions of what they would be offering and matching them to the needs of their pre-determined markets. These firms started trading with their planned products/services and had continued to plan, change and adopt the offering during the early development stages of operations. A large proportion of indigenous and Asian firms (80%) said that they planned the product/service when they started to trade.

The nature of product planning during the start-up stage however, ranged from detailed drawings and specifications (for example, the heating cables) to vague ideas of what was on offer. For service businesses, such as building repairs, owner-managers basically described the type of work they were willing to take on. Most founders did not regard product/service planning aspects to be related or relevant to marketing. They considered the product/service very much to be an extension of their trade and represented the business that they were running. Other firms from both groups, explained that they did not plan the product/service mainly because they operated on sub-contract basis and did not need to plan the product as they knew exactly what they were going to offer to their customers. None of the new firms planned any other aspect of product planning before starting. Only two firms in each group planned and used branding, packaging, quality features and options, warranties and service levels in marketing their products during the development stage of the business.

Over half of the new firms (55%) had made modifications to their original products/services and over a third had developed new products. But in most cases new products were developed without any prior market research or feasibility studies and motivated by internal considerations. The new firms that had started by relying on sub-contract work, had developed their own products/services. A common characteristic that emerges from this study is that small firms focus on getting their production or operation capacity during the start-up stage and then slowly move towards developing their own products. These products however tend to be developed without much consideration of the overall market, specific segments, product planning or resources required to secure customers for them. Aluminium Boats Company, Marston Engineering, Saturn Casualwear Limited are amongst the case studies in Appendix Two in Volume Two that highlight this tendency in new firms.

The product planning processes in established firms was much more varied than in new firms. As the age of the firms studied ranged from four years to more than one hundred years, the nature, range, complexities of the products and the planning varied considerably. All owner-managers who were also the founders of the firms sampled said that they had planned the physical product/service during the start-up and early development stages of the operations. But as with new firms, the focus on the product and its planning had been from a production perspective and founders were not aware that product planning was an aspect of the marketing function. All manufacturing businesses had started with small range (in some cases just one) of products and had extended their lines and introduced new products during the early development stages. Firms in the service sector (for example, Time systems, Design Studio and Express Deliveries) had also improved or introduced new related services. As in manufacturing, most of the new products were developed without market research and were aimed at the firms' existing customers. In Asian firms, new product development invariably involved the owner-managers in imitating the popular designs in the market and to offer these to their existing customers. This was considered a norm in the clothing and jewellery manufacturing businesses. In clothing, the firms that had started by taking on sub-contract work, developed their own product lines to sell to Asian wholesalers, retailers and market stall operators. The products for these markets were invariably designed by the owner-managers by copying popular lines and manufactured in-house to utilise spare capacity. The products manufactured were normally of lower quality and either carried the firm's own labels or manufactured to carry the wholesalers name or brands.

In firms manufacturing denim jeans, coats and jackets, it was very noticeable that the firms' own designs were copies of products that had been in fashion over the past three to six months. So by the time the Asian firms started to manufacture these lines in volume, they were bought only by wholesalers and market stall operators. These items were sold cheaply to these customers who in turn sold to lower end of the price conscious market. Because of the time lag between the fashion being at its peak and the Asian firms manufacturing them, the end users could be described as the late majority and the laggards in Rogers' (7) model of adoption process. Although Asian owner-managers' willingly served the wholesaler and retailer markets, they operated at very low margins and this source of work was considered by most to supplement their income from sub-contract orders and gave them valuable experience of manufacturing their own range of (albeit copied) products. Some firms in the sample had gradually abandoned all sub-contract (CMT) work in favour of concentrating on manufacturing for wholesalers and cash and carry trade. In most cases the main reason for this policy was related to the problems experienced in meeting quality standards imposed by contractors. Most of these firms in the past had had whole order batches returned because they failed to comply with the requirements and made heavy losses. In Asian jewellery trade, new design of products that were in high fashion in India were imported and copied for sale in the local markets. The Asian jewellery businesses in the West Midlands are essentially craft based workshops that hand make all individual orders and operate on the basis of charging for labour and small margins on the sale of finished items in 22 carat gold.

During the early stages of development, only two indigenous firms had introduced and used product branding and packaging. In both cases (M C Automatic Controls Ltd. and Time Systems Ltd. Appendices 3.2 and 3.5 respectively), the nature of the products and markets served necessitated the use of strong branding. Both firms used their company names and introduced brand names for the range of products and services. These two companies also started to use packaging specifically designed for the products during the early development and continued to improve the designs and their merchandising value. Time Systems in particular developed an integrated range of packaging for its hardware and accessories to significant effect. The firm achieved product differentiation by the design of the main product, user approval and repeat business from its packaging for the accessories.

Branding and packaging were not used by any of the Asian firms during the start-up and early development stages. This was mainly because all manufacturing firms in the sample had either started by taking on sub-contract work from few customers or were making products for other intermediaries. In service industries such as retailing, wholesaling, catering and construction, the name of the business was used to establish an identity amongst the customers served.

The use of branding in both indigenous and Asian firms increased to 25 per cent and 35 per cent respectively during development and growth stages. Indigenous manufacturing firms started to introduce branding and packaging for new products or when serving new group of customers. But as with all other aspects of product planning, branding tended to be based on limited market information and research. The names used for products/services tended to be selected internally and were often extensions of the formal product descriptions, technical and of limited marketing value. Only two firms that had introduced branding during the early stages had extended the use of branding and packaging by employing external marketing and design expertise. Time systems Limited (Appendix 3.5) for example had developed a series of training courses that were branded carefully to reflect the needs of their target markets. 'Putting People First', 'Stress Manager', 'Brain Manager' and 'Key Results' are examples of branding that the company successfully applied to describe the services and to design a range of promotional and pricing strategies to penetrate the corporate markets. The branding introduced at survival stage by some firms (for example 'Studio 2' by Dank Brown and Bates in Appendix 3.4) lacked the professional and integrated approach necessary to successfully establish the name in the market place and achieve differentiation.

Amongst the Asian firms, increased use of branding (and packaging to less extent) during development and growth stages was explained by clothing and other manufacturing firms attempting to break away from sub-contract work or penetrating the wider indigenous markets. In the clothing industry, branding was introduced after the firm had attained the capacity to manufacture own product lines to sell to Asian Wholesalers, retailers and, or directly to independent retail chains and larger multiples. The branding decisions however, like in indigenous firms were made internally and the names selected did not have any justification or links with marketing strategy, competitive positioning or quality of the product. The study of H S Virdi Bros Ltd (Appendix 3.6) illustrates this practice well. The firm had developed a brand name for a range of new products aimed at children's market that had yet to find any customers and the management were considering abandoning the well established business name and adopting this new yet untested, neutral, non-Asian name for all its activity and products. The brand name and the image it created was not researched or tested amongst the company's main customers, and no budget was set to implement a major new corporate identity programme. The name and logo was devised by a design studio but which was not intended for use beyond the purposed range of new garments. The introduction of branding in other clothing firms was motivated by the desire to secure business directly from High Street multiples, catalogue firms and independent retail chains. The owner-managers were convinced that the existence of their own labels would assist them in gaining the buyers' confidence in the firms ability to design and manufacture high quality lines of merchandise. But in most cases, the names and designs used failed to reflect the quality aspects that the firms were attempting to communicate. One case study (Midland Upholstery, Appendix 3.7) illustrated ignorance amongst some owner-managers of the law governing registered trade names and how small firms inadvertently use well established brand names to describe their products.

The two Asian firms that had reached success-growth stage of development had introduced branding to launch new products to new markets or to take existing products to new markets. Midlands Meat Company, (Appendix 3.8) for instance, had introduced a brand of 'spicy burgers' for the wider non-Asian market and Eastern Foods Ltd (Appendix 3.9) were in the process of developing a new brand identity (over its well established label for the Asian market) that would appeal to end-users in the wider markets. The 'Spicy Burger' brand was not researched amongst the target market(s), was developed internally (as was the product) and was not adequately supported by promotional effort. As a result, the firm failed to make in roads into the wider market. Eastern Foods on the other had got useful feedback from multiple retail outlets on the needs for changes to the products' presentation and image, and the company had invested in bringing external expertise to assist in its development of an appropriate brand and corporate identity.

An assessment of the use of quality, features and options in product planning amongst established firms revealed that only 15 per cent of all firms emphasised the quality of their product/services during the start-up and early development stages. In manufacturing, new firms tended to produce to the quality specifications required by their contractors and intermediaries. Considerations of the quality of the product/service became important when firms started to design and manufacture their own products. Although all firms sampled said that they produced high quality merchandise, they had done little to communicate it to their customers. Amongst the indigenous firms, over two thirds said that they had invested in improving the quality of their products. Only a small proportion, six firms, had gained the British Standards (BS 5750) approval. Two of these firms had started to use branding, company reputation and quality rating in their marketing communications. The concept of features and options as methods of appealing to distinct sub-segments of identified markets to meet exact customer needs was not understood by most owner-managers and only applied by two firms that had appointed marketing personnel and who were committed to become market driven.

The use of quality in product planning and promotion by Asian firms at development stage differed from indigenous firms. In manufacturing firms, the quality of products was regarded from a production perspective rather than as a total management and marketing tool and promoted as part of a package to secure volume runs and repeat business. As with branding, product quality and its communication became important when Asian firms attempted to take ethnic products into the wider markets and when manufacturing firms designed and manufactured products to sell directly to multiple chains or end-users. Features and options were not incorporated or used by any of the Asian firms sampled.

The use of product portfolio analysis (Boston Group Matrix), product life cycle in marketing planning and product line decisions was tested amongst new and established firms. Although these techniques were not used by any of the new firms, a small proportion (10%) of owner-managers had heard of them and understood the rationale behind their application. Amongst established firms some of these methods were only used in one indigenous firms during the different stages of its development. Most other small firms had never conducted product portfolio or contribution analysis , and product life cycle analysis did not have much relevance to their operations. It was little surprising to find that even such established indigenous firms as Harrisons Engineering and Jacquoind Dodgson and Kenwright (Appendices 3.3 and 3.10) with sales turnover nearing £3m did not use product portfolio or contribution analysis. In the case of Harrisons Engineering, the managing director had expressed considerable pride in the fact that over the years the company had developed over 6,000 product lines and served more than 1,000 customers. Similarly, Jacqunoid Dodgson and Kenwright, a firm established over 150 years, had an extensive range of low value, small volume production lines that the firm had never analysed, rationalised or planned to any extent. In these two firms and others (manufacturing in particular) in the sample, there was a tendency to sell product lines to serve any customers that the business attracted. The implications of this policy was reflected in the overall margins realised and subsidisation of many lines by a small proportion of high volume, higher margin repeat business.

The failure of small firms to apply such basic techniques can be explained by several factors. As product portfolio analysis is an essential technique for conducting SWOT analysis for the purpose of annual planning, most small firms do not use the technique because they do not prepare comprehensive business plans. The tendency to add new lines of products also stems from the desire to utilise any spare production capacity and from owner-managers' production orientation. Analysis of what each product or business activity contributed to the fixed overheads tends to be ignored in favour of short term gains that may be accrued from taking on new work. In both Asian and indigenous firms, owner-managers of firms at existence and survival stages did not have adequate understanding of the financial structuring of their businesses. Many had no idea of such simple measures as break-even points, fixed and variable costs and other financial control aspects of the business. This lack of knowledge of financial structures of their business had many implications for the ways in which pricing decisions were made.

The most common methods by which small firms said that they attempted to differentiate their products and or business operations were by placing emphasis on quality and price. Table 7.5 shows that over half the firms sampled used quality and price and only a minority relied on their uniqueness or markets served as means of creating competitive advantage. In indigenous firms, competitive pricing and high quality (owner-managers' assessment) were used to gain differentiation, but as mentioned earlier, most firms failed to communicate quality aspects, and pricing decisions tended to be negotiable in volume and sub-contract production runs. Seventy per cent of Asian firms used pricing as a method that helped them to be different. But in most cases firms in the same industry pursued similar pricing strategies and tended to emphasise lower prices whilst still maintaining that they offered high levels of quality. In service industries such as retailing and catering where there are limited barriers to entry, Asian firms tended to use low prices as a major weapon in face of intense competition that they face from homogeneous businesses in saturated local ethnic markets. Promotion as an essential technique for creating perceived differences was only used by 5 per cent of the total sample. These were firms that had reached success-growth stage of development and had started to invest in marketing and promotional effort and used outside expertise such as advertising and public relations agencies. It must however, be stressed that the use of these methods for differentiating products and business by a large majority of firms was not regarded as a marketing exercise but as an extension to their production and operational processes.

TABLE 7.5 METHODS OF DIFFERENTIATING PRODUCTS/SERVICES (Percentages)

Methods	Indigenous Firms	Asian Firms	Total N=40
Quality	65	45	55
Price	30	70	50
Name/Label	35	15	25
Uniqueness	15	10	13
Service	40	20	30
Market(s) served	5	10	8
Promotion	5	5	5

Pricing

Pricing is one of the most important risk decisions that managers in small and large firms have to take because pricing policy is the principal means of achieving the objectives of the business. Company objectives normally focus on profitability, sales volume, market share and market standing. All products and services have a price, even if they are 'free'. Accordingly, in implementing a marketing strategy managers must decide on price. A strategically set selling price ensures that there will be a sufficient flow of revenue (when a customer is created) into the business to pay for all the other activities that are necessary to achieve its objectives. From a budgeting standpoint, price is fundamental because price decisions impact the percentage contribution margin. Managers can assess the profitability implications of spending money on other marketing activity only if the percentage contribution margin is known. A rational pricing policy must be an integral part of an overall marketing strategy for a given product aimed at a clearly defined target market because pricing decisions have implications for the type of advertising, sales promotion, sales and distribution programmes that can be implemented. For example, prices may be set at a relatively high level to reinforce the quality image of a product as part of a differentiated-positioning strategy. Or price may be set at relatively low levels in order to stimulate demand or to compete head on with competitors. Apart from determining the price that should be charged to the customers, decisions also have to be made about discounts, allowances, distributors' margins and payment terms. This section of the research attempted to examine the ways in which small firms went about setting price and whether pricing decisions were integrated with other marketing programmes.

In all new firms (Table 7.2), pricing of product/services were determined after the business had become operative and a large majority (84% of indigenous and 92% Asian) of firms had followed cost-plus methods of setting price. Only one firm in each group had set prices with reference to the markets it aimed to serve. Pricing based on competition was mentioned by only one firm. The owner-managers of businesses relying heavily on sub-contract work did not see how any other method of pricing could be applied in their line of activity. They were all operating in highly competitive markets and secured orders on the basis of lowest prices and highest quality output. They therefore calculated price by adding small profit margins to estimates of their costs. The major problem however, in using this method was that most owners did not have exact figures or knowledge of their cost structures and were normally making pricing decisions without some notion of what volumes and contributions to fixed costs had to be achieved in order to break-even and run a viable business. This was a common problem amongst both groups, but was marked in Asian businesses. As most firms did not sell their products to end-users, they did not have to set final prices that would have had to take account of distributors' margins, allowances or payment terms. Discounting and pricing as a promotional tool was only used by one indigenous firm in the sample.

In established firms (Table 7.3), cost-plus pricing was also the most prevalent approach to setting price levels during the different stages of development. Market related (what the market will bear) pricing was only set by 20 per cent of indigenous firms at the start-up and early development stages and 15 per cent had based price with reference to competition. The cost-plus method was common in all industries and tended to be almost universal in engineering and service businesses. During growth stage, over a third of indigenous firms reported using a combination of methods. In common with pricing practices in larger firms (See Hooley et al (8)), cost-plus was used to set a base price above which the final price may be set at what the market will stand or based on competitive activity. The flexibility in pricing policy necessary in small firms was explained by owner-managers who shifted from market related pricing to cost-plus or competitive pricing when economic situation changed or target revenues demanded immediate action. A majority of firms however, were hesitant to make changes in their pricing policies because of the fear and uncertainties of customer response and competitive reaction. Price cutting, incorrect setting of price levels, price justification through costing techniques were common practices in small firms that failed to fully exploit the market opportunities.

In Asian firms, all owner-managers used cost-plus pricing on some or all the products and services. The reliance on cost-plus during the start-up and early development is almost a universal practice in Asian manufacturing, retailing and service industries. Although 10 per cent of firms started to use market determined pricing the majority either continued to rely sole on cost-plus or used a combination of methods. A small number of firms, particularly in jewellery, catering and clothing retailing (for Asian women) used market orientated pricing to create a market position and differentiation. Overall however, Asian firms expressed a homogeneity in their methods of setting price. In the clothing industry for instance, there are very small variations in the methods used for pricing sub-contract work, price to independent wholesalers and retailers and to multiples. None of the firms sampled based its pricing structure by examining the prices to end users that were operative at the time and to work backwards to determine what their selling price to either wholesalers of multiples should have been. Most simply calculated prices by adding on profit and distributors' margins to the cost of producing the item.

Discounts, distributors' margins, allowances and other pricing policies were used by only a small number of (13%) indigenous and Asian firms at the growth stage of development. In all these cases, pricing strategy and pricing to end-user had become important issues as these firms moved away from serving their traditional markets of intermediaries and contractors to consumer markets. In both groups of firms however, there was a lack of integration of pricing policies with other elements of the marketing-mix. In retailing firms, both Asian and indigenous, there was a complete lack of pricing structure and basis for calculating final price. Firms did not use such concepts as initial mark-ups, mark-downs or pre-determined levels of profit margins by product lines. In consequence these firms carried many slow moving lines, out date lines and lines that generated very small margins. The cost-plus method was applied across a range of product lines and promotional activities related to price cuts, special offers and for stock clearance were severely limited.

Channels of Distribution

Channels of distribution are the means by which an organisation gets its product to the target group of customers. As such, most channels of distribution consists of inter-dependent businesses that engage in product movement and availability. The manufacturers, service operators (for example, tour operators), *wholesalers*, retailers, direct mail houses, brokers and sales agents that make up such channels represent a system because they work together to buy, sell, deliver, store, display and demonstrate the products/services that customers want.

The use and development of channel strategy by new firms was limited to only two Asian firms during the start-up stage. All other firms, in both groups either sold directly to their customers or manufactured products on their behalf. Businesses in such diverse lines of activity as double glazing, wrought iron products, light engineering and jewellery, started by serving very small groups of customers (often just one) for direct supply and therefore there was no need for firms to develop channel strategy. Service firms (such as retailing and wholesaling) by their very nature were in themselves part of other organisations channel systems and sold their merchandise directly to customers in the chain. The Asian clothing firms that used channels of distribution had done so in the third year of their business operations. They had started by securing sub-contract work for 'cut, make and trim' (CMT) and gradually designed their own products that they sold to wholesalers. The distribution networks developed by new Asian firms were however, restricted to the use of Asian wholesalers who in turn mainly sold to smaller retailers and market stall operators. (See Saturn Casualwear Ltd., Appendix 2.5). Another Asian firm (Bhogal Heat Ltd., see Appendix2.6) whose product had applications in the consumer markets had started to explore the possibilities of selling to DIY multiple chains such as B and Q and W H Smith Do It All. To penetrate this market however, required the company to gear up its operational base to delivering the specified quality, quantities, packaging, merchandising and distributor margins that the owner-manager was not yet ready for.

