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Linking relationship marketing to social embeddedness in a rural bilingual context.

Introduction

Some entrepreneurs are adept at developing close relationships with their customers (Stokes, 2000; Fischer and Reuber, 2004) to ensure venture development and some are actively engaging in relationship marketing activities although they do not explicitly refer to the academic term (Lam and Harker, 2015). Relationship marketing (RM) relates to a process where both the seller and buyer seek a mutually beneficial exchange (Morgan and Hunt, 1994). It is a form of marketing which focuses on developing long-term relationships with customers by listening to customer requirements and satisfying customer needs with the aim of retaining high value customers (Reichheld and Sasser, 1990). RM therefore enables sellers to acquire and mobilise external resources required for the development of their ventures through these relationships.

Despite evidence suggesting that RM can be successfully adopted by small and medium-sized enterprises (SMEs) (Day *et al.*, 1998; Lam and Harker, 2015) there is little empirical research investigating how RM is done by SMEs (Hultman and Shaw, 2003) and there is scant evidence relating to the RM process in new technology-based firms (NTBFs) (James *et al.*, 2016). This is important as research suggests that marketing in NTBFs requires a relational competency which involves a deep understanding of customer needs, creating useful resources and networking (Helander and Ulkuniemi, 2006; Hedaa and Ritter, 2005).

Social embeddedness refers to the relationship between an actor’s economic behaviour and the social context or the environment in which it occurs. Both social embeddedness and RM concepts pertain to the social relations in which economic transactions are rooted. Thus the theoretical contribution of this study is to integrate insights from both RM and social embeddedness theories, and illustrate the extent to

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9 which a NTBF case study demonstrates social embeddedness benefits relating to
10 customer retention and accumulation of strategic resources due to RM. This is important
11 as links between RM and social embeddedness can guide the resource allocation
12 decisions of entrepreneurs in firm development.
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15 The study aims to explore whether and how a NTBF in a rural bilingual context
16 integrates RM and social embeddedness, which has not been considered in the extant
17 RM literature. Small and micro companies are the lifeblood of rural areas, especially
18 entrepreneurial ‘migrants’ who decide to settle in rural areas and bring their skills and
19 technical knowledge with them (Keeble, 2016). Moreover, the most innovative SMEs
20 are shown to make an important contribution to rural economies in terms of income and
21 employment generation (North and Smallbone, 2000). Therefore a deeper understanding
22 of how entrepreneurs develop relationships and become socially embedded within rural
23 areas is crucial. A rural enterprise is a venture in a rural area that “employs local people,
24 uses and provides local services and generates income flow to the rural environment”
25 (Henry and McElwee, 2014, p.4). There has been a shift of population and employment
26 from urban to rural areas in the last 20 years therefore understanding the development of
27 rural SMEs is critical particularly from a policy perspective (Curran and Storey, 2016).
28 Moreover, it is unclear whether the RM process may be associated with unique
29 characteristics in a rural bilingual context. Exploring rural NTBFs contributes to the
30 following knowledge streams: rural entrepreneurship and formation of high growth
31 technology firms. The focus on the bilingual context in this study is also relevant as the
32 case study firm operates in North West Wales where the majority of the population
33 speak Welsh, and English is the second rather than the primary language of the majority
34 of the population (Jones-Evans *et al.*, 2011). Becoming socially embedded in this area
35 would thus involve immersing into the local community and developing relationships
36 with potentially bilingual customers and partners.
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This study explores the following research questions with regard to a rural resource-constrained bilingual context: Why does a novice entrepreneur (i.e. no prior business ownership or marketing experience) of a NTBF engage in RM with customers and strategic partners? How does a novice entrepreneur of a NTBF engage in RM with customers and strategic partners? Does RM generate social embeddedness benefits (i.e. customer retention and accumulation of resources) for a novice entrepreneur of a NTBF?

This article is organised as follows. In the next section, the theoretical foundations of RM are summarized, and a summary of the literature relating to RM in technology SMEs is presented. Social embeddedness theory is then summarised. This is followed by a discussion of the data collection methodology. A brief overview of the case study, Draig Technology Limited is then presented. In the subsequent findings section, issues relating to the rural resource-constrained bilingual context, RM activities, and social embeddedness benefits generated by RM are illustrated. Finally, key contributions and implications are discussed.

Relationship marketing

RM refers to the management of relationships that seek to provide customized and richer personalised contact with customers with the aim of generating long-term value from customer relationships (Morgan and Hunt, 1994). For the seller, RM can generate a better understanding of the customer, the development of trust between the seller and buyer, and increased customer satisfaction (Gil-Saura *et al.*, 2009; Kelly and Scott, 2011) leading to enhanced customer retention (Hennig-Thurau *et al.*, 2000). Assumed financial benefits to the seller relate to reduced costs due to increased retention of existing customers, and higher profits due to increased buyer loyalty and reduced price-sensitivity (Reichheld and Sasser, 1990; Gronroos, 1994). RM benefits for the customer include reduced anxiety and comfort in knowing what to expect from the supplier,

