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# Improving HRM practice in SMEs: how to apply relationship marketing concepts

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**Improving HRM practice in SMEs: How to apply relationship marketing concepts**

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**Abstract**

**Title:** Improving HRM practice in SMEs: How to apply relationship marketing concepts

**Keywords:** Relationship marketing; HRM; SME's; personal relationships.

**Category of paper:** Research paper

**Purpose of the paper:** This paper seeks to demonstrate an increased understanding of the importance of the creation of sustainable performances through the development of enhanced employee relationships that impact on small business outcomes in Australia.

**Methodology:** A literature review and pilot study led to the development of a comprehensive survey instrument. The data from the survey was analysed and ten constructs identified, all relating to the relationships of recruitment, selection and retention. The final phase of the study focused on the confirmation of four significant constructs which were firstly pilot tested and then validated by semi-structured interviews.

**Findings:** A series of relationships similar to that found in "relationship marketing" were identified as contributing to enhanced sustainable small business outcomes. This in turn has laid the framework for entrepreneurial activities to be improved through ongoing relationship development.

**Implications for theory:** The paper demonstrates that the theory of relationship marketing may be utilised in disciplines other than marketing, notable in this case, in human resource management.

**Implications for practice:** The study demonstrated an approach in which the use of the characteristics of relationship marketing when applied to the recruitment, selection and retention of employees in small entrepreneurial businesses can enhance sustainable performance.

**Value of the paper:** The study will be of interest to academics and the owner managers of small to medium enterprises.

**Number of pages:** 24

**Number of tables/figures:** 3

**Section headings:** Introduction, literature review, recruitment, selection, orientation, development and continued employee involvement, retention through development of trust, methodology, results and discussion, relationship marketing, conclusion.

## **Improving HRM practice in SMEs: How to apply relationship marketing concepts**

**Keywords:** Relationship marketing; HRM; SME's; personal relationships.

### **Introduction**

Crompton, Morrissey and Nankervis (2002) suggest that effective worker recruitment, selection and retention can be deemed to contribute to successful work performance and business outcomes. Small business has many challenges in maintaining a competitive advantage and, it was with this in mind as well as the increasingly hard line nature of competitive recruitment in a buoyant economy, that the foundations of the study were established.

Large organisations frequently have the advantage of having an expert team of human resource experts to handle their recruitment, selection and retention issues. On the other hand small business can not only be deficient in management expertise but especially in human resource capabilities (de Kok, Uhlaner and Thurik 2006). For this reason it is important to establish the causative factors in the effective recruitment methods for family owned/managed small business.

The study context developed from the understanding of the existing strengths and weaknesses of recruitment, selection and retention within the context of small business. This was based on the researcher's own experiences as an owner / manager of a small business and the need to establish and reaffirm the experiences of other small business owner managers. This required a comparatively exploratory research study of a critical

mass of small businesses that would enable the sharing from an interdisciplinary perspective of what might previously have been uncharted territory. The literature had been firmly established in terms of big business. However, the area of rural and regional small business quickly became apparent as the basis for niche based exploration.

Small business is often at a distinct disadvantage in terms of recruiting, selecting and retaining staff when competing against big business in what is becoming an increasingly competitive global market. However, it is essential that small business obtain and maintain the best possible staff to sustain their competitiveness. This has been confirmed by Crompton, Morrissey and Nankervis (2002) when they suggest that the enhancement of work performance and positive contribution to business success can be made through the identification and successful recruitment, selection and retention of staff (Crompton, Morrissey and Nankervis 2002).

Effective recruitment, selection and retention of employees in big business is normally maintained by a core team who perform the human resource management role and preserve effective outcomes based on theoretical developments and supported by the experiences of large organisations (de Kok, Uhlaner and Thurik 2006). Highly trained and qualified staff are able to seek out the most appropriate salary and conditions as businesses both large and small compete for their skills in a market that has a shortage of qualified labour. The study aims to provide direction as to what small business can do to enhance their capacity to compete in this environment. To guide the research, the following research questions were posited:

Q1 - Are there any underlying factors that contribute to effective human resource management practices in family-owned small business in rural and regional areas of Australia?

Q2 - Can a model be developed to assist owners of family-owned small businesses to have more effect HR practices in their businesses?