The use of distribution channels by established firms followed similar pattern of new firms during the start-up and early development stages. Only five Asian firms had sold their products into their distribution chains. These again were concentrated amongst clothing and shoe manufacturing businesses that had developed their own products to sell to wholesalers. The use of channels of distribution increased during the growth stages of development. In the Asian firms, this was accounted for by food wholesalers and meat companies diversifying into packaged consumer products and who developed multiple chain retailers as a part of their channel systems. Only one indigenous firm (JDK, Appendix 3.10) had used wholesalers, retailers, and agents to distribute their line of enamelled boxes to the consumer markets. But as this company's traditional and mainstream business was concerned with direct supply of products to industrial institutional customers, the management lacked experience, personnel, promotional budget and organisation structure to use these channels of distribution as effectively as their competitors in getting the product to its intended end-users.

Promotion

As discussed in chapter six, owner-managers of small firms tend to associate the term marketing with advertising, selling, company image and sales promotion. Such techniques however, are means of communicating with the market place and can be grouped under the collective term of promotion. Even selling, an activity in which many organisations place considerable emphasis and organise as a separate business function, is only one part of the overall promotional-mix. This section of the investigation attempted to explore what promotional-mix techniques small firms applied during the various stages of their development. As a qualitative study, it also aimed to gain an insight into owner-managers' understanding of the roles of and differences and interrelationships between the main promotional-mix techniques and whether they integrated the use of promotion with the strategic aims of the business. The following sections report of the use of advertising, sales promotion, merchandising, personal selling, publicity and public relations by new and established firms. Brief definitions and roles of these promotional tools are given before reporting the findings.

Advertising

Advertising can be defined as a one-way, non-personal presentation and communication of ideas, goods, services, organisation or events. Advertising is an indirect form of communication through mass media and therefore takes place outside the immediate environment of the product or service. The essential role of advertising is to move potential target audience from complete unawareness of the existence of a product or a supplier to awareness, comprehension of the benefits, conviction and some form of action that would assist the firm to creating customers. The other objectives that advertising fulfil include projection of company image and informing, reminding and persuading target audiences of the firms' new products, brand preferences and changes in buying behaviour and attitudes. Sales however, is not a function of advertising, but of an interaction of a number of variables. To be effective, advertising decisions should emanate from the firms' marketing strategy and clear definition of its target markets.

The use of advertising in most new firms (Table 7.2) was introduced some time after the business became operative. Although 46 per cent of indigenous and 38 per cent of Asian firms said that they used advertising during the start-up stage, a majority had either placed a single advertisement in a trade journal, made an entry in the Yellow Pages or invested in a direct mail campaign. As most of the manufacturing firms in the sample had started by securing work from personal contracts, word-of-mouth recommendations or on a sub-contract basis, the owner-managers did not see the need for investing in advertising. Advertising was considered to be very expensive and irrelevant for most businesses because of the size and line of their activity. Only two firms had budgeted for advertising and had planned its use to create an awareness of their existence and the products/services they had to offer. The other firms, in both groups said that they could not afford to advertise until the business picked up.

In general, owner-managers did not regard advertising expenditure as an investment, like the purchase of a machine, but as a cost that could not be justified. The lack of investment in advertising to create an awareness of their existence even during the third year was wide spread. Amongst the firms that had used some form of advertising, the majority had not targeted it to pre-determined groups of customers nor planned the messages to link with the overall aims of the business. The following comments are typical of the ways in which advertising and other promotional aspects were used by owners of new businesses.

> "We placed an entry in the Yellow Pages costing £350 when we started and produced some leaflets about six months later. We sent out at least 300 mail shots to local engineering businesses but got little business from doing this."
>
> Founder of indigenous light engineering firm.
>
> "A majority of the orders for software and supplies for schools come from the publishing companies' advertising, direct mail and promotional campaigns. We do not do any advertising of our own, nor produce any leaflets or brochures. We also rely on word-of-mouth reputation for quality and reliability."
>
> Founder of indigenous computer software services firm.
>
> "We identified wholesale distributors, independent petrol stations and other retail outlets as our main customer groups for promotional jackets. We are also planning to sell to multiple stores such as Halfords and car spare shops of major car dealers. We have employed two sales agents to sell to wholesalers and retailers. We get most of our sub-contract work from our personal contacts, word-of-mouth and reputation of the business. We are planning to produce a corporate brochure and advertise in the trade press."
>
> Founder of Asian clothing firm.
>
> "When we started, we got most of the business from personal contacts and word-of-mouth recommendations. When we developed the aluminium boat, we produced a colour leaflet and advertised in the trade press. This produced some results but we cannot afford to advertise again."
>
> Founder of indigenous welding and fabrications firm.
>
> "I could not justify the expense of advertising, direct mail or literature - so I haven't."
>
> Founder of indigenous engineering firm.

The use of advertising during the start-up and early development in established firms followed a similar pattern to the new firms with media advertising (mainly in trade press) increasing by firms that had reached the survival stage of development. As with new firms, owner-managers made all the advertising decisions concerning the message, media and budgets. Most advertised only once a year in trade press or trade directories and often without any clear ideas on what was to be achieved and had no mechanisms for handling enquiries and requests for further information. There was a tendency to regard advertising as a means of generating sales leads to be followed by the sales team or personally by the owners. There was a lack of understanding of how advertising could assist the personal selling efforts of the firm. Advertising was not considered important by firms at the early development stage as they continued to rely on serving niche markets and securing work from personal contacts and word-of-mouth recommendations.

The use of advertising by indigenous firms increased to 80 per cent during the growth stage of their development. This increase, to a large extent was accounted for by firms that had started to use advertising in an attempt to secure customers for their new range of products and services. Although a majority of the firms in the sample had developed new products for their existing markets, they used trade advertising, direct mail shots and trade directories to target potential new customers (see Harrison Engineering Ltd, for example, in Appendix 3.3). Of the twenty indigenous firms studied, only four had started to employ the services of outside advertising agencies and expertise to deal with their advertising programmes.

Amongst the Asian firms, the use of advertising increased from 10 per cent at early development stage to 50 per cent during growth stages of development. As in indigenous firms, these businesses relied heavily on personal contacts, serving Asian markets and on reputation they had built amongst their customer base. The use of advertising became necessary when they attempted to take their products into the wider markets and when new product development justified the investment in creating customers for them. Only one Asian firm (Eastern Foods Ltd., Appendix 3.9) had used press, TV, radio, transport and video advertising during the growth stage of its development. The same firm was the only one in the sample that had started to use an advertising agency and had the resources to successfully take ethnic food produce into the wider market.

As none of the firms in both groups prepared marketing plans, the advertising decisions and practices were in all cases made without reference to any overall marketing strategy, target audience or other elements of the promotional-mix that the firms had invested in.

Sales Promotion

Sales promotion aids the sale of a product, service or an organisation by using direct influences with the product's immediate environment. It is a direct form of communication because it normally takes place on or with the product/service and is concerned with the following two main objectives:

To encourage sampling of a product, service or an organisation (as a supplier)

To encourage repeat purchase of a product/service and to change buying patterns and behaviour.

In formal marketing terms therefore, sales promotion can be defined as an incentive aimed directly at encouraging a target audience to move towards buying a product or service. Sales promotion techniques directed at existing and potential customers range from introductory offers, competitions, coupons, premium offers, reduced price offers, special demonstrations and free samples. Although these techniques are applied in larger organisations, they are equally applicable in creating customers in small firms.

The research however, shows that whilst the term 'sales promotion' was well known amongst all owner-managers, its meaning was confused with all other aspects of promotional-mix. Most owners associated the term with leaflets, brochures and other printed literature that was capable of 'promoting' the business. Others confined and confused it with participating in exhibitions and public relations aspects of promotion. This was common in both groups of new and established firms. It was therefore not surprising that when the term was explained to respondents, only two new and three established firms had used some sales promotion techniques. In most cases however, where such techniques as reduced price offers or introductory discounts had been used, they were aimed exclusively at wholesalers, retailers and contractors to encourage them to the firms' products/services. Wholesalers and retailers used sales events as a sales promotion technique to move stock. There was little evidence to suggest that the firms that used sales promotion techniques planned to implement them to achieve specific communication objective or integrate them with advertising and selling effort. In most firms sales promotion was an ad hoc exercise that lacked any strategic purpose.

Merchandising

Merchandising is an essential element in the promotional-mix which can achieve communication objectives not possible by using other techniques. In essence, merchandising ranges from the total presentation of a product from initiation to the point of purchase. It starts at the point of manufacture when a product is given its identity and personality through the use of packaging and labelling. It continues to the stage when it is packed for transport (for example, in containers which carry the name of the product and the company). When the product is in transit, merchandising is in the form of livery design, and finally it is displayed in an outlet for customers to purchase.

A simple definition of the term merchandising is that it is non-personal, visual projection of the company and its products, which exerts influence within and outside of the purchasing environment to attract customers, stimulate desire and convert desire into buying action. The term merchandising therefore, for the purposes of the research design and this thesis includes the use of the following five main aspects of visually projecting the company and its products.

i) Receptions, Conference and Exhibitions
ii) Corporate identity
iii) Packaging
iv) Product display
v) Point-of-Sale activity.

As echoed by Stanton (9), the term merchandising is probably one of the two most loosely used terms in the marketing language (the other being sales promotion), and it means different things to different people. Its use therefore in small firms had to be assessed after explaining the term as described above and its five main constituent techniques.

In new firms, 61 per cent of indigenous and 46 per cent of Asian firms had used one or more merchandising techniques. In most cases however, the firms had used some basic methods of establishing company image. This, in most firms was limited to the printing of company names, and in only a few cases, logo design on letterheads, business cards and other stationery after starting the business. Only two firms (catering and construction) had extended the logo designs to use on their vehicles, uniforms and other articles that came into contact with the customer. Only two firms had invested in designing their reception areas to project their planned image and had in the past three years participated in trade exhibitions.

In established firms, the use of merchandising techniques in both groups increased from 63 per cent during start-up and early development to 90 per cent during growth stage. But as in new firms, the most prevalent aspect of merchandising during the initial stages was the development of company image on stationery, livery, and occasional participation in trade exhibitions. The tendency for firms at early stages to develop their own corporate image in terms of logo design, style of lettering, choice of names and emblems was verified by interviewing a larger sample of established firms. Although most firms had commercial premises with reception areas, none of the firms at survival stage had considered them as a means of projecting a desired image to its publics. Most reception areas therefore, tended not to be organised from a customer perspective.

During growth stages, other aspects of merchandising were used by a small number of firms. Firms that had reached success-growth stage invested more time and resources in developing and using company image, packaging and exhibitions as means of communicating with their customers. Reception areas in such firms were much more comfortable, re-furbished with adequate seating, lighting and staffed by trained receptionists. Participation at exhibitions and trade fairs, although not fully planned were used to generate sales leads and gain exposure in the market. Harrison Engineering Ltd. (Appendix 3.3) for example, participated in three exhibitions, one in the UK and two abroad and had secured orders for its consultancy activity from several countries. It is not until firms mature at success-growth stage or near lift off stage, and when they employ specialist marketing staff that all aspects of merchandising become more co-ordinated and used as an integral component of the promotional-mix. It is during this stage that firms also bring in design consultants and agencies (albeit through grant schemes) and develop their corporate identity, packaging and point-of-sale materials (see Eastern Foods Ltd., Appendix 3.9).

Personal Selling

Personal selling is an integral part of marketing and because it is concerned with communicating with customers and intermediaries (such as wholesalers, retailers and distributors) it is essentially a component of the firm's promotional-mix. Personal selling can be defined as an interpersonal process designed to influence another person's decision. It is a direct, face-to-face form of communication that is used to inform, counter objection and collect information from existing and potential customers of the firm. In marketing orientated businesses, its emphasis is on communicating the benefits of the product or service. The philosophy in such organisations is to solve the customers' problems or address to their needs and wants. From this point of view therefore, personal selling is similar to what advertising is trying to achieve, but by directly communicating with the customer.

The aim of this research was to ascertain the selling processes in small firms during the various stages of development. Tables 7.2 and 7.3 show that most firms during initial stages engaged in some form of personal selling. From the interviews and case studies, it is clear that during existence stage, personal selling is carried out, in the main, by the owner-managers. In manufacturing firms, selling to the small customer base developed through personal contacts and word-of-mouth recommendations consists of maintaining the relationship to secure continuity of orders. At this stage orders for new products also came from existing customers and the owner-managers started to develop new customers through referrals and cold calling. Few manufacturing businesses also employed sales agent to help move the firms' products. By the time firms had reached survival stage, although their customers had increased, they invariably relied on one or two main customers for the bulk of the work. In order to generate revenue to cover increasing overheads, owner-managers started the process of using more sales agents and bringing in sales representatives. In most cases however, owner-managers had little experience and knowledge of hiring sales people, or sources of recruitment and payment terms for sales agents. This was particularly marked in Asian firms who employed sales agents in the UK and abroad (see Midland Upholstery and Virdi Bros Ltd.)

Only a small proportion of firms in the sample employed full-time sales representatives or sales managers at survival stage. This was essentially due to the lack of resources available and the type of business activity. At success-growth stage, firms had started to appoint sales managers, sales representatives and agents, and started to introduce systems to handle sales and customer enquiries. Tele-sales operations were introduced in firms that relied on repeat business from a large number of existing customers (see Eastern Foods Ltd and Time Systems Ltd). At this stage however, most sales representatives and managers reported to the owners or managing directors who continued to influence or dictate the sales effort. Sales managers in some cases were given titles that included marketing but their involvement in the function was cosmetic and the firms continued to be operated from production and sales perspective. Firms developing towards lift off stage appointed sales directors to mange the sales function. Marketing in such cases tended to be present (with marketing managers) but were organised as a separate function.

Where firms had employed sales representatives and managers, it was interesting to note that in most cases they were not well trained, qualified or experienced and were paid on salary only basis. Few representatives were given adequate training and where national coverage was necessary, they were badly organised to effectively manage such large territories. This lack of training, incentives and management manifested in their approach to the job. Most were pre-occupied by attempting to securing work from existing customers. Their productivity was low, due to courtesy calls and travel in covering customers spread out across the country.

Publicity and Public Relations

In common with sales promotion and merchandising, the term publicity is also widely misused and abused in all types of firms and by sales and marketing personnel. For the purpose of clarity and this thesis, publicity is defined to encompass all printed literature that a firm uses to inform its customers of the products/services and its corporate capabilities. Publicity therefore includes such items of literature as corporate brochures, product leaflets, product information sheets, product catalogues and price lists. Printed material for use in exhibitions, conferences, trade fairs and in assisting in selling (such as sales aids and demonstrations) are also elements of publicity. Publicity is also part of a larger public relations concept and supplements and complements the effort for developing and managing the firm's corporate image. Public relations was examined in this research only as it relates to the marketing communications role, rather than as a management function that is applicable across the organisation (see Kotler (6) and Aaker and Myers (10)).

Publicity during the initial stages of development was used by over half (55%) of all firms sampled. The printed literature in firms at existence stage tended to be limited to production of very basic company and product/service leaflets and brochures. There is an obvious link between the use of publicity material, personal selling and the customer base on which the firms depend on to start the business. As with other aspects of promotion, owner-managers did not invest in publicity material because of lack of resources. But more fundamentally, it was because they could not see the need for such an investment. Their reliance (total in some cases) on a small number of contractors and direct customers acted as a barrier to adopting a pro-active approach to creating new customers. The pattern of use of publicity material in both Asian and indigenous firms was very similar. Public relations at this stage tended to be non-existent and most owner-managers did not feel that they had skills or influence in the media. Only one firm (Narrow Track Ltd.) had successfully gained public relations opportunities at the start-up stage. This was largely because of the uniqueness of its product that it was included in a television programme (Tomorrows World).

It is not until firms have reached survival and success-growth stages that they started to invest in company and product literature. Firms at survival stage used colour brochures and reacted to public relations opportunities. The brochures in most cases however, tended to be designed and written by owners and printed by local printers. They tended to focus on the company, its history, the premises and lists of features of their operations and products. Where outside designers were used, they tended to be the printers' designers' rather than professional design studios. Public relations at the stage were primarily in the form of press releases and editorial prepared by the owner-managers and that got media exposure only because they had to buy advertising space in trade journals and other press. The only firm that gained media interest and hence news coverage was Times Systems Ltd. (Appendix 3.5). This was partly because of the unique nature of the product, but more because of the personality of the chief executive. The publicity effort was co-ordinated and professionally managed by internal marketing staff and external specialists in firms nearing lift off stage of development. Firms started to design and use a whole range of literature including merchandising, product catalogues, corporate brochures and technical data. A small number of firms had hired the services of public relations experts on part-time or retainer basis.

2.2.3 Growth Techniques

Prior to reporting the results of this part of the investigation, it is necessary to very briefly explain for the benefit of the non-marketing reader, the main growth techniques that were tested for their application in small firms.

Marketing-mix and segmentation are the essential planning tools that help the company to enter markets and maintain the flow of revenue into the business. But maintenance of business alone cannot guarantee that the firm can survive in the changing environment. All businesses therefore, have to analyse new opportunities and create new products and markets that aid in their growth. The use of the other main techniques that were explored in this research are intensive growth, integrative growth and diversification.

Intensive growth opportunities can be identified by analysing the firm's product/market expansion grid (see Ansoff (11)). The grid is built around the understanding of the firm's existing and new products and is illustrated simply in Figure 7.4 below. Businesses looking to grow beyond their existing products and markets can exploit the opportunities by integrating with other parts of the marketing system. A marketing system is made up of the firms products, markets (customs), supplies of raw material, competitors, and distribution systems. But integrative growth only makes sense if the company can be assured of strong growth future of its basic industry and if it could benefit from controlling its flow of raw materials or the sale of finished goods. Firms can increase their profitability, efficiency or capacity by moving backwards, forward or horizontally within the industry. Backward integration is where a firm seeks ownership and control of the supply of its raw material and components. Forward integration is where a company seeks ownership or control of its distribution system, and horizontal integration is where a firm merges with or takes over its competitors.

Figure 7.4 Marketing Opportunity Identification Through The Product/Market Expansion Grid

	Existing Products	New Products
Existing Markets	1. Market Penetration	3. Product Development
New Markets	2. Market Development	4. Diversification

It makes sense for a firm to consider diversifying into new products and markets if its marketing system does not show much additional growth opportunities or if the growth opportunities outside the system are far superior. There are three main types of diversification moves. Concentric diversification is where a company produces new products from existing raw materials and or technology and then uses its existing sales force, distribution systems and marketing systems to sell the new products to the same or similar groups of customers. Horizontal diversification is where a firm produces new products by introducing new raw materials and or technology and where new products are sold to its existing potential customers. Conglomerate diversification involves the firm in producing completely new products from new raw materials new technology for new groups of customers.