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9 social and emotional benefits and individualized additional services or special treatment
10 (Hennig-Thurau *et al.*, 2002).
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12 A holistic view of RM (Morgan and Hunt, 1994; Sheth and Parvatiyar, 1995)
13 refers to the process as managing relationships for mutual value whereas others base
14 their views specifically in business-to-business (B2B) markets (Brennan *et al.*, 2014), a
15 perspective that we adopt in this study. The importance of relationships in B2B markets
16 and their relevance to practitioners is acknowledged and predicted to continue shaping
17 the marketing discipline (Kumar, 2015). Establishing mutually beneficial long-lasting
18 relationships in B2B markets can help the seller and customer create higher value, share
19 risk and find efficiencies (Gil-Saura *et al.*, 2009). This network approach to
20 relationships is based on complex relationships between at least two actors in a business
21 network (Holmlund and Tronroos, 1997). Such relationships are often characterised by
22 information exchange, co-operation by explicit 'partnering', adaptations by both buyers
23 and sellers and operational linkages (Cannon and Perreault, 1999; Brennan and
24 Turnbull, 1999). Effective RM in an NTBF can thus result in increased collaboration
25 with business customers, a better understanding of buyer requirements, and a dialogue
26 with buyers leading to the development of co-created and customised products and
27 services (Ruokonen *et al.*, 2008).
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41 *Relationship marketing in NTBFs*

42 Many scholars acknowledge that SMEs do not approach marketing in a conventional
43 manner (Franco *et al.*, 2014; Gilmore *et al.*, 2001). Marketing competency deficiencies
44 can hinder NTBF development and NTBFs with resource deficiencies may not be able
45 to effectively market their innovative products/services (Hatonen and Ruokonen, 2010).
46 NTBFs may therefore wish to develop close relationships with their customers as a way
47 of securing future trade, developing credibility in the marketplace and encouraging
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positive word of mouth. SME's have the potential and desire for close relationships with customers (Reijonen, 2010) and the relationship between the entrepreneur and customer is proposed to be a key element of Entrepreneurial Marketing, a term which describes the marketing activities of entrepreneurs that is focused on the customer and on taking risks (Morrish *et al.*, 2010). The benefits of RM in small firms have been found to include access to new customers through referrals and introductions and access to resources such as information and advice based on the development of two-way trust (Hultman and Shaw, 2003). Engaging in relationships with larger partners can also lead to cost, image and service benefits for SMEs who are able to build competitiveness based on access to new capabilities and resources (Kelly, 2007).

Little attention has been directed towards the marketing of NTBFs or software SMEs (Helander and Ulkuniemi, 2006; Parry *et al.*, 2011), particularly in rural areas. However, the investigations conducted point towards the benefits of developing relationships, networking and alliances in this sector. Helander and Ulkuniemi (2006) view businesses that develop tailored software to be inherently relationship and service-oriented. In the technology sector, lasting relationships with customers facilitate a clearer understanding of customer requirements (Ahmed and Capretz, 2007) and is related to positive firm performance (Tzokas *et al.*, 2015) however there remains a lack of research into the RM process in small technology firms (James *et al.*, 2016). Boussara and Deakins (1999) found that social networks of entrepreneurs and strategic alliances are wholly appropriate to this business context. Alliances provide technology firms with the opportunity to share resources and capabilities whilst entrepreneurial owner-managers use networks to build business, marketing and innovation capacity (Stokes, 2000). As small software firms tend to be managed by technical specialists, SMEs often seek inter-firm co-operation and partnership opportunities in order to share resources and capabilities (Hedaa and Ritter, 2005).

Social embeddedness

Social embeddedness is defined as “the degree to which commercial transactions take place through social relations and networks of relations that use exchange protocols associated with social, non-commercial attachments to govern business dealings” (Uzzi, 1999, p. 482). The theory builds on sociology, law, and market theories to explain why economic transactions become embedded in social relations and how these transactions can subsequently affect the allocation and valuation of resources (Granovetter, 1985; Uzzi, 1997). Social embeddedness can result in advantages for entrepreneurs. For example firms that are embedded in their social structure and local environment are better able to create and realise opportunities and report enhanced credibility in the marketplace (Jack and Anderson, 2002). Embeddedness theorists also assert that people who form intense relationships will begin to trust each other and share resources more willingly (Uzzi, 1997), which echoes the RM philosophy. Becoming socially embedded by forming relationships (or partnerships) is important for NTBFs to access new resources in fast moving industries. They also enable technology entrepreneurs to overcome ‘core rigidities’. Core rigidities occur when an entrepreneur becomes complacent within a relationship, which in turn decreases the odds of innovating or developing new capabilities or products (Leonard-Barton, 1992). Developing relationships with local actors can affect an entrepreneur’s level of local embeddedness (Kalantaridis, 2009), which can, in turn determine the flow of information and other resources available to an entrepreneur (Jack and Anderson, 2002).

