

Building Competitiveness for SMEs Through Holistic Value Creation

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Abstract

Value creation is the next source of competitive edge in the dynamic environment. Few studies explore phenomena useful for small businesses even they are critical sources of innovation progress, economic growth and poverty reduction. This paper proposes the new direction of value creation based on holistic approach and explains how small and medium enterprises (SMEs) can apply this new marketing philosophy properly to achieve superior performance. Two crucial issues are addressed: 1) which marketing philosophies are suited to holistic value creation in the new economy; and 2) how SMEs apply it appropriately. Then conceptual framework of value creation for SMEs is proposed and compared with large enterprises through the extant literature and experiencing marketers using a multiple-qualitative method. Finally, managerial implications are discussed and future research is recommended.

Keywords: Value creation in the new economy, Holistic approach, Marketing philosophy, SMEs' application, Competitiveness, Sustainability

Introduction

The Importance of Value Creation

Value creation becomes the dominant logic of modern marketing in the new economy as the next source of sustained competitiveness and success (Sanchez-Fernandez and Iniesta-Bonillo 2007; Wang et al. 2004; Woodruff 1997). Most marketing theories and implications have been extensively explored in terms of customer relationship management, relationship marketing and supply chain management (Gronroos 1994, 2006). Among them, consumer value creation plays a critical role for better performance (Agarwal et al. 2003; Baker and Sinkula 2005). Its effectiveness requires much integrative effort and holistic orientation (Berthon 2010; Prosenak and Snoj 2008).

However, few studies examine the phenomena useful for small enterprises (Reijonen 2010). Evidence shows that SMEs' marketing practice differs from larger corporations due to certain limitations (Fillis 2002; Gilmore et al. 2001). For instance, complex theories and processes seem inappropriate for small firms since many of them tend to view marketing as selling or advertising management (Marcati et al. 2008). Nevertheless, there are similarities between SMEs and large

firms in applying some basic marketing concepts, such as customer oriented, competitive advantage, customer relationship and resources investment (Coviello et al. 2000).

The Need of New Marketing Practice to Value Creation

Marketing has changed significantly from traditional or conventional perspective to relationship perspective. Many studies have explored the need to utilize the relationship marketing for attracting, developing and retaining business (e.g., Berry 1983; Wyner 1999) whereas the conventional marketing is essential for attracting business (e.g., Buttle 1996; Gummesson 1999). Both perspectives have been explained in general phenomena and large organizations rather than in SMEs despite they are critical sources of innovation progress, economic growth and poverty reduction in the new global challenges (Kirschoff and Phillips 1989; Solymossy and Penna 2000).

This study, thus, attempts to shed insight on SMEs' application to new perspective of value creation regarding two critical issues: 1) which marketing philosophies are suited to holistic value creation in the new economy; and 2) how SMEs apply it appropriately. Then the conceptual framework of value creation for SMEs is proposed and compared with the large enterprises. Finally, managerial implications and future research are recommended.

Marketing Philosophies Toward Value Creation

Definition of Value Creation

Marketing plays a vital role of consumer value creation through market orientation for better performance and value-based marketing is critical to managerial strategy (Uslay et al. 2008). Nevertheless, the greater business complexity and diminishing the world-wide prosperity lead to a question of whether the traditional marketing concept remains feasible and which philosophies become imperative to value creation.

Even there is no census what is value (Boztepe 2007), at least two dimensions of value creation have been reviewed and identified based on the two well-known marketing perspectives. The traditional or conventional marketing perspective started in 1950s (Borden 1964) views value as exchange regarding the economic principle. Customer value is, thus, defined in terms of the monetary including time and efforts consumer is willing to sacrifice in return for certain utilities or benefits of desired products or services (Butz and Goodstein 1996; Zeithaml 1988). On the contrary, the relationship marketing perspective emerged in 1990s and regarded as one of the most successful alternative to competitive advantages in the rapid changing environments (Gronroos 1994; Gummesson et al. 1997) places an emphasis on value as experience with respect to the interaction between the products or services and the user. Since what consumers really desire is not the products or services but the experiences derived from consuming or using them. In this context, customer value can be referred to the expenses including time and efforts consumer is willing to sacrifice to obtain experiences from using the desired products or services (Holbrook 1999; Pine and Gilmore 1999).