Through observing the product range and their intended markets and by explaining the growth techniques outlined above, it emerged that amongst the new firms only five firms had applied some of these techniques. But although three indigenous and two Asian firms had either engaged in product development (intensive growth) or diversified their operations, they had not done so as a planned activity to gain business growth. The owner-managers had intuitively or inadvertently applied theses techniques without consideration or analysis of its capabilities, market potential or resources base. In most cases the decision to develop or add new products related to existing skills, raw material and technology. Where modification of existing products or production operations had resulted in new products, they were invariably offered to existing customers. Development of completely new products from existing raw material, technology and skills (concentric diversification) were also limited to catering for existing customers, and was yet more evidence of the founders' production-orientated approach to running the business.

There was little evidence of prior research of the market demand and competition for these additional products and the founders did not have clear plans as to how they proposed to market them. The manufacture of aluminium boats (Appendix 2.2) aimed at the leisure market by a small fabricating firm with limited resources and market knowledge is typical of how owner-managers channel their technical skills into making new products that have little chance of finding customers. In the service industry, the case study of a computer software and hardware (Computer Products and Services Ltd., Appendix 2.4) demonstrates a similar pattern of diversification. In this case, the firm had relied on selling software to schools market during its start-up and development stages. But as the market got saturated with suppliers, the firm reacted by developing computer base teaching material when the market was not ready for such products.

In established firms, intensive growth techniques were used by two (5%) firms during the start-up and early development stages and by seven firms (18%) during growth stage. Most of these firms either developed new products or took their existing products into new markets. Only two firms, during the growth stage, had attempted to sell existing products/services more aggressively into their existing markets. The emphasis on product development was explained by the firms' need to utilise spare capacity and to generate extra revenue to cover the increased fixed overheads that accompanied the move into survival stage of development. Amongst the six indigenous firms that had applied intensive growth strategies, the manufacturing firms developed new products or manufacturing facilities for their existing customers (see Harrison Engineering Ltd. Appendix 3.3). Service firms such as Time Systems Ltd. (Appendix 3.5) had developed both markets and products, and invested in promotional effort to penetrate its existing markets.

In Asian firms serving niche markets (to meet demand for Asian products/services), market penetration was used by one firm during growth stage as a deliberate strategy with resources invested in promotional effort (including media advertising) to sell more into the existing markets (see Eastern Foods Ltd., Appendix 3.9). The other firm in the sample that served a growing Asian niche market (Midlands Meat Co., Appendix 3.8) increased its sales in an expanding market without any marketing effort. As in new firms however, the owner-managers had taken the decisions to develop new products and markets and penetrating existing marketing without having a knowledge of such techniques as markets/products expansion grids and intensive growth strategies. The decisions were taken either in response to customer enquiries or from considerations of capacity and operational processes.

The 'integrative growth or integration' was not understood by a large majority of owner-managers. When the term and the methods were explained to them, they could only see the relevance of horizontal integration (or takeover of competitive firms) to their operations. None of the firms in the sample had applied any of the techniques of integration during the various stages. Although one firm had bought out another firm (see Harrison Engineering Ltd., Appendix 3.3), the motive was to acquire the freehold land on a prime site rather than to expand production capacity. This firm however, continued to operate the acquired firm (which was in unrelated business activity) and consequentially diversified its activity into a completely new field.

Diversification amongst new firms was limited to just one firm (Aluminium Boats Ltd.) that had moved into manufacturing new products with its existing skills, raw material and machinery for sale into a completely new (and unknown) market. Again, the decision to move into this activity was not a result of any strategic planning to achieve growth, but motivated by availability of production capacity, skills and founders' product idea. Some established firms had historically diversified into their current business activity. In examining their development at early growth stage 10 per cent of indigenous firms had diversified along concentric or horizontal lines. In all cases the decisions were production related and without careful consideration of the market place. The Asian firm that diversified (Midlands Upholstery) during early development stage had moved from retailing second hand furniture to manufacturing upholstered furniture for the Asian market.

Diversification by established firms during growth stage increased more markedly in indigenous firms (30%). All however, had used concentric or horizontal diversification by adding new products to serve existing and new markets. The two Asian firms that had both attempted to take Asian (ethnic) products into new consumer markets had experienced barriers to entry because of the lack of adequate market research and promotional budgets.

2.3. Marketing Organisation

The process of analysing the environment, firm's current situation, establishing objectives and formulating marketing strategies can become an academic exercise if there are no people in the organisation to implement them. Marketing is a human activity that requires planning and execution of strategies and decisions taken by management. The firm therefore must develop an effective marketing organisation that will carry out the activities needed to implement the strategies. This section of the research attempted to examine who in small firms was responsible for marketing and whether outside expertise was used to assist companies in the marketing planning, implementation and control.

Table 7.6 shows the responsibility for marketing in all the firms sampled. Of the new indigenous firms, only one (8%) employed a person with clear responsibility for marketing. This was the catering firm that had invested heavily in commissioning market research, business planning and had employed a marketing manager at the outset of starting the business. In the majority of indigenous and Asian new firms, the owners were responsible for all marketing activity as they understood the function to mean at the time. Many founders responded by saying that although they would be responsible for marketing, there was little or none undertaken. One firm in each group had made use, or were planning to use, Government funded schemes such as the DTI Enterprise Initiative to bring in marketing expertise. Only one indigenous firm has used private marketing consultants/advisers and the other had made use of subsidised or free business advisory or training schemes that offer assistance with the firms' marketing issues.

The pattern of responsibility for marketing in established firms was different with two indigenous firms and one Asian firm employing a Marketing Manager. In all cases however, the Marketing Managers either reported to the Sales Managers/Director or directly to Managing Director. None of the firms were committed to appointing Marketing Directors as the Managing Directors saw marketing as a decision areas that they could direct and manage adequately.

Six indigenous firms (30%) and four Asian firms had appointed Sales Managers who either had 'marketing' in their title as part of their duties. In such firms, however, marketing essentially consisted of sales and promotional aspects and the manager worked closely with the owner-managers and managing directors to implement company decisions (see Harrison Engineering Ltd and M C Automatic). But as in new firms a large majority (84% over all) of the owner-managers and their teams were responsible for the functions if and when it was undertaken. Little or no marketing was undertaken by 80% of Asian firms compared with 20% of indigenous. The use of outside specialists was limited to six firms (four Asian) who had made use of Government and other subsidised advisory services or grants.

TABLE 7.6 RESPONSIBILITY FOR 'MARKETING' AND ACCESS TO MARKETING EXPERTISE IN NEW AND ESTABLISHED SMALL FIRMS (PERCENTAGES)

	New Firms		Established Firms		
RESPONSIBILITY AND SOURCES OF EXPERTISE	**Indigenous N = 13**	**Asian N = 13**	**Indigenous N =20**	**Asian N = 20**	**Total N = 66**
1. The firm employs a manager/director with clear responsibility for marketing	8	0	10	5	6
2. The owner and senior team responsible for marketing	84	54	80	90	79
3. There is little or no marketing undertaken	54	77	20	80	56
4. The company employs Sales manager responsible for marketing	0	0	30	20	15
5. Use private consultants or advisers	8	0	0	0	2
6. Use, or will use Govt funded schemes for marketing	8	8	5	10	8
7. Use subsidised or free business advisory or training services	8	0	5	10	6
TOTAL	**170**	**139**	**150**	**215**	**172**

3. OWNER-MANAGERS' ASSESSMENT OF PAST PERFORMANCE AND FUTURE PROSPECTS

The aim of this section of the research was to examine the owner-managers' self assessment of their firms' past performance, future prospects and reasons for their optimistic or pessimistic views. Table 7.7 summarises the owner-manager' responses to the discussions during the interviews and shows that overall 36% of all new and established firms had performed better than expected and 47% performed as expected. More new Asian firms thought their performance was better than expected compared to established firms. The pattern amongst the two groups of indigenous firms almost reversed. More established firms (60%) than new (38%) thought they performed as expected with almost equal number performing better than expected. Only one Asian new firm compared with four indigenous thought their performance was worse than expected, and the pattern reversed amongst established firms.

In most cases, owner-managers included such measures as sales turnover, profit margins, number employed, customer base, product development, personal rewards (both financial and job satisfaction) and survival as indicators of the firm's performance. The fact that overall over a third of all firms in the sample had performed as expected, suggested that either the owner-managers had a planned approach to business development or they did not set high enough targets. When this issue was discussed further, most owners of new firms who had started with very little capital and physical resources and who, whilst still in business but had not achieved great financial rewards, said that they had anticipated this when they started.

More new Asian firms were optimistic of their future prospects than indigenous firms, but again the pattern was reversed amongst established firms. Overall, 56% of firms were optimistic of their future. Whilst the view that the business will survive in the future can be interpreted as a neutral posture, it has been included in the category of pessimism.

The reasons owner-managers gave for their optimism or pessimism of the future centred around the emphasis they placed on the products that they made, their capabilities or the markets they served or could serve.

Of the fifteen new firms that had expressed optimism of their future, almost half emphasised the potential of the market, their ability to create customers and deliver what the market requires. In established firms only a quarter of the sample gave this reason. The optimism of new firms has has to be regarded with some caution as only three out of the eight firms had undertaken any form of formal market research and forecasting of the medium term potential of the markets they served. The others were expressing their assessment of the markets based on their intuition; knowledge of the trade or state of their order books at the

TABLE 7.7 ASSESSMENT OF PAST PERFORMANCE AND FUTURE PROSPECTS OF NEW AND ESTABLISHED FIRMS. (PERCENTAGES)

Performance and Prospects	New Firms Indigenous N = 13	New Firms Asian N = 13	Established Firms Indigenous N = 20	Established Firms Asian N = 20	Total N = 66
1. Past Performance					
Better than expected	31	55	30	35	36
As expected	38	37	60	45	47
Worse than expected	31	8	10	20	17
TOTAL	**100**	**100**	**100**	**100**	**100**
2. Future Prospects					
Bright and Healthy	8	15	30	15	18
Save hope for future	37	55	30	35	38
The business will survive	31	30	40	40	36
The business will fail	8	0	0	5	3
Difficult to predict	16	0	0	5	5
TOTAL	**100**	**100**	**100**	**100**	**100**

time of the study. The opinions of the established firms was more credible and reflected owner-managers' experienced judgments and on the state of their customer base. The other half of the optimistic new firms placed considerable emphasis on having unique products/services and having manufacturing or operational capacity to meet customer needs. Amongst established firms over half had based their optimism on having manufacturing capacity. This was indicative of how these firms had developed and had reached a stage where they had effective and efficient manufacturing/operational facilities. They felt confident that they will continue to generate repeat business and attract new customers. The fact that the new firms had also started on the bases of their skills, knowledge and previous experience to make/offer products/services provides further evidence of how production orientated approach to running the business can lead owner-managers to have too much faith in what they offer. Though both new and established firms had what they regarded as the right products/services, they however had not targeted them at specific markets. The investment in 'managerial ego' in cases where owner-managers had invented their own products (for example heating cables and aluminium boats and launch ethnic foods into the wider community) heightened their optimism of the firms' future prospects.

A majority of new firms (over a third indigenous and half Asian) expressing pessimistic views of their future prospects emphasised having the right products/services but not enough customers to sell them to. The remaining firms, although expressing that they knew there were markets for their products/services, did not know how to exploit them. Further discussions and observations revealed that these firms were attempting to sell the products/services that they already made (or could make) to their existing customers and to anybody who wished to buy from them. They knew there were many similar large and small business which were successfully selling similar products and concluded that there must be considerable market potential. A similar pattern of reasons for pessimism emerged amongst established firms with a majority of indigenous and Asian firms not having enough customers. Almost a third of the firms out of a sample of eighteen expressing pessimism felt that they did not have the skills, knowledge and resources to tap the market demand that they knew existed.

The following views were typical of most new and established firms and illustrates the faith owner-managers place in the provision of their products/services or operational capacity.

> 'The heating cable that I have designed and manufactured using Silicone rubber is just right for many industrial applications and is less than half the price of competing brands. I know there is potentially £250 million market out there just for industrial applications. On top of that there is the consumer market for use in greenhouses and to prevent frosting of water pipes. I am very optimistic for my company's future'.
>
> Founder of Asian manufacturing firm.

'There is no other major British manufacturer of aluminium boats for the leisure market. I know we have the right product but we just cannot get enough large orders. We tried selling the boats to the leisure market, but found that we did not have enough resources and marketing skills to enter the market properly or to produce in large enough quantities. We are now trying to sell to the public sector such as Water Companies, Police and Fire Authorities'.

Founder of indigenous light engineering firm.

'We know that there is a huge market for professional shipping services, especially for exporting to the Middle East. I have a professional team of people working for me and we get new customers on the back of our reputation and from my personal contact in the trade. We have grown rapidly and I am sure of success in the future'.

Founder of Asian Shipping and Exporting firm.

'We can make any type and design of Asian jewellery but we do not have many customers because there is so much competition in Birmingham. Asian Jewellery is now also being made in Singapore because of cheap labour and imported by Asian jewellry retailers. My wife and I just struggle to make ends meet at the moment and I don't see much change in the future'.

Founder of Asian jewellry retail and manufacturing business.

'We are proud of our technical expertise and we have invested in bringing the latest technology into our product range to keep down the costs and make the units smaller. We know that there is potentially a huge domestic market which, although new to us, we are keen to exploit. We are also developing new products by investing heavily in research and development of Terminal Node Controls with the Building Research Establishments. We are very optimistic of our future and have an established manufacturing and operations base form which to work towards the next phase of our business development'.

Managing Director of established firm manufacturing automatic controls and monitoring system.

'We have established ourselves over the past seventy years and have the operational base, technical and creative people who can handle much more work than we currently bring in. Although we have many customers we rely on a small number for regular, low margin work. We know that in the West Midlands alone there is a large potential market for our services, and in particular for our new photographic facilities and services. I am sure we can survive, and even expand in the medium term but we have to put more effort in developing new business. We have already started to promote our services more aggressively, but I don't think we have all the skills necessary at the moment?'

Managing Director of an established design and photographic studio.

'We probably have one of the largest clothing manufacturing factory in Birmingham and have our own polyester laminated and quitting machinery. We have the production facilities to make all types of coats and jackets, and we can switch to making basically any other item of clothing. We are not working to full capacity, but I think we will survive because of the work we do for wholesalers and agents in Norway Holland and Ireland. We are going to start making shirts and skirts and other garments and I am confident that we will sell them to our existing wholesalers in Manchester and Southampton?'

Managing Director of established Asian outer wear garments manufacturing firm.

'Even with the new designs for a range of upholstered furniture aimed at selling to English people, I do not think the business will survive for long. We can make good quality furniture, but we do not have the skills to meet the requirements of furniture stores or to get our products accepted by them. The design has cost us a lot of money but we still do not have any one interested in buying them regularly in small batches. We will end up selling the new designs to our existing retailers who sell to Asian customers. The margins might improve for the new design but not enough to keep us in business for long'.

Established Asian Upholstery business.

4. OUTCOMES AND IMPLICATIONS OF APPLYING MARKETING IN SMALL FIRMS

This section summaries the outcomes of marketing decisions and events that took place in two small firms over a period of two years between January 1987 and December 1988. The monitoring of management decisions and their outcomes formed the basis of the longitudinal studies for this thesis. The rationale for extending the study of two firms from single-point in time to monitoring them over a time period was to provide some evidence to support the final tentative hypothesis of this thesis. The hypothesis that successful application of marketing and business development techniques requires financial and operational re-structuring that most small firms find difficult to implement was included in the research design in the hope that the findings will fill a gap in current literature on the outcomes of applying formal marketing. The longitudinal studies of one indigenous firm (Jacqunoid Dodgson and Kenwright Ltd) and one Asian firm (Bhogal Brothers Ltd) are contained in Appendices 3.10 and 3.11 in Volume Two. It is recommended that the reader refers to these detailed studies prior to reading this section.

The analyses of the information, management discussions and events in these studies are presented as summaries by reference to the application or non-application of the main marketing techniques, requirements of their implementation and outcomes. Because of the exploratory nature of this investigation, based on only two firms over time, the outcomes and comments on their implications reported here are tentative and point to the need for a larger study for more definitive conclusions. As some of the other established firms in the overall sample had recently applied aspects of formal marketing, such as new product development, packaging, branding, and promotion, the following summaries have taken account of the outcomes of these decisions where appropriate. The marketing decisions and outcomes in the two longitudinal studies have also been included in the reporting of marketing in established firms in section two of this chapter.

The longitudinal studies contained in Volume Two where based on researchers' interviews, observations, monitoring visits and by referring to the reports prepared by consultants and advisors who were hired by these firms. The following summaries therefore reflect the decision accepted and implemented, or rejected by the managers of these firms. The indigenous firm (JDK) was selected because it represented well established engineering and craft based small firms that had reached success-growth stage of development on the bases of their very diverse customer base, large number of product lines and evolution of systems and organisations. The firm had a sales turnover nearing £3m in 1987 and had access to financial and other resources to implement formal marketing as recommended by external advisers. The Asian firm (BBL) on the other hand was representative of Asian Clothing and other manufacturing business that relied on 'white' contractors and Asian wholesalers, retailers and end-users as their main customers and who were attempting to break into new markets by developing customers for direct supply of their output. The Asian firm was edging towards reaching survival stage of development, had sales turnover of less than £0.5m and had constraints on gaining access to additional resources required to implement formal marketing.

The detailed longitudinal studies of the two firms and the summaries of outcomes and implications of applying marketing in Table 7.8 give an indication of what happens when formal marketing is introduced in small firms. The findings suggests that firms at survival and success - growth stages have different problems and barriers in applying formal marketing techniques.

The firm at survival stage not only lacked financial resources to buy in marketing expertise, it faced major constraints in coping with the effects of applying marketing in the business. Although the owner-manager of the Asian firm in the study was receptive to marketing consultant's recommendations and applied them where appropriate, the outcomes however, suggested that the firm had not adequately developed its other functional areas to benefit from marketing effort to gain new class of customers. The experience of gaining an order to directly supply own designs of products to a national multiple retail organisation that was subsequently rejected on the basis of its poor quality, demonstrates the negative outcome of applying marketing in a small firm that is not fully developed to cope with the stringent requirements of the market place. As this firm had started and developed by relying on flow of sub-contract work, its financial and operational structures and systems had evolved to meet customer requirements. The contractors supplied the firm with the designs, fabrics and accessories necessary to manufacture the required production runs of garments. By moving from providing a manufacturing service to designing and supplying finished garments, the firm's financial structuring, systems, cash-flow and production processes failed to take account of the investment and changes necessary in serving the new market. The cash-flow suffered because of the unplanned purchase of raw materials and accessories. The production processes had continued without any changes in quality control procedures to cater for new requirements. The machinists and other operatives were not adequately briefed; trained or supervised to meet production specifications. Little additional investment was made to the design and product development function. The inexperienced designer was increasingly loaded with demands for new designs and there was no interface between design and production. The sequence of using design consultants before bringing in marketing expertise had an influence on the ultimate designs that were negotiated for production. The firm had not developed its buying function and relationships with suppliers of fabric and accessories to cope with large production runs. It failed to negotiate prices for raw material that were incorporated in the pricing of the contract.