A distinction is made between relational embeddedness, which is the degree of closeness and reciprocity among partners, and structural embeddedness, which is the extent to which a dyad’s relationship is grounded in social attachments and whose mutual ties are connected to one another. (Newbert and Tornikosi, 2013). Noordhoff et al. (2012) suggest that partners with high relational embeddedness (i.e. high closeness and reciprocity) will be less likely to address core rigidities. The likelihood of smaller

innovative firms acquiring new capabilities and other resources required for venture development can also be affected by knowledge redundancy, which is the extent to which there are knowledge overlaps between partners. Thus partners with low knowledge redundancy are more likely to complement one another in terms of skills and capabilities, instead of competing with each other. Noordhoff et al. (2012) contend that unique new capabilities can emanate from inter-firm relations among redundant partners as well as from a single firm's existing internal resources. These inter-firm relations therefore become relational resources.

Although entrepreneurs establishing and retaining relationships or partnerships can facilitate access to information, skills, capabilities and other resources (Lechner and Dowling, 2003) required for venture development, being socially embedded can have drawbacks for small firms. For instance NTBF entrepreneurs can be impelled by necessity, opportunity or strategic need to establish relationships with large, powerful partners (Eisenhardt and Schoonhoven, 1996). Whilst the potential for access to external resources such as expertise are plentiful, many novice entrepreneurs do not have the resources (in particular, time) to maintain a large number of embedded relationships (Newbert and Tornikoski, 2013). Some entrepreneurs who require external resources to ensure venture development are fearful of entering relationships with more powerful parties (Villanueva *et al.*, 2012), because they fear becoming vulnerable to more powerful parties (Katila *et al.*, 2008). Novice entrepreneurs may report the 'fear of opportunistic behaviour' (Yli-Renko *et al.*, 2001) relating to the appropriation of technology by the larger partner, or pressure for unduly favourable exchange terms (Fischer and Reuber, 2004). However Villanueva et al. (2012, p.28) assert that, "... the dangers may lie in exactly the opposite direction. Ventures that fail to reinforce and build mutual dependencies with other organizations may become expendable and may fail to create the new value and innovations they might otherwise reap from these relationships...". The relational view of the firm (Uzzi, 1997) illustrates that embedded

ties across organisational boundaries can create value and motivate exchange partners to share that value. This is because each exchange partner can potentially accumulate benefits from the embedded relationships (Fischer and Reuber, 2004).

Integrating RM and social embeddedness

The goal of this study is explore whether and how an NTBF in a rural bilingual context integrates RM and social embeddedness to ensure firm development and growth. Embedding is the method by which an entrepreneur becomes part of the local social structure (Jack and Anderson, 2002). We contend that engaging in RM activities is a way of becoming socially embedded. RM and the associated local embeddedness has been found to generate trust, and joint problem-solving between exchange actors, which can enable novice entrepreneurs to reduce costs, increase efficiency and legitimacy, gain access to external information, skills, capabilities and knowledge, all of which can enable novice entrepreneurs to actively engage in the invention of new products or services (Yli-Renko *et al.*, 2001; Fischer and Reuber, 2004). Research on embeddedness (e.g. Granovetter, 1985) also suggests that customers' embedded relationships with companies make them feel more like insiders rather than outsiders, which relates to the emotional and social benefits felt by customers engaged in successful RM (Hennig-Thurau *et al.*, 2002). Social embeddedness can also be achieved through personal networks, which is a key characteristic of RM in B2B markets (Gummeson, 1994; Holmlund and Tronroos, 1997). Novice entrepreneurs may engage in RM to enhance local embeddedness in order to establish and maintain relationships or networks with customers and to create value in the form of additional resources and expertise for their own firm and which can subsequently be passed to their customers. RM may, therefore, enable a novice entrepreneur to gain access to external resources required for adaptation and innovation to ensure NTBF sustained firm competitive advantage. The social embeddedness stimulated by RM and the associated increased potential access to

information, skills, capabilities and knowledge generated by local embeddedness may ensure NTBF development. Therefore we assert that RM can enhance social embeddedness via the facilitation and the retention of existing relationships for novice entrepreneurs seeking to gain access to external resources required for venture development.

Methodology

Driven by the need to appreciate the richness of context and to capture the relational dynamics of entrepreneurship (Stringfellow *et al.*, 2014), a qualitative approach was employed in order to elaborate or build theory relating to the development of RM and social embeddedness in a NTBF. A case study approach is appropriate to examine relationship-based phenomena (Jack, 2010), particularly studies focusing on ‘how’, ‘why’ and ‘so what’ questions (Yin, 1994) relating to a contemporary phenomenon within a real-life context. The persuasive power of the single case for building new theory or elaborating existing theory is recognised (Siggelkow, 2007) and is recommended over multiple case studies if the aim of the research is depth rather than breadth (Easton, 2010). Further, a single case study enables deep probing and analysis of a phenomenon in its natural setting, and has previously been used to investigate entrepreneurial learning and entrepreneurial capabilities in NTBFs (Burger-Helmchen, 2009; Voudouris *et al.*, 2010). Findings from a single case may be difficult to generalise to all other contexts (Eisenhardt, 1989). However, a single case approach is regarded as being appropriate if the phenomenon has attracted scant conceptual or empirical attention, or the case represents an extreme situation (Yin, 1994).

