The Performance of Entrepreneurial Ventures: Examining the Role of Marketing Practices

***ABSTR*ACT**

Purpose: Despite the importance of marketing to the success of entrepreneurial ventures very few researchers have studied the links with new business performance. Our objective in this study is to examine a number of marketing measures in relationship to the performance of new firms. Furthermore, the study will consider the moderating influence of market competitiveness on the marketing practice-performance relationship.

Design/methodology/approach: Both postal and web surveys were utilised to collect responses from 128 entrepreneurs in the early stages of business creation. The data were subjected to exploratory and confirmatory factory analyses to establish the marketing practices in new ventures. These results were then subjected to hierarchical regression analysis to study the marketing-performance relationship. Further analysis was conducted to explore the moderation hypotheses.

Findings: The results demonstrate that some practices generally associated with marketing – selective distribution, market segmentation and advertising- have limited impact on performance in new ventures. In contrast, other practices such as product/service innovation, market research and service quality and functionality - do help establish competitive advantage. The results suggest that marketing practices associated with 'entrepreneurial behaviour' and not 'hard' marketing techniques drive new venture success. The results also support the moderation hypotheses confirming that market conditions help explain the role of marketing in new venture success.

Research limitations/implications: The paper offers a new theoretical framework to better understand the marketing-performance relationship in new ventures and offers suggestions as to the specific conditions for effective use of various marketing practices.

Originality/value: This is one of the first attempts to explore the underlying mechanisms that support marketing practices in new ventures. It reveals the hidden dimensions of the marketing–performance relationship and thereby makes a contribution to both the marketing and entrepreneurship literatures.

Key Words: marketing practices, new ventures performance, market competition, entrepreneurship

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INTRODUCTION

In recent years the issue of marketing in small and medium-sized enterprises (SMEs) has attracted a considerable amount of academic attention (O'Donnell, 2011; Simpson et al., 2006; Simpson and Taylor, 2002). However, there has been much less research related to the links between marketing and entrepreneurial ventures. While it is assumed that effective marketing is central to the success of new businesses very few researchers have studied the links with performance. Authors such as Styles and Seymour (2006) argue that marketing has contributed very little to research and theory development in the field of entrepreneurship. Most contributions to entrepreneurial marketing are based on 'traditional' concepts such as the '4 Ps' (McCarthy, 1996). A number of authors have suggested that entrepreneurial marketing is an integrative construct which brings together ideas from both entrepreneurship and marketing (Webb et al., 2011; Carson, 1998; Fillis and Rentschler, 2005; Morris et al., 2002). Webb et al., (2011) integrate research on marketing activities, the entrepreneurship process, and institutional theory to explain how institutional environment, including the market conditions, influence the marketing practices in entrepreneurial ventures. Our objective in this study is to examine a number of marketing measures in relationship to the performance of new firms. The study will also consider the moderating influence of market competitiveness on the marketing practice-performance relationship.

There is increasing focus on entrepreneurship as a process which is an action-oriented way of thinking and behaving which involves innovation and change (Smart and Conant, 1994; Carson et al., 1995; Morris *et al.*, 2002). Nascent entrepreneurs play a central role in managing the fit between resources and opportunity in order to achieve their desired results (Carson et al. 1995). Initiating the entrepreneurial process means that individuals need a number of capabilities or capacities including marketing (Stokes, 2000). Entrepreneurs and owner-managers do not generally engage in formal planning activities and few have the skills or time to use sophisticated analytical tools (Woods and Joyce, 2003). Nor do entrepreneurs undertake rigorous information processing because they are focused on other activities during the start-up process (Cooper et al., 1995). Although, as pointed out by Gruber (2007), there are very few studies which actually explore links between planning and performance in emerging firms. Nevertheless, it appears that formal business or marketing plans are uncommon amongst small firms especially those at the very early stages of operation (Gibson and Cassar, 2002). Because entrepreneurs are faced by high levels of uncertainty much of their decision-making must be based on assumptions rather than historical trends (Gruber, 2007). However, Robinson et al. (1984) suggested that younger firms can benefit from a more formal approach particularly when focused on marketing and sales. This is supported by Bracker et al. (1988) who argued that the adoption of formal planning procedures are important for entrepreneurial firms. More recently, Shane and Delmar (2004) also found a positive relationship between planning and new firm performance. While Mazzarol (2001) indicates that even if entrepreneurs do not prepare formal business plans they still engage with planning at an informal or intuitive level (see: Bhide, 2000). Stokes and Blackburn (1999) agree that market planning in small businesses is informal and unplanned and relies on owner-manager intuition. Generally, entrepreneurs regard marketing as a low priority because it is seen as more relevant to larger organizations (Stokes and Blackburn, 1999). Blankson and Omar (2002) studied 26 African-Caribbean businesses based in London and their research indicated market-orientation is important for small businesses. This is echoed by Gilmore et al's (2006) study which found that marketing was indeed an integral part of entrepreneurs' business activities. Furthermore, Lam and Harker's (201~~0~~3) longitudinal study found that although entrepreneurs do not usually use the term 'marketing', marketing activities have been the backbone of their daily organisational lives~~fe~~ at every single stage of business life cycle.. ~~It is just that~~~~However~~Nevertheless, marketing activities tended to be carried out informally as entrepreneurs applied 'common sense' tactics rather than 'text book' marketing strategies (Blankson and Omar, 2002, p.130).

In this study, we examine the extent to which certain marketing practices traditionally used in a large firm context enhance the performance of new ventures. Furthermore, we consider the moderating effect of market competition on the relationship between market practices and subsequent firm performance. The study is based on postal and web survey responses from 128 entrepreneurs at the early stages of business creation. The data were subjected to exploratory and confirmatory factory analyses to establish the marketing practices in new ventures. These results were then subjected to hierarchical regression analysis to study the marketing-performance relationship. Further analysis was conducted to examine the moderating influence of the market on the relationship between marketing practices and firm performance. The paper begins with a review of literature related to marketing practices in new business ventures. Following an outline of our research methods, the data are presented and analysed. We then discuss the results and examine the implications for theory and practice. Understanding the role of marketing in the early stages of new venture creation is essential if those businesses are to become successful in the longer term.

