Vesna Zabkar

Maja Makovec Brencic

Vesna Virant

Faculty of Economics

University of Ljubljana

Kardeljeva ploscad 17

1000 Ljubljana, Slovenia

tel. + 386 1 5892400

fax: + 386 1 5892698

vesna.zabkar@uni-lj.si

maja.makovec@uni-lj.si

vesna.virant@siol.net

DOES THE SIZE MATTER?
HOW DO SMALL AND LARGE FIRMS DIFFER IN DEVELOPING BUSINESS RELATIONSHIPS?

Abstract

This paper discusses differences in business relationships between small and large firms. Business relationships in small and large firms are discussed through three groups of variables: facilitating conditions, principal components and strategic outcomes of relationships. Research revealed some interesting differences in different group variables according to the size of the firm. It also showed that no matter the size, firms do use business relationships in order to improve their strategic outcomes.

Introduction

SME theory raised a question about specifics of SME and the applicability of approved concepts and methods, prevailingly developed for the large firms. The theory and research show that the limitations which small firms confront are in majority of cases compensated by intuitiveness of marketing based on experiences and dominating marketing practice in a certain industry (Carson, 1985). Carson and Cromie (1990) also discuss some of the features of small firms and emphasize that SME approach is unique to them, developed according to the needs and capacities of SMEs. There is a lot of literature considering strategic marketing implementations, marketing planning, marketing practices, performance measures and internationalization of SMEs (e.g. Carson, 1985, Carson and Cromie, 1990; Colleran, 1994, Lancaster, Wadellow, 1998; Blankson, Stokes, 2002). Not a lot of research is prepared from the relationship point of view. Authors are considering relationships through strategic environment and market conditions, where they confront customers, competitors etc. (Carson, Cromie, 1990), only some of them giving a closer look to relationships interactions, components and other prevailing issues of relationship theory. Coviello et al. (2000), e.g., examine the relevance of traditional marketing paradigm to smaller firms. They found some differences and similarities relevant to firms of different size. Their findings show that for small firms traditional marketing paradigm must be adapted towards more modern marketing perspective. Day et al. (1998) also argue that business relationship can readily be adopted by a small entrepreneurial business “but it will need to be adapted to the entrepreneurial environment into which it is introduced". Their research shows that more entrepreneurial enterprises employ relationships more effectively than less entrepreneurial firms and gain certain benefits such as higher growth rates etc. According to IMP contributions, analysed by Gemünden (1997) and Easton et al. (2002) there was no evidence of explicit size consideration and comparisons when exploring business relationships. Still IMP research fields, such as networking, can be applied also to small firms. E.g. O´Donnel and Cummins (1999) are analysing networking in SMEs as an instrument of marketing decisions. Again they are suggesting adapted approach for SMEs. For the reason of the lack of the RM subfields research and of the need for adaptations as suggested in the SMEs literature, we focused our research on the comparison of business relationships for small and large firms. It was of our interest to investigate if the three groups of variables, by which we defined business relationships, do differ between firms of different size.

Definitions of small, medium sized and large firms include several variables to determine the size of the firm: number of employees, size of revenue, type of business and/or size of premises (Carson and Cromie, 1990). We defined the size of the firm in terms of the number of employees, as declared by European Union (DG XXIII). Number of employees is the most commonly used criteria to define the size of the firm; still there is no generally accepted definition.

Research Framework and Literature Background

In the following study, business relationships are analysed in small and large firms by three groups of variables:

- Facilitating conditions (including market dynamics, mutual values and norms, complementary capabilities, believes in interpersonal trustworthiness)
- Principal components of relationships (including trust, commitment, long-term relationship, co-operation, information exchange, idiosyncratic investments) and
- Strategic outcomes (long-term profitability, development of competitive advantages).

We used Jap (1999) conceptual framework and Hausman (2001) classification of variables to develop the research framework. By Hausman (2001) the three selected groups of variables influence creation, development and maintenance of relationships. She indicates that the extant literature suggests several key variables that help account for the differences between relationships, including organization size. She explains relationship strength as a construct, based on the levels of trust, commitment and rationalism perceived to exist within relationship. These variables impact outcomes achieved by relationship partners. Jap (1999) is analyzing buyer-seller relationships from the strategic outcome perspective, based on resource-based view. By his opinion firms can create strategic advantage and achieve extraordinary financial performance by developing relationships "which bring to joint benefit "pie" and give each party a share of an incrementally greater pie that could not be generated by either firm in isolation" (p.461). Strategic outcomes - long-term profitability and development of competitive advantages, considered as performance outcomes in resource-based theory and relationship-based competitive advantage theory (Hunt, 1997a, 1997b; Hunt and Morgan, 1996; Morgan and Hunt, 1999) could differ when considering the size of the firm. For this reason we postulated that long-term profitability and development of competitive advantages (strategic outcomes of business relationships) are differing according to the size of the firm and also explaining differences in the way of outcomes achievements. The following hypothesis was tested:

H1: Strategic outcomes of business relationships differ between small and large firms.