The case study analysed the evolution of RM reported by Richard Sheppard over the 2005 to 2010 period, who is a novice entrepreneur of the case firm, Draig Technology Limited. To limit informant bias relating to retrospective sensemaking bias and/or impression management (Eisenhardt and Graebner, 2007), information was

collected from several data sources. Firstly, one of the authors conducted participant observation at the firm between 2005-2008, during which observational data was manually recorded in a journal. Secondly, in-depth interviews were conducted with Richard Sheppard in 2008 and subsequently in 2011, to reflect on the evolution of RM at Draig. Interviews were also conducted with three other employees, 15 customers and documentary material were also analysed (See Table 1 for details of all case study evidence gathered). In 2012, a further interview was conducted with Richard Sheppard to follow-up on Draig's activities. This three-phase methodology yielded broadly similar reproducible responses (Yin, 1994). Triangulating multiple sources of evidence was done to minimise the risk of error within the case study and echoes the view of Eisenhardt and Graebner (2007, p.29) who advocate the use of diverse material to build a "story (which) is then intertwined with the theory to demonstrate the close connection between empirical evidence and emergent theory". Yin (2009) recommends using different types of evidence (such as participant observation, key interviews and documentary evidence, direct observations) to avoid criticism and bias associated with a single data collection method. Here it was important to analyse a variety of sources to capture a holistic view and a variety of perspectives regarding the development and activities of RM at Draig.

Thematic analysis and coding of the combined case material were employed as the main analysis method (Miles and Huberman, 1994). All case evidence were analysed iteratively by organising the data around key words relating to RM and social embeddedness (see Table 2 for a list of the codes and related themes identified during the analysis). Coding of the data was initially conducted by the interviewer, and subsequently verified by a second researcher. Interview transcripts were also examined by exploring critical events, key decisions, complexities of the customer and partner relationships and importantly, Richard Sheppard's reflections about himself and the decisions he had made since the inception of Draig.

Table 1: Case study evidence

| Case study evidence | Details | Timeframe and length of interviews |
|-------------------------|---|---|
| Corporate documents | Business plan, monthly meeting reports, tendering documents, marketing material (newsletters, website, product information sheets, press releases) | Collated during 2005-2011 |
| Participant observation | Observational data recorded in a journal. | Conducted during 2005-2008. |
| Interviews | 3 with Richard Sheppard 3 with Draig’s employees (Software Development Supervisor, Sales Manager and Business Development Manager) 15 with Draig’s customers (1 representative from each organisation comprising a range of sizes and industries from public and private sectors) | 2008 (2 hours), 2011 (90 minutes), 2012 (2 hours) Conducted in 2008 (1 hour each) Conducted in 2008 (average 1 hour each) |

Table 2 Key words and emerging themes

| Key words used in analysis | Themes |
|---|---|
| Rural enterprise (Jack and Anderson, 2002), influence of location, entrepreneur lifestyle (Westhead and Wright, 2013), entrepreneur motivations (Jayawarna <i>et al.</i> , 2013), local embeddedness (Kalantaridis, 2009). | Rural resource-constrained bilingual context |
| Relationship marketing (Morgan and Hunt, 1994), understanding customer needs, customized services (Helander and Ulkuniemi, 2006; Ruokonen <i>et al.</i> , 2008), trust (Gil-Saura <i>et al.</i> , 2009), RM leading to innovation (Yli-Renko <i>et al.</i> , 2001). | Relationship marketing |
| Networking to develop relationships (Helander and Ulkuniemi, 2006; Jack <i>et al.</i> , 2010), Informal networking (Shaw, 2006), strategic networking (Zhang, 2010), personal networks (Gummesson, 1994). | Networking as an aspect of RM |
| Formal strategic alliances (Street and Cameron, 2007), other inter-firm collaborations (Hedaa and Ritter, 2005), powerful partners (Villaneuva <i>et al.</i> , 2012). | Forming alliances as an aspect of RM |
| Forming relationships to create social embeddedness (Uzzi, 1997), social embeddedness enabling access to resources (Jack and Anderson, 2002), benefits from embedded relationships (Fischer and Reuber, 2004). | Social embeddedness in a rural resource-constrained bilingual context |

Overview of Draig Technology Limited

Following 20 years of working as a manager in the IT industry in England and the USA, Richard Sheppard decided to make a life change in 1999 and founded Draig Technology Limited (Draig meaning Dragon in Welsh) back home in Bangor, North Wales and solely ran the business for a year. Initially, Richard worked from home, but after hiring two employees he rented office space at a local business park. Richard began his RM efforts by proactively engaging with a range of local and regional customers, in order to learn about their software requirements. As there was no specific software product or target market at this stage, the nature of RM was ad hoc, illustrating the haphazard, grass root approach to marketing which is common in small firms (Gilmore *et al.*, 2001). However, this relatively loose approach to marketing consistently involved a close proximity to local customers. For instance, Draig's first software customer was located in the same business park as Draig. Subsequently Draig sought to diversify the customer base by offering information technology (IT) services to several local customers. Draig continued engaging in RM by forming relationships with new customers through actively networking and maintaining established customer relationships, initially in the North Wales area.