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ENTREPRENEURIAL MARKETING

A detailed overview of how the field has evolved since the first marketing and entrepreneurship conference in 1982 is provided by Hills et al. (2010). A number of key events are identified including the first empirical study (1985), the first *Journal of Marketing* publication (1986), creation of the AMA special interest group (1989), publication of Carson et al.'s Textbook

(1995), founding the *Journal of Research in Marketing and Entrepreneurship* (1999) and a special issue of *Journal of Marketing Theory and Practice* (2000). As Hills et al. (2010: p8) conclude, ‘There has been gradual growth over the years and there have been many steps which have advanced our knowledge and teaching at the marketing and entrepreneurship interface’. Nevertheless, they also acknowledge that there is still a substantial amount of work to be done on ‘the conceptual and theoretical development’ of entrepreneurial marketing. In their ~~recent~~ paper Jones and Rowley (2011) develop a conceptual framework to guide the study of entrepreneurial marketing in smaller firms.

There is actually very little empirical work which actually investigates the hypothesised differences between entrepreneurial and traditional marketing (Hills et al., 2010). A ~~recent~~ study of 752 small firms (up to 250 employees) in the US was designed to ‘shed new light’ on the marketing practices of SMEs (Hills and Hultman, 2006). Hills et al. (2010) present preliminary findings which are summarised under five heading: passion for customers, market/customer immersion, networks and relationships, time horizon and formal plans. Interestingly, the authors report that, in contrast to the prevailing view, size did not influence the likelihood of firms adopting formal marketing practices. In general, entrepreneurs recognised the need for marketing plans and a marketing budget but these were not necessarily written down in a formal manner. Hills et al. (2010: 14) conclude: ‘most business owners have a good intellectual, although intuitive business foundation on which to build an appropriate marketing strategy and marketing programme’. This combination of a sophisticated understanding of marketing issues combined with an intuitive approach to the implementation of marketing practices is confirmed by a detailed study of four entrepreneurs in the early stages of business start-up (Phua and Jones, 2010).

There is a common misconception that entrepreneurship is usually associated with innovation and risk-taking (Kraus et al., 2010). Whereas, in fact, most new firms are based on established business ideas and operate within established markets (see Bhide, 2000). Nevertheless, marketing undertaken by new entrepreneurs is certainly very different than that undertaken by more established businesses because they lack the associated infrastructure. In particular, new ventures suffer from two major liabilities; smallness and newness (Aldrich and Auster, 1986). All new firms are established with limited resources and entrepreneurs are likely to be more concerned about short-term survival rather than longer term growth. Hence, financial planning tends to take precedence over market planning (Lancaster and Waddelow, 1998). Also, as Kraus et al. (2010) point out, encouraging customer loyalty and calculating returns per customer requires input from ‘experienced marketeers’. Hence, the extent to which new firms undertake genuine marketing practices depends very much on the orientation and attitude of the entrepreneur. The liability of newness also influences marketing in nascent firms as the companies and their products/services are unknown to potential customers. Hence, in the early stages, most new ventures depend heavily on the entrepreneur's personal networks to obtain customers (Carson, 1985). Consequently, it seems almost inevitable that the vast majority of new ventures will begin by adopting informal marketing practices. In fact, Carson and Gilmore (2001) identify a number of stages which punctuate the shift from informality to more formalised and professional approaches to marketing. Tyebjee et al. (1983) also suggested that marketing in new firms passes through four clear stages: entrepreneurial marketing, gradual delegation, specialization and finally, professionalization (see Carter, 2008).

In recent years there has been an emergence of a number of new approaches to marketing that seem to be particularly appropriate for small firms limited by liabilities of newness and smallness: guerrilla, buzz and viral marketing. Guerrilla marketing is the term given to a number of low-cost, high impact techniques (Levinson, 1984). As the name suggests, guerrilla marketing is associated with youthful 'counter-cultural' approaches which are attractive to those resistant to more conventional marketing techniques. This description also applies to buzz and viral marketing which are linked to consumers who are likely to reject conventional 'corporate' marketing. Ironically, both approaches have been adopted by large firms in their attempts to attract younger people. For example, Procter and Gamble founded a spin-off company to stimulate word-of-mouth communication about their brands (Kraus et al. 2010: 29). Although the principles are similar, buzz marketing relies on face-to-face communication while viral marketing, as the name suggests, is associated with new communication technologies. The term indicates that information about a brand or product spreads 'like a virus' (see Mohr and Spekman, 1994). Kraus et al. (2010) give the example of an on-line game, developed by the Johnnie Walker Company that was intended to attract younger customers to whisky which is a drink strongly associated with older consumers. Although, these three techniques have been adopted by large corporate firms they are 'especially attractive to small and new firms that face the liabilities of newness and smallness' (Kraus et al. 2010: 30).

Successful entrepreneurs appear to do marketing in ways that are odds with conventional approaches (Stokes, 2000). Entrepreneurs begin by focusing on product and service innovations and then customer needs. They rely on interactive marketing methods communicated largely through word of mouth rather than a more controllable and integrated marketing mix. According to Morris et al. (2002), entrepreneurial marketing is an integrative construct which represents a different approach to envisioning business relationships with the marketplace and the role of marketing within the firm. Entrepreneurial marketing is fundamentally an opportunity-driven and opportunity-seeking way of thinking and acting (Morris et al., 2002). This approach to marketing differs in that it returns the discipline to its roots as creative pursuit and as a form of art. In turn, the characteristics (i.e. imagination, vision, cleverness and originality) associated with entrepreneurial behaviour lies at the core of this conceptualisation of marketing and these attributes are applied to the full range of activities, from market research and segmentation to management of the marketing mix (Morris et al., 2002). Hisrich (1992) emphasised the importance of marketing to entrepreneurship based on three main factors. First, the marketing function must be used appropriately by entrepreneurs to launch and develop new ventures successfully. Second, many entrepreneurs have a limited understanding of marketing. Third, entrepreneurs are often poor planners and managers who frequently underestimating the time and effort needed to accomplish marketing tasks and overestimate the resulting sales figures. Morris and Lewis (1995) further inferred that these factors are mostly learned and not inherited and that in environments conducive to creativity, independence, autonomy, achievement, self-responsibility and the assumption of calculated risks are likely to induce entrepreneurial behaviour.