We used relationships theory to define principal components of relationships (Morgan and Hunt, 1994; Jap, 1999; Cannon, Perault, 1999; Kalafatis, 2000; Andersen, 2001 etc.). We included trust, commitment, long-term relationship, co-operation, information exchange and idiosyncratic investments for the purpose of evaluating the impact of the size of the firm on development of selected relationships principal components and its possible differences between small and large firms. Again we hypothesized that principle components are perceived differently when considering the size of the firm, giving different strategic outcomes:

H2: Principal components of business relationships differ between small and large firms.

A resource-based view also stresses the external environment as a critical macro condition to strategic resources management success (Amit, Shoemaker, 1993; Wernerfelt, Aneel, 1987 etc.). Jap (1999) implies that environment enables buyers and suppliers to understand potential limitations and opportunities to exploit capabilities, assets and knowledge that exist between partners. By including market dynamics, mutual values and norms, complementary capabilities and believes in interpersonal trustworthiness we wanted to include environment dynamism and facilitating conditions as preconditions of relationships development into the research question of size differentiation. As such we took under consideration suggestions given by SME literature and others (e.g. Hausman, 2001) by which relationships need to be analyzed in the context and in the environment in which they take place. Again we hypothesized that facilitating conditions of relationships can differ according to the size of the firm and therefore explain differences in relationships between small and large firms:

H3: Facilitating conditions of business relationships differ between small and large firms.

Research Data

The research was conducted in electrical and optical equipment industry in Slovenia in May 2002. This particular industry was selected because of its propulsive growth, high return on investments and added value creation. It is hypothesized that relationships are one of the potential reasons for its successful growth. The CEO, marketing director, or sales director was contacted to participate in the study. The questionnaire was tested on a small sample of respondents and improved by identifying and eliminating potential problems in question content, wording, sequence, form and layout, question difficulty, and instructions. Out of 322 firms in this industry, 103 firms responded to the revised version of the mailed questionnaire (69 small firms and 34 large firms). The firms included in the survey were relatively young firms, founded after 1990. 78,4% of firms had at least one quarter of employees with university degree or more.

The questionnaire was composed of statements about facilitating conditions, principal components of relationships and strategic outcomes. The questions were related to most typical and prevailing relationships with buyers. The following components were included: market dynamics, mutual values and norms, complementary capabilities, believes in interpersonal trustworthiness, trust, commitment, long-term relationship, co-operation, information exchange, idiosyncratic investments, long-term profitability and development of competitive advantages. Each component was operationalized with several variables. The research instrument was adjusted for manufacturing firms from Rojsek, Matajič (2002) and extended with variables on competitive advantages and sources of competitive advantages. All variables were measured on 7-point Likert scale (1 = completely disagree, 7 = completely agree).

Research Results

Mean values on different items of facilitating conditions, principal components of relationships and strategic outcomes were analysed. In results presentation we concentrate on differences in means for two independent subsamples of small and large firms. Only variables with significant differences for small and large firms ($p<0.05$) are reported (see Table 1).

All mean values of statements regarding strategic outcomes of business relationships reveal high importance of such relationships for gaining competitive advantages. Small firms to a higher degree than large ones report gaining strategically important advantages compared to their competitors (Table 1). H1 could therefore be supported. It should be noted that large firms also report gaining benefits from business relationships that enable them more successful competition in the market.

Principal components of relationships differ between small and large firms only in few dimensions. Evaluations of trust, commitment and long-term relationship differ between large and small firms in intentions of keeping good relationships with buyers and tolerance to errors from buyers. In these dimensions H2 could be supported. Small firms show both higher intentions for keeping relationships as well as higher acceptance of buyer’s errors with patience. When evaluating interpersonal relationships small firms again to a higher degree than large ones agree with a statement about legal and formal cooperation carried out only through interpersonal relationships (see Table 1).