Draig's first successful product was the 'Tô Bach' software utility, which was launched in 2005. This software utility makes typing Welsh characters easier. The application was offered free of charge as part of a marketing campaign to create awareness about Draig. The success of 'Tô Bach' encouraged Draig to pursue other Welsh and English bilingual software opportunities through more focussed RM. Due to increased awareness of their expertise in bilingual software products Draig was selected in 2006 as the technology partner to translate and localise Microsoft Windows XP and Office 2003 applications into Welsh and subsequently became a Microsoft Gold partner. Draig's bilingual capability has since emerged as a key competitive advantage. However Richard still maintained his RM efforts with existing bespoke software

customers and delivered a variety of bespoke software applications to a number of customers. By 2010, Draig provided bilingual software services to the energy supplier sector and the employment size of the firm had increased to 14 employees. Once Draig's position in the marketplace became established, Richard was able to adapt and focus his RM activities according to the type of customer (bespoke, IT services, bilingual).

Draig's competitive advantage evolved from a bespoke capability to having a unique bilingual software capability, and a unique capability in the energy billing sector. With regard to the latter, their alliance and co-operation with a key large firm partner has been vital to marketing a software product, a key element of RM for software SMEs.

Findings

Rural resource-constrained bilingual context

Richard Sheppard's vision was to set up a successful software development company in North Wales. Richard believed that the Welsh software industry could develop into a key sector in terms of innovation, growth, and job creation. He described setting Draig up as "*a normal part of my vocation and life*". Richard wanted to make a life change and shaped the business around his preferred lifestyle, which is living and working in environmentally attractive North Wales. Locational choice is not always motivated by profit maximisation, because quality of life is important to people who live in rural areas (Jack and Anderson, 2002). The choice of Bangor as a location was based on lifestyle reasons, and because it was Richard's "*local place*". It was also, in part, due to Richard's belief that he could succeed in the area. Richard stated: "*For me it was a case of why can't I do it here? Why can't I be successful here?*". This aligns with Jayawarna et al.'s (2013) proposition that entrepreneur motivations are dynamically interrelated with social circumstances across their life course. Observations of the

entrepreneur’s way of working demonstrated passion, resilience and a determination to succeed in a challenging rural location.

External environments vary in their resource munificence and intensity of competition for resources. Location can be seen as a resource pool that can impede or stimulate entrepreneurial behaviour (Westhead and Wright, 2013). The locality meant that Richard’s expectations with regard to technical resources, software development skills, access to potential customers, and financial resources were limited, and thus Richard instinctively conducted RM in order to access resources. He realised that there was a dominant “*public sector-built economy*” in the area, and a culture that was not perceived as conducive or supportive to technical entrepreneurs. Richard reflected: “*What is lacking is a social infrastructure in that it’s not business friendly...it’s around attitude and culture...it’s a culture which is not sympathetic to entrepreneurs-they are seen as a challenge or a threat*”. Despite this resource-constrained context, engaging in RM and embedding his firm within the local culture enabled Richard to turn these limitations into specific firm competencies. Building up the firm’s bilingual capability enabled them to embed into the local culture, as it was an important criteria to customers:

“*the ability of the company to develop bilingual systems certainly featured when we were looking for a company to work with*” (Customer: Research manager from a government organisation).

He also developed relationships with customers who preferred a local software supplier:

“*we were definitely after someone local...just to make the interaction between the customer and the supplier easier*” (Customer: IT manager from a private manufacturing company). RM scholars have not yet considered the impact of locational context or how a NTBF might approach RM in comparison to a larger organisation, leading to the following proposition:

P1: Novice entrepreneurs facing the liabilities of NTBF newness in a rural resource-constrained bilingual context instinctively conduct RM in order to accumulate legitimacy and obtain resources from local and national external resource providers.

Relationship marketing

From the start of his firm, Richard mobilised his software development capability and experience to network and develop relationships with prospective customers although the RM approach was initially haphazard due to a lack of clear differentiation and unique offering from Draig. Richard sought to forge relationships with customers by developing an understanding of their issues and providing customised software and additional services to suit their needs (Ruokonen *at al.*, 2008). One customer (a Managing director of a non-profit organisation) stated that Draig “*understand what we are trying to achieve, they understand the way that we work and they bend over backwards to accommodate our wishes*”. Richard created relationships with potential customers both reactively and proactively but not in a strategic or linear manner. Draig’s first customer was identified via socialising. Richard stated: “*Very informal ... through meeting someone at the pub*”, illustrating the informal nature of networking undertaken by SMEs (Shaw, 2006). Other national (pan-Wales) customers were found through reacting to available tendering opportunities, networking at business events and exhibiting at conferences, but primarily through proactively communicating. Richard reflected: “*You can’t exist in isolation. You’re in business and you have to tell somebody. Who do you tell? Anyone that will listen!*”. The biggest resource investment that Richard made into each relationship was “*time to communicate ... e-mails, phone calls, meetings that kind of stuff*” in order to ensure customer satisfaction and as an attempt to build customer loyalty and identify further business opportunities (Helander and Ulkuniemi, 2006).