This study also indicated that the negative outcomes of applying marketing in a firm at survival stage (when other functions and systems are not fully developed) leads the management to revert to catering for existing customers with emphasis on the product and operational capacity. The need to recover losses sustained because of rejected merchandise, investment in raw material and designs prompted the owner-manager in this case, to secure more sub-contract work and to sell own designs to Asian wholesalers at much lower margins. The lack of progress by small firms to gain wider customer base, and for Asian firms to successfully penetrate non-Asian and multiple chain markets is one further explanation of why they tend to stagnate at existence and survival stages of development.

In the firm that had reached success-growth stage of development, the problems and barriers to applying marketing centred around management competence and attitudes to running the business. Although the firm in the study had access to financial resources to invest in employing marketing staff, re-organisation of sales function, modification of product line and use of appropriate promotional tools, its management decided to resist major changes. In analysing this company to assess what stage of development it had reached, it was apparent that the key problem it faced was the lack of managerial competence and direction on how it should streamline and organise the business to exploit the potential for growth and efficiency. The firm had established a diverse customer base made of many organisations buying in small batches. The company continued to add products to its portfolio and there had been little rationalisation of the product range for efficient use of resources. The managing director (the owners had disengaged from the business) had background in production, made all the key decisions and had an autocratic style of management. Although functional managers had been brought into the firm, they were not organised for executing the main business functions. The organisational structure and personalities (for example, works director) emphasised the manufacturing and sales processes.

There was little understanding of the role of formal marketing and the management considered sales and promotion to be the main components of marketing. Consequently, there was overall resistance to employing marketing expertise or to implement their recommendations. The managing director had opted for the cheapest source of external marketing expertise (through a business development training programme and subsidised by the local council).

The commissioning of additional research received little extra funding and was therefore confined to desk research and very small samples of qualitative research. Most of the consultant's recommendations were considered with caution and the firm continued with its product designs, markets and promotional effort without taking consultant's recommendations into account. Where the management had agreed with the consultants reports, it was refused permission to implement by the firm's main board.

The consultant had recommended the firm to consider two options for the future operation of the enamelled boxes unit. The Managing Director was in favour of continuing with the production of the boxes whilst the main board agreed with the consultant and opted to close down the unit but continue to serve the customers by securing alternative suppliers of the firm's designs. The board felt that the department had had ample opportunities and investment to prove its viability, but had failed to do so. The board had decided that the investment required to enable the firm to continue manufacturing consumer products would not necessarily result in turning the department around, but it would have to continue to subsidise its operations and losses. The board also felt that the organisational changes recommended were far too radical for the company to adopt as parts of the business were not fully developed to benefit from the investment in marketing personnel. The board however, agreed with the consultant's report that the company's strengths were in manufacturing for other organisations and did not have adequate resources, experience or expertise to successfully cater for consumer markets.

The implementation of the board's decision that the firm should close the enamel box department but continue to serve its customers by securing alternative suppliers (including a former competitor) demonstrated a common sense approach that was lacking in the firm for many years. The history of a firm that diversified into products for its non-tradition markets because designers and production personnel felt would sell well demonstrated how the orientation of top management towards manufacturing and selling diverts scarce resources away from the main stream business activity. The tendency for small firms, especially in engineering, to add products/services that utilises the specialist skills and spare capacity to sell to their existing customers illustrate the management's focus on the firm and its products at the survival/success growth stage of development. The lack of product contribution analysis, unknown manufacturing cost structures, refusal to discontinue a product line and investment in managerial ego that this case typifies is another reason why small firms stagnate at the survival stage of development. The refusal and or resistance to applying formal marketing in such firms illustrates that the marketing function evolves over time and requires commitment of top management that permeates throughout the organisation.

The two longitudinal case studies have provided tentative evidence that suggests that application of formal marketing either has an adverse effect on small firms' performance or it is strongly resisted because the management and other business functions are not adequately developed at existence and survival stages of development. Small firms that benefit from formal marketing either have to start with strong focus and investment in marketing or allow the function to evolve, cascade and permeate in the organisation.

TABLE 7.8: OUTCOMES AND IMPLICATIONS OF APPLICATION AND NON-APPLICATION OF MARKETING IN SMALL FIRMS

Marketing Techniques Applied or Recommended	Requirements	Management Decisions and Events	Outcomes and Implications
1. Marketing Expertise Employ marketing staff or use external consultants/ advisors.	Allocation of resources - between £5k and £25k for consultancy or marketing staff.	Managers, opted for cheapest option in the form of Government aided schemes or 'free' local council programmes. Employed in-house designers and hired design consultants to work on product improvements and new product development. But little or no reference to market needs or targeting. Resistance to hiring marketing staff because of cost. Marketing consultants hired after design consultants or designs completed. No business plans meant incomplete marketing plans prepared by consultants.	Short-term solutions by consultants. Where design consultants used, tendency for firm to implement designs without expertise available. Marketing consultants given little or no information on resources available to implement plans. Unrealistic and unachievable plans prepared. Plans left for firms to implement. The firms' lack of commitment to employ in-house marketing staff meant owner-managers/sales managers and designers continue to work from production/sales perspective. Owners continue to be sceptic of marketing specialists.
2. Market Research Commission market research to assess existing markets and identify needs of new target markets.	Allocation of resources to hire market research specialists or as part of the marketing consultancy scheme as above.	Limited or no budget allocated for market research as a distinct activity. Relied on consultancy scheme. Research therefore restricted to secondary sources and qualitative methods amongst small samples of buyers and end-users.	Lack of comprehensive research led the firms to ignore the limited data and consultants' recommendation and to continue with product/market decisions they had made before commissioning consultancy/research.

TABLE 7.8: OUTCOMES AND IMPLICATIONS OF APPLICATION AND NON-APPLICATION OF MARKETING IN SMALL FIRMS (CONTINUED)

Marketing Techniques Applied or Recommended	Requirements	Management Decisions and Events	Outcomes and Implications
3. Targeting Consultants, owner-manager identified target customers/markets for new and existing products.	Use of marketing expertise and research to identify target markets and assess their needs and buying requirements and patterns.	As above. Lack of resources and comprehensive understanding of the market needs prompted firms to taking existing products and designs into new markets. Particularly Asian clothing firms moving into selling directly to multiple outlets. Also tendency to continue catering for existing customers.	Designs and products rejected by new/potential buyers. Other target markets identified and pursued tended to be inappropriate for the firm and its capabilities. Product formulation, design and packaging aimed at end-user markets through sale to multiple chains. Wholesalers and specialist retailers based on limited knowledge of the customers served by such outlets. Rejected products/designs taken to other customers and sold, as own-labels or distributors' labels at much lower prices. Asian firms attempting to take products into wider markets had to change the products and packaging to appeal to indigenous end-users.
		Where successful in achieving orders from large multiple outlets, this was chiefly due to previous relationship as sub-contractor to the store's main contractor.	Customers of new products gained through previous contacts tended to bring work for customers' own designs on contract basis rather than as direct supplier.

TABLE 7.8: **OUTCOMES AND IMPLICATIONS OF APPLICATION AND NON-APPLICATION OF MARKETING IN SMALL FIRMS** (CONTINUED)

Marketing Techniques Applied or Recommended	Requirements	Management Decisions and Events	Outcomes and Implications
4. Product Planning Consultants/designers recommended product strategies for markets identified. Assisted firms with portfolio analysis and recommended changes to branding, packaging, quality etc.	Conduct product portfolio or contribution analysis. Plan products and product lines to match needs of target markets. Abandon incompatible and loss making lines to release resources. Make products complete in terms of quality, branding, packaging etc prior to taking them into the market place or for presentation to buyers of multiple outlets. Allocation of resources for new product designs either from external or internal expertise.	Used DTI Design Initiative, or stagnated and inexperienced designers to develop new lines. Product contribution analysis conducted but no action taken to rationalise portfolio. Product planning continued to be restricted to design of physical product and introduction of own-label (internally invented). Lack of resources prohibited investment in quality assurance procedures and systems. Manufacture of orders for direct supply of customers designs, but experienced problems in achieving specified quality requirements.	Products failed to meet requirements of intermediaries and end-users. New product development required major investment in research, development of physical product, packaging, branding, quality assurance and offer of options to reach all customers in the market. Failure to discontinue loss making lines to release scarce resources to invest in product lines with greater potential. Quality continued to be a barrier to selling into new networks. Branding and packaging also inappropriate for intended markets. Where customer base existed, the firm continued to supply same products and designs, but got them manufactured from other suppliers. This inhibited the firm from pursuing pro-active approach to developing new customers/markets with potential for greater profit margins. Where firm manufactured customers designs, the quality control problems led to whole production batches being returned to the firm. Lost what little improvements in margin achieved by going directly to the customers. This leads firms to revert to manufacturing for middlemen/contractors who take the ultimate responsibility of meeting customer specification.

TABLE 7.8: OUTCOMES AND IMPLICATIONS OF APPLICATION AND NON-APPLICATION OF MARKETING IN SMALL FIRMS (CONTINUED)

Marketing Techniques Applied or Recommended	Requirements	Management Decisions and Events	Outcomes and Implications
5. Pricing Consultants recommended pricing levels; structure and policies that reflected what new customers/ markets would stand.	To be closely linked with target market(s) and products developed market-orientated pricing and policies to help achieve company objectives.	Pricing continued to be based on cost-plus methods. Owner-managers lacked skills and knowledge of market based pricing and how to structure discounts and margins on pricing calculated from end-user upwards.	The sales target markets (when achieved) tended to generate lower margins. Costs increased in attempts to develop new products and introduce quality. Sales failed to release adequate revenue to cover increased overheads and or to break-even. Encouraged the firms to revert to sub-contract work or selling to existing customers to utilise capacity and ensure flow of revenue.
6. Distribution Consultants identified and recommended channels of distribution appropriate to reach target markets and product designs.	Identification and development of new networks and distributors as customers or intermediaries that will take products to its target market(s). Requires understanding of buying behaviour of buying institutions and investment in 'selling-in' process.	Reliance on direct contact with buyers in multiples and intermediaries. Lacked communication skills (especially Asian firms) and knowledge of buyers' requirements, end-users served and appropriate methods of approaching them. Tendency to concentrate on major national outlets. Alternative channels (independent retailers with multiple outlets and wholesalers) not developed. Use of agents increased for developing new work.	Failed to secure appointments with buyers of target organisations. Gained access to buyers' who previously used the firm as sub-contractor, but failed to meet design, quality and price requirements for direct supply secured contract work for multiple stores' own designs and fabrics at much lower margins. Agents selected and hired not rewarded, trained or motivated adequately. Alternative channels not explored because of lack of data base, appropriate products and resources to reach large numbers.

TABLE 7.8: OUTCOMES AND IMPLICATIONS OF APPLICATION AND NON-APPLICATION OF MARKETING IN SMALL FIRMS (CONTINUED)

Marketing Techniques Applied or Recommended	Requirements	Management Decisions and Events	Outcomes and Implications
7. Promotion			
i) Advertising	Availability of marketing plan and company objectives on which to base advertising and communication (promotional-mix) goals. Required budget allocation and use of expertise to implement decisions.	No business or marketing plans prepared. No separate budget allocated for advertising or other promotional effort to inform distributors and end-users of products and firm's capability. Lack of support for any selling-in process. Little investment in direct mail campaign or for advertising in trade directories.	Potential customers and channels of distribution unaware of the company, its background, reputation, products, management and capabilities. Buyers refused to see own-managers or the firms agents and sales personnel for further discussions or requirements. Only gained access to buyers already known and therefore representing existing customers.
ii) Merchandising	Improve and project company/product image to appeal to the target audience through corporate identity, packaging, branding, point-of-sale and trade exhibitions etc. Needs investment and commitment to projecting and establishing positive and relevant image.	No changes made to corporate identity or its projection. Packaging not improved as suggested by market research. limited use of branding. Use of own-label that was invented and designed internally but not appropriate for multiple outlets, intermediaries or end-users. No point-of-sale material prepared for products that required it.	Lack of identification and recognition amongst buyers of company's ability to deliver required products/ services. Perceived as low quality producers with wrong products for customers' end-users. Particularly the case where Asian clothing firm attempted to sell its manufacturing and fashion design capability directly to multiple chains. Well established firm manufacturing traditional British handcrafted products not projected to have any relevance or influence to the tourists and for export markets.

TABLE 7.8: OUTCOMES AND IMPLICATIONS OF APPLICATION AND NON-APPLICATION OF MARKETING IN SMALL FIRMS (CONTINUED)

Marketing Techniques Applied or Recommended	Requirements	Management Decisions and Events	Outcomes and Implications
7. Promotion			
iii) Personal Selling	Firms to train, hire or reorganise sales representatives and agents to actively sell products/designs to new groups of identified customers. Allocation of resources for hiring new sales people in training existing team.	No changes made to existing sales organisation. No new training or incentive schemes introduced. Agents hired on limited knowledge of what they were to do. Owner-manager continued to act as the sales specialist to gain orders from new customers.	Sales effort continued to be placed on existing customers. Agents brought orders from all sources. Tended to be unco-ordinated, ad hoc and irregular work. Lack of re-organisation meant unclear lines of communication and responsibility for the lines of products. Asian owner-managers attempted to sell to buyers of multiples lacked adequate communication skills.
iv) Publicity	Allocation of resources and external expertise to produce publicity material aimed to assist the sale of existing and new products to selected target markets.	No investment in additional publicity. Continued to use existing material for all marketing effort. Where new material was being commissioned before market research, firm continued with-its design and contents irrespective of customer reactions and opinions.	Salesmen and owner-managers either relied on old inappropriate sales literature or had none to aid in the selling process. Where new publicity material commissioned, internal designs, contents and considerations carried forward into new brochures. Asian firm conducted direct mail campaign without any accompanying publicity material on the firm and its capability and track record.

TABLE 7.8: OUTCOMES AND IMPLICATIONS OF APPLICATION AND NON-APPLICATION OF MARKETING IN SMALL FIRMS (CONTINUED)

Marketing Techniques Applied or Recommended	Requirements	Management Decisions and Events	Outcomes and Implications
8. Marketing Organisation	Employ marketing personnel or train existing sales/marketing staff to plan and implement marketing in the firm. Or hire external marketing expertise for short-term implementation. Re-organise sales function to be headed by marketing staff to become marketing driven. Resources and re-structuring of the business required.	External marketing expertise hired, opting for cheapest source and subsidised by Government Scheme. No marketing staff employed. No changes made to existing sales/marketing staff or their titles. Sales function continued as before. Sales staff continue to make/influence product design and marketing decisions. Where no sales staff, owner-manager implemented all marketing decisions.	Lack of financial resources or commitment to investing in marketing personnel. Asian firm lacked access of additional finance for marketing personnel. Attitudes of Managing Director, main board and owner-managers resisted the need for organisational re-structuring. Marketing continued to be regarded as an extension of the selling effort and confined to promotional efforts. Serving existing customers for repeat business regarded more important than developing the business. Asian firm lacked the physical resources, capacity and systems to enter new markets and therefore could not justify investing in marketing staff.

PART TWO

METHODOLOGY, RESULTS AND CONCLUSIONS

CHAPTER EIGHT

CONCLUSIONS

Introduction

1. Research Hypotheses and the evidence

2. Outcomes of the research: Models of Business Development, Evolution of Marketing and Application of Marketing Techniques in Small Firms

3. Research Limitations and a Research Agenda.

CHAPTER EIGHT

CONCLUSIONS

INTRODUCTION

This exploratory study aimed to investigate the application of marketing during the start-up, development and growth stages of small firms with a view to understanding its evolution and barriers to its implementation. A comparative approach to studying marketing in indigenous and Asian firms was adopted in an attempt to fill a gap in the literature on the differences and characteristics in formation and development processes in these two groups of enterprises. Though this comparative approach was maintained throughout the project, the focus of this thesis was to provide evidence to support the central hypothesis that assumed a strong link between progression of firms through the various stages of development and management orientation. The evolution of marketing-orientation and the implementation of the marketing concept and or marketing techniques therefore provided the framework for examining a sample of indigenous and Asian firms at single points in time and over an extended period.

The results and discussions presented in chapters five, six and seven provided a wealth of data which can be used to conclude on the research hypotheses, add to existing models and to develop new models for explaining small firm development and evolution of marketing.

This chapter is divided into three sections. The first reviews the findings of the qualitative research as they relate to the tentative hypotheses that were developed. The second section is concerned with highlighting how this research has contributed to explaining the development of small firms and evolution of marketing by suggesting additions to the existing model and by purposing new models. The final section is devoted to evaluating the limitations of this work and suggesting areas of future research that is needed to improve our understanding of small businesses in general and marketing and Asian business development in particular.

1. RESEARCH HYPOTHESES AND THE EVIDENCE

The testing of the Churchill and Lewis model (in chapter five) against the data collected on sixty-six firms has shown that the model is a useful framework and it can be used as an aid in identifying the stage of development a small firm has reached at a given point in time. The testing however, suggested that the original model had to be modified in two ways before it could be used as a framework for analysing firms in the study. The first modification was to eliminate the success-disengagement sub-stage from the model. The second modification was to reduce the number of stages from five to four because firms at resource maturity stage start to exhibit characteristics of medium-sized businesses. The analysis of the results of the qualitative studies from which the following conclusions have been derived were therefore based on the modified four stage model of small business development consisting of existence, survival, success-growth and lift-off stages.

The literature reviewed in chapter two highlighted that 94 per cent of manufacturing firms employ less than 30 employees. The various UK statistics on small firms were interpreted to suggest that most firms do not grow to any considerable size in terms of number employed and that many businesses tended to stagnate at existence and survival stages of development. As this study was concerned with the question, "Why so few small firms progress beyond the existence and survival stages of business development", a number of additional questions and hypotheses suggesting possible answers were formulated for this investigation.

The principal hypothesis put forward was that owner-managers started and continued to operate their businesses from a production or sales perspective and that only the most basic promotional aspects were applied during the various stages of development. To provide a greater understanding of the development of Asian firms, the study was also concerned with comparing and contrasting small businesses managed by Asian and indigenous owners-managers in the West Midlands. The hypothesis that small firms need major financial and organisation re-structuring in order to implement and benefit from the marketing concept was developed to provide an insight into the dynamics of small firms management. This section aims to evaluate whether or not the evidence generated by this research support the four main hypotheses put forward in this thesis.

1.1 HYPOTHESIS ONE: Small firms fail to progress beyond the existence and survival stages of business development because their owner-managers start and continue to operate the enterprise from production or sales perspective and do not apply formal marketing during the initial stages because they do not fully understand what constitutes the marketing function.