Accordingly, value as experience tends to cover wider phenomena of building sustained advantage and results in more complexities as it not only depends upon what the products

provide either tangible or intangible utilities (Vargo and Lusch 2004) but what the users concern in terms of their needs, emotion, preference, symbolic meaning, cultural expectations and situations (Jensen 2005; Woodruff 1997). For instance, in the pre-purchase situation, valued product or service is expected before buying it. In contrast, the post-purchased value realized after the product used is more closely tied to the realities of the user's context. As such, prior experience and knowledge together with the change in user's experience over time are critical to value assessment criteria in choice making and preference for one option over another alternative (Holbrook 1999; Parasuraman 1997).

The Suitable Marketing Philosophies to Value Creation

Evidence supports the need to employ both philosophies to create sound consumer value as it is a multi-dimensional construct. The study of Zineldin and Philipson (2007) indicating that 60 percents of business respondents in Nordic countries still lie on conventional marketing as a key element of corporate strategy while all of them realize and apply the relationship marketing with specific target segments at the different levels. Their main emphasis is pursuing a continued superior customer value either in form of service uniqueness, high quality, faster responsiveness or lower prices to satisfy customers and gain more short-term profits. However, organization focusing on retaining customers, such as the insurance company, follows the relationship orientation. This new perspective is essential for the market maturity and absolute decreasing demand of both the industry and firm where tangible differentiation becomes less distinctive or feasible (Lingreen et al. 2004). Further, the emerged opportunity due to modern technology strengthens the imperative relationship marketing to enable to keep the current customers as proven to decrease great expenses and enhance more profit (Buttle 1996; Gummesson 1999).

Importantly, achieving superior value creation through this new marketing practice, firms have to create good relationship with various stakeholders from inside (employees, shareholders) and outside (customers, suppliers, distributors and other important markets) the organization. In addition, they have to develop the effective market plan based on the use of both perspectives to better satisfy different segments and maintain their profitable markets (Brodie et al. 1997; Moller and Halinen 2000).

Application of Value Creation for Large Corporations

Lingreen et al. (2004) has illustrated several examples of using marketing orientation along the two perspectives. For instance, manufacturing business in high competitive pressure like a glass industry with high fixed costs and expensive capacity utilization places a greater emphasis on conventional marketing using sales force, product and brand management including impersonal and formal contact between the company and the customers. Meanwhile, a large food supply company facing with highly intensified competition and losing market share has employed conventional marketing by offering new variety of ready-to-eat menus and building relationship with the potential customers through the development of a database marketing system. On the other hand, Procter & Gamble lying on differentiation and Wal-Mart on low price strategy agree to create interpersonal relationship to improve supply chain management which finally boosts mutual profit margins by more than 10 percents. Toyota also uses different relationship approach to strengthen its distribution system by creating supplier network which results in saving time and cost of coordination among suppliers. Whereas IBM has developed

distribution networks and several international airlines participate Star Alliance to get mutual benefit and gain strategic capabilities among the partners. These evidences highly support the success in value creation requires holistic efforts and interactions among stakeholders or partnerships regarding high commitment, trustiness and adequate cooperation in order to gain advantages and sustainability (Mele et al. 2010).

Application of Value Creation for SMEs

It is suggested that SMEs should employ both marketing philosophies to create superior customer value. Customer oriented based on the conventional marketing is necessary to increases understanding target markets for better serve and satisfy them which are likely to enhance the performance and profitability of small firms (Appiah-Adu and Singh 1998). While relationship marketing is well suited to SMEs because naturally, small firms tend to be interpersonal in their contact with primary customers and place emphasis on direct relationship with specific customers as well as other important players in the market network (Coviello et al. 2000). They are also in a good position to develop close relationship with customers because of knowing the customer personally, feeling of locality, easy accessibility, lack of bureaucracy and concentration on long-term profitability (Barnes 2001).

