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# **Enterprise Development in SMEs and Entrepreneurial Firms**

## **Dynamic Processes**



**Nelson Oly Ndubisi & Sonny Nwankwo**

# Enterprise Development in SMEs and Entrepreneurial Firms: Dynamic Processes

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# Preface

There is a growing body of literature in the fields of entrepreneurship and small business management and marketing, but what makes this book unique is its originality and invaluable information from experts offering their knowledge in different areas, acquired through many years of industry practice, teaching, and research. The book provides a comprehensive and coherent material for students, academics, and practitioners yearning to fully understand the theory and practice of SMEs, particularly in emerging markets. Considering the significant contributions small businesses and entrepreneurial firms make to national economies, this book is an asset, as it critically dilates almost every aspect requiring the attention of anyone interested in the field. Each of the chapters provides the reader with new information. Among others, the book assists readers to develop a coherent understanding of the enterprise processes in SMEs and fast growth entrepreneurial firms, strategies adopted in successful situations, and how lessons learned might be transferred to new contexts.

The book has 23 chapters with each chapter focusing on current issues of relevance to the development of entrepreneurship and small business. Topics covered in the book include:

- Economic and Environmental Sustainable Development
- Green Supply Chain Management
- Human Resource Management
- Information and Communication Technologies
- Knowledge Management
- Marketing in SMEs
- Risk Management and Financing Options
- Small and Medium Enterprise Development
- Small Entrepreneurial Firms
- Succession Planning
- Supply Network Management

This book provides a rigorous yet easy to understand perspective of its topics, and of the daily realities of pursuing careers in SMEs and entrepreneurial ventures. The chapters while presented in one particular order need not be read in that way. Each is intended to be able to stand alone, offering complete per-

spective on a particular topic. It is a “must buy” for enthusiasts of entrepreneurship, small and medium enterprise and family business, as well as those interested in the subject of enterprise development in emerging markets.

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# Small and Medium Enterprise Development: An Introduction

## OBJECTIVE OF THE BOOK

This book puts together original and cutting-edge contributions aimed at illuminating the broader field of enterprise development and, very importantly, charting new directions to inform research, teaching, practice and policy making. It is intended as a compendium of critical resources which should be able to:

- Help readers to develop a coherent understanding of enterprise processes in SMEs/fast growth entrepreneurial firms.
- Provide readers with an understanding of strategies adopted in successful contexts and how lessons learned might be transferred to new situations.

## Contributions

The contributors explore how the processes of enterprise development leads to shaping, re-shaping or reconstitution of entrepreneurial identities, critical competencies, market turnaround, social networks and relationships, challenges of technology, globalization and sustainable consumption, amongst others.

Following this introductory chapter is an exploration of the role of business model in knowledge acquisition of firms. The authors argue that incorporating the cognitive and reified activity-based view of business model into the knowledge-based view and absorptive capacity of the firms, the role of business model can be better appreciated.

Chapter three considers the role of institutions in fostering SMEs performance and economic development. The authors argue that to better understand this phenomenon, the transaction cost theory offers only a limited insight, however, a combination of the resource based theory with an institutions based approach offer a more robust foundation for constructing a more practical and empirical oriented analytical framework.

In chapter four, the phenomenon of diaspora entrepreneurs and the degree to which they have internationalized their businesses is explored. The authors reveal that analysis on the micro, meso, and mega levels is better suited for in-depth understanding of the phenomenon of diaspora entrepreneurship. Moreover, diaspora entrepreneurs are able to leverage personal, ethnic, and structural resources that allow them to concurrently engage in social and business activities in both countries.

Human resource management in SMEs is the focus of chapter five in this volume. By focusing particularly on the characteristics of SMEs, the authors draw a conceptual framework that is capable of helping managers of this kind of organizations to implement HRM practices consistently and adjusted to organizational objectives.