This hypothesis can be broken down into three parts to facilitate the reporting of the conclusions from the research evidence. The first part was based on statistics on small firms that suggested that most firms did not grow to any considerable size in terms of number employed, sales turnover, systems, organisation and resource maturity. In order to develop a meaningful and measurable definition of growth, the research design used the changes in key characteristics proposed by models on stages of business development as a framework for testing this hypothesis. The second part proposed that one of the reasons why firms failed to progress beyond the existence and survival stages was because of the owner-manager's orientation towards production and sales in founding and managing the enterprise. The third implied that there was a link between owner-manager's orientation and the lack of understanding and application of marketing during the initial stages of development. The results presented in chapters six and seven have provided a wealth of exploratory data for evaluating all three components of this hypothesis.

On progression of small firms through the development stages, the six main characteristics and measurement criteria identified by Churchill and Lewis model (1) and tested on the sample of firms in chapter five have been categorised to provide evidence for this part of the hypothesis.

The evidence (means of responses to stage identification using the modified model in chapter five) suggested that overall 90 per cent of new businesses in the sample remained at existence stage, 5 per cent progressed to survival stage and 5 per cent progressed to success-growth stage of development. The pattern of development of established firms indicated that over 70 per cent of indigenous firms in the sample remained at survival stage and 55 per cent of Asian firms remained at existence stage of development. Only 12 per cent of the firms sampled could be classified as having progressed to success-growth stage. Although three firms exhibited some characteristics of lift-off stage, they did not fully qualify to belong to this stage of development.

Of the criteria applied in stage identification of new and established businesses in the sample (see measurement criteria in Chapter Five), the size, nature and development of the customer base provided the most useful and viable explanation for the stagnation of small firms at the initial stages of development. The evidence suggests that it is the lack of an adequate customer base, and therefore, flow of revenue into the business that is a major cause of stagnation. By probing and monitoring the changes in the management orientation during start-up and development of the firms sampled, the evidence supports the assumption that production/sales orientation is the most dominant approach adopted by firms during the first three stages.

The qualitative studies have however shown that production/sales orientation is not a cause but a symptom of the firm's failure to develop an adequate customer base. This thesis was developed on the premise that the purpose of any business organisation is to create a customer base and firms therefore have to implement the marketing concept and be market-led to be able to survive and grow (Drucker in Chapter One). The evidence clearly shows that owner-managers of small firms in the sample started businesses as means of creating self employment by assembling their skills/knowledge and resources to produce/offer products and services. The focus on products and operational capacity continued to be the dominant philosophy and firms relied on creating customers by reactive and personal means. The study indicates that over two thirds of owner-managers of new and established businesses had started with an emphasis on their production/operational capabilities.

The shift from production to sales orientation occurred as firms became established, started to increase their customer base, product range, overheads, sales turnover and number employed. The sales function developed as the need to move stock increased. Firms at survival stage tended to increase output by utilising plant and personnel to greater capacity that resulted in increased stocks of merchandise. New product lines based on internal considerations were introduced for existing customers. The owner-managers' own increased efforts and involvement in selling and hiring of sales personnel highlighted how the sales function evolved in small firms, and those in manufacturing in particular. It is interesting to note that firms that had started because of market demand, abandoned that orientation of meeting customer needs in favour of production and sales as the businesses became more established during the survival stage of development. This shift was mainly due to the pressure on the firms to utilise the operational and production capacity more fully. It is not until the firms reach and mature at success-growth stage and prepare for lift-off that they start to adopt marketing orientation with a higher degree of commitment.

This study has demonstrated that although owner-managers started their businesses on the basis of their skills and knowledge, they started to exploit what they have (their assets), or become asset-led during the survival stage of development. The firms sampled increased their dependence on their assets, namely knowledge of existing markets/customers, production and operational capacity, resources and products during the early phases of reaching the success-growth stage. As the firms matured and reached lift-off stage, they tended to rely on a combination of asset-led and market-led approaches to developing the businesses.

The ranking of production as the most important business function by both indigenous and Asian firms in the sample reinforced the orientation of the large proportion of owner-managers of new and established businesses at various stages of development. This study has however, shown that the changes in orientation over time tend not to be clear cut and owner-managers make slow transition from production to sales whilst retaining the commitment to production/operational processes. At success-growth and lift-off stages of development, the transition from sales to marketing is also very gradual with sales and marketing evolving as separate functions. The sources and changes in management orientation during the various stages of small firms development are further explained in Section 2 of this chapter.

Although production orientation as a characteristic of small firms has been proposed by other researchers and authors (for example: Tyebjee et al (2), Carson (3), Jenkins (4), this study investigated the background and motivation of owner-managers in an attempt to ascertain the sources of this orientation. The evidence suggests that owner-managers' previous work experience, qualifications, skills and knowledge and family tradition are the major determinants of founders' orientation to running the business. Motivation to secure self employment and lack of alternative employment opportunities also contribute to the founders' adoption of a product centred approach to running a new business. Although racial discrimination and lack of employment opportunities (Ward (5)) were found to motivate Asian owners to start in business, the study, however, points to the family tradition (Caste) to act as a greater influence and as a source of production orientation. The apparent proliferation of Asian businesses in such industries as clothing, shoes, jewellery, engineering and construction can be explained by linking the skills required and the founders' family background. The distinct castes of drapers, leather workers, jewellers, metal workers, builders and carpenters amongst Asian communities in the West Midlands tend to start businesses that are related to their family trades. Though family tradition has been put forward as a motive for Asians to start small businesses (Aldridge et al (6), there has been no previous study that has attempted to research the link between caste and tendency for Asian firms to enter particular industries or to adopt production orientation in running new and established businesses.

This investigation has also provided considerable evidence to support the tentative hypothesis that owner-managers of of a large majority of businesses do not fully understand what constitutes the marketing function. All the interviews and case studies indicated very confused perception of the term marketing amongst owner-managers of new and established firms. Only four managers from a sample of sixty-six firms had a sound awareness and understanding of marketing as a business function. These founders and owner-managers described themselves to be market-orientated, had received professional help or training prior to start-up or who were managing firms that had progressed through to success- growth stage and were applying formal marketing techniques in the business. A large proportion of new and established firms however confined marketing to mean the promotional and selling activities necessary to sell the firm's products and services. Owner-managers who thought marketing to mean having the right product/service that will meet customer needs could not explain how they would achieve this and were not aware of techniques other than those confined to promotional activity. In common with new firms, a fifth of all established firms sampled associated the term marketing with having the right products/services or finding customers for the firm's products. The emphasis on promotion, selling and finding customers for the existing products and capabilities strongly reflected the production orientation adopted by the majority of the owner-managers. The lack of understanding of the marketing function can partly be explained by the founders background, previous experiences, qualifications and family tradition and partly by the evidence that points to the limited formal business education and training undertaken by owner-managers before and during the periods of enterprise development.

1.2. HYPOTHESIS TWO: The Marketing function in small firms evolves from the use of basic promotional tools during existence and survival stages towards an integrated approach during the lift-off and maturity stages in line with the changes in the management's orientation from production to sales and marketing.

The assessment of this hypothesis required the research design to study the nature and extent to which small firms at the various stages applied marketing techniques. The narrow interpretation of marketing as an activity that encouraged customers to buy the firm's products/services through investment in promotional and selling effort by over 90 per cent of owner-managers sampled strongly reflected the ways in which marketing was applied in their firms. As a significant proportion of small firms failed to progress beyond the existence and survival stages of development (see evidence supporting the first hypothesis) this study confirmed the hypothesis that most firms only apply promotional aspects of marketing.

Only those firms that engaged in comprehensive business planning applied such techniques as market research, targeting, sales forecasting and product planning at pre-start-up stage and continued to apply them during the development of the business. Amongst established firms, the use of these techniques was only evident in firms that had reached success-growth stage and where outside consultants/advisors or marketing staff had been introduced. An examination of how indigenous and Asian firms developed their customers revealed that whilst new firms were started by serving narrow, well defined markets (Finlay (7) and Shea (8)), this was not however, because owner-managers had made deliberate decisions about targeting and developed the required products/services.

In manufacturing, most firms did not have adequate resources or knowledge base to apply formal targeting and other marketing strategies. In most cases, the businesses had been formed to service one or two customers, developed through owner- manager's personal contacts and knowledge of local and specialist markets for sub-contract work. Others had invested in their skills and factors of production and were forced by economic necessity to take on sub-contract work as means of generating revenue. The lack of targeting and use of market research was also evident amongst firms that had started because of their innovations in new products and use of high technology. These firms exhibited all the characteristics of production orientation and relied on investment in promotion and personal selling efforts to develop a small customer base for direct supply of products.

Asian firms either entered manufacturing to supply demand for Asian products not met by the wider business community or because of the very low barriers to entry into industries where sub-contracting amongst small businesses was an essential characteristic, for example clothing and light engineering. It is in the services industries such as retailing, wholesaling, construction, travel, entertainment and catering that Asian firms relied on serving the Asian Communities in local and regional markets. These firms progressed beyond the existence and survival stages only when they started to cater for the wider and larger indigenous markets. It is at this stage that the marketing function begins to evolve and develop, and firms start to employ or hire marketing expertise.

The general conclusion that can be drawn from analysing the data on application of marketing is that although new and established firms assembled the marketing-mix, they did not consider such techniques as product planning, pricing and distribution to be constituents of the marketing function. The use of these techniques was therefore unplanned, spasmodic and driven by internal and production/operational considerations rather than reflecting the needs of the market place. Although owner-managers strongly associated marketing with selling and promotional aspects of managing the business and most firms applied some of the techniques, there was a general ignorance of the roles of and interrelationship between advertising, sales promotion, personal selling, merchandising and publicity.

Selling and promotional tools tended to be used without any reference to what was to be achieved and the investment in their activity reflected the need to move stock or utilise spare operational capacity. Firms that had grown by introducing new products or by developing new markets and diversifying into related lines of business had done so intuitively or as means of using capacity, skills and by selling to existing customers and seeking new customers after establishing the new operations. The awareness of formal business growth techniques only evolved and surfaced when firms had matured at success-growth stage and prepared for lift-off stage, or when marketing expertise was introduced. Organisationally, the marketing function either evolved from the firm's sales personnel or developed as a separate area of activity under the direct control and influence of the owner-manager or managing director.

The research evidence also clearly shows that there is a strong association between the changes in orientation adopted by owner-managers during the various stages of business development and the evolution of the marketing function. The gradual transition of management's orientation from production at existence stage to production and sales at survival stage and to sales and marketing at success-growth stage can be used to predict the type and nature or marketing activity that the firms apply. Although there were no firms in the sample that had reached resource mature stage, the findings indicate that marketing orientation and hence integrated marketing function only develops in a small minority of firms during the latter part of lift-off stage and becomes established during the maturity stage. The evolution of the marketing function and its management orientation are explained more fully and diagrammatically in Section 2 that reports on the models developed as outcomes of this research.

1.3. HYPOTHESIS THREE: Although there are differences in the problems of start-up and growth of indigenous and Asian small firms, there are no differences in the application and evolution of marketing in these two groups of businesses.

The research data supports this hypothesis and indicates that the main differences in business problems faced by Asian small firms centres on access to private and institutional sources of finance, access to other business resources and to profitable non-ethnic market opportunities. The data confirms the findings of Wilson (9) and Ward (5) in comparing Asian business problems with those faced by indigenous firms. As with businesses in general, the research also confirms that there is a strong link between these issues and the quality and abilities of the individual entrepreneurs. The problems and barriers to start-up and business development faced by Asian firms and identified by the qualitative research are outlined here.

1.3.1 Finance

The case studies and interviews amongst representatives of Asian firms suggest that they do not experience difficulties in raising the necessary investment and working capital to start new businesses. Although the data confirms Werbner's (10) findings that Asian owners tend to rely heavily on personal resources and loans (on preferable terms) from within the community, a small number of firms started by securing small loans from banks and other private institutions. In contrast, most indigenous firms started by investing their personal resources (savings and redundancy money) and by borrowing from banks. The majority of both indigenous and Asian firms started from a low fixed capital base by relying on cheap premises and second-hand inexpensive machinery. The evidence suggests that there appears to be no significant financial constraints to the setting up of new firms and their subsequent development so long as they remain small and, or low volume producers.

The public sector as a source of finance for either start-up or development of Asian and indigenous firms played a small role with a small number of firms receiving DTI and local authority grants. It was noticeable that where Asian firms were aware of government schemes, they were quick to take advantage of any finance that was available, but that their applications were not generally successful because the forms were not prepared properly and lacked information to assess the financial structuring of the firm. A majority of Asian firms that were at the formative stages of development experienced that institutional discrimination continued to act as a barrier to gaining access to finance.

The difficulties of raising the necessary investment capital either from internal sources in view of low profitability or from private sector financial institutions acted as a major constraint in the expansion of Asian businesses. In most cases owner-managers faced little difficulty in securing small loans and overdraft facilities because of their track record and relationships with the banks. The banks were however, very reluctant to provide long-term investment capital for firms that they regarded as being in the dying industries (clothing and engineering for example), especially where firms had a low asset value to back the borrowing. The firms (for example in clothing and foods industries) that benefited from DTI, local authority assistance and banks were those that had managed to diversify out of contracting and relying on ethnic markets by means of developing new products, their own design capacity and product differentiation. The investment in most cases was used for purchasing modern machinery and moving to better premises.

An examination of the extent of business planning and implementation of financial control systems suggests that overall fewer Asian firms than indigenous firms prepared comprehensive plans and most did not have adequate financial management systems. The consequence of this was that owner-managers of a majority of developing firms did not have the knowledge of their cost structures and made pricing and other decisions without some notion of what volume and contribution to fixed costs had to be achieved in order to break-even and to run a viable business. Although this was a common problem in both groups, it was much more marked in Asian businesses. Financial control systems and adequate financial management only emerged in most firms when the business became more established and employed staff dedicated to the task.

1.3.2. Labour

Most Asian start-up firms were 'one man band' businesses that relied heavily on family help at the formative stage, and then employed them in the business. The special advantage arising from low cost and flexible labour helped to make the business competitive against indigenous businesses but not necessarily against other Asian businesses in the same industry or location. Family and group labour were found to be prevalent in many of the firms sampled, particularly in clothing, jewellery and foods industries where firms were operating on a high volume, low cost and low price strategy. These firms survived the formative years and slowly built the business and started to employ others from within the Asian community.

In order to control the labour costs of the growing firm, many Asian owner-managers recruited labour from the unorganised part of the immigrant communities. The lack of a tradition of unionisation, limited understanding of employment rights, limited mobility, problems of English language and limited opportunities for alternative employment (especially for Asian women) have created spatially and culturally confined labour markets in the inner cities of the West Midlands. The case studies show that Asian firms (in clothing industry in particular) recruited from these labour markets and were able to keep labour costs down by insisting on long hours and by offering wages at well below the nationally agreed norms. These firms were also able to control their work force by individualising wages and incentives by applying family and community sanctions.

The low-cost labour was the major basis of the competitive advantage of a large fraction of the firms in the sample. The firms that pursued this low price marketing and low wages production strategy often ran into difficulties when attempting to expand. Invariably the labour productivity of such firms was low, and the quality of output poor or unreliable. This reflected not only the inexperience of management in production control, but more especially in the poor labour supervision, inappropriate incentive schemes, high labour turnover, careless recruitment and inadequate labour training. The main constraint upon the expansion of many of the Asian firms, and a barrier to their ability to move into new markets with high quality, high margin products was the labour relations already established within the firm. In clothing industry for example, the use of traditional labour intensive methods to produce short runs of varied products demanded the most skilled of operatives in order to be effective. Yet many firms had become dependent upon cheap labour and their situation within a competitive industry made it appear impossible to offer the kind of wages and conditions necessary to recruit and retain skilled workers.

A small number of Asian firms in the foods and clothing industries had successfully followed an alternative competitive strategy and moved into new markets by producing goods with a higher quality or fashion content to be attractive to the wider market and for sale directly to department stores, chain stores and overseas markets. In these markets, product differentiation by quality and design allowed higher prices and margins, and gave the firm resources to adequately reward and train its own skilled labour force. The study suggests that to achieve this, firms must possess (or have access to) professional design and marketing expertise and be prepared to actively seek new customers, buyers and middlemen.

The larger, more establishes Asian firms in the sample employed professional managers to strengthen the skills of the founder. In such cases the managers were white and with extensive experience of the industry and thus were able to bring additional resources to the day-to day operations of the business. In these larger businesses, family members who had received higher education were also brought into the business in key positions of general management, finance, operations, sales and marketing.

1.3.3 Premises

In order to maintain a low capital base, most Asian businesses in the sample either started from home or from very low cost premises. In retailing and catering, Asian firms tended to locate in the inner city areas with high concentration of ethnic population and where leased, low quality and low cost premises provided the opportunity for entry into self employment. The disadvantage of such premises and locations was that competition from other more established Asian businesses in the same line of activity tended to be intense and survival of the new business relied heavily on minimum profit margins, working unsocial hours and by carrying many lines of merchandise for the Asian markets.

New firms typically occupied low quality, cheap premises such as basements of factories/warehouses or cheaply converted shops. In the clothing sector, most new firms operated from inappropriate premises, contributing to the 'sweat shop' image of the West Midlands clothing industry. The majority of jewellery firms operated from premises that had shop fronts and small workshops at the rear and were concentrated in areas such as Smethwick in Sandwell, Sparkhill and Handsworth in Birmingham, Foleshill in Coventry and Springfield in Wolverhampton.

The evidence of this study indicates that Asian firms had little difficulty meeting their premises requirements in the West Midlands. In fact, the dramatic increase in vacant industrial floor space during most of 1980s made it relatively easy for new firms to find cheap space and for expanding firms to move locally as and when they needed to. Apart from their need for low cost premises, most Asian firms, and clothing firms in particular were more flexible in their premises requirements than firms in the wider community. Asian firms tended to be tolerant of old industrial buildings, often in a state of disrepair, in areas with narrow congested streets.

The more established Asian firms that had moved into high volume production or diversified into higher quality output had re-located into more modern premises with decent office accommodation and goods handling facilities. Where financial situation allowed, Asian owners were more like to purchase their premises compared to indigenous businesses. There is also a tendency for Asian owners either to locate close to existing factories or to extend their premises to cater for growth. The growth of Asian retailers is characterised by acquisition and expansion of neighbouring properties to develop them into mini or supermarkets. The larger more successful Asian businesses for example, in foods wholesaling and meat processing, bought or rented modern premises that they converted to accommodate high volume mechanised operations.

1.3.4. Markets Served

This study aimed to investigate the extent to which Asian firms started and survived in business by catering for the needs of local and regional ethnic markets and at what stage they started to diversify into the wider markets. The results strongly indicate that a large majority of Asian businesses started and continued to depend heavily on the ethnic markets and faced major difficulties in making the transition to serving the needs of the wider community. The analysis shows that the types of markets served by Asian firms are closely related to the industry in which they operate. An analysis in chapter three suggested that the Asian firms were concentrated in the retailing, wholesaling, catering, personal services, construction, clothing and light engineering industries in the West Midlands.