These suggestions are consistent with the empirical study of Reijonen (2010) using online-survey of SMEs in Finland accounting for 273 samples in manufacturing, 291 in real estate, renting and business activities, and 49 in other service activities including 64 postal questionnaires. The findings based on 106 usable responses indicate that 39 percents of 87 answers to the task of marketing rank **“marketing is creating and maintaining customer relationships”** as the second most important task. Meanwhile, **“marketing 4P’s: product, price and place”** is rated as the least important which corresponds to the study of Carson (1993) arguing that the use of marketing in forms of 4p’s seems to be unfit SMEs’ operations. Reijonen (2010) also reports SMEs in doing business with other business organizations consider **“achieving competitive advantage”** as more crucial than those in consumer markets at the statistical significant difference ($p = 0.025$).

However, many SMEs interested in creating and maintaining customer relationships primarily aim to increase sales and survival implying that they do not apply relationship marketing properly to gain long-term success. Moreover, traditional marketing fails to adequately account for various dimensions of marketing 4p’s in small firms. It is, thus, essential for fostering them to place greater emphasis on developing meaningful and superior relationships with customers through better marketing intelligence, knowledge and competency to achieve sustainable outcomes.

Appropriate Strategies of Value Creation

Strategic Value Creation Based on Product Dominant Logic

Mizik and Jacobson (2003) state that value creation alone is insufficient to achieve superior performance and business success. Firms have to enable to develop value created appropriately for restricting imitation and enjoying enough profit. As such, both value creation and value appropriation are critical to sustained competitive advantages. However, firms have to trade-off

between these two alternatives regarding their choice of how to compete, limited resources and capabilities, and industry characteristics. The authors stem from the empirical evidences stressing that innovation driven by R&D expenditures on technology capabilities becomes the cornerstone of value creation (Gatignon and Xuereb 1997) while effective advertising mainly facilitates value appropriation (Kessides 1990). Their observed findings also exhibit different trade-off between two options across industries and time. In high technology industries, such as instruments, firm success depends highly on its ability to continually develop new technologies or launching new products indicating greater emphasis on value creation capabilities. For firms in low-technology industries, such as food, R&D and technology is not critical implying greater relative reliance on value appropriation capabilities.

In addition, Mizik and Jacobson (2003) have found a change in strategic focus in the same industry. For instance, Johnson and Johnson concentrates on value creation compared with Bristol-Myers Squibb focusing on value appropriation. Further, strategic priority between two options can be changed over time. Accordingly, Intel facing more competitive pressures from Advanced Micro Devices and C&T has shifted its emphasis to enhance value appropriation. Finally, the authors suggest that firms good in financial performance and/or having enough value creation capabilities should shift their attention to value appropriation to ensure success not only for the product but also for the firm.

Strategic Value Creation Based on Service Dominant Logic

Beyond the product dominant logic, Babin and James (2010) explore value creation in service dominant logic using two dimensional scales with regard to consumer shopping activities: utilitarian value and hedonic value. Utilitarian value occurs when a consumer buys a shopped product. The less the expenditure of getting the resources, the higher the value. This value is driven more by evaluating some experiences characterized by convenience, product usefulness, efficiency, simplicity, conformity, and facilitation of task completion (Jones et al. 2006; Michon et al. 2007). In contrast, hedonic value is met when a consumer realizing experiences from his/her consumption. This value increases by recognizing the true service provided by emotion including feeling such as excitement or prestige, relaxation, pride, variety, and positive flow experiences (Sella et al. 2009; Young Lee et al. 2009). These two dimensions prove parsimonious and appear to be generally appropriate as a key outcome of marketing experiences although more dimensions may well be suited to some contexts (Jones et el. 2006).