Regarding facilitating conditions for business relationships, respondents agree that their firms operate in dynamic environments with high number of competitors. Electrical and optical industries are subject to competitive environment pressures, according to our results large firms to a higher degree than small ones. Complementary capabilities differ between large and small firms. Small firms to a higher degree than large ones agree that they contribute sources and capabilities the buyer lacks. Furthermore, on mutual values and norms we conclude that smaller firms more than large ones contribute to good business results for buyers. Large firms, on the other hand, report higher sharing of understanding of ethical conduct in business with their buyers. Based on means in measured variables we conclude that H3 could be supported. In business conduct employees on the side of the buyer believe in interpersonal trustworthiness of seller’s employees. Employees in small firms believe in interpersonal trustworthiness of seller’s employees to a higher degree that in large firms (Table 1).

Conclusions and Implications

Carson and Gilmore (2000) conceptualized contingency model in small firms by which they expose marketing adapted to circumstances, marketing based on capabilities, networking as important component of small firms marketing, their innovativeness and adjustment of theoretical models. Since networking is an integral part of IMP research field it was of our interest how networking component was perceived in small and large firms. The research showed that small firms keep good relationships with buyers as well as accept errors from buyers with patience to a higher degree than large firms. This indicates the presence of commitment as a component of networking in small firms marketing.

Research also showed that smaller firms, operating in highly dynamic markets, believe more in interpersonal trustworthiness. This result can support some findings of SME theory, by which small firms in comparison to large compensate certain limitations by intuitiveness of marketing, based on experiences and marketing practice (Carson, 1985; Carson and Cromie, 1990). Interpersonal trustworthiness and perceived level of trust in long-term orientation indicate the level of experience which entrepreneurs gained by developing and maintaining relationships in a certain industry. Furthermore, small firms with a high level of complementary capabilities co-operate more intensively with their suppliers in order to develop competitive advantages. Referring to Carson and Gilmore (2000) and resource based theory (e.g. Hunt, 1997; Hunt and Morgan, 1996 etc.) performance based on certain capabilities could present an advantage. In our case perceptions of managers in small firms indicate that complementary capabilities raise the level of cooperation between buyers and suppliers (to a higher degree than in large firms) and so bring joint benefits to the “pie” (Jap, 1999).

It is interesting to note that small firms implement business relationships to a higher degree than large firms although they seem to gain less out of these relationships in terms of long-term profitability. The diverse perception of strategic outcomes between small and large firms is an interesting contribution to the research. It is possible that it indicates the lack of strategic marketing management and orientation of small firms and its prevailing intuitiveness as found in SME theory. The analysis is given for a specific industry that determines facilitating conditions in which relationships take place. Research revealed that small and large firms in this particular industry do use business relationships in order to improve their strategic outcomes. This research finding indicates that firms are aware of the importance of relationships for the purpose of gaining better performance on markets.

Future research

The research included only seller's side, with no input on the side of the buyer. Further research should go into investigation of the buyer-seller interactions, including views and opinions of all involved partners. Development of conceptual model regarding business relationships in small firms should be considered more from the side of capabilities, innovativeness and adjustment of theoretical models as well as other limitations that small firms confront. The diversity of research results also show that some theoretical indications considering SMEs or large firms (e.g. MNEs) should not be generally accepted but selectively used in the context in which small firms are analysed.

Literature

1. Amit, R. and P. Shoemaker (1993), »Strategic Assets and Organizational Rent«, *Strategic Management Journal*, 14, 33-46.
2. Andersen, H. Paul (2001), "Relationship Development and Marketing Communication: An Integrative Model", *Journal of Business and Industrial Marketing*, 16 (3), 167-182
3. Blankson, Charles and David, Stokes (2002), »Marketing Practices in the UK Small Business Sector«, *Market Intelligence and Planning*, 20 (1), 49-61.
4. Cannon, P. Joseph and D. William Perreault Jr.(1999), "Buyer-Seller Relationships in Business Markets", *Journal of Marketing Research*, Chicago, 36 (4), 439-460.
5. Carson, David J. (1985), »The Evolution of Marketing in Small Firms«, *European Journal of Marketing*, 19 (5), 7-16.
6. Carson, David J. and Stanley, Cromie (1990), »Marketing Planning in Small Enterprises: A Model and Some Empirical Evidence«, *Journal of Consumer Marketing*, 7 (3), 5-18.
7. Carson David, Gilmore Audrey: »Marketing at the Interface: Not »What« but »How««. *Journal of Marketing Theory and Practice,* 8 (2000), 2, 1-8.
8. Colleran, J.F. (1994), »Strategic Marketing Considerations for the Small Firm«, *European Journal of Marketing*, 19 (5), 17-31.
9. Coviello, N.E. and R.J. Brodie and H. J. Munroe (2000), »An Investigation of Marketing Practice by Firm Size«, *Journal of Business Venturing*, 15, pp. 523-545.
10. Day, John and A.A. Dean and P.L. Reynolds (1998), »Relationship Marketing: Its Key Role in Entrepreneurship«, *Long Range Planning*, 31 (6), 828-837.
11. Easton, G. and J. Zolkiewski and S. Bettany (2002), »An Exploratory Taxonomic Study of IMP Group Conference Papers«, in: *Proceedings of the 18th Annual IMP Conference*, Dijon.