Styles and Seymour (2006) indicate that despite the growing academic interest in entrepreneurship the contribution from marketing has been minimal. Traditional concepts fail to explain the marketing behaviour of small firms due to the gap between theory and practice (Fillis and Rentschler, 2005). It has been suggested that entrepreneurs lack a strategic framework for specifying the factors under which a marketing strategy could lead to competitive advantages based on product or market (Menon and Menon, 1997). At the same time, Teal et al. (2003) emphasise that an effective strategy allows small businesses to gain sales by providing products and or services that offer superior benefits to customers than those offered by competitors. Marketing is also considered to be of utmost importance for the success of new ventures (Bjerke and Hultman, 2002; Gruber, 2004; Hultman and Shaw, 2003). New ventures face substantial liabilities of newness which lead to higher failure rates of new firms compared to more established businesses (Bjerke and Hultman, 2002). Therefore, developing a market orientation is an important task for new entrepreneurial ventures. Although there is research which links entrepreneurship and marketing, there have been limited effort to discuss this relationship within the context of new businesses. The literature also indicates that it is possible to develop different and more appropriate marketing practices which play to entrepreneurial strengths (Stokes, 2000; Fillis, 2004). Specific information about markets, customers, competitors and general knowledge of socio-cultural and demographic trends are important to new venture success (Brush, 1992). Brush (1992) found that new ventures routinely engaged in scanning for information related to markets and competitors using a variety of personal and impersonal sources. New ventures enter markets in ways largely prescribed by specific industry norms and develop their customers mostly through personal contacts (Gruber, 2004). Marketing is primitive at this stage and management focuses on product quality and functionality, price and delivery, and word of mouth plays a key role in new firm’s communication activities

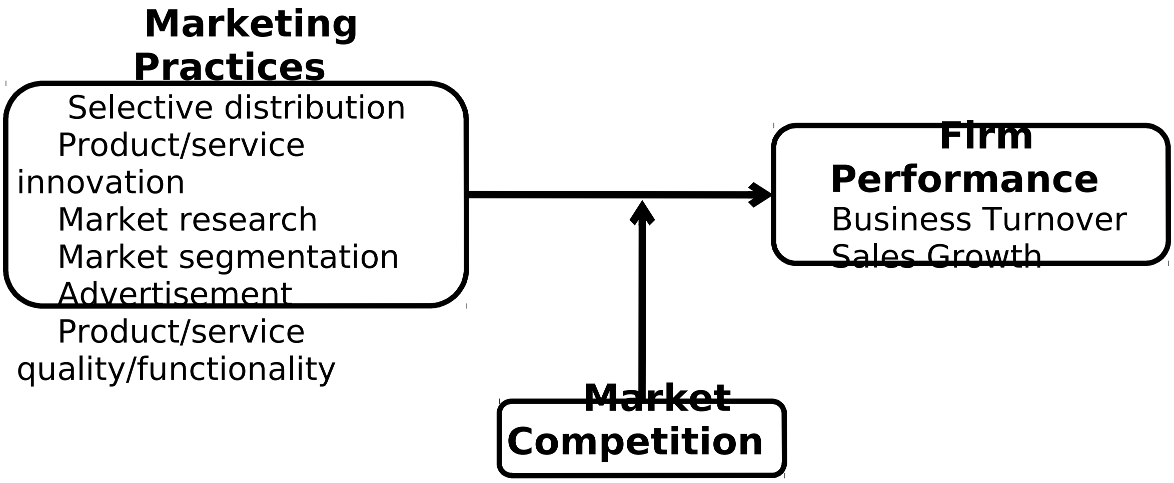
(Gruber, 2004). Zinger et al. (2001) found that marketing research and implementation are the key success factors for new ventures.

Entrepreneurial businesses do little planning and it has been established that this is often a key reason for business failure (Rogoff et al., 2004). McCartan-Quinn and Carson (2003) posit that there is widespread acceptance of the notion that new firms typically possess certain characteristics which serve to differentiate them from larger organisations. Such differences include inherent weakness with respect to capitalisation, marketing awareness and practices. Due to the unique characteristics of small firms, marketing is performed differently than in larger firms (Carson and Gilmore, 2001). Marketing in SMEs should essentially be understood with reference to the activities and behaviours in the small enterprises (Jones and Rowley, 2011), particularly in relation to their approach to customer engagement, innovation and planning. In turn, this implies that small firms' practices are essentially different from the conventional marketing practices espoused in textbooks which cater largely for larger firms. Marketing decision making in small firms is simplistic and haphazard (i.e. it is immediate and reactive to circumstances), undisciplined and spontaneous (i.e. predominantly intuitive), unstructured and short term (Carson, 1998; Coviello et al., 2000).