The next chapter focuses on the role of early consultancy intervention in securing sustainable development of SMEs. It does this by analyzing SME growth strategies with respect to the interface with consultants. Using the ‘embedded case study’ approach, the paper provides a fresh perspective on the nature of consultancy, strategic options open to SMEs, entrepreneurial competences and characteristics, in the SME sector

Chapter seven evaluates knowledge sharing in SMEs and factors that influence SMEs’ employees’ attitude towards knowledge sharing. The authors found that trust among employees, formalization, knowledge technology, motivation, reward system and empowering leadership are crucial in shaping a favourable knowledge sharing attitude.

The issue of sustainability for SMEs is addressed in chapter eight. The chapter discusses the need for sustainability, how sustainability is a strategic issue and what it means, the benefits of sustainability, basic steps for implementation, and identification of a series of performance indicators for SMEs to follow.

Chapter nine examines the influence of succession planning on Thai family-owned businesses. For Thai family business owners, the successor’s gender, age, education, a positive parent-child relationship with the founder and harmonious relationship with other family members are attributes that determine the success of the business. Moreover, there exists a higher degree of success between FOBs that have succession plan and those that do not.

Chapter ten argues that while entrepreneurs and small business owners rely upon networking as an important source of sales, they lack marketing competencies, including personal selling skills and knowledge of what is involved in the sales process to close sales deals and build relationships. As such, even with innovative products and services, they often find it difficult to persuade potential buyers of the merits of their offerings because, because they lack sufficient selling skills.

Chapter eleven deals with the issue of green supply chain management and its implications for SMEs. It explores in particular, the supply chain environmental management (SCEM) programme in the Korean context. The SCEM programme is based upon the relationship between buyers and suppliers. The chapter argues that by utilising this relationship, general improvement in the environmental performance of suppliers can be achieved, and supports this proposition with a case study of Hyundai Motors Co. (HMC).

In chapter twelve the authors propose the concept of technology orientation (TECHOR). It argues that TECHOR is comprised of three sets of technology-oriented activities: the allocation of technology resources, the development of technology competence, and the ability to sense and respond to technology opportunities that influence technology adoption and utilization. The antecedents and consequences of TECHOR are discussed as well.

Chapter thirteen examines perceived benefits and barriers of Internet-based ICT adoption among SMEs in Malaysia. Questionnaire was used to collect data from 406 managers/owners of SMEs in Malaysia. Analysis reveals the composite ICT benefits and barriers to ICT adoption. The most important benefit is that ICT enables SMEs to seek new business opportunities. Adoption is negatively correlated with unsuitability for business.

The next chapter attempts to develop a framework of an environmental marketing system that is propositioned to lead to customer satisfaction. The authors reason that the success of an environmental marketing system would be impacted by some important factors like environmental education of customers and entrepreneurial traits such as eco-innovation, risk-taking, and perseverance. The chapter winds up with a case study of green innovations at WALMART, which shows how the key concepts in the paper have been applied by WALMART.



Chapter fifteen suggests a model for SMEs economic and environmental sustainable development. It identifies seven stages in the process which SMEs can adopt to improve their manufacturing process.

Chapter sixteen tries to establish the need for apprenticeship in a sub-Saharan West African nation. It argues that apprenticeship can help labour acquire marketable skills and encourage enterprise development for job creation in economies with high unemployment rates.

The next chapter on perspectives on glass ceiling explores the various individual and organizational influences which serve to constrain the progress of women to positions of power and influence in corporate organizations. It tries to explain why a small proportion of top level managerial positions in corporate organizations in India are occupied by women.

Chapter eighteen outlines a preliminary survey into access to finance, as experienced by micro enterprises in Nigeria. It also provides insight into the financing behaviour of ME enterprise owner/managers, and factors that constrain access and create a lack of co-operation between firms and banks.

Chapters nineteen and twenty respectively presents an exploration of risk management in SMEs and a simplified approach to SME risk assessment and operational risk mitigation, and students' attitudes towards enterprise as a career pathway and general perspectives on enterprise and entrepreneurial activities.

Chapter twenty-one evaluates two strategies firms have adopted in trying to build lasting relationship with customers, namely respect and rapport and their effect on customer loyalty. It argues that rapid growth of the service sector and servitization of the manufacturing sector have both contributed to rising competition and have forced managers to differentiate their services based customer respect and rapport.