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During the first three years Richard exhibited proactive RM tendencies but not by active pursuit. Observations of the company indicated several RM techniques such as networking, cold calling, website, mailshots, and attending local and national events. Draig’s sales manager commented “*Richard’s got lots of ideas for approaching new customers...he wants to do everything but we need a more strategic approach*”. Over time Draig’s RM became evolved and more focussed. Richard stated in 2008: “*It’s still forming relationships, and there’s more structured networking like our relationship with Computercenter ... channelled networking. These types of relationships have been more successful in terms of getting customers and expanding brand presence*”. This highlights Richard’s improving RM competency whereby he was able to categorise and identify a specific set of beneficial relationships on which to devote resources into cultivating and managing.

Overall, pursuing an RM approach seemed to win and impress Draig’s customers. Indeed by pursuing RM, Draig was able to secure customers by providing them with tailor made software solutions, which the customer could not procure elsewhere. One of Draig’s customers (Head of systems for a non-profit company) reflected: “*The opportunity to build a relationship with them. This is important because if you have a good relationship with the company, you are a lot more likely to achieve your objectives because you can talk to them easily, they will understand you, you can build up the rapport, they will know where you’re coming from and you can both move forward together*”. The benefits for Draig included customer loyalty and future trade based on an established trust in their service and capability. The benefits for customers included comfort and reduced anxiety knowing that they had a reliable software supplier who would tailor solutions to their needs (Hennig-Thurau *et al.*, 2002). Contrary to the views of Katila *et al.* (2008), Richard was keen to develop relationships with larger organisations from the outset because he realised the potential benefits. However, the power dynamics between Draig and their first key large organisation customer were

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9 tipped more towards the customer who was vital in ensuring Draig's survival and
10 growth. Richard was eager to please the first large customer. He developed a new
11 innovative software solution and personally bore the high costs in order to ensure return
12 custom from the large organisation. In this example, the financial costs to a small
13 resource-constrained firm engaging in RM is apparent.
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18 *Networking as an aspect of RM*

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20 Richard proactively engaged in networking as means of developing relationships with
21 local actors, which led to a higher level of local embeddedness (Kalantaridis, 2009).
22 Richard stated: *"With networking, you just do it ... It's not like studying an advance*
23 *business or computer science theory ... it's how to communicate and influence people*
24 *... I already knew that"*. Whilst conducting observations, one of the authors
25 accompanied Draig to local and regional business exhibitions, cultural events and
26 business award ceremonies whereby networking took place by Richard, the sales
27 manager and business development manager. These activities were a reaction to the
28 local resource-constrained environment however key relationships were formed. For
29 Richard, networking is a social process based on affinity, shared attitudes, and trust
30 (Jack *et al.*, 2010). Networking is thus an aspect of Draig's RM, but the firm exhibited
31 'network myopia' (O'Driscoll *et al.*, 2000) with several existing networks ceasing to be
32 useful. Richard suggested that it is difficult to opt-out of local networks due to strong
33 ties with particular members, and the desire to retain strong local embeddedness. This
34 presents a potential dilemma for NTBFs who may be involved in too many relationships
35 for fear of becoming less embedded but risk venture development if they are unable to
36 focus on their most valuable relationships. For instance the business development
37 manager commented: *"Initially Richard felt that we should be present at all small local*
38 *events where we'd see people like our local MP who has put in a good word for us with*
39 *a client...so yes we have done lots of networking but then stopped aspects of it"*. Zhang
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(2010) has asserted that network ties should be cut strategically to fit the entrepreneur’s changing needs. Supporting this view, Richard shaped Draig’s networking and RM accordingly. Richard commented: *“The trigger was to realise the ineffectiveness and the lack of relevance (of certain networks) as we became more established. As we have become more specialised it has changed. It’s now more specialised relationship building”*.

Forming alliances as an aspect of RM

Richard consistently sought to enhance his own reputation and the reputation of Draig by developing alliances with key local (e.g. a local translation firm), national (e.g. Computercenter) and international (e.g. Microsoft) firms. Developing and maintaining these alliances were a key aspect of Draig’s RM and a form of resource mobilisation. Official partnerships were also promoted on the firm’s website and within tendering documents in order to portray legitimacy and credibility. Forming external alliances is an important strategy for NTBFs (Street and Cameron, 2007) as it can provide the opportunity to share resources and capabilities, and can generate a positive impact on value creation in the software industry (Swaminathan and Moorman, 2009). The benefits of embeddedness highlighted in the literature such as the development of unique new capabilities from inter-firm relations were evident at Draig. This is because Draig’s partners were carefully selected. Partners were selected if they had common strategic goals (i.e. ability to develop and deliver the software solution), and they were able to provide complementary resources and competencies. An alliance should create an idiosyncratic resource that is unique and difficult to imitate (Hunt *et al.*, 2002). Draig’s unique offering was its capability in bilingual software solutions, which provided added value to a larger, more robust partner and enabled Draig to become even more socially embedded as it reflected the culture of the location. Partners that are large and well respected have also enhanced Draig’s RM efforts by signalling observable

quality to potential customers. This enhanced legitimacy has reduced the risk perceived by some customers, a recognised RM benefit (Hennig-Thurau *et al.*, 2002). For instance one of their customers (managing director of a private financial services firm) stated: *"We liked that Draig had links with all kinds of different people like Microsoft"*.