As mentioned above, there is a growing body of literature which examines marketing in SMEs. According to Simpson *et al*. (2006) studies of marketing in small firms tend to concentrate on explaining specific behaviours (Hannon and Atherton, 1998) or the identification of barriers to effective application of marketing principles in SMEs (Freel, 2000). The authors go on to say that most studies focus on 'prescriptive or descriptive models' of how to apply particular approaches to smaller firms (Carson, 1990; Brooksbank, 1999). An early review of the literature suggested that there were three theoretical approaches to small firm marketing: marketing as culture, strategy and tactics (Romano and Ratnatunga, 1995). The most widely adopted approach, the stage model of marketing (Siu and Kirby, 1998), does not account for the changing role of marketing skills as businesses grow in size and complexity (Simpson et al., 2006). Simpson and Taylor (2002) developed a model of marketing based on the relevance of marketing (external focus) and the role of marketing (internal focus). Based on a questionnaire-based study of 143 SMEs, Simpson et al. (2006) attempted to test the validity of the original model. Perhaps surprisingly, 81 of the companies were identified as being 'marketing led' – although these did have more employees and larger turnover than other companies in the sample. About 10% of the sample were 'very young' (less than one year old): 'younger companies clearly adopted the principles of marketing and had active business plans, a marketing budget and a database, while older companies were less enthusiastic about these things' (Simpson et al., 2006: 376). More recently, Reijonen and Komppula (2010) examine the market orientation of 215 SMEs based in Eastern Finland (also see Reijonen, 2010). While micro businesses rather than SMEs comprised the majority of the sample there is no indication of their age. The authors conclude that ‘to some extent’ the companies in their sample had adopted a market orientation (Reijonen and Komppula, 2010: 30). In particular, there was a strong focus on collecting and analysing customer-related data than obtaining data on their competitors.

Some suggest that the basic principles of marketing are appropriate to large and small firms (Siu 2000; Reynolds, 2002). Hogarth-Scott et al. (1996) noted that while differences exist in their operations, basic marketing concepts such as segmentation, customer orientation, targeting, positioning and competitive advantage apply to small as well as to large enterprises. Researchers therefore conclude that the foundamental difference in marketing practices between large and small firms is the use of different language (Carson and Gilmore 2000, Enright, 2001). Slater and Olson (2001) identified a number of practices associated with a strategic approach to marketing including advertising, market research, segmentation, product quality, innovation and distribution (Figure 1). As pointed out by Phua and Jones (2010), while new entrepreneurs may carry out such practices they rely on intuition and informality rather than high degrees of formal planning. There is also evidence to suggest that both firm performance and the effectiveness of certain marketing practices are influenced by the competitive environment (Covin et al, 2000; Banker et al., 1996). For example, the quality and functionality of a product and service, advertising and market segmentation are all likely to be more important in highly competitive markets (Banker et al., 1996). Market competition is conceptualised as consisting of price, product differentiation, product distribution and other market factors such as the number of major competitors operating in the market, the frequency of technological changes in the industry, the frequency with which new products are introduced and package deals for customers offered by competitors (LaPlaca, 1997; Mia and Clarke, 1999). Prior studies (e.g. Banker et al., 1996) argued that increased market competition has led many firms to emphasize customer focus and product design services in their marketing strategies in order to enhance customer satisfaction and gain competitive edge. In improving our understanding of the marketing practices adopted in new entrepreneurs and the influence of market competition it is also important to consider the outcomes in the form of firm performance. In this study, performance is measured in terms of turnover and of growth in sales.

Figure 1: Research Framework



RESEARCH METHODS

Sample and Procedures

The first phase of the research was carried out in the summer of 2006 using a randomly selected group of entrepreneurs who received enterprise training delivered by business schools in a number of UK universities (Rouse and Jayawarna, 2006; Taylor et al., 2004). We utilised a survey instrument administrated through both postal and web-based methods to collect the data. A total of 600 entrepreneurs were first sent copies of the questionnaire with pre-paid reply envelopes and a covering letter clearly explaining the purpose of the research. A week later, all respondents with email addresses were emailed a link to the web survey. Reminder letters were sent to those who did not respond within the first two weeks. In total, 88 of the mailings were returned as non-deliverables. Of those who were successfully contacted, 174 responded to the web-survey, 134 to the postal survey and 39 to both surveys. After excluding the duplicates, we achieved a total response rate of 52%. Missing data rendered a usable sample size of n= 236

In addition to the data collected from this survey we utilised a second survey conducted one year after the first phase of data collection. In this survey, the national sample of entrepreneurs underwent the same enterprise training, including the sample studied in the first phase, were contacted using post and email as part of a national evaluation study conducted by the researchers. In total, 128 of the 236 participants from the first survey responded to this national survey. The two data files were merged to produce a final database containing data from these 128 entrepreneurs. Although this reduced the sample size it was necessary to make sure we use the most appropriate dependent variable in our analysis. There are two reasons underpinning this decision. First, the original survey included objective measures of performance (turnover and sales growth) whereas the first survey only asked respondents to indicate their level of satisfaction with firm performance. As objective measures are superior to subjective assessment of performance in new ventures (Cooper et al., 1994) data for the dependent variables were taken from the second survey. Second, the use of two data sets allowed us to provide a time-lag between the dependent and independent variables in our regression model and this longitudinal data is important to overcome the problems of common method variance in cross-sectional research (Doty and Glick, 1998).

To test for non-response bias we compared the cases that we were unable to contact (returned as non-delivered) against the rest; those who responded to our survey and those who did not; and those who responded to postal survey compared to the web-survey. The archival data from programme databases allowed some of this comparison. The multivariate analysis of variance (MANOVA) results suggested no significant difference between those we successfully contacted and those we failed ($p = 0.56$) and those who responded to postal survey and web survey ($p=0.27$). However the ones who participated in the survey were very slightly different from those who did not participate ($\eta^2= 0.017$; $p<0.05$). Further analysis using exploratory ANOVA suggested that those who responded were younger and more likely to work in service sector businesses. To eliminate effects of this in our regression models we included these variables as controls. Within the sample of 128, 54% were women, 55% less than 40 years old and more than half (60.8%) educated to at least degree level. Businesses were very small in terms of both size and outcomes. Over half of the businesses were sole traders or employed just one full-time member of staff and no business had more than seven employees (full time equivalent). The businesses had traded on average for 2 years at the time of the first survey; median age of the businesses is 15 months. Approximately 50% of the business reported their business turnover from 2007 to be £9,500 or less; mean turnover was approximately £14,000.