In chapter twenty-two, the authors focus on the application of service-dominant (S-D) logic and supply network management in business to improve performance. They show through their conceptual analysis, the significance of the two concepts in improving business efficiency and maximizing returns on stakeholders' investments.

The objective of this penultimate chapter is to investigate the relationship between ownership structure and voluntary disclosure of intellectual capital (IC). Using content analysis, a longitudinal study was carried out from years 2006 to 2008 on 162 top companies listed in Bursa Malaysia.

The concluding chapter explores the question of legitimacy acquisition by social enterprises founded and managed by social entrepreneurs. The article presents three cases of social enterprise in India, which serve in agriculture, healthcare and housing, and discusses the implications for legitimacy and sustainability of social enterprise.

The chapters deal with a gamut of issues and developments in the small and medium enterprise sector in many countries in Africa, Asia, Australia, Europe, and America. The book is a very important resource for teachers in the fields of SME, entrepreneurship, family business, finance and marketing, as well as researchers, practitioners and government policy makers.

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# Table of Contents

<b>Preface</b> .....	xv
<b>Small and Medium Enterprise Development: An Introduction</b> .....	xvii
<b>Chapter 1</b>	
How and Why Business Model Matters in Acquisition of Knowledge in Small and Entrepreneurial Firms .....	1
<i>Arash Najmaei, Macquarie Graduate School of Management, Australia</i>	
<b>Chapter 2</b>	
SMEs, Institutions, and Performance .....	22
<i>Camilla Jensen, University of Nottingham, Malaysia</i>	
<i>Low Mei Peng, Universiti Tunku Abdul Rahman, Malaysia</i>	
<b>Chapter 3</b>	
Diaspora Entrepreneurship: New Directions in Enterprise Development .....	42
<i>Sanya Ojo, RDBS, University of East London, UK</i>	
<b>Chapter 4</b>	
Human Resource Management in SMEs: Action Referential Definition .....	64
<i>Pedro Manuel Ribeiro Novo de Melo, University of Minho, Portugal</i>	
<i>Carolina Feliciano de Sá Cunha Machado, University of Minho, Portugal</i>	
<b>Chapter 5</b>	
The Role of the Consultant in Enterprise Development .....	88
<i>Ian K. Bathgate, University of East London, UK</i>	
<b>Chapter 6</b>	
Knowledge Sharing among Employees in the Manufacturing SMEs .....	114
<i>Uchenna Cyril Eze, BNU-HKBU United International College, China</i>	
<i>Sim Fong Hah, BDC International Ltd, Hong Kong</i>	
<i>Nelson Oly Ndubisi, Griffith University, Australia</i>	
<b>Chapter 7</b>	
Sustainability for SMEs .....	133
<i>Kaushik V. Pandya, Sheffield Business School, Sheffield Hallam University, UK</i>	

## **Chapter 8**

Strategies for Sustainable Succession Planning in Family Business ..... 150

*Lucy Tan-Artichat, IIS, Ramkhamhaeng University, Thailand*

*Joseph F. Aiyeku, Salem State University, USA*

## **Chapter 9**

Marketing in SMEs: The Sales Process of SMEs on the Food and Drink Industry ..... 163

*Tony Douglas, Edinburgh Institute, Edinburgh Napier University, UK*

*Maktoba Omar, Edinburgh Napier University, UK*

## **Chapter 10**

Green Supply Chain Management: Implications for SMEs ..... 197

*Ki-Hoon Lee, Griffith Business School, Griffith University, Australia*

## **Chapter 11**

Antecedents and Consequences of Technology Orientation (TECHOR) for Small Firms ..... 214