In retailing, wholesaling and personal services industries, all the firms in the sample started by serving the needs of ethnic (mainly Asian and Afro-Caribbean) markets in areas of high concentration of ethnic populations. The established and mature firms started when there was limited competition in the locations of their businesses, but new firms found themselves operating in near saturated local markets that offered little scope for survival on non-pricing basis. The new businesses relied heavily on the competitive advantage derived from family labour, cheap premises, low profit margins and types of merchandise lines carried. The transition to serving non-ethnic markets tended to be made by more established firms (in retailing in particular) that saw opportunities of expansion by opening outlets (in addition to existing businesses) in non-ethnic, suburban locations. Here these firms found greater opportunities for increasing profit margins by such strategies as extended opening hours, improved levels of service, lines of merchandise and competitive pricing compared to local indigenous businesses. The competitive advantage of using family labour and willingness to work unsocial hours again enabled such firms to survive and expand by meeting the needs of the wider community better than the local indigenous businesses.

In wholesaling (food for example) the Asian firms attempted to broaden their customer base to include the wider community when they had matured and grown sufficiently in terms of their operations, product range, management ability and personnel. Such firms tended to make the transition to serving the main stream by selling their product lines to small specialist retailers (health food stores for example) and to multiple chain stores. The major difficulties faced by these firms tended to be related to their lack of knowledge of either the end users or the buying behaviour and procedures of the national retail organisations.

In catering industry, there are two types of Asian firms. The study indicates that there were many catering firms that were started and that continued to exclusively serve the needs of the Asian communities. Such firms, as in retailing generally, tended to be located in ethnic areas of inner cities and specialised in either take-away foods or a combination of take-away and restaurants. These firms specialised in traditional Indian sweets and curries/spiced products and also catered for the needs for Asian foods required for wedding and other occasions. There was little evidence of any of these businesses attempting to break into the wider markets with their range of products and services. The other type of catering firms tended to be Indian restaurants and curry houses that relied on attracting indigenous white customers. The majority of this type of businesses were however, located in the ethnic areas and survived on the basis of cheap rented premises, family labour and low price strategy. This type of firm expanded by either opening new outlets in similar areas or by moving into suburban areas where there were greater opportunities for higher quality and higher prices strategy.

In construction industry, most Asian firms started by serving local ethnic markets and grew by both extending their geographical base and by securing sub-contract work from indigenous construction firms. New firms entered this industry because they had the necessary skills and experience and by undertaking small scale construction and maintenance work (through personal contacts and Asian architects) for local Asian customers. They slowly expanded by securing sub-contract building work from other Asian firms. Where these firms were successful in establishing a reputation and track record of their work, they secured sub-contract work from larger indigenous construction firms. Some Asian firms broke away from relying on Asian customers by securing work from local councils as approved contractors. Most of this type of work however tended to be under the councils' housing improvement schemes and was concentrated in housing occupied by the ethnic communities in Birmingham, Wolverhampton and Coventry.

An analysis of secondary data, personal interviews and case studies indicates that the majority of small clothing manufacturing firms in the West Midlands were in the women's and girls light outerwear subsector of the industry. These firms manufactured dresses, blouses, skirts, lingerie and infants' wear, and represented the low price/low quality subsector where there was little attempt to differentiate products by style, quality or fashion. The main outlets for these products were market stalls, independent retailers and cash and carry wholesalers (mainly Asian). A large proportion of the Asian firms in this sector relied heavily on 'Cut, Make and Trim' (CMT) work. These firms did not have in-house design facilities and depended on sub-contract CMT work secured from larger clothing manufacturing firms or middlemen and buying houses in London.

The main advantage of CMT work is that the firms are supplied with all the designs, fabrics, zips, buttons and other accessories, and therefore do not have to make any investment in raw materials. Although CMT facilitates new firms to enter the industry and help established firms to maintain operational capacity, it inhibits the firm from developing its own design and product development capability.

The data also suggests that there are local subsectoral specialisations in casualwear, weatherproof outerwear, jeans, other denim products and in working clothes, including overalls and protective clothing. A number of Asian firms (in the sample) manufacturing weatherproof outerwear tended to specialise in anorak and quilted jackets manufacture. These firms operated on the basis of both CMT and manufacture to their own designs for the wholesale and export markets. An analysis of Kompass directory in 1987 indicated that firms in the West Midlands manufacturing outerwear and casualwear constituted distinctive local specialisations with 75 per cent of entries under anorak manufacture and 15 per cent under jeans and denim products.

Most Asian clothing firms in the sample entered the industry by securing CMT work from other local Asian manufacturers and expanded by dealing directly with middlemen and buying houses. These firms capitalised on their experience of manufacturing volume runs by designing (albeit copied) and manufacturing their own range of products for sale to local wholesalers. These firms survived by depending on a small number of customers developed from personal contacts and did not attempt to break away from the protected niches of serving Asian contractors and wholesalers.

A small number of firms had expanded their business operations by securing contracts to supply larger indigenous wholesalers and buying houses. The wholesalers bought the products from Asian firms on the basis of their low price strategy for re-sale in the UK or for exporting to European countries. None of the firms in the sample exported directly because they lacked the financial resources, communications ability, contacts and knowledge of the different markets. The other firms that were in the process of breaking away from CMT work and wholesalers markets were attempting to achieve growth by securing orders directly from national multiple chain stores and catalogue companies. Such firms had made small investments in developing their own design facilities and manufactured small volume runs with varying degrees of success. The most common barrier to successfully expanding the direct sales operations tended to be related to the firms' inability to design the required products and to meet the clients' quality standards. No firm in the study operated on the basis of manufacturing for direct sales only but continued to rely on CMT work and sales to wholesalers.

The most common characteristic of the Asian jewellery firms is that they exclusively serve immediate local Asian markets. Almost all these firms are retail operations with on-site workshop facilities. A majority of these firms hand make a range of 22 carat gold products (mainly bangles, earrings and necklaces) to their own distinctive designs. In the retail outlets however, they also sell finished products imported from India, Pakistan and Singapore. As small businesses operating in very competitive local markets, these firms tend not to grow beyond creating employment for members of the immediate family. The study and secondary sources of information indicate that no Asian jewellery firm in the West Midlands had broken away from serving Asian markets to the mainstream or supplying multiple chains with jewellery products. The firms in the sample that did achieve growth abandoned their manufacturing capacity and concentrated solely on retailing imported 22 carat gold jewellery products for the Asian markets.

1.3.5. Management Ability

As in the wider community, Asian businesses in the sample were formed and developed by the experience, skills and commitment of their founders. Many Asian retail businesses were established by people with little or no previous experience of retailing but who saw opportunities for self-employment in the industry. As in catering, some started by `learning the trade' in other Asian businesses and then ran their own `me too' units in the same street or locality. In jewellery, clothing and construction industries, many start-ups were prompted by the lack of job opportunities and possession of skills acquired though previous experience or because of family tradition. The managerial ability required to manage such businesses tended to be limited to securing work from a small number of personal contacts within the community.

As amongst indigenous owner-managers, the lack of formal business training and education amongst Asian entrepreneurs acted as a barrier for them to manage the business on professional basis. Though their managerial ability coupled with degree of entrepreneurship may have been adequate for the start-up situations, most Asian firms attempting to grow beyond the existence and survival stages failed due to their lack of knowledge of wider markets, management of resources, financial control and ability to create new customers. Although this characteristic of Asian managers was not markedly different from those of indigenous managers, their managerial competence acted as a greater barrier to growth because discrimination, stereotyping, language (accent in particular) and other aspects of social stigmatisation made it difficult for Asian owners to break into non-ethnic markets. The more progressive Asian businesses overcame some of these problems by employing younger and better educated members of the family in the business, and or by employing white manager to take responsibility for business development, selling, product design and financial control. The research studies have however, indicated that the other problems resulting from owners' managerial disabilities such as lack of delegation, poor project and human resources management, lack of business planning and product orientation were similar to those that existed in businesses managed by indigenous managers.

The second part of the third hypothesis that there are no differences in the application of marketing in indigenous and Asian firms is also confirmed by the research data. The extensive and comprehensive study of the application of marketing techniques in these two groups of firms from pre start-up to lift-off stage point to the conclusion that there is a high degree of homogeneity in the indigenous and Asian firms representing the different industries and stages of growth. The major difference that has surfaced is that a larger proportion of new and established Asian firms stagnate at existence and survival stages than indigenous firms (see Section 1.1 above). The nature and extent of application of marketing in Asian business tend to be confined to promotional and selling aspects, niche markets and product development that are dependent on serving Asian communities either as end users or as suppliers and distributors. But these practices are no different than indigenous firms at the initial stages of development that rely on narrow customer bases established from owners' personal contacts and networks. In assessing the application and development of sales and marketing function during success-growth and lift-off stages, there are no outstanding differences in Asian and indigenous firms. Both types of firms start to broaden their customer base through greater targeting, market development, product development and use of promotional techniques that begin to become integrated with the sales function. In conclusion therefore, the models on evolution of the marketing function and application of marketing during the various stages of business growth (see Section 2) have been developed from the outcomes of this research. They are therefore equally applicable to indigenous and Asian firms.

1.4. HYPOTHESES FOUR Successful application of marketing and business development techniques require financial and operational re-structuring that most small firms find difficult to implement.

This study examined the outcomes of applying market research, segmentation, product planning (including new product development), pricing, distribution and promotional aspects of marketing in two firms over a period of time. The study confirms the above hypothesis and indicates that although large company marketing techniques are transferable for use in small firms, they have to be adapted to meet the resources, expertise and requirements of firms at the different stages of development. The study also suggests that even when these techniques have been modified, they either fail to have any major impact, or they adversely effect the performance of small firms that are not fully developed to cope with the stringent requirements of the market. An assessment of the outcomes of applying the various large company marketing techniques in two firms reported in the study can be used to explain how the lack of financial resources and operational systems dictate the adaption of these techniques and why they fail to improve the performance of the firm.

As in large firms, small firms need to commission market research essentially to assess existing markets and to identify needs of new target markets. But because firms in the study did not adequately invest in research or relied heavily on Government subsidised consultancy and assistance schemes, the market research techniques had to be adapted to match the budgets allocated. The research techniques had to be restricted to relying on secondary sources of information and to conducting qualitative research amongst very small samples of potential buyers and end users. The lack of comprehensive research led the firms either to ignore the limited data and consultants' recommendations, or to place excessive faith in the findings. The latter led the firm to take product and other decisions that subsequently had an adverse effect on its performance.

The application of market segmentation required the firms to use marketing expertise and research data to take decisions on catering for the needs of new target markets. As with market research, the lack of resources and comprehensive understanding of the market needs prompted firms to take their existing products and designs into new markets. The Asian clothing firm for example, relied on limited information and attempted to sell its product range directly to national multiples. The designs and products were rejected by potential buyers because there was no attempt at modifying and developing the products to closely match the requirements of the customers served by the multiples. As a consequence, the firm took the products and designs rejected by new potential customers and sold them either as own labels or distributors' labels at much lower prices. In other cases, the target markets identified and pursued proved to be inappropriate for the firms' operations and capabilities.

The study suggests that although target marketing is an appropriate technique for small firms, and that it is used intuitively to develop the business, it has to be adapted to match the firm's assets and capabilities. Small firms develop by securing a small number of customers through personal contacts and then grow by extending the customer base through reputation, recommendations and sales effort. Further growth is achieved when the firm focuses on intermediaries and contractors for direct sales through personal relationships and business credibility. The use of formal market segmentation and sales directly to large number of customers results in successful outcome when the firm has established a marketing function, has mature operational and production systems and has adequate financial resources to invest in implementing the technique fully.

Formal product planning required the firms to plan products and product lines to match the needs of target markets, to develop new products, to abandon incompatible and loss making line in order to releases scarce resources. It also required products to be made complete in terms of quality, branding, packaging and service levels prior to taking them into the market place. The study indicates that small firms at initial stages of development do not benefit from formal product planning techniques because they do not have adequate resources and they use subsidised design schemes or limited internal design and marketing expertise to implement the process.

Although outside consultants conducted contribution analysis for the firms, the management took no action (and showed great resistance to change) to rationalise their product portfolios. Product planning in these firms continued to be restricted to design from internal and production perspective, concentrated on the physical aspects of the product and introduced own labels for sales to intermediaries and directly to the end customers. The lack of resources and maturity of operational systems resulted in poor quality production of existing and new products. When formal product planning was introduced in the other firm in the study, the resulting products failed to meet the requirements of its customers because of lack of investment in research, design, packaging and quality. Where the firm manufactured to customers' approved designs, the lack of adequate quality control procedures and systems led to whole production batches to be returned to the firm. The firm in this case lost what little improvement in profit margin it had attempted to achieve by selling directly to national multiples. This led the firm to revert to manufacturing for intermediaries and contractors who took ultimate responsibility for meeting customer specifications or who served low quality/low price markets.

The case studies and interviews amongst 64 firms confirmed that most small firms relied on cost-plus pricing policies and that very few attempted to use any other methods of setting prices. In the longitudinal study of two firms, the consultants recommended the implementation of new price levels, structures and policies that more closely reflected what the markets would stand or those that were based on production runs, competition and on company objectives. The management in both cases resisted any changes in pricing and continued to work on cost-plus basis. The study indicates that although different pricing methods and techniques can be adapted and applied in small firms, the owner-managers tend to rely on their experience and intuition in setting price levels. Their lack of confidence in the products and operations, and lack of skills and knowledge of market based pricing and how to structure discounts and margins and other policies deter them from radically changing their methods of setting prices.

Although marketing consultants working with the firms in the study recommended the implementation of new distribution and promotional policies, both firms continued with their existing arrangements. In one case this was largely due to the lack of financial resources and lack of skills and knowledge necessary for implementing the various techniques. In the other case, it was due to the management's resistance to any changes in running the business. The other case studies however suggest that small firms either have to make substantial modifications to these techniques, or they have to evolve in the firm over time. Market and competition based pricing, development of alternative channels of distribution and expensive forms of market communication are inappropriate for most small firms at initial stages of development because of the nature and size of their customer base. These techniques begin to become relevant and to improve the performance of the firm when the firm has a rationalised product range with many models and serves a diverse but clearly defined target markets.

It can be concluded that in most small firms, the marketing orientation and the marketing function have to evolve as the firm develops and progresses through the different stages of development. The tentative study indicates that formal marketing methods cannot be foisted upon small businesses and that they only improve their performance when other parts of the firm's systems are adequately developed to accommodate the stringent requirements of the market. The results of this study have been used to develop a descriptive model in section three that outlines how the use of these and other marketing techniques evolve during the various stages of small firms development.

2. OUTCOMES OF THE RESEARCH: MODELS OF BUSINESS DEVELOPMENT, EVOLUTION OF MARKETING AND APPLICATION OF MARKETING TECHNIQUES IN SMALL FIRMS

In order to summarise the research evidence, this thesis concludes by proposing additions to existing models of growth and by developing new models of evolution and application of marketing in small firms. It is hoped that these models will be useful to practitioners and researchers of small businesses as diagnostic tools and will assist in guiding future research in this area. This section is divided in three parts and concentrates on outlining the additions to Churchill and Lewis model, explaining the model of evolution of marketing and describing the application of marketing at different stages of small business development.

2.1 Additions to Churchill and Lewis Model of Small Business Development

As outlined in Chapter Three, Churchill and Lewis (1) developed the work of Steimetz (11) and Greiner (12), and based their findings on a combination of experience, literature search and an empirical research based on the responses from 83 owner-managers of successful small businesses. The model that evolved from this work suggested that there are five stages of small firms development. Each stage is characterised by as index of size, diversity and complexity of the enterprise. The model also identified the changes in management style, organisation, extent of formal systems, major strategic goals and owner's involvement in the business that occur over the five stages of development. The main characteristics of the five stages are shown again in Figure 8.1.

In the absence of a definitive model of small firms' growth, chapter three critically evaluated the Churchill and Lewis model and outlined the reasons why it was used to provide a framework for studying the application of marketing in this project. Although stages models have many weaknesses and have been criticised on several counts, the Churchill and Lewis model was used essentially because it provided a set of measurement criteria that could be tested on a comparable sample of small firms. The testing of this model in chapter five against the data on sixty-six firms in this study has shown that the model is a useful framework and that it can be used as an aid in identifying the stage of development a small firm has reached at a given point in time. The testing however suggested that only the first four stages of the model are relevant to small firms and that firms that exhibit characteristics of the fifth stage are in fact medium sized businesses.

The research evidence on application of marketing also suggests that there are different marketing stages that correspond closely with the stages of business development advocated by the Churchill and Lewis model. This thesis proposes that although like growth, the evolution of marketing in small firms is a continuous process, it can be categorised into five stages of development by reference to

FIGURE 8.1: CHARACTERISTICS OF SMALL BUSINESSES AT EACH STAGE OF DEVELOPMENT (CHURCHILL AND LEWIS MODEL)

	Stage 1	Stage 2	Stage 3 - D	Stage 3 - G	Stage 4	Stage 5
Characteristics	Existence	Survival	Success - Disengagement	Success-Growth	Take-off	Resource Maturity
Key Problems	Securing customer base and delivery of the required product or service. Business folds due to lack of business and capital.	Cash flow Inadequate customer base to generate revenue	Decision to expand or remain stable to enable owner to disengage. Has a customer base, serves a niche market	Consolidation of resources for growth. Risk in financing growth.	How to grow rapidly and how to finance that growth	control of business and finance
Management Style	Direct supervision and owner does most tasks, and makes all decisions.	Supervised Supervision owner still makes key decisions.	Functional. Managers brought in at middle management level.	Functional. Owner taking key decisions and risks but delegating tasks to functional managers.	Divisional Development	Line and Staff
Organisation	Simple. Owner provides direction. Use of family and friends as subordinates.	Few employees from outside family. May employ a manager or supervisor.	Owner delegates to functional managers, such as finance, marketing and production.	Employ middle managers to functional positions	Decentralised and divisionalised (sales and production) Delegation and managerial competence are key requirements.	Functions have departments with managers and supervisors.
Extent of formal systems and planning.	Minimal to non existent. Little or no business planning.	Minimal some cash forecasting. of budgets emerge.	Basic system develop planning in form of of operational plans	Developing systems Operational plans and extensive strategic planning involving the owner.	Systems more refined and maturing. Operational and strategic planning done by divisional managers. Stock control becomes crucial.	Extensive and well developed.
Major Strategy	Existence	Survival	Maintain profitable status quo	Secure and manage resources for growth.	Growth	Maximise return on investment.
The importance of the owner in relation to the business.	The owner is the business	Owner is still synonymous with the business.	The owner is equally important but moves apart to engage in other activity.	The business becomes more important and owner still deeply involved.	The owner is reasonably separate but influence is dominant.	The owner is separate from business - financially and operationally.