Measures

We used a 29 item scale previously used in large firm context to measure the use of marketing practices (Slater and Olson, 2001). We first conducted exploratory factor analysis of the 29 marketing practice items to extract the factors using principal components with factor matrix rotation by varimax. The results yielded a seven factor model, which when subject to confirmatory factor analysis using nested modelling reduced to six factors (see table 01). All six factors were reliable (Cronbach alpha between 0.73 and 0.86, composite reliability > 0.71) and valid (AVE between 0.41 and 0.84).

Five items for the intensity of market competition variable were adapted from Chandler and Hank's (1994) five item market environment scale and Covin et al's (2000) 6 item perceived environmental hostility scale. All the items studied were loaded into a single factor when the items were subjected to exploratory factor analysis using varimax rotation (see Table 1). Measures for firm performance were taken from a second survey administered to the same sample a year later. In this survey respondents were asked to report their business turnover in the most recent 12 months. This turnover measure was log transformed to induce normality before using this data in our analysis. The second performance measure was related to sales growth, where respondents were asked to report in a scale of 1-7 the changes to their sales figures during the same period, with 1 representing sales dropped and 7 representing sales increased by 100% or more.

We controlled for three individual-related and two business-related demographic variables that could influence firm performance. Entrepreneurial age was measured in years, gender was coded 1 for "male" and 0 for "female" and education level was measured using a dummy variable: 1 representing degree or postgraduate qualifications and 0 for those without degree-level qualifications. Firm age was measured by the number of months the business had been trading. Business sector was assessed by dichotomising responses to a question that asked about the products/services using the UK Standard Industrial Classification.

Table 1: Factor analysis: market practices and market competition

	Marketing Practices							Market Competition
	Service quality/ functionality	Market segmentation	Market Research	Advertising	Product/ service Innovation	Selective Distribution		
Respond quickly to customer requests and problems	0.827						Large companies dominate the market	0.859
Provide service with a high degree of consistency and accuracy	0.764						There is substantial untapped market potential (negative)	0.776
Provide better after sales service as compared to competitors	0.665						There is lot of difference between firms in the market	0.697
Learn about customers	0.644						Market is crowded – there are too many competitors	0.656
Clear understanding of customer needs	0.638						Failure rate in my industry is high	0.557
Develop long term relationship with key customers	0.628							
Focus marketing activities in specific segments of the market		0.796						
Divide market into sectors distinguished by different requirements		0.730						
Evaluate each markets to target		0.707						
Analyse competitor objectives and actions			0.599					
Collect information on industry trends			0.571					
Use of ‘higher than normal’ level of advertising				0.642				
Generate advertising materials				0.642				
Use media advertising				0.614				
Use web/internet advertising				0.583				
Use direct mail advertising				0.557				
Offer a broad product/service line					0.830			
Develop products/services that have a broad market appeal					0.719			
Introduce new products/services to the market					0.573			
Distribution through formal distribution channels						0.838		
Use distributors with unique facilities						0.823		
Factor reliability	**0.817**	**0.798**	**0.768**	**0.727**	**0.740**	**0.859**		**0.734**

Data Analysis

All the multi-item constructs (marketing practices and market competition measures) were first subject to principal component factor (PCF) analysis with varimax rotation. A series of OLS (ordinary least squares) and ordinal regression models were used to study the relationships between marketing practices and firm performance. Ordinal regression models were used rather than OLS for the sales growth models due to the ordered nature of the dependent variable (Stata, 2008). Moderated hierarchical regression analysis was performed separately to study the possible moderating effects of market competition. The two significant interactions were graphed following procedures explained in Cohen and Cohen (1983).

RESULTS

The six factors illustrated in Table 1, service quality/functionality, segmentation, market research, advertising, innovation and selective distribution, were highly reliable with Cronbach alpha scores ranging from 0.73 to 0.86. These results indicate that 'traditional' marketing practices are appropriate for the study of new businesses. Table 2 provides means, standard deviations and bivariate correlations for the variables. The zero-order correlations indicated that whilst there is a strong relationship between individual marketing practices only some have a significant association with business performance. In particular, market research, product/service innovation and quality/functionality were all strongly associated with firm performance. It should also be noted that selective distribution, innovation, market research and advertising were all strongly associated with market competition.

Table 2: Descriptive Statistics and Correlations

Variable	Mean	S.D.	1	2	3	4	5	6	7
1. Firm Performance(log)	9.03	1.03							
2. Market competition	2.90	0.69	-.139						
3. Selective distribution	2.69	1.26	-.153	.345**					
4. Product/service innovation	3.53	0.81	.309**	.226*	.242*				
5. Market research	3.91	0.74	.253**	.25*	.275*	.451**			
6. Market segmentation	3.69	0.87	-.073	.411**	.417**	.290**	.456**		
7. Advertising	3.34	0.90	-.182	.509**	.502**	.253*	.296**	.506**	
8. Product/service quality/functionality	4.54	0.58	.342**	.150	.154	.465**	.441**	.388**	.300**

Except 1, all variables were measured in a scale of 1-5; where 1 – strongly disagree to 5 strongly agree. *p<0.05; **p<0.01

Table 3 shows the hierarchical regression models for two firm performance measures: business turnover and sales growth. For both regressions, model 1 includes only the control variables, model 2 includes the control variables and market competition measure, model 3 adds the six marketing practice constructs to the variables in model 2. The model fit statistics consistently indicate strong model significance ($p<0.001$) for the two full models (model 3). Additionally, the high R^2 values in both full model regressions suggest a significant proportion of the variation in performance is explained by marketing practices.

The control variables (model 1) provide very little additional value to the model's explanatory power and none were statistically significant in relation to either turnover or growth. Addition of market competition in model 2 also failed to improve either model's explanatory power significantly. The negative association between market competition and both performance measures suggest that in general those firms operating in highly competitive markets has less likelihood of achieving higher performance. This relationship however was not statistically significant in either model. In the fully specified model (model 3) for business turnover and sales growth, a number of significant coefficients were found. The coefficients for product/service innovation ($p<0.05$) and service quality ($p<0.01$) are significant and positive in both regression models. While the coefficient for market research ($p<0.05$) was significant and positive in the model predicting business turnover, its contribution to sales growth was not statistically significant. The relationships between advertising and turnover (β= -.324, $p<0.01$) and sales growth (β = -.218, $p <0.05$) were negative and statistically significant; advertising appears to have a negative influence on the performance of new firms. The coefficients for selective distribution and market segmentation were also negative but not statistically significant in either full models (3).