*Olivia F. Lee, Northwest University, USA*

*Can Uslay, Rutgers University, USA*

*Matthew L. Meuter, California State University, USA*

## **Chapter 12**

Perceived Benefits and Barriers of ICT Adoption among SMEs ..... 239

*Khong Sin Tan, Multimedia University, Malaysia*

*Uchenna Cyril Eze, BNU-HKBU United International College, China*

## **Chapter 13**

Entrepreneurial Values, Environmental Marketing and Customer Satisfaction: Conceptualization and Propositions..... 257

*Sumesh R. Nair, Monash University Sunway Campus, Malaysia*

*Nelson Oly Ndubisi, Griffith University, Australia*

## **Chapter 14**

Model Suggestion for SMEs Economic and Environmental Sustainable Development ..... 270

*Hatice Calipinar, The University of Hacettepe, Turkey*

*Dilber Ulas, The University of Ankara, Turkey*

## **Chapter 15**

Apprenticeship and Enterprise Development in a Typical Sub Sahara African Context ..... 291

*Anayo D. Nkamnebe, Nnamdi Azikiwe University, Nigeria*

## **Chapter 16**

Perspectives on the Glass Ceiling in Indian Enterprises ..... 303

*Rita Latha D'Couto, St. Joseph's College for Women, India*

*C. Ganesh, University of Kerala, India*

## **Chapter 17**

Access to Micro Enterprise Financing in Nigeria .....	318
---	-----

*Atsede Woldie, University of Glamorgan, UK*

*John C. Nzekwu, University of Glamorgan, UK*

*Brychan C. Thomas, University of Glamorgan, UK*

## **Chapter 18**

SME Financial Management: A Risk Management Perspective .....	330
---	-----

*Edna Stan-Maduka, University of Hertfordshire, UK*

## **Chapter 19**

Enterprise as a Career Choice: A Multi-National Study .....	343
---	-----

*Andre Mostert, University of East London, UK*

*Abdulbasit Shaikh, Institute of Business Administration, Karachi, Pakistan*

## **Chapter 20**

Relational Dynamics and Outcomes in Small and Large Service Organizations .....	363
---	-----

*Siti Haryati Shaikh Ali, University Technology Mara, Malaysia*

*Nelson Oly Ndubisi, Griffith Business School, Australia*

## **Chapter 21**

Service-Dominant Logic and Supply Network Management: An Efficient Business Mix?.....	376
---	-----

*Mawuko Dza, Griffith Business School, Australia*

*Ron Fisher, Griffith Business School, Australia*

*Rod Gapp, Griffith Business School, Australia*

## **Chapter 22**

Ownership Structure and Voluntary Disclosure of Intellectual Capital: Evidence from Malaysia.....	390
---	-----

*Kin Gan, Universiti Teknologi MARA, Malacca City Campus, Malaysia*

*Zakiah Saleh, University of Malaya, Malaysia*

*Massoud Abessi, University of Yazd, Iran*

## **Chapter 23**

Legitimacy Acquisition and Social Enterprises .....	405
---	-----

*Kowtha, N. Rao, SolBridge International School of Business, South Korea*

*Rajesh Rajaguru, SolBridge International School of Business, South Korea*

<b>Compilation of References</b> .....	417
--	-----

<b>About the Contributors</b> .....	476
-------------------------------------	-----

<b>Index</b> .....	486
--------------------	-----

# Detailed Table of Contents

<b>Preface</b> .....	xv
----------------------	----

<b>Small and Medium Enterprise Development: An Introduction</b> .....	xvii
---	------

## **Chapter 1**

How and Why Business Model Matters in Acquisition of Knowledge in Small and Entrepreneurial Firms .....	1
---	---

*Arash Najmaei, Macquarie Graduate School of Management, Australia*

Much has been written about acquisition of knowledge and its role in survival and growth of small and entrepreneurial firms. Little, however, is known about the role of business model in knowledge acquiring activities of the firms. Therefore, by incorporating the cognitive and reified activity-based view of business model into the knowledge-based view (KBV) and absorptive capacity of the firms, this article attempts to address this deficiency. The author posits that business model is a holistic framework in the mind of the executives. It is embodied and reified in activities which employees and particularly executives perform to create and capture value for the firm. In light of this perspective knowledge acquisition is conceived as a key strategic activity whose scope, depth, and breadth are regulated by the business model of the firm. Adding to and extending KBV, this manuscript offers several contributions to theory and practice. Given this analysis, contributions of this view are presented, implications for theory and practice are discussed, and some fruitful areas for future research are highlighted.