The above evidences support that different logic requires different ways to create customer value. While product dominant logic places an emphasis on value as exchange, the service dominant logic focuses on value as experience. Under the latter logic, customers become co-creator of value and value creation is the ultimate goal of marketer (Vargo and Lusch 2004). No matter which approach is used, marketers can achieve such goal when properly stating value propositions or value offerings.

Strategic Value Creation for SMEs

Strategic value creation for SMEs becomes appropriate under a certain business condition because value-based marketing in small firms is likely to depend on several factors (Hogarth-Scott et al. 1996; Simpson et al. 2006). Particularly, the right attitudes of owner-managers and

their competency including experience in marketing are key driver for success of small firms (McCartan-Quinn and Carson 2003). These require sound market intelligence through developing capabilities in information collection and dissemination in conjunction with improving organizational culture, planning and market orientation. Reijonen (2010) states that SMEs view value creation as critical but significant statistical differences exist between the smallest and largest SMEs. The former places greater emphasis on selling and advertising as an important tool of customer value creation than the latter. This indicates that small enterprises have a narrow perspective on using traditional marketing which is insufficient to ensure their success in the riskier environments. They need to broaden the application of marketing concept and theory as well as adapt to the new marketing logic for avoiding difficulties and failure in their future operations.

Conceptual Framework of Value Creation and Research Methodology

Definition Used

This study defines value in relation to trade off between cost-benefit consideration as it is the basic requirement of general transaction. Meanwhile holistic value creation is referred to total shared value created to satisfy all important stakeholders. Among them, four components of value creation are selected, they are consumer value (CV), employee value (EV), shareholder value (SV) and social value (ScV). This not only helps develop a parsimonious model but is suited to SMEs because their shareholders seem to be key stakeholder groups (Cooper et al. 2001). Moreover, the changing conditions on business success and sustainability in the riskier environment urge firms to pay a greater concern for society's wellbeing (Berthon 2010).

Research Methodology and Findings

This study employs multiple qualitative methods starting from intensive desk research based on international sources, followed by nine expert as well as academic opinions experiencing in marketing areas and twice public hearing. These qualitative methods are used for exploring the meaning, importance, theory/concept and initial application of the holistic approach to value creation in small and large enterprises. Then a telephone depth interview with 30 executives earning the MBA degree and more than 10-year working experiences in various industries in Thailand was conducted spending three and a half hours on each sample. The total of 26 usable responses are classified in two groups between SMEs and large enterprises for insight analysis.

The results reveals 84.6 percents of respondents refer customer value in terms of expenses customers willing to pay for expected or perceived benefits. Regarding the prior definition of cost-benefit premise, this supports the similarity between small or large companies in creating customer value. However, the rest of 15.4 percents focus on different views. SMEs accounting for 7.7 percents consider customer value creation on a short-term basis through the emphasis of value for money (concentrated pricing strategy, one of the traditional marketing perspective). In contrast, large enterprises representing 7.7 percents pay attention to create life-time customer value for long-term benefits (recognized the relationship marketing).

The findings also indicate that respondents working in large organizations, such as Kasikorn Bank (one of the famous Thai financial institutions) and Johnson & Johnson Corporation, more

realize to apply the market orientation than those in small companies. The latter is likely to employ low price strategy on the expense of lower profits because of unable to maintain or improve their efficient operations. These evidences are consistent with the previous studies stressing that small enterprises tend to use less market orientation, limit value-based marketing to selling and word-of mouth advertising as well as take less consideration into long-term perspective (Marcati et al. 2008; Reijonen 2010).

Further findings report SMEs have a more narrow concern for stakeholders than the large enterprises. The former is likely to create stakeholder value of two major components: customer and owner/shareholder. The latter's value-based marketing tends to focus on three components of customer, employee and shareholder with the increasing attention to provide greater social contributions. After getting explanation the meaning of holistic value creation and its components, more than 70 percents of respondents (both SMEs and large enterprises) agree to use this new perspective as a source of advantage and sustained superior performance. Among the proposed components: customer value, employee value, shareholder value and social value, SMEs pay less attention to create social value than the larger corporations. The major reasons of most small enterprises are presumably due to limited resources instead of weakness in strategic capabilities. Similarly, large enterprises tend to misunderstand how to create effective value-management of multiple stakeholders because most ignore to explore the real need of employees and society based on market orientation concept especially when creating social value.