Table 3: Hierarchical Regression Models

Variables	Business Turnover(log)			Sales growth		
	Model 1	**Model 2**	**Model 3**	**Model 1**	**Model 2**	**Model 3**
Control Variables						
- Entrepreneur gender	.056	.062	.092	-.047	-.045	-.018
- Entrepreneur age	.049	.062	.104	.006	.009	.027
- Entrepreneur level of education	.092	.087	.056	.037	.036	.033
- Firm age	.112	.111	.040	-.023	-.026	-.123
- Industry sector	.081	.054	.054	.010	.004	.018
Market competition		-.127	-.008		-.048	-.116
Marketing Practices						
- Selective distribution			-.026			-.002
- Product/service innovation[i]			.213*			.174*
- Market research			.210*			.126
- Market segmentation			-.161			-.086
- Advertising[ii]			-.324**			-.218*
- Product/Service quality functionality			.297**			.407**
R^2/ Pseudo $R^{2\wedge}$	.037	.052	.319	.004	.006	.270
F (sig.) /Log Likelihood $\chi^{2\wedge}$	.808(ns)	.949(ns)	3.822***	.086(ns)	.112(ns)	3.526***

*p<0.05; **p<0.01; ***p<0.001. Standardised coefficients are shown. ^ applies to sales growth model only.

In the literature it has been suggested that the effectiveness of business strategy is contingent on the dynamics of the market (Barney, 1986; Miller, 1987); the market orientation-performance relationship is moderated by the conditions of the market (Slater and Narver, 1994). To test this hypothesis in the new venture marketing context we conducted further analysis. Table 4 tests whether market competition moderates the relationship between marketing practices and business performance[iii]. It can be hypothesised that the relationships will be stronger for those businesses operating in highly competitive markets than for those in less competitive markets. Of the six regression models tested only two provided support for this moderation hypothesis. Whilst the interaction term, advertising and market competition is positive and significant ($p<0.01$), product/service innovation and market competition interaction is significant ($p<0.01$) but negative. The two interaction terms accounted for nine percent ($\Delta R^2 = 0.092$) and ten percent ($\Delta R^2 = 0.103$) of the explained variance in turnover for the two practices respectively.

Table 4: Testing the Market Moderation Hypotheses

	Model 1	Model 2	**R^2**	**ΔR^2**	F stats
1. Selective distribution	-.070	-.113	.031	.013	.927(ns)
Market competition	-.143	-.092			
Selective distribution *market competition		-.051			
2. Product/service innovation	.324***	1.385**	.127	.103	6.078**
Market competition	-.237**	1.014*			
Product/service innovation *market competition		-1.70**			
3. Market research	.290**	.174	.108	.001	4.820**
Market competition	-.218*	-.369			
Market research *market competition		.201			
4. Market segmentation	.008	.079	.027	.004	.462(ns)
Market competition	-.167*	-.115			
Market segmentation *market competition		-.061			
5. Advertising	-.212	.736*	.047	.092	3.291*
Market competition	-.008	.923*			
Advertising *market competition		1.76**			
6. Product/Service quality/functionality	.374***	.729	.162	.049	5.428**
Market competition	-.234**	.344			
Product/Service quality/functionality *market competition		.705			

*p<0.05; **p<0.01; ***p<0.001. Market competition was measured as a dichotomous variable using mean ± one S.D split.

To interpret these moderated effects we calculated regression equations for the relationship between turnover and two marketing practices, advertising and product/service innovation, at high and low levels[iv] of market competition. In Figure II the plot of the interaction terms show that advertising is positively related to business performance for firms operating in highly competitive markets. However, advertising is negatively related to firm performance in low competition markets. In other words, investment in advertising only has a positive influence on firm performance in highly competitive situations. The interaction plot in Figure III shows that in markets typified by low levels of competition, investment in innovation is associated with very small increases in turnover. Much more significant is the negative relationship between innovation and turnover in highly competitive markets. This relationship, unlike the link between adverting-turnover, is counterintuitive and will be discussed in greater detail below. In summary, Figures II and III demonstrate that the levels of market competition moderate the effect of product/service innovation and advertising (Table 4).

Figure II: The Interaction Effect of Advertising and Market Competition on Performance