## **Chapter 2**

SMEs, Institutions, and Performance .....	22
---	----

*Camilla Jensen, University of Nottingham, Malaysia*

*Low Mei Peng, Universiti Tunku Abdul Rahman, Malaysia*

This chapter addresses at the outset the topic of SMEs and economic development from an institutions perspective. The authors argue that the transaction cost theory is not helpful towards understanding the role that institutions play for SME performance for several reasons. Instead, they argue for combining the resource-based theory with an institutions-based approach towards constructing a more practical and empirical oriented analytical framework. After the preliminary discussion and introduction to the different theories used, the authors then take a focus on the analytical framework used to study the relationship between the institution of competition, firm performance, and firm size distributions. This chapter studies the relationship between competition and firm size, whereas subsequent research could also involve the inclusion of other measures of institutions and firm performance.

### Chapter 3

Diaspora Entrepreneurship: New Directions in Enterprise Development .....	42
---	----

*Sanya Ojo, RDBS, University of East London, UK*

This chapter examines the phenomenon of diaspora entrepreneurs and the degree to which they have internationalised their businesses. This is achieved through a tri-component conceptual framework of individual, firm, and environmental factors. Through a case study methodology, it was revealed that analysis on the micro, meso, and mega levels is better suited for in-depth understanding of the phenomenon of diaspora entrepreneurship. It was also found that diaspora entrepreneurs are able to leverage personal, ethnic, and structural resources that allow them to concurrently engage in social and business activities in both countries (transnational entrepreneurship). Research, policy implications, and limitations are then discussed.

### Chapter 4

Human Resource Management in SMEs: Action Referential Definition .....	64
--	----

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*Carolina Feliciano de Sá Cunha Machado, University of Minho, Portugal*

Although small and medium size companies perform a relevant role in world economies, the authors conclude that research in this field focuses more attention on bigger organizations in seeking to understand what happens about the HRM function. However, and looking to the special characteristics of SMEs, it becomes critical to carry out a study, focused particularly on its characteristics, which allow for drawing a conceptual framework capable of helping managers of this kind of organizations to implement HRM practices consistently and adjusted to organizational objectives. The purpose of this research is to develop a conceptual framework which allows a better understanding of the main HRM research lines in SMEs and the underlying importance to HRM professionals.

### Chapter 5

The Role of the Consultant in Enterprise Development .....	88
--	----

*Ian K. Bathgate, University of East London, UK*

Business failure crisis is not a new phenomenon. The competitive dynamism to which businesses are susceptible exposes free economic agents to the vagaries of the marketplace, encompassing problems of growth, sustainability, and paradoxically, failure. However, the problems are more exacerbated in small-to-medium sized enterprises (SMEs) than large businesses, which is why they have continued to experience disproportionately high failure rates. Set against this background, this chapter focuses on the role of early consultancy intervention in securing sustainable development of SMEs. It does this by analysing SME growth strategies with respect to the interface with consultants. Using the 'embedded case study' approach and leaning significantly on the author's consultancy undertakings with SMEs in the UK, the chapter provides refreshing perspectives on the nature of consultancy, strategic options open to SMEs, entrepreneurial competences and characteristics, the need for consultants, and an assessment of role effectiveness in the SME sector.