Despite the benefits that partnering can provide a NTBF, this case highlights several issues raised by Villaneuva *et al.* (2012) relating to how entrepreneurial firms manage their relationships with powerful actors who control external resources. In 2009, a large organisation and potential channel partner sought Draig for their expertise in energy billing software solutions. This partnership developed into Draig's most important and lucrative alliance as the partner identified the customers while Draig developed the software. However Draig became severely vulnerable to the decisions made by the large external organisation and were forced to dissolve (due to the inability to recruit additional skilled staff) other customer relationships in order to focus on this potentially larger and more lucrative niche market. Although Draig had achieved financial success and considerable growth due to this partnership, there was a clash of cultures and relationship problems that frequently arose. Due to the amount of time and finance invested by Draig into this key relationship, Draig exhibited resource dependence on a key customer. He commented: *"Six or seven years ago we had 20 clients so if we lost one then it meant losing five or ten percent of my revenue. But it's different now"*. Despite doubling Draig's employment size and sales turnover, Richard has not enjoyed the experience. He reflected: *"The last three years have been extremely painful as we have been completely vulnerable ... they're ten times the size of us and although we have something they want, it would sometimes be easier to walk away"*.

Yli-Renko *et al.* (2001) and Katila *et al.* (2008) assert that entrepreneurs should not become too dependent on one large organisation. The case study illustrates that the mobilisation of resources by Draig and a large organisation has generated outcomes that would not have been possible by Draig going it alone (Villanueva *et al.*, 2012).

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Richard, however, recognises that he needed to establish a mechanism that promoted a display of equity and empathy from the larger, more ‘powerful’ organisation. Although RM involves the management of relationships, scholars have not examined how NTBFs should approach the management of relationships with larger, more powerful partners. As classic RM theory is more suited to larger more resource-abundant organisations, the following propositions reflect the new patterns observed by a NTBF in a unique context:

- P2: Early approaches to RM in NTBFs do not evolve in a linear or uniform manner.
- P3: Novice entrepreneurs in a rural resource-constrained bilingual context re-shape RM relationships in order to reduce dependence disadvantage with large powerful partners and to focus on their most valuable relationships.

Social embeddedness in a rural resource-constrained bilingual context

Draig exhibited low relational embeddedness when the firm started but by engaging in RM they had become highly embedded with several partners. Draig established relationships with partners who had different skills and knowledge sets in order to identify and reap opportunities and demonstrate enhanced credibility in the marketplace (Jack and Anderson, 2002). Draig’s skills in RM enabled them to become embedded and were key when developing their competitive advantage. Richard commented: “*a focus on software for the Welsh language came from these relationships ... developing relationships with key people in this sectors, focusing on the Welsh market and becoming a Welsh branded identity*”.

Draig tended to have closer, more highly embedded relationships with lower redundancy between the partners, which enhanced current capabilities such as straightforward bilingual web-based information databases. However, Draig were unable to mobilise new capabilities such as highly sophisticated multilingual software

solutions that could potentially be marketed to several industries. Draig thus needed to consider working with other large software companies for either a short period of time, or on a less intense/more flexible basis, in order to accumulate and mobilise new capabilities. The RM practiced at Draig promoted relational and structural embeddedness that fostered the following benefits for Draig: customer retention and accumulation of strategic resources such as market knowledge, additional skills in developing solutions, and a strong brand which provided credibility when tendering for high value contracts.

One locational impediment, which Draig initially viewed as an obstacle, was an external perception that a relatively rural area is not conducive to the development of innovative and cutting edge software firms. Draig's size meant that it lacked credibility in terms of customer references and past experiences. For instance one customer (programme manager at a government organisation) commented "*their smallness does show through their written document skills and their approach to project management*". Another customer (IT manager at a chemical company) perceived them as being "*friendly...which works for the small stuff, but can they really deliver a large scale software project?*" Richard overcame these barriers by focusing on the positive aspects of the locality. In this respect, Draig became socially embedded, which was vital in understanding the local structure and to identify entrepreneurial opportunities in a specific context (Jack and Anderson, 2002; Kalantaridis, 2009) by mobilising their bilingual capability. The subsequent focus on the Welsh language was an opportunity developed due to Draig's social context and a unique capability, which emerged through relationships. Richard reflected after Draig were commissioned to write the bilingual software standards for Wales: "*Did we get paid for writing the standards? No. Did we win any business? No. But I got to speak at various seminars three or four times a year and those seminars included people from Oracle, Microsoft...*". This demonstrates how a firm's social context was able to shape an entrepreneur's propensity to engage in RM.

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In 2006, Draig won a ‘Best Bilingual Business in Wales’ award, and subsequently developed new relationships with future customers based on the award’s publicity and improved perceived credibility in the marketplace. One of the customers whom Draig attracted after the award stated:

“the award was very impressive as it demonstrated their expertise and knowledge of Wales” (software engineer in the emergency services sector). These examples illustrate how Draig was able to use their bilingual capability to develop new networks and relationships and, ensure social embeddedness. Social embeddedness theorists assert that an entrepreneur’s level of social embeddedness can determine the resources available to an entrepreneur (Jack and Anderson, 2002). In this case we see an instance whereby an NTBF not only is able to access local resources but is able to create a unique capability through the practice of RM which further impacts their level of embeddedness. Therefore:

P4: Novice entrepreneurs with limited resources operating in a rural resource-constrained bilingual context seeking firm development engage in RM to broaden their firm’s social embeddedness.