FIGURE 8.2: ADDITIONAL CHARACTERISTICS OF SMALL BUSINESSES AT DIFFERENT STAGES OF DEVELOPMENT (CHURCHILL AND LEWIS MODEL)

CHARACTERISTICS	STAGE 1 EXISTENCE	STAGE 2 SURVIVAL	STAGE 3 SUCCESS/GROWTH	STAGE 4 LIFT-OFF	STAGE 5 RESOURCE MATURITY (MEDIUM SIZED COMPANY)
Management Orientation	Production Orientation. Emphasis on Product/ Service, Production and Operational Capacity.	Production and Sales Orientation. Emphasis on selling what has been produced/stocked.	Sales and Marketing Orientation. Emphasis on selling but customer needs considered in what is produced/stocked.		Marketing Orientation. Move toward implementing the marketing concept. Product, production, selling and promotion integrated to meet customer needs.
Marketing	**Network Marketing** Owner/manager's personal contacts and knowledge of local and specialist markets. Targeting to gain few customers but will serve all who wish to buy.	**Customer Base Marketing** Personal selling by owner /manager. Trade advertising and publicity introduced but little investment. Word-of-mouth encouraged. Serve all customers.	**Asset-led Marketing** Personal selling function developed. Owner still involved but also hire reps and agents. Branding and packaging introduced. Investment in publicity material.	**Asset-lead and market-led Marketing** Employ marketing staff but organised as a seperate function to sales. Targeting and marketing planning used.	**Market-led Marketing** Marketing and sales integrated under Marketing Director to implement formal marketing.
Business Development and Customer Base	Few local customers for sub-contract work or serving niche markets.	Increased customer base for sub-contract work and distributors as new customers for own designs.	Increased sales to existing customers. Customer base expand but reliant on few customers for regular business.	Diverse customer base for diverse product/ service lines. Targeting introduced but not fully developed.	Diverse and clearly defined target markets for specific lines of products/ services.
Product/Service Production/ Operational Considerations	Investment in operational capability. Product/service formulated on basis of skills and knowledge. Offer manufacturing as a service.	Focus on increasing operational capacity. New product lines introduced for existing customers to increase revenue.	Large number of product lines for many customers for small batch production. Utilise capacity, knowledge, resources and assets to produce products for existing. customers but low margins. New products introduced for own label.	Product line rationalisation New products designed with reference to customers and using external designers/ marketing expertise.	Rationalised product lines with many models/ options and short-run production. Planning geared to meeting changing needs.

the firm's management orientation, customer base, assets and type of marketing activity undertaken during the different stages of business development. The marketing stages that emerge from this study are: Network marketing, Customer base marketing, Asset-led marketing, Asset-led and market-led marketing, and Market-led marketing.

The evidence of this present study has identified characteristics of small firms that can usefully be added to the Churchill and Lewis model to make it more comprehensive a tool for academic and practical users. This thesis therefore proposes the addition of the following characteristics to the existing normative model. The additional characteristics and marketing stages identified by this research by reference to the stages of business development are presented in the summary form in Figure 8.2.

2.1.1 EXISTENCE STAGE: NETWORK MARKETING

As a major thrust of this research has been to investigate the effect of management orientation on the development of small firms, the evidence suggests that it is an important characteristic that influences many of the other key decision areas of small firms' operations. The study suggests that owner-managers start and operate business from production and operational perspective and that this orientation continues beyond the existence stage and half way through into the survival stage. Unlike the other characteristics identified by Churchill and Lewis model, owner-managers tend to make gradual transition in their orientation and their attitudes and practices change after the firm begins to exhibit the characteristics of having reached the next stage of development. This gradual transition is highlighted in figure 8.2. At existence stage the owner-managers concentrate on assembling the factors of production/operation by investing and focusing on their operational capabilities. The products/services offered tend to be formulated on the basis of owners' skills, knowledge and experience of their previous trade, industry or family tradition. New firms start by offering manufacturing ability/capacity or by undertaking the work as a service to other small or medium sized firms on sub-contract basis.

No formal marketing is applied at this stage and the owner-managers' rely on their personal networks and knowledge of the needs of local and specialised markets/customers. Although owners target a small number of their personal contacts to secure work, they do not apply targeting as a marketing technique. Work therefore tends to emanate from a very narrowly defined customer base but the firm will serve all who wish to buy from it. During the first stage of development therefore, the firm develops few local customers for sub-contract work or by servicing niche markets (as in most Asian firms in the services sector). In terms of marketing activity, the owner -manager takes and implements all marketing decisions. The marketing activity invariably tends to be confined to personal selling and production of limited (if any) promotional material.

2.1.2. SURVIVAL STAGE: CUSTOMER BASE MARKETING

The firm that reaches this stage demonstrates that it is a viable business and that it has developed enough customers by satisfying their requirements. In examining the expansion of customer base of firms that had reached this stage, the research indicates that in manufacturing, firms secure more customers for sub-contract work and also start the process of designing and making their own products for sale to distributors and other intermediaries. In general terms customer base increases due to word-of-mouth rather than through targeting or marketing effort. Production orientation continues to be the dominant philosophical approach to managing the business with the focus on increasing the firms operational capacity.

At this stage, the firm tends to undertake product line extension and new product development programmes that are aimed at increasing revenue from existing customers. Own designs that are introduced for sale to distributors tend to be based on imitation of popular lines or with slight modifications to contractors' specifications. In consumer markets this invariably leads the firm to sell imitated product lines at low prices, low margins and to end-users who tend to be price conscious, late majority or laggards. Some firms also introduce own labels and basic packaging, but the decisions tend to be implemented through internal resources and considerations.

After a period of time and or when the firm has optimised its operational capacity and has a number of products/services (including manufacturing as a service), the need to move stock or utilise capacity forces the owner-manager to adopt production and sales orientation. The emphasis of the business therefore begins to shift from production to selling the firms ability and what has been produced/stocked.

In order to increase the customer base, the owner-manager starts to use selling and promotional aspects of marketing. The firm starts to employ sales agents but who are not given adequate incentives to exclusively deal with the company's products. Firms that employ sales representatives (mainly in manufacturing) tend not to attract well qualified people because of lack of remuneration and conditions offered. Although the firm makes small investment in trade advertising and limited publicity material, the main source of communication with potential customers continues to be through word-of-mouth and local reputation. The firm targets other manufacturers and intermediaries for sub-contract work but also continues to serve all customers willing to place orders. This approach invariably leads the firm to have a large number of product lines for many customers for small batch production runs. The firm that begin to exhibit these characteristics and begins to grow in size and profitability progresses towards the third stage of development.

2.1.3. SUCCESS GROWTH: ASSET-LED MARKETING

The main characteristic of firms that reach this stage is that they have many assets that are not fully exploited. These assets include the firm's technical experience and expertise, production capacity, specialised machinery and technology, knowledge of particular industry's requirements, client base and reputation. The pressure on management therefore is to find ways of using these assets most effectively in serving existing and new customers. The marketing and business development activity in the firm at this stage reflects the management's desire to optimise the use of these assets.

Although firms that reach this stage gradually increase the use of targeting, they still focus on pushing existing products/services and developing new ones for their existing customers. In order to exploit its assets, there is a tendency for the firm to develop completely unrelated products/services for new markets without much prior market research. When new customers in existing markets are identified, the owner-manager's production and sales orientation act as a barrier to making changes in the products that would meet the requirements of the intermediaries and end-users. The diversity of the product range also continues to increase because of the firm's persistence in serving untargeted customers. This leads the firm to have an unbalanced portfolio with many low volume/value and loss making lines. The firm relies on few customers for regular high volume production runs and utilises the excess capacity by completing smaller one-off orders.

The firm increases its use of distributors for selling directly to end-users, and wholesalers and retailers are used for distribution of own designed/labelled products. Although product development, packaging, quality and branding are introduced for own designed products, they tend as in stage two, to be planned and implemented from internal considerations and resources. More agents are used for both gaining new customers for direct supply and as distributors of the firm's own products. Some firms begin to use agents for entry into overseas markets on trial basis and develop the export trade when they can secure relationships with agents and intermediaries in other countries.

As the firm matures at this stage, and especially where business planning and or marketing expertise is introduced, it begins the process of product rationalisation and new product development based on better understanding of the market place. During this period the owner-manager's orientation changes from production and sales to sales and marketing with an emphasis on selling and taking customer requirements into consideration when deciding what is to be produced/stocked. The firm invests in selling because of the need to move what has been produced and to ensure continuity of work to maximise the use of production capacity and other assets.

As quality of the output increases through implementation of internal systems (such as BS5750 registration), the firm begins to apply the principles of differentiation and uniqueness to gain competitive advantage in creating new customers. As in stage two, cost-plus pricing remains prevalent during most of this stage. Competitive and market-orientated pricing tends to be introduced when the firm progresses towards the next stage. The base line however, continues to be determined by using cost-plus methods. Firms at this stage revert fully to cost-plus pricing when economic conditions change or when variations in revenue targets demand immediate action. The firm's personal selling functions begins to develop at this stage with the emergence of a small sales team headed by a sales manager. The owner-manager however, continues to take a lead in the process until a sales director can be appointed.

During the latter period of this stage, the sales function becomes fully developed with a sales office and staff to support the selling effort. To strengthen the sales function, the firm begins to invest in promotional effort by setting small advertising budgets (which is not always adhered to). Trade advertising and production of corporate brochures, product information, catalogues, public relations and some elements of merchandising are introduced which emphasise the firm's age and quality of it products. The firms that manage to develop a more diverse customer base and a diverse range of products/services through sales and promotional efforts progress towards the fourth stage of business development and use of asset-led and market-led marketing.

2.1.4 LIFT-OFF STAGE: ASSET-LED AND MARKET-LED MARKETING

As stressed by Churchill and Lewis, the key problems facing firms that reach this stage are how to grow rapidly and how to finance that growth. The evidence from this research suggests that the rapid growth comes from the firm's ability in securing financial resources necessary to develop and establish a diverse customer base for a range of new and existing products/services. The firms that survive this stage tend to be those that invest heavily in strengthening the functional management areas of the business, such as marketing, financial control, human resources and general business planning. During early periods of this stage, sales and marketing managers are employed to manage the expanding sales force. Technical and support sales staff are introduced and sales office staff receive training in customer relations/care. Telephone selling and order processing becomes well established. Firms at this stage employ qualified and trained marketing managers, but tend to organise marketing as a separate function to sales. In some firms, sales directors tend to be appointed to manage both the sales and marketing personnel and take responsibility for implementing or directing formal marketing decisions.

With the availability of financial and human resources, market and marketing research begins to be developed, planned and implemented by the marketing function. There is greater use of internal and external resources to collect data and research begins to have a greater impact on strategic and operational decisions of the firm. The marketing function begins to use formal methods of targeting and segmentation to develop existing and new markets, but the marketing-mix tend not to be fully developed or co-ordinated with each of the target markets identified.

At this stage the firm is concerned with maximising the use of its assets and begins to cater more closely the needs of its markets. The process of product line rationalisation intensifies and the firm moves towards having a more balanced portfolio when some loss making lines are abandoned to release scarce resources to fund new developments. Product planning and new product development begins to be integrated with the needs to the target markets. Quality, branding, packaging and product design begins to be planned through investment in marketing and external design expertise. The firm increases the use of product differentiation through branding, uniqueness, serving niche markets, quality and service. As the firm develops and grows at this stage, the owner-manager's orientation begins to shift from sales and marketing towards a focus on implementing the marketing concept.

As the firm matures at this stage, pricing strategies are developed to match target markets and product designs. Competitive and market related pricing strategies and pricing polices are introduced across the product range. Some firms begin to use marketing research to gain feed back on pricing and other marketing decisions. Cost-plus methods however, continue to be used to produce base line for pricing decisions. Cost structures and product contributions to fixed costs are known and pricing begins to be used as a marketing tool to gain differential advantage and to achieve financial objectives.

The development of channels of distribution systems begin to be integrated with target markets and other marketing-mix decisions. Some firms start licensing and franchising their operations and increase the use of agents, particularly in attempting to gain entry in overseas markets. Because of the existence of a marketing function, the promotional-mix becomes much more planned, with resources invested in ensuring that the firm communicates effectively with its existing and potential markets. Advertising budgets however, continue to be set on the basis of what can be afforded or justified. Advertising decisions get devolved to marketing personnel who hire the professional services of advertising and public relations agencies.

Media and copy decisions are also more closely linked with the firm's communications objectives and buying behaviour of the target markets. Trade press and consumer advertising increases and as the marketing function develops, sales promotion effort begins to be incorporated into the planning of the promotional-mix. Budgets for the total promotional effort continue to be restricted and firms use local design studios and agencies to undertake promotional (below-the-line) work.

Corporate identity at this stage becomes well established and is used consistently in all aspects of visual projection of the firm. Packaging design becomes integrated with overall product policy and company image, and the firm participates in national and international exhibitions. Publicity begins to become integrated with other aspects of promotion and marketing activity. The firm begins to make greater use of publicity material aimed at distinct groups of customers. Advertising and public relations agencies are used continuously on long-term retainer basis and the firm starts to use newsletters and a press releases to obtain greater media exposure.

To prepare for progression to becoming a medium sized business, the firm starts the process of consolidation and control of the financial gains brought on by the rapid growth. The firm aims to retain the advantages of size, flexibility of response and the entrepreneurial spirit. In terms of steady growth that is required to take the firm into the next stage, it engages in market development through greater targeting. Product development continues but through the use of much more thorough market research.

Market penetration strategies are pursued through greater investment in promotional effort and use of external professional services.

Some firms, in growing markets and where there is the availability of financial resources prepare for the next stage by take-overs and mergers. At latter period of the lift-off stage, firms invest in extending their product range through both concentric and horizontal diversification. To release resources for this purpose, existing product lines are rationalised and greater planning introduced for unrelated and new product-market vectors. It is only when the firm has radically rationalised its product-markets position and consolidated its resources base does it progress to becoming a medium sized business and to applying market-led marketing.

Although there were no firms in the sample that had reached stage five of development, and the revised model advocated a four stages of small firms development, the commentary on additional characteristics have been developed by reference to Churchill and Lewis model and by projecting the findings on firms in the fourth stage of development. The major requirements at this stage are concerned with how the firm can further expand the management force fast enough to eliminate the inefficiencies that growth can produce and introduce professional practices in such areas as budgeting, financial control, strategic planning, management by objectives and marketing.

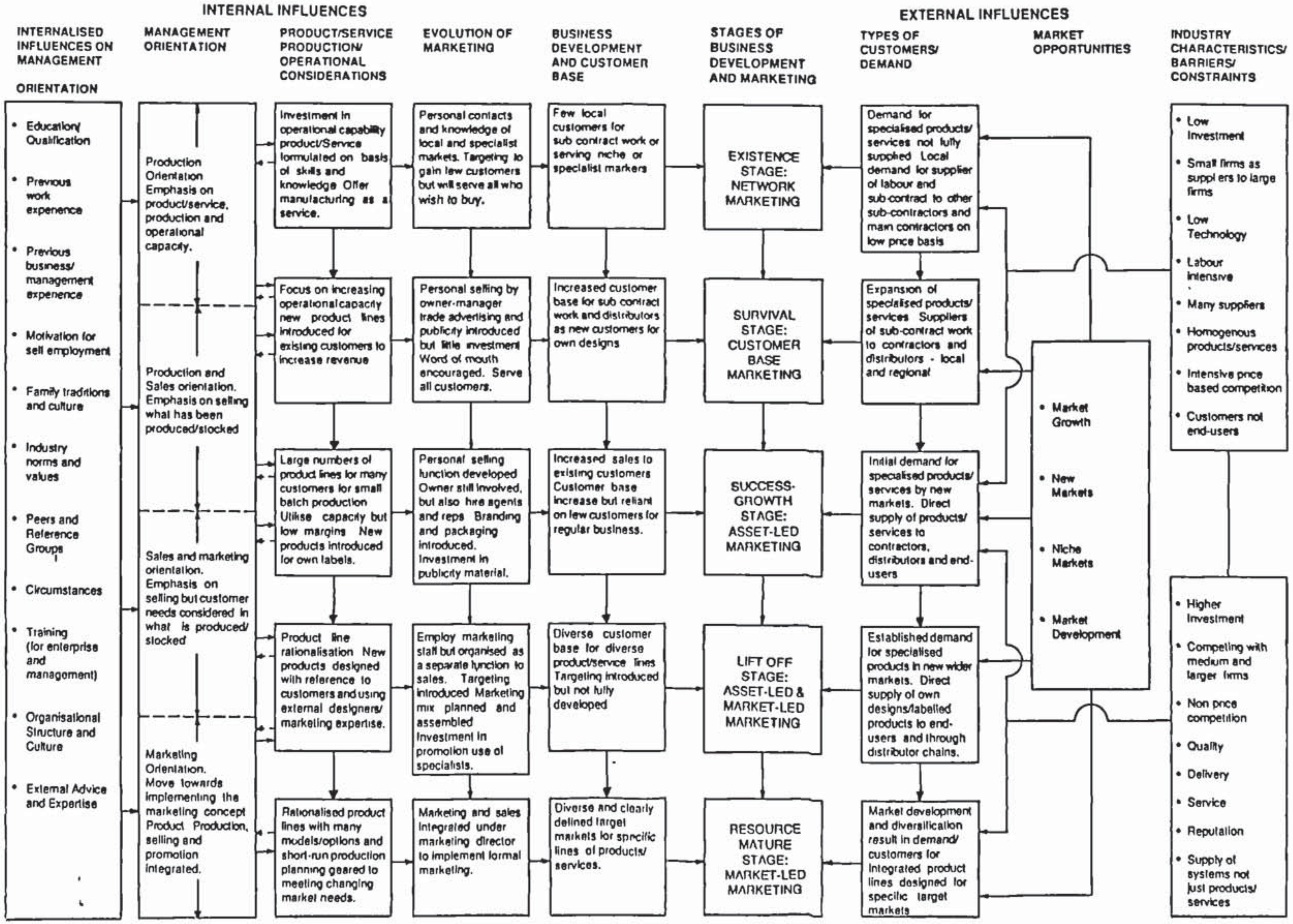
At this stage the management is decentralised and extensive systems are in place to effectively manage the key business functions. The owner and the business are quite separate, both financially and operationally, but may still exert an influence in terms of style of management and degree of entrepreneurship. The firm becomes marketing orientated through the conviction of the managing director who integrates the marketing and sales function under a marketing director to implement formal marketing in the firm.

The firm develops diverse and clearly defined target markets for specific lines of products and services. The firm starts to apply market-led marketing. Product lines become completely rationalised with many models/options produced on short-run production basis. Production and product planning becomes geared to meeting the changing needs of the market place. The firm also engages in market development and diversification to meet the demand for integrated product lines for specific target markets. With a diverse range of products and markets, the firm begins to enjoy the advantages of size, financial resources and managerial talent.

2.2 A MODEL OF BUSINESS DEVELOPMENT AND EVOLUTION OF MARKETING IN SMALL FIRMS.

In addition to identifying the characteristics outlined above, this research also provided useful data on the external factors such as type of demand; market opportunities; industry characteristics; barriers and constraints that affect the development and evolution of marketing in small firms. The additional characteristics or internal influences such as management orientation, operational considerations, marketing and customer base have been used to construct a normative model of business development *and evolution of marketing in small firms. The* model that emerges from an understanding of the research evidence and hypotheses is depicted in figure 8.3. The model has been based on the evidence of this research as reported in chapters six and seven, summary of how it supports the hypotheses (section 1 above) and explanation of the additional characteristics identified in section 2.1 and figure 8.2 above. Although the research data indicates that only the first four stages of Churchill and Lewis model are relevant to small firms, the fifth stage has been included to indicate that growth is a continuous and dynamic process. In order to avoid repeating the commentary on internal and external influences, the model shown in figure 8.3 contain sufficient detail to form a self explanatory flow diagram of the processes and relationships between the various variables during the main stages of business development and evolution of marketing in small firms.