### Chapter 6

Knowledge Sharing among Employees in the Manufacturing SMEs .....	114
---	-----

*Uchenna Cyril Eze, BNU-HKBU United International College, China*

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Large companies dominate in knowledge sharing initiatives; however, evidence suggests that more small and medium sized enterprises (SMEs) are deploying knowledge strategies to attempt to leapfrog the competition. However, studies on SMEs and knowledge sharing in Malaysia remain scanty. This

paper, therefore, examines six factors that could influence SMEs' employees' attitude towards knowledge sharing. The six independent variables are: trust among employees, formalization, knowledge technology, motivation, reward system, and empowering leadership. The dependent variable is attitude towards knowledge sharing, while the outcome variable is intention to share knowledge. The authors developed the research framework based on relevant literature and models. The analysis was based on 250 valid responses. The seven arguments emerged significant. Based on the findings, SMEs could benefit from identifying critical factors to address knowledge sharing among employees. The findings will also be useful as a frame of reference for future studies on SMEs and knowledge sharing. Finally, this paper concludes with a discussion on the implications of the study, and provides recommendations for enhancing knowledge sharing activities in SMEs.

## **Chapter 7**

Sustainability for SMEs ..... 133

*Kaushik V. Pandya, Sheffield Business School, Sheffield Hallam University, UK*

In the past decade, or so, sustainability has become important for businesses. It is not just the preserve of the private sector anymore. Sustainability has been followed by organizations in all industrial sectors. This is not because it is a buzzword, but because it offers genuine competitive advantage to private organizations and green credentials to other. This is true especially to SMEs where, in the current economic climate, their survival relies on any advantage they get, no matter how small. In this chapter on sustainability, various definitions are offered. A discussion is undertaken on the consequences of not considering sustainability as part of strategy and/or operations in an SME. These are not just green, but extended to economic as well. It is proposed that sustainability be part of SME's strategy, with details of potential benefits. A discussion on the performance indicators for the implementation is shown. It is considered that an agent would be most appropriate to lead the implementation as s/he would be ideal in considering the stake holders requirements. In the chapter, regular questions enable the readers to link the issues in the paper to their organization of work or an organization they are familiar with.

## **Chapter 8**

Strategies for Sustainable Succession Planning in Family Business ..... 150

*Lucy Tan-Artichat, IIS, Ramkhamhaeng University, Thailand*

*Joseph F. Aiyeku, Salem State University, USA*

This study investigates the extent of influence of succession planning on Thai FOBs focusing on SMEs, and the attributes/characteristics of the successors to achieve a successful family business. SMEs were identified using Thai government classifications. A total of 449 usable questionnaires were obtained from Thai FOB owners/managers in Bangkok and vicinity. Most of the firms surveyed were small FOBs. The results show that there is a higher degree of success between FOBs that have succession plan and those that do not. The results also revealed five new factors concerning Thai family-owned businesses (SMEs) succession planning. The five factors are shown in this chapter.

## **Chapter 9**

Marketing in SMEs: The Sales Process of SMEs on the Food and Drink Industry ..... 163

*Tony Douglas, Edinburgh Institute, Edinburgh Napier University, UK*

*Maktoba Omar, Edinburgh Napier University, UK*

There would appear to be varied approaches to the sales process practiced by SMEs in how they go about locating target customers, interfacing with prospects and new customers, presenting the benefits and features of their products and services, closing sales deals and building relationships, and an understanding of what the buyers needs are in the seller-buyer process. Recent research has revealed that while



entrepreneurs and small business owners rely upon networking as an important source of sales, they lack marketing competencies, including personal selling skills and knowledge of what is involved in the sales process to close sales deals and build relationships. Small companies and start-ups with innovative products and services often find it difficult to persuade potential buyers of the merits of their offerings because, while the products and services may be excellent, they have not sufficiently well-developed selling skills necessary to persuade their target customers.

## **Chapter 10**

Green Supply Chain Management: Implications for SMEs ..... 197

*Ki-Hoon Lee, Griffith Business School, Griffith University, Australia*

The strategic importance of supply chain management has been increasing during the past two decades. Companies utilise the supply chain in order to become more competitive as a whole. Recently, it has been observed that environmental and social pressures and standards have a direct and indirect impact on supply chain management and the competitiveness of corporations. Integrating environmental criteria into supply chain management has become an important strategic issue for many companies. This study explores the subject area of the greening of supply chain management. In particular, the supply chain environmental management (SCEM) programme is explored in the Korean context. The SCEM programme is based upon the relationship between buyers and suppliers. By utilising this relationship, general improvement in the environmental performance of suppliers can be achieved. A case study of Hyundai Motors Co. (HMC) empirically supports this. Green supply chain management led to new ways of collaboration with suppliers, in terms of developing environmental solutions and capacity buildings with key suppliers. The key implication for suppliers, in particular SMEs, is to develop suppliers' capabilities and increasing supplier criticality in order to achieve win-win outcomes in environmental and financial performance.