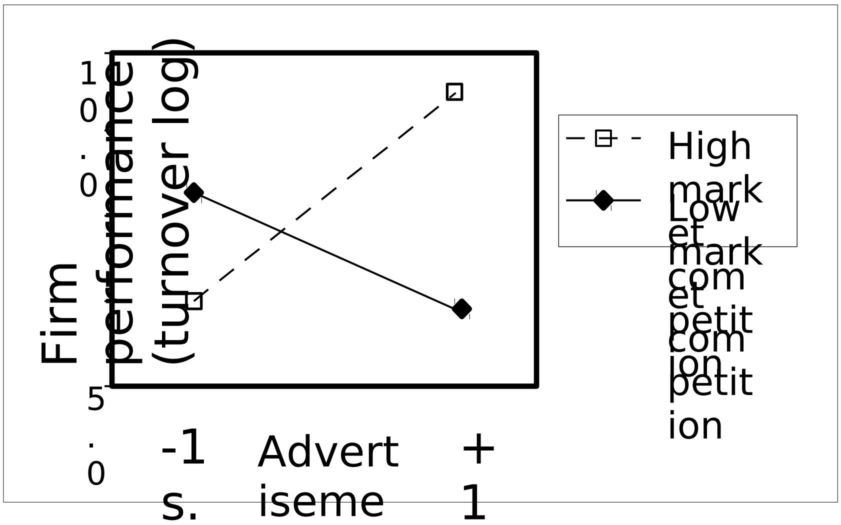
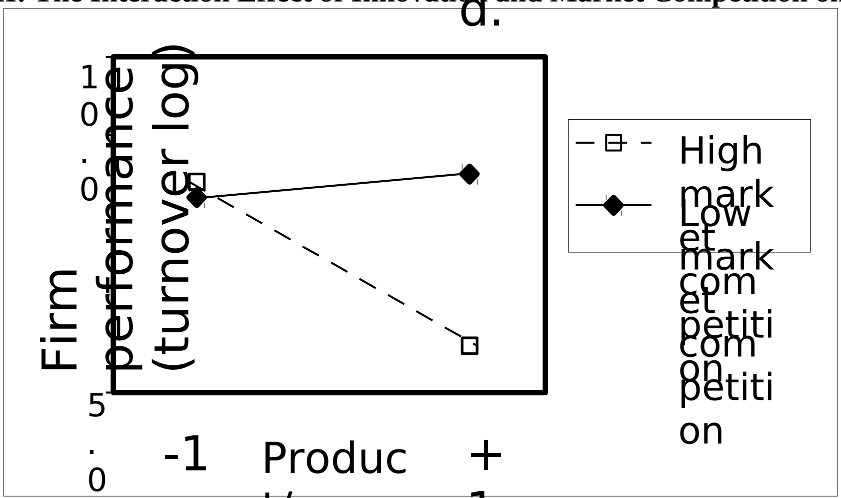


Figure III: The Interaction Effect of Innovation and Market Competition on Performance



Figures II and III provide some important insight into the links between marketing practices and the performance of entrepreneurial businesses. Clearly, the level of market competition has major implications for adoption of the appropriate marketing practices in new firms. As data in Table 5 demonstrates, those businesses operating in highly competitive markets had higher scores than firms operating in low competition sectors for all six marketing practices. Furthermore, there were statistically significant differences for five of the six marketing practices according to the level of market competition. Advertising, in particular, as well as selective distribution and market segmentation had high levels of statistical significance. Also Table illustrates that almost 44% of the businesses faced high competition while the remaining 56% faced low competition.

Table 5: Market Competition and Marketing Practices

	Market competition		ANOVA F (sig)
	High	**Low**	
Selective distribution	3.11	2.65	7.162**
Product/service innovation	2.95	2.72	4.15*
Market research	4.15	3.89	6.23*
Market segmentation	4.05	3.71	10.08**
Advertising	3.97	3.02	67.65***
Product/Service quality/functionality	4.62	4.47	3.29
Sample (%)	**43.8%**	**56.2%**	

*p<0.05; **p<0.01; ***p<0.001

Further analysis was undertaken to examine the sample profile in relationship to market competition (Table 6). One variable that differentiates those firms operating in highly competitive markets from low competition markets was business investment. Businesses operating in highly competitive markets made significantly lower investments (F= 2.023, p<0.05) than those in low competition markets. The former also had relatively low levels of turnover (F= 1.765, p<0.05) and sales growth (F= 1.649, p=0.057) when compared to the latter. There were no significant differences in terms of business age or sector although a relatively high proportion of manufacturing-related businesses were operating in highly competitive markets and the majority of service and retail businesses were operating in less competitive markets. The implications of these findings will be discussed in greater detail below. However, it is particularly striking that while average financial investment is low it is lower in businesses operating in highly competitive markets. Once again, this is an issue which need much further investigation.

Table 6: Market Competition and Business Characteristics

	Market competition		ANOVA F (sig)
	High	**Low**	
Firm Age (months)	22.8	27.0	1.008 (n.s)
Manufacturing/manufacturing related	55.2%	44.8%	
Service and retail	38.6%	61.4%	
Total business Investment	£6,418	£8,010	2.023*
Business Turnover (Ave)	£12,353	£15,186	1.765*
Sales Growth (1-7 scale)	3.75	4.65	1.649^

^p<0.10; *p<0.05, n.s. – not significant

DISCUSSION

The present study investigated the extent to which new firms adopt a number of widely used marketing practices (Slater and Olson, 2001). Furthermore, we examined the impact of market competition on the relationship between the adoption of specific marketing practices and new firm performance. The identification of six marketing practices (Table 1) confirms that conventional marketing practices associated with large businesses (Reynolds, 2002; Siu, 2000) are appropriate to the study of new, entrepreneurial ventures (Hogarth-Scott, et al, 1996). This supports recent work which indicates that while very new businesses do adopt traditional marketing techniques such as market research and competitor analysis they also rely on intuition and informality (O'Donnell, 2011; Phua and Jones, 2010). The results show that even after controlling for a number of characteristics related to the entrepreneur (gender, age and level of education) and the business (age and industry sector), adoption of market practices make a significant contribution to variations in new venture performance (Qureshi and Mian, 2010). In other words, irrespective of firm age and industry sector, market practices account for a considerable proportion of variations in the performance of newly-established businesses.

The correlation matrix (Table 2) confirms that management practices such as market research, product/service innovation and product/service quality and functionality do enhance organization performance in entrepreneurial firms (Ireland et al., 2001; Littunen, 2000; Cooper et al., 1994). Other practices, advertising, market segmentation and selective distribution had a negative relationship with firm performance but were not statistically significant (Table 2).

The data were then examined using hierarchical regression models (Table 3) and the relationships were very similar for both performance measures (turnover and sales growth – model explanation power of 0.319 and 0.270 respectively) which give added confidence in the results. This analysis demonstrates positive relationships between innovation and product functionality/quality with both turnover and sales growth. There were negative relationships between advertising and both measures of growth. To examine these relationships in more detail we carried out moderation analysis which demonstrated that both advertising and innovation practices were highly dependent on the intensity of market competition. The influence of advertising on firm performance was significant and positive in highly competitive markets but negative in low competition markets. Product/service innovation appeared to be more effective in less competitive markets and had a negative relationship with performance in highly competitive markets. The influences of the other four marketing practices were independent of market competition.