### **Literature review**

#### **Recruitment**

The process of recruitment involves identifying adequate numbers of suitably skilled and competent persons to apply for the position that has become available within the organisation (Cook 1998). Other authors have suggested that it is to draw a group of appropriately qualified people who want to apply for employment vacancies that exists (Crompton, Morrissey and Nankervis 2002). Small business, it is suggested, have lacked the formality found in the recruitment processes that are carry out by big business (Carroll, Marchington, Earnshaw and Taylor 1999). This of course is the result of the fact that recruitment for larger organisations that have specific HR staff and departments to deal with such matters must employ formal strategies to maintain control. On the other hand, it is apparent that in the family owned and managed small business, restraints of time and money may contribute to the lack of formal process involved in the attraction of possible new employees to the business. Notwithstanding this, small business must “attract” a sufficient number of employees from which to select and retain employees

within the same competitive environment as large business. Attracting the appropriate employee is the first phase in establishing the relationship between employer and employee. From this, is it possible to identify what characteristics of the small business recruitment processes contribute to effective attraction outcomes. Having briefly reviewed recruitment, attention is now turned to staff selection.

### **Selection**

Selection of staff from those attracted through the recruitment process can often be a more complex experience. The selection process can include activities such as checking references, interviewing in order to obtain an appropriate match between the vacancy and the possible new employee (Worthington 1992). Other selection activities can include testing the employee's abilities to see if they meet the organisations needs. Cook (1998) recognized that it is important that the candidate selected must be the person who can most effectively contribute to the businesses goals.

Small business owners are repeatedly forced to have a reactive recruitment and selection process due to financial and time constraints (Carlson, Upton and Seaman 2006). Holliday (1995) suggests that often lack of understanding of the requirements of the position impede successful recruitment outcomes. The selection process can be enhanced however through the establishment of a good "fit" between the employee and employer this can contribute to the matching process of the relationship. The prospective employee employer match at this early stage of the association can form the basis for a bond for

“attraction” which can develop and will enhance long term economic goals of both parties. Staff orientation is now briefly reviewed.

### **Orientation**

Orientation must be conducted as soon as possible after the employee commences work within the business. Orientation and induction of new employees has a focus toward “Building the relationship”, that is the employer developing a relationship with the employee, based on the “attraction” that had been established in the recruitment and selection phases. Holton (1996) confirms that orientation is “the most common type of training provided by organisations” and forms part of a socialization for new employees.

Orientation has been defined as the “introduction of new employees to their job, their colleagues and the organisation” (Stone 2005). This definition confirms the importance of building on the “attraction” of the recruitment and selection process through the rapid development of the initial employee relationship orientation with not only the other employees but also their relationships within the organisation. An orientation process that is soundly planned can have the intended effect of improved productivity as well as retention levels (Brown 2005). The effect of the family-like relationships found in the small business environment can enhance the new employee’s orientation and ability to rapidly adapt and fit into the organisation.

Provision of important information as part of the orientation process such as business guidelines, regulations and rules can significantly reduce the possibility of mistakes that



can lead to stressful situations. Mentoring and coaching programs established during the orientation process can enhance the relationship match established in the selection process. More experienced employees can enhance the development of relationships by ensuring the new employee understands the relationships necessary to attain goals and desired performance outcomes.

Support of new members of staff through encouragement and involvement can enhance the relationship past the orientation process toward a long-term relationship of continual employee involvement (Kram 1985). Staff involvement is enhanced by staff development.

### **Development & continued employee involvement**

The initial orientation provides the new employee with foundation on which his or her relationship will develop within the organisation, large or small. The importance of the fulfillment of promises made during the recruitment, selection and orientation phases will in turn have a major impact upon the development of the long-term relationship between employee and employer. Employee satisfaction which can be attained through the development and involvement within the organisation leads to long-term retention and in turn rewards and profitability for the employer. Employees must feel that the promises made are being met by the employer.

Small firms, it is suggested by (Storey 1994), modify their management style toward the employees and the contributions they can make to the organisation. It is evident

therefore that in small business the impact on each member of staff has a much greater level of significance than in larger organisations. Chell (1997) found that by increasing their focus on the relationship with employees, owner/managers of small business developed more effective performance levels.