The findings suggest firms have to recognize all critical value components but no need to build all of them at the same time, in particular social value. They should create value aligning with the stage of organizational life cycle and determine the appropriate investment in value creation based on strategic abilities rather than on other factors, such as firm's policy, objective, necessity, size and status including situations. For instance, following its employees' preference to convenience and friendly place, the third largest furniture producer and exporter in Thailand has spent little money on organizing the fair well party once a month at the manager's house instead of going to large restaurants in order to create good relationship with them. Kasikorn Bank also spends less investment by offering a new suit to each employee for building the new corporate image of K-Excellent in conjunction with giving them more choices of working outside to provide better and greater flexibility of customer services.

In contrast, the executive of small enterprise in commercial glass industry contends that building effective value creation of multiple stakeholders has to take a long time and requires high investment. She has spent for more than eight years on training and communication to build customer loyalty, employee satisfaction and faithfulness as well as shareholder realization of social contribution. Nevertheless, two managers of small enterprises, one is foreign company importing medical instruments to Thailand and another is Thai manufacturer of traditional/herbal medicine, have similar opinions stating that:

Holistic value creation primarily depends on the way of thinking rather than on funding. Small enterprises can apply it at a certain level suited to their organization. The most importance is how to make management and employees understand correctly the concept of holistic orientation and realize to implement it actively.

It is, thus, critical to recognize which components are key drivers of sustainable advantages and business success, then develop and continually improve them over time with respect to the

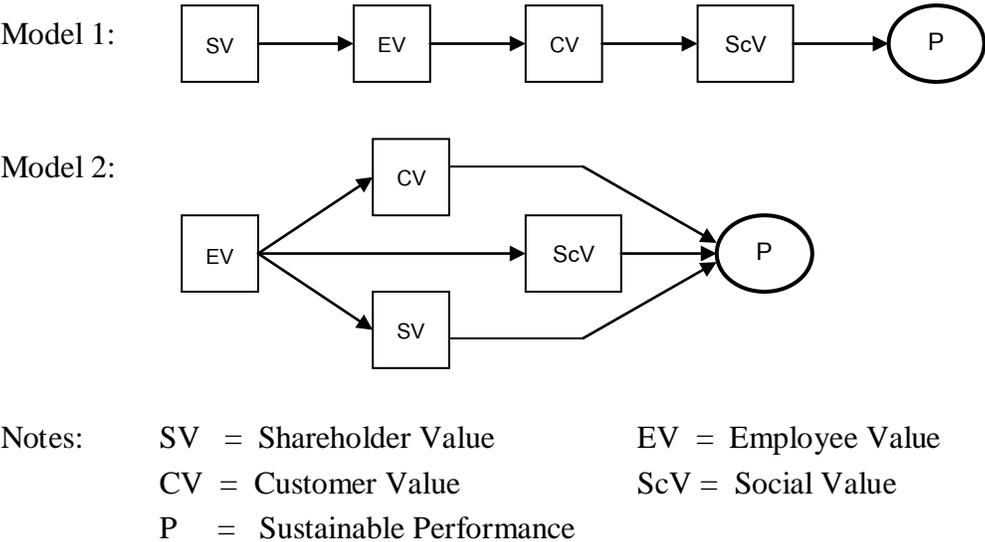
environment changes. Crucially, successful implementation of holistic value creation require fairness, honesty and high commitment from top executives to avoid conflict of interests as well as enhance harmonization among various stakeholders. Within this context, SMEs have the similar potential as large enterprises to successfully apply holistic approach because they have fewer stakeholders and flat organization leading to less conflict of interests, faster making decision and more speed to manage value-based marketing.