FIGURE 8.3 A MODEL OF BUSINESS DEVELOPMENT AND EVOLUTION OF MARKETING IN SMALL FIRMS



2.3 A MODEL OF APPLICATION OF MARKETING TECHNIQUES AT DIFFERENT STAGES OF SMALL BUSINESS DEVELOPMENT.

In summarising the main findings on marketing practices, this thesis concludes by developing a descriptive model of application of marketing techniques during various stages of small business development. The model is contained in Table 8.1.

In line with the logical development of the research design and methods used in this thesis, the model is based on the marketing *process, techniques and outcomes* discussed in chapters one, six and seven. The model therefore starts with assessing the application of techniques to gather data on the business environment and then details how marketing tools such as targeting, marketing-mix and growth strategies are applied during the four stages of small firms development. The model ends by following through the types of marketing organisations small firms implement as they grow. As with the previous model, Table 8.1 has been designed to avoid excess repetitive commentary and as a self explanatory model that has been developed from research evidence reported in chapters six and seven and first part of this chapter.

TABLE 8.1 APPLICATION OF MARKETING TECHNIQUES AT DIFFERENT STAGES OF SMALL BUSINESS DEVELOPMENT

Marketing Techniques and Organisation	Existence Stage: *Network Marketing*	Survival Stage: *Customer Base Marketing*	Success-Growth Stage: *Asset-Led Marketing*	Lift-Off Stage: *Asset-Led & Market-Led Marketing*
Market and Marketing Research	Business started on basis of knowledge and experience of trade or industry. Market research (where undertaken) limited to desk research and audit of local competition. Where grants/schemes available, undertake low cost feasibility study mostly DIY with limited knowledge of methods.	New products/services developed for product line extension and sale to existing customers or introduce own designs for new customers but without market research.	Marketing research used where firm employs marketing staff or bring in marketing expertise through grants or training schemes. Low budgets and confined to researching existing customers. Market research confined to researching entry into new or wider markets.	Market and marketing research developed, planned and implemented by the marketing function. Use of internal and external resources. Research begins to have a greater impact on strategic and operational decisions.
Sales Forecasting	Not used or relied upon because of the nature and size of the customer base. Cash-flow forecasts based on guess work and historic sales data. Lack knowledge of forecasting methods.	Not used. Simple projection of historic sales data. Knowledge of key regular customers increases and forecasts based on intuition and customer relationship.	Projection of historic sales data and use of sales staff's knowledge, experience and opinions to calculate cash-flow forecasts. Large customer base for small volume production and few regular customers make forecasting difficult and unreliable.	Sales forecasting developed and used as part of business planning, but basic methods used. External developments and opportunities taken into account.

TABLE 8.1 APPLICATION OF MARKETING TECHNIQUES AT DIFFERENT STAGES OF SMALL BUSINESS DEVELOPMENT (CONTINUED)

Marketing Techniques and Organisation	Existence Stage: *Network Marketing*	Survival Stage: *Customer Base Marketing*	Success-Growth Stage: *Asset-Led Marketing*	Lift-Off Stage: *Asset-Led & Market-Led Marketing*
Market Segmentation/ targeting	Targeting few local customers through personal contacts for sub-contract work or serve niche or specialist markets because of knowledge and experience of market needs. Also serve all customers from any source. In service, retailing and wholesaling industries competitive positioning not applied.	Customer base increases due to word-of-mouth rather than through targeting or marketing effort. Customers for sub-contract work increase and targeting limited to distributors as new customers for own designed products.	Targeting of new products/ services to existing customers for regular business. New Markets identified and targeted but without major changes to products/services to match requirements of end-users.	Develop diverse customer base for diverse range of products/services. Formal targeting methods used to develop existing and new markets, but not fully developed and integrated with the marketing-mix for each product/service.
Product planning	Product/Service not regarded to be related or relevant to marketing. Planning limited only to description or specification of the physical product/ service. None required or undertaken where firm sells its manufacturing services for sub-contract work. Little or no product differentiation and tendency to use low price as a competitive advantage. Branding and packaging not required. Quality important but not fully developed.	Product line extension and new product development undertaken. Aimed at existing customers or for sale to distributors. Own designs introduced but mainly through imitation of popular lines. In consumer markets this invariably leads to sales at low prices, low margins to end-users who tend to be price conscious, late majority or laggards. Own labels and basic packaging introduced but through internal resources and considerations.	Diverse range of products developed through serving untargeted customers. Unbalanced product portfolio with many low volume/value loss making lines. Few customers for regular high volume production runs. Product rationalisation introduced where business planning/marketing expertise brought in. New products developed to enter new or wider markets to utilise operational capacity but product design, packaging, quality and branding planned from internal considerations. Begin to use quality and uniqueness for differentiation.	Product line rationalisation and move towards balanced portfolio. Abandon some loss making lines to release resources. Product planning and new product development begins to be integrated with target markets. Quality, branding, packaging and product design planned through investment in marketing and design expertise. Product differentiation through branding, uniqueness, niche market(s) served, quality and service.

TABLE 8.1 APPLICATION OF MARKETING TECHNIQUES AT DIFFERENT STAGES OF SMALL BUSINESS DEVELOPMENT (CONTINUED)

Marketing Techniques and Organisation	Existence Stage: *Network Marketing*	Survival Stage: *Customer Base Marketing*	Success-Growth Stage: *Asset-Led Marketing*	Lift-Off Stage: *Asset-Led & Market-Led Marketing*
Pricing	Pricing determined after the business becomes operative and mainly based on cost-plus methods due to the nature of sub-contract work and competition. Cost structure not known. Tendency to under price and little or no scope for mark downs, discounts or promotional use of pricing. Pricing calculated to sell manufacturing as a service to middlemen. Pricing not regarded as an element of marketing activity.	Cost-plus continues as own designs and products introduced. Product line extension acts as further barrier to cost analysis and pricing continues to be based on limited information. Price negotiated to win contracts even where unprofitable. Competitive pricing introduced for a limited and narrow range of products.	Cost-plus pricing remains prevalent. Competitive and market-orientated pricing introduced with base line determined through cost-plus methods. Revert to cost-plus pricing when economic conditions change or target revenue demand immediate action.	Pricing strategies developed to match target markets and product designs. Competitive and market related pricing used and pricing policies introduced. Marketing research used by some to gain feed back on pricing decisions. Cost-plus continues to provide base line for pricing decisions. Cost structures and product contributions Known and pricing used as a marketing tool to gain differentiation and achieve financial objectives.
Distribution	Serve contractors, Sub-contractors and distributors as main customers. Development and use of channels of distribution not normally required. Firms in service, retailing and wholesaling act as parts of other organisations' channel systems and sell directly to their customers.	Wholesalers, retailers and other distributors identified and used for sale of own designs and products. Channel members used as customers rather than as means of selling own-brands to end-users. Agents used as means of gaining new customers rather than as part of channel strategy.	Increase use of distributors for selling directly to end-users. Wholesalers and retailers used as distributors of own labelled products. Agents used for both gaining new customers for direct supply and as distributors. Use of agents for entry into overseas markets on trial basis.	Development of channel systems integrated with target markets and other marketing mix decisions. Franchising and use of agents increase in particular for distribution in overseas markets.

TABLE 8.1 APPLICATION OF MARKETING TECHNIQUES AT DIFFERENT STAGES OF SMALL BUSINESS DEVELOPMENT (CONTINUED)

Marketing Techniques and Organisation	Existence Stage: *Network Marketing*	Survival Stage: *Customer Base Marketing*	Success-Growth Stage: *Asset-Led Marketing*	Lift-Off Stage: *Asset-Led & Market-Led Marketing*
Promotion				
i) Advertising	Little understanding of aims of advertising. Low or no budget and limited to advertising in Yellow Pages and other trade directories. No advertising where reliance is on sub-contract work. Direct mail shots tried but without identifying decision makers or targeting. Little or no awareness of firm's existence amongst potential customers.	Limited investment in and use of advertising. Occasional advertising in trade press but unplanned and tendency to respond to media sales pressure. Direct Mail campaigns used but of limited valve or return. Owner-manager design and write advertisements and direct mail letters. Communication skills a major barrier to effective use of these techniques. DIY mailing lists ineffective and out of date. Lack understanding of buying behaviour of markets targeted.	Small advertising budget set but not adhered to. Trade advertising to facilitate "selling-in" process increases. Use of local design studio or small PR agency to prepare advertisements. Sales and marketing personnel involved in advertising decisions but owner takes ultimate decisions and influences copy and media choice. Decision making units in different markets identified but advertising not fully planned to reach them.	Advertising budget set on basis of what can be afforded or justified. Advertising decisions devolved to marketing personnel. Use of advertising and public relations agencies. Media and copy decision linked with objectives and buying behaviour. Trade Press and consumer advertising increases.

TABLE 8.1 APPLICATION OF MARKETING TECHNIQUES AT DIFFERENT STAGES OF SMALL BUSINESS DEVELOPMENT (CONTINUED)

Marketing Techniques and Organisation	Existence Stage: *Network Marketing*	Survival Stage: *Customer Base Marketing*	Success-Growth Stage: *Asset–Led Marketing*	Lift-Off Stage: *Asset–Led & Market-Led Marketing*
ii) Sales Promotion	Confusion of the term with other elements of promotion and little understanding of what can be achieved. Little or no use and where used tend to be ad hoc and unintentional. Confined to reduced price offers on special deals. No sampling of service or product offered to potential customers.	The tool continues to be confused with leaflets, brochures and other printed literature or means of "promoting" the business. Only used in encouraging "Selling-in" to the trade as a formal technique.	The use of formal techniques introduced where marketing expertise available. Methods of gaining repeat business tried but application lack resources and co-ordination with advertising and other promotional effort.	As marketing function develops, sales promotion begins to be incorporated into the planning of the promotional-mix. But budgets continue to be restricted. Use of design studios and agencies to undertake promotional work.
iii) Merchandising . Conferences, Exhibitions, Receptions . Corporate image . Packaging . Product Display . Point-of-Sale	Limited to developing company image through printed stationery. Mostly DIY. Little consideration of design and desired image. Low or no cost methods.	Extension of company name and development of logo design and use on vehicles and printed literature. Not fully co-ordinated or consistent. Experiment with trade fairs but limited budget and little planning. Packaging introduced but little investment in design.	Re-consider corporate image and start using it more consistently. Exhibitions increase with planned effort and larger budgets. Reception areas developed and investment in their design and re-furbishment. Packaging design commissioned from external agencies. Livery design more in line with corporate identity. Sales personnel used as merchandisers for display at point-of-sale.	Corporate identity well developed and used consistently. National and international trade exhibitions used. Receptions well established with trained receptionists and project desired image. Packaging design integrated with overall product policy and company image.

TABLE 8.1 APPLICATION OF MARKETING TECHNIQUES AT DIFFERENT STAGES OF SMALL BUSINESS DEVELOPMENT (CONTINUED)

Marketing Techniques and Organisation	Existence Stage: *Network Marketing*	Survival Stage: *Customer Base Marketing*	Success-Growth Stage: *Asset–Led Marketing*	Lift-Off Stage: *Asset–Led & Market-Led Marketing*
iv) Selling	Owner-Manager develops a small customer base from personal contacts. Maintains relationship with existing customers for repeat business.	Owner-Manager engages in business development and selling to create new customers and increase business from existing customers. Sales agents introduced but not given adequate incentive to push company products hard or exclusively. Sales representatives employed in manufacturing firms, but not well qualified, trained or remunerated.	A small team of sales people employed. Sales Manager introduced to manage sales team. Owner continues to take lead in the process. Sales director introduced together with Sales office staff to support sales effort.	Sales and marketing manager employed to manage expanding sales force. Technical and support sales staff introduced. Sales office staff trained for customer relations/care. Telephone selling and order processing well developed and maintained. Sales director may also have marketing responsibilities.
v) Publicity	Limited to initial leaflet on the firm. Cheaply produced using local printers and DIY copyrighting and design. Little or no product information.	Colour brochures introduced. Designed internally or by local printers. Emphasis on the business, premises and products rather than on capabilities. Use of DTI grant scheme to buy in design expertise. But publicity not linked with other promotional or marketing activity.	Corporate brochures, product information leaflets and catalogues introduced. Use of design studios. Emphasis on quality and age of business.	Publicity begins to become integrated with other promotional-mix and marketing activity. Greater use of targeting and design of publicity material aimed at distinct groups of customers. Design studios and advertising agencies used for producing publicity material coordinated with other activity.
vi) Public Relations	Little or none used. Media attention where novel or innovative products/services.	Reactive and responding to media sales pressure for space and offer of free editorial coverage.	Use of freelance PR expertise on part-time or retainer basis. Owner and sales/marketing staff direct PR effort.	Advertising or PR agency appointed. Newsletters introduced and regular press releases.

TABLE 8.1 APPLICATION OF MARKETING TECHNIQUES AT DIFFERENT STAGES OF SMALL BUSINESS DEVELOPMENT (CONTINUED)

Marketing Techniques and Organisation	Existence Stage: *Network Marketing*	Survival Stage: *Customer Base Marketing*	Success-Growth Stage: *Asset-Led Marketing*	Lift-Off Stage: *Asset-Led & Market-Led Marketing*
Diversification . Concentric . Horizontal . Conglomerate	Not applied as growth strategy or in planned/logical way. New product development matches characteristics of concentric diversification.	Extension of concentric diversification through product line expansion for existing customers. Results in the firm having many products for small volume production runs.	Introduction/investment in new machinery and technology to offer new products to existing customers. Unrelated product/service introduced for completely new markets, but without much research.	Extension of both concentric and horizontal diversification. Rationalisation of products and planning introduced for unrelated and new products-markets.
Marketing Organisation	Owner-manager takes and implements all marketing decisions. Marketing activity confined to personal selling and production of promotional material (if any).	Owner-manager continues to direct and control all marketing activity. Sales representatives employed to implement marketing.	Sales Manager and sales admin. Staff employed to process selling. Sales representatives and sales agents used for personal selling. Employ outside agencies for promotional activity. Marketing staff employed or term used in title of sales managers.	Employ marketing staff but organised as a separate function to sales. Sales Director introduced to manage sales and marketing personnel.

TABLE 8.1 APPLICATION OF MARKETING TECHNIQUES AT DIFFERENT STAGES OF SMALL BUSINESS DEVELOPMENT (CONTINUED)

Marketing Techniques and Organisation	**Existence Stage:** ***Network Marketing***	**Survival Stage:** ***Customer Base Marketing***	**Success-Growth Stage:** ***Asset-Led Marketing***	**Lift-Off Stage:** ***Asset–Led & Market-Led Marketing***
Intensive Growth . Market Penetration . Market Development . Product Development	Not applied as growth strategies or in planned/logical way. New products developed for existing customers, especially where firm serves specialist or niche market.	Focus on product development as means of utilising operational capacity. Effort in selling more to existing customers. Own designs/products introduced for existing customers but without investment in research.	New product development continued for existing and new customers. Entry into new wider markets attempted with existing products. Marketing effort and budget increased for penetrating existing markets.	Market development through greater targeting. Product development continued but through use of market research. Market penetration developed through greater investment in promotional effort and use of external professional services.
Integrative Growth . Backward Integration . Forward Integration . Horizontal Integration	Not applied or applicable.	Generally not applicable but some manufacturing firms set up own retail outlet or showrooms.	Generally not applicable but some firms take over or merge with smaller competitors	Takeover and or mergers.

3. LIMITATIONS AND A RESEARCH AGENDA.

The scope of this thesis limited the research to West Midlands area and to using qualitative methods only. In order to develop more definitive models of marketing and business development based on qualitative assessment of the hypotheses, the research should have included a study of a larger sample of firms in the key sectors of the economy. In particular it would have been valuable to concentrate on examining indigenous and Asian firms in the manufacturing sector. This would have allowed for greater comparisons to be made in such areas as management orientation, business start-up and development processes and application of marketing techniques during the different stages of small firms development.

The focus on one sector would have allowed the research design to include sufficient numbers of firms at each stage of development to enable the outcome to be used in constructing more comprehensive and definitive models of business development and evolution of marketing. Although the qualitative findings reported in this thesis has filled a gap in current literature (particularly in areas of Asian business development) and provides a useful framework for future research, a national study based on further qualitative and quantitative survey is necessary to broaden our knowledge of small business development in general and Asian businesses in particular.

This thesis has demonstrated that there continues to be a need for more comprehensive research into the realities of ethnic (in particular Asian) business activity and in our understanding of the role of marketing in small businesses in general. The closing section of this chapter therefore outlines a number of areas about which our knowledge is incomplete and in which future research could make a contribution to more informed debate.

In the area of Asian businesses, it is suggested that there is wide scope for further original research that explores whether there is an association between the caste of Asian entrepreneurs and the types of business activity, trade or industry that they engage in. This present study revealed some interesting but tentative associations between caste or family tradition and the management orientation adopted by Asian entrepreneurs when starting in business. Jenkins (4) and Warbner (10) have suggested that research should be conducted in the Indian sub-continent to ascertain whether the background of Asian immigrants has an influence on their business activity in the UK. It is recommended that any such future research should also examine the caste system and link it with the trades and skills that immigrants bring with them that encourages them to start businesses in certain industries.

Further research amongst the Asian community in the UK should also examine the reasons why they are increasingly entering industries such as light engineering, electronics and high technology manufacturing and assembling. Any such research should focus on the future role of the second and third generation Asian (who have gained British education and qualifications) entrepreneurs in the small firm sector in areas such as the West Midlands, London and Yorkshire. Although this study compared the development and marketing practices of indigenous and Asian firms, it would be valuable to concentrate on a qualitative and quantitative study of how Asian businesses develop beyond serving the narrowly defined niche markets of serving Asian communities in such industries as manufacturing, wholesaling, retailing, leisure and catering.

In terms of researching marketing in small firms in general, it is suggested that the research reported in this thesis should be further developed with a focus on sources of management orientation and the ways in which management styles change as the firm grows. It is also recommended that future research should be conducted to test the models proposed in this thesis by developing the qualitative work and testing the hypotheses of this research amongst larger samples of firms either nationally or in a selected region. Quantitative and statistical methods and testing should be employed to formulate more refined models of marketing in small firms.

In conclusion it is hoped that in the long term, the implications of this work will be of value to our knowledge of how marketing is practised in small firms and how Asian firms are started and developed by building on niche and wider markets. In the short term, it is hoped that the methodologies employed and results attained in this study will fill the vacuum of qualitative and empirical evidence that has been so apparent throughout the period of this research. Finally, this work might provide a framework for future studies in marketing in small firms and development of Asian businesses in the United Kingdom.

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