As mentioned above, the relationship between advertising and firm performance appears to be entirely logical. Investment in advertising has a positive impact on firm performance in highly competitive markets but is negative in markets typified by low levels of competition. Innovation has a small impact in sectors typified by low market competition – but is negatively related to performance in highly competitive markets. According to our data, entrepreneurs operating in highly competitive markets made a smaller financial investment in their business and this may mean they had less to invest in innovation activities (see Table 6). This market competition and resource investment relationship confirms the view that marketing in new ventures is reactive and entrepreneurs do not generally engage in formal planning activities (Woods and Joyce, 2003; Stokes, 2000). Furthermore, there are a high proportion of manufacturing firms operating in highly competitive markets. Product innovation requires more time and investment than service innovation and consequently there is likely to be a lagged influence on the firm's performance in terms of growth in both turnover and sales. Therefore, the negative interaction for product/service innovation and market competition could be as a result of:

- lower investment made by firms in highly competitive markets meaning they had limited resources to invest in innovative activities;
- low outputs for firms in highly competitive markets (relatively low turnover and sales growth) may mean that too much effort was spent on developing new products or services rather than concentrating on sales;
- innovatory activity varies according to the type of business (manufacturing or service); more manufacturing-based firms were operating in highly competitive markets. In manufacturing, product innovation is likely to be longer term and more expensive than service innovation.
- all the firms were relatively young and the entrepreneurs inexperienced and therefore it is possible that they did not have the appropriate resources to undertake innovation – particularly in highly competitive markets.

Our objective in this paper was to examine the influence of marketing practices on the performance of new ventures. As demonstrated in Table 3, marketing practices have a statistically significant impact on both turnover and growth. Product/service innovation and quality/functionality both had positive impacts on turnover and sales growth. In contrast, advertising had a negative impact on firm performance based on both turnover and growth. However, as we have discussed above, these relationships are moderated by the level of market competition. Hence, it is suggested, that no single marketing recipe can serve as a blueprint for all new firms; depending on the intensity of market competition the relevance and usefulness of marketing practices vary (Jones and Rowley, 2011). Therefore our results support contingency theory that suggests that organizations must be aligned with their environment to achieve optimal performance (Frederick, 2005; Hayes, 1977; Lawrence and Lorsch, 1969). According to this theory, market competition is a key situational influence amongst the total number of factors that comprise the firm's environment. As market competition intensifies, firms often introduce new distribution channels, increase the product range and target new market segments (Rolfe, 1992). It therefore provides the support for the need to maintain the 'fit' between an organization's environment (i.e. market competition) and the adoption of marketing practices. Simpson et al. (2006: 366) point out the contingency approach mediates two extremes: 'universal marketing principles exist and are applicable to all firms, or that each small firm is unique and each situation needs to be analysed separately' (see Hill, 2001; Siu and Kirby, 1998). As Walsh and Lipinski, (2009) argue, small firms not only face product and marketing channel competition but also institutional barriers including resource constraints.

Conclusions

The importance of this study is that it identifies the influence of marketing practices in the context of very small entrepreneurial businesses that were less than two years old. The study also considers the moderating impact of market competition on those marketing practices. Despite the growth of interest in entrepreneurial marketing in the last 20 years there are very few studies which have empirically examined the influence of marketing practices on the performance of new businesses. In this study all of the businesses had been operating for less than two years and so we are able to provide unique insight into the role marketing plays in entrepreneurial ventures. There are a number of notable factors including the very low level financial investment in the businesses (approximately £7200) and the low levels of turnover (£13770). This suggests that firms in this sample had very little scope for investment in either R&D or advertising.

The study also identifies a number of important issues which need clarification in understanding the potential for entrepreneurial businesses to survive into the longer-term. First, we note the very low levels of financial investment which no doubt contributed to the levels of turnover after the firms had been operating for two years. This is considerably below what is regarded as the average start-up funding in the UK (Fraser, 2004). It would also be very interesting to know why firms operating in markets typified by high levels of competition invested less in their businesses than those operating in low competition markets. Perhaps less surprisingly, those firms in high competition markets recorded significantly lower turnover than those in low competition markets, Although this relationship does seem to be entirely logical it is certainly an issue which requires further investigation. Particularly as the latter sector had a large proportion of firms based in retail in which it might be expected that there are high levels of competition. Given the rather odd results related to innovation (negative in high competition) this is also an area which requires further research attention.

Several limitations of the current study should be noted. Perhaps the most serious limitation of this study was its narrow focus on small, early stage start-ups, thus precluding the generalising of findings to new ventures in general that may benefit from a sound marketing base. Caution should possibly be exercised in the interpretation of some of the findings presented here, as the inclusion of relatively large, established firms may partially explain some of the insignificant relationships. Also the scales employed in this study represent the entrepreneurs' perceptions of marketing practices, and consequently, they may not reflect objective reality.

In summary, we suggest that this study helps clarify the role of marketing practices in the performance of new firms. At the same time, the study has identified a number of issues which require further investigation. Future studies can extend this work by utilizing different methods, such as case studies and the adoption of a longitudinal approach, which would strengthen the underlying theory of this study. Furthermore, our study examined the impact of one contingency factor (i.e. intensity of market competition) on the relationship between marketing practices and firm performance. Future studies may examine other potential factors on the relationship between marketing and firm performance that might include competitive strategies or firm size. Although important, firm size was not included as a control in the regression models due to the issues with the reliability of this measure.

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[i] Product/service innovation- performance relationship get stronger in the absence of industry in the model and this suggest the role 'industry' play in explaining this relationship
[ii] Both 'industry' and 'business age' are significant contributors to the relationship between advertisement and firm performance. The level of significance decreases with the exclusion of age and industry variables in the model
[iii] to preserve space the interactions were tested only for one performance measure, business turnover. As similar relationships were obtained in both regression models in table 3, performing the moderation regression for only one measure can be justified.
[iv] high and low values are defined as plus and minus one standard deviation from the mean.