The Proposed Model of Value Creation

Finally, the study has asked respondents which proposed model of holistic value creation is well suited to sustainable performance. The results indicate the difference exists between SMEs and large enterprises. Figure 1 exhibits model 1 as suited to SMEs focusing on building shareholder value since most of their shareholders are major stakeholder groups. They are the founders or entrepreneurs expecting to receive enough benefits in order to continue their business. After earning a certain level of required profits, many SMEs tend to transfer their knowledge to employees for helping develop the increasingly desired products and services to satisfy target consumers. In addition, small enterprises are willing to contribute to the society if ethical or responsible management is a greater concern for sustained advantages and success.

On the contrary, model 2 is appropriate for multiple value creation of large enterprises or public companies where most shareholders do not take the key decisions on organization’s operation and control. The main reason is in general, large or public companies have many responsibilities, employees and customers which foster them to set up formal organization, policy, procedure and system management. As such, there is a need to hire CEO or experts to assist in managing the company. These managers representing a group of employees have power and are key decision makers. Therefore, creating employee (CEO) value becomes most critical of holistic orientation. It is important to serve their need to work for other relevant value creation which effectively satisfying customers and shareholders including society at large.

Figure 1: The Proposed Model of Holistic Value Creation Suited to SMEs and Large Enterprises



Conclusions, Implications and Future Research

Conclusions

This study has shed insight how to develop and implement holistic value creation for SMEs compared with that for large enterprises. Value creation becomes the dominant logic of modern marketing in the new economy as the next source of sustained competitiveness and success. Its effectiveness requires much integrative effort and holistic orientation through traditional and relationship marketing in regard to create good relationship with multiple stakeholders.

The results suggest that successful in playing a critical role of stimulating innovation progress, economic growth and poverty reduction in the new global challenges, SMEs have to recognize and create sound consumer value employing both marketing philosophies. Customer oriented based on traditional marketing is necessary to increase satisfaction of target markets which in turn enhance profitability of small firms. While relationship marketing focusing on interaction and network is essential for keeping good relation with customers and traders to continually fuel their business. This corresponds to Reijonen (2010) revealing SMEs considers **“marketing is creating and maintaining customer relationships” to be more important than “marketing 4P’s”** which similar to Lingreen et al. (2004) contending the relationship perspective is essential for market maturity and ensuring sustained advantages in the rapid changing environments.

The findings also indicate that SMEs have the similar potential as large enterprises to successfully apply holistic orientation due to fewer stakeholders and flat organization. However, they have a narrow concern for stakeholders focusing on creating only two components: customer and shareholder value. Moreover, small companies misapprehend their weakness in less ability to create social value because of limited resources despite inadequate strategic capabilities. This results are consistent with the previous research stating that small enterprises tend to use less market orientation, limit value-based marketing to selling and word-of mouth advertising as well as have fewer concerns for long-term perspective (Marcati et al. 2008; Reijonen 2010).

Managerial Implications and Future Research

Although holistic value creation is essential, each firm has no need to build all value components at once, in particular social value. Applying holistic approach effectively requires well collaboration, sufficient strategic abilities and recognition of which components are key drivers of sustained advantages and business success, then implement them fairly and honestly with high commitment from top executives. In addition, the proper application of SMEs’ holistic model has to concentrate not only on shareholder value creation but more on customer value. Meanwhile appropriate value management of large enterprises should place emphasis on employee (CEO) value creation and other relevant components especially, customers, suppliers, shareholders as well as society. Moreover, creating sound customer value, SMEs have to change the right attitude in conjunction with increasing competency and experience in marketing for better value management. Since achieving superior performance and business success require both value creation and value proposition.

To provide wider application and more contribution, future research should further explore the following critical issues: 1) what is the parsimonious model of SMEs' value creation with testable hypotheses; 2) what are other relevant theories or concepts to better explain SMEs' value creation; 3) what are good measures of value creation suited to SMEs' application; and 4) what are appropriate strategies of SMEs' value creation across industries, situations and the nations.

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