12. Gemünden, Hans Georg (1997), »The Development of IMP – an Analysis of the Conference Proceedings 1984-1996«, in: Gemünden et al. (eds), *Relationships and Networks in International Markets*, Oxford, Elsevier Science, UK.
13. Hausman, Angela (2001), »Variations in Relationship Strength and Its Impact on Performance and Satisfaction in Business Relationships«, *Journal of Business and Industrial Marketing*, 16 (7), 600-616.
14. Hunt, D. Shelby, Morgan M. Robert (1996), »The Resource – Advantage Theory of Competition: Dynamics, Path Dependencies and Evolutionary Dimensions«, *Journal of Marketing* (60), 107-114.
15. Hunt, D. Shelby (1997), »Competing Through Relationships: Grounding Relationships Marketing in Resource–Advantage Theory«, *Journal of Marketing Management* (13), 1-15.
16. Hunt, D. Shelby (1997), »Resource–Advantage Theory: An Evolutionary Theory of Competitive Firm Behavior?« *Journal of Economic Issues* (1), 59-77.
17. Jap, Sandy D. (1999), »Pie-Expansion Efforts: Collaboration Processes in Buyer-Supplier Relationships«, *Journal of Marketing Research*, Chicago, 36 (4), 461-475.
18. Kalafatis, P. Stavros (2002), "Buyer-Seller Relationships along Channels of Distribution", *Industrial Marketing Management,* 31 (3), 215-228.
19. Lancaster, G. and Wadelow, I. (1998), »An Empirical Investigation into the Process of Strategic Marketing Planning in SMEs: Its Attendant Problems, and Proposals Towards a New Practical Paradigm«, *Journal of Marketing Management*, 14, 853-878.
20. Morgan, M. Robert, D. Shelby, Hunt (1994), »The Commitment-Trust Theory of Relationship Marketing«, *Journal of Marketing*, Chicago, 58 (3), 20-38.
21. Morgan, M. R, S. Hunt (1999), »Relationship Based Competitive Advantage: The Role of Relationship Marketing in Marketing Strategy", *Journal of Business Research*, 46 (1999), 281-290.
22. O´Donnel , A. and D. Cummins (1999), »The Use of Qualitative Method to Research Networking in SMEs«, *Qualitative Market Research*, 2 (2), 82-91.
23. Rojsek, Matajič (2002): Do Slovenian Service Companies belong to the Mainstream of Relationship Marketing Oriented Companies? *Proceedings of the 18th Annual IMP Conference*, Dijon.
24. Wernerfelt, Birger and K. Aneel (1987), »Competitive Strategy Under Uncertainty«, *Strategic Management Journal,* 8 (29), 187-194.

Table 1: **Significant differences in means for two independent subsamples of small and large firms**

Variable	Subsample	Mean	T-test	P
High number of competitors (market dynamics)	Small firms	5,23	- 2,311	0,0115
	Large firms	6,97		
The firm contributes sources and capabilities the buyer lacks (complementary capabilities)	Small firms	5,62	2,195	0,016
	Large firms	5,06		
The firm contributes to good business results for buyers (mutual values and norms)	Small firms	6,20	1,677	0,0485
	Large firms	5,79		
Shared understanding of ethical conduct in business (mutual values and norms)	Small firms	5,48	- 1,930	0,0285
	Large firms	5,91		
Employees on the buyer's side rely on promises from seller's employees (believes in interpersonal trustworthiness)	Small firms	5,96	3,502	0,0005
	Large firms	5,15		
Keeping good relationships with buyers (commitment)	Small firms	6,55	2,317	0,0115
	Large firms	6,18		
Errors from buyers are accepted with patience (commitment)	Small firms	6,17	2,354	0,0105
	Large firms	5,71		
Legal and formal cooperation is practically carried out only through interpersonal relationships. (Interpersonal relationship)	Small firms	5,75	2,382	0,0095
	Large firms	5,09		
Gaining strategically important advantages compared to competitors. (Competitive advantages)	Small firms	4,83	1,907	0,0295
	Large firms	4,18		

Scale: 1- strongly disagree, 7- strongly agree
Legend: P – significance (one-sided)
Source: Survey among producers of electrical and optical equipment in Slovenia, May 2002; n=69 (Small firms), n=34 (Large firms).