P5: Novice entrepreneurs in a rural resource-constrained bilingual context engage in RM to accumulate and mobilise local embeddedness resources.

Conclusion

Contributions of the study

This in-depth case has provided rich description relating to the evolution of RM by a NTBF operating in a rural bilingual resource-constrained context where the firms’ novel technological and bilingual capabilities provide a competitive advantage. The key theoretical contribution of the case is its ability to demonstrate how this context shaped the RM process in a NTBF and illustrates how social embeddedness can be achieved by engaging in RM.

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Developing relationships, networking and forming alliances with customers and key partners can enable a novice entrepreneur with no prior business ownership and limited marketing experience to accumulate and mobilise resources in order to achieve credibility and business growth. Engaging in RM also generates social embeddedness benefits (i.e. customer retention and accumulation of resources) for a novice entrepreneur of a NTBF. Guided by presented findings, we elaborate RM theory by linking RM to the theoretical stream of social embeddedness that relates to the entrepreneurial process. The qualitative approach followed in this study builds on prior empirical and theoretical literature and enables the derivation of the contextually grounded new propositions that are amenable to subsequent testing.

Implications for practice

This case suggests implications for entrepreneurs and policy-makers. The behaviour of Richard Sheppard illustrates how relationship building and networking is appropriate for a novice entrepreneur who seeks to acquire resources to ensure firm development. We believe that RM can enable a firm to address the liabilities of newness in a rural resource-constrained context where there is limited external resources, and intense local competition for resources. Entrepreneurs need to focus on relevant and specialised partnership and alliance relationships that can provide strategic resources for firm development. This case also illustrates that entrepreneurs need to focus on customer needs and quickly recognise when formal or informal networks cease to be useful. Despite the potential benefits of alliances with larger organisations, we recommend that novice entrepreneurs should avoid over-dependence on a sole large organisation, and they should be vigilant throughout the relationship. Power struggles and control issues within a key relationship with a sole large organisation can threaten a novice entrepreneur's confidence, and firm development. Novice entrepreneurs need to foster RM with less embedded but more redundant vertical partners, which generate new and

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innovative capabilities required for new opportunity discovery. Working with other software smaller firms that have complementary knowledge, but are not too close in capabilities, would enhance inter-firm learning and may lead to co-creation of new solutions. Another way of remaining innovative is to proactively change partners in order to fight ‘institutionalised creativity’ (Grayson and Ambler, 1999). Finally, RM can enable entrepreneurial firms to embed themselves socially and in the wider opportunity structure. Taken together we believe that this study demonstrates RM to be an effective process for entrepreneurial firms to overcome local restraints on business survival and development.

This case has implications for policy-makers seeking to promote economic development, whilst at the same time enhancing local culture in a resource-constrained environment. Assuming an interventionist stance, we suggest that policy-makers seeking to promote wealth creation could play an active role in encouraging entrepreneurs to engage in RM for venture development. Policy-makers could directly (or indirectly) support the provision of information and educational support systems that promote the take-up of RM, particularly by inexperienced entrepreneurs who do not have any prior marketing and/or business ownership experience. Events and/or schemes directly (or indirectly) supported by the public purse should clearly illustrate to entrepreneurs the benefits of partnering, and the risks associated with overdependence on a single partner. At these events, the story of Draig Technology Limited could be presented as an exemplar case illustrating the issues facing NTBFs, and how RM is a route to ensure venture development in a rural resource-constrained area. Finally the bilingual influence has also been shown to aid the development of new relationships and thus ensuring social embeddedness for Draig in North Wales and as such, this could have wider applicability to firms who wish to operate in bilingual markets globally.

Limitations of the study and recommendations for future research

Inevitably, evidence from a single case relating to a single industry and a single extreme locational context is associated with limitations. Despite the recognition by Eisenhardt and Graebner (2007, p.27) that, "... theory building from multiple cases typically yields more robust, generalizable, and testable theory than single-case research", the persuasive power of the single extreme case for theory building or elaboration is recognised (Siggelkow, 2007). We recognise that the novel findings from this study need to be explored in a variety of national, environmental and cultural contexts in order to ascertain their validity. However, the explored context, which is atypical in entrepreneurship research, aids theoretical development by serving as a comparison (Stringfellow *et al.*, 2014) with the extant RM and resource mobilisation research more typically conducted with reference to large firms, and resource munificent environments. Additional qualitative (i.e. multiple cases that can derive propositions deeply grounded in varied empirical evidence) (Eisenhardt and Graebner, 2007) and quantitative studies are required to explore the issue of RM in small private entrepreneurial firms. Case studies or cross-sectional quantitative studies could compare different types of serial and portfolio entrepreneurs who have contrasting combinations of prior business ownership success and/or economic and/or non-economic failure experience to mobilise. Links between RM, prior business ownership experience, embeddedness and networking could provide additional insights to guide the resource allocation decisions of practitioners seeking to protect and economically and socially stimulate rural communities with distinctive cultural and linguistic attributes.

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