## **Chapter 11**

Antecedents and Consequences of Technology Orientation (TECHOR) for Small Firms ..... 214

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*Matthew L. Meuter, California State University, USA*

This chapter explores the firm-level technology orientation construct and highlights the importance of a small firm's dynamic capabilities in knowledge learning and management. Technology orientation (TECHOR) is comprised of three sets of technology-oriented activities: the allocation of technology resources, the development of technology competence, and the ability to sense and respond to technology opportunities that influence technology adoption and utilization. As firms engage in more of these activities, they will have higher levels of technology orientation. Antecedents to TECHOR include external forces (technology policy and industry characteristics) and internal dynamics (role of management, interdepartmental connections, and organizational factors). Consequences include customer outcomes (technology learning, perceived quality, and loyalty), employee outcomes (technology learning, job satisfaction, and performance) and organizational outcomes (firm performance and competitive advantage). Small firms that can deliver the appropriate match between the required technology-oriented activities, technology adoption, and utilization are the ones that are likely to survive and thrive.



## Chapter 12

Perceived Benefits and Barriers of ICT Adoption among SMEs .....	239
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Small and Medium Enterprises (SMEs) are a key economic sector in Malaysia. In 2005, there were 99.2 per cent or 518,996 SMEs in the country. They contributed to 65.1 percent of employment and 47.3 percent of labor productivity. Due to the importance of SMEs, the Malaysian government formed National SME Development Council (NSDC) in 2004 to oversee the development of SMEs in the country. On the other hand, in order to leverage the power of ICT, particularly the Internet, Malaysian government formed National Information Technology Council (NITC) in 1994 to provide information and communication technology (ICT) assistance to Malaysian companies. This chapter examines perceived benefits and barriers of Internet-based ICT adoption among SMEs in Malaysia. Questionnaire was used to collect data from 406 managers/owners of SMEs in Malaysia. Analysis reveals the composite ICT benefits and barriers to ICT adoption. The chapter ends with a discussion and interpretation of the findings including key implications for research, practice and policy.

## Chapter 13

Entrepreneurial Values, Environmental Marketing and Customer Satisfaction: Conceptualization and Propositions.....	257
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This chapter attempts to develop a framework of an environmental marketing system that is positioned to lead to customer satisfaction. A comprehensive and intense environmental marketing system as proposed in the chapter is believed to be the core of a firm's success. However, it is assumed that the success of an environmental marketing system would be impacted by some important factors like environmental education of customers and entrepreneurial traits such as eco-innovation, risk-taking, and perseverance. Therefore, propositions are developed in this chapter in order to demonstrate the relationship between an environmental marketing system and customer satisfaction and also the power of customer education and entrepreneurial traits in moderating the effective functioning of the system.

## Chapter 14

Model Suggestion for SMEs Economic and Environmental Sustainable Development .....	270
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In recent years, environmental considerations have become increasingly social concerns. There is a growing interest in SMEs that want to green their businesses, but real action is slow because there is usually a lack of knowledge and resources to do so. This chapter considers how SMEs can adopt and improve their manufacturing processes to include the new environmental regulations. The authors propose a model that ensures sustainable development for SMEs.

## Chapter 15

Apprenticeship and Enterprise Development in a Typical Sub Sahara African Context .....	291
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The nexus between skill acquisition, mastering of trade and enterprise creation for development is long established in the literature. For economies with high incidence of unemployment, apprenticeship has particularly proved invaluable in helping labour acquire marketable skills and encouraging enterprise development for job creation. Accordingly, apprenticeship becomes important policy instrument of