Training and development, which frequently in small business takes the form of on-the-job training, due to the reduced cost factors in comparison to off-the-job training, can contribute to meeting the promises established during the recruitment, selection and orientation phases (Harris, DeSimone and Randy 1994). The added benefit of on-the-job training is that it develops and enhances relationships at a more personal level and this in turn cultivates and deepening level of trust between employer and employee within the smaller business. On-the-job training develops the expertise of the trainer and trainee alike, enriching a sense of long-term attachment that creates reductions in turnover. Having identified trust as a factor, the next section outlines the importance of trust in relationships.

### **Retention through development of trust**

Retention can be enhanced through training and development as well as through the matching of employee, employer and organisational needs and meeting promises and expectations established initially within the relationship (Kram 1985). Trust is however something that can only be attained with a sound understanding of the wants and needs of the employee. Trust is established when a willingness is established and a reliance develops between both employer and employee. Behaviours reflect within the

relationship a belief that the employee feels no uncertainty within the relationship with the employer and the employer likewise feels no vulnerability toward the reliance that he or she places within the relationship with the employee. Employees have career expectations that need to be met. If these expectations are not achieved, this can cause dissatisfaction and lead to employees seeking work elsewhere (Herriot 1989).

## **Methodology**

A combination of the 'mixed model' and 'mixed methods' were chosen to form the basis of the research design. This choice has been made because of its ready acceptance throughout a wide variety of fields, as a basis of obtaining answers to formerly unanswerable queries (Tashakkori and Teddlie 1998). The design also focused on the claim by Sekaran (1992) that empirical research enables the broader area to be narrowed down to more specific issues, in this case big business down to small. Sekaran (1992) also confirmed that the mix methods approach 'lends rigor to research' (p. 219).

The researcher received 202 responses to a formal survey questionnaire that was administered to small business, firstly via regional and rural Rotary Clubs, mail to randomly selected small businesses from the yellow pages and by hand delivered to small businesses in a door to door letter drop.

Following the analysis of the survey data, a series of ten semi-formal interviews were conducted until saturation point was established with the owner/managers of family-

owned small businesses. Their contributions provided the confirmation of the significance of 'relationships' and enabled the establishment of the new Three R's model, that is the Recruitment, Relationship and Retention (RRR) model.

## **Results and discussion**

The analysis of the quantitative data established a model of the demographic profile of the owner/managers and their businesses and through the use of Levene's tests, ANOVA's and t-tests which were performed on the ten (10) valid and reliable factors that had been previously established through the use of principal component analysis (PCA). This was conducted initially as a form of exploratory factor analysis on which reliability had been confirmed by (KMO) Kaiser-Meyer-Olkin and Chronbach's Alpha tests. Only the constructs that were identified to be significant on several constructs were identified. Stepwise regression was then applied.

The regression analysis identified four causative demographics in the improvement of recruitment and retention in family-owned small businesses in rural and regional areas of Australia. These demographics were firstly gross income of the small business; secondly, the trading type of the small business; third and fourthly were the age and education level of the owner/manager of the small family owned business. The demographics are shown in Table 1 in appendix A.

Table A describes the four demographic causative factors and their impacts upon the recruitment and retention outcomes. Firstly, the older the age of the small business owner/manager and the higher the level of his or her education the much more inclined the employees were to be retained longer within the small family owned business. The next demographic trading type indicators were registered companies retained staff longer than partnerships or sole traders and the higher the gross income of the small business the higher the retention rates of employees.

A second and more important model developed from the regression analysis and identified the relationship factors in the recruitment and retention of employees as found in Table 2 in appendix A.

Table 2 identifies the relational causative factors that contribute to the establishment, building and maintaining of strong relationships between employers and employees which in turn contribute to the effective recruitment, selection and retention of employees in family owned small business in rural and regional areas of Australia.

The first of the four significant constructs that were found to significantly impact upon the relationships between employer and employee in the quantitative analysis was the Construct for *Human resource management framework for employment relationships* as identified the factors that “*attracted*” the new employees to the first phase of the relationship by the owner managers of the small businesses in rural and regional Australia. The second significant construct identified was that of the *Initial employee*

*relationship orientation* and identified the factors that contributed to the employer “*building the relationship*” with the employee so that the economic goals of both parties can be achieved. The third significant construct is that of the “*Long-term relationship and employee involvement*”, that is the employer’s attempts to fulfill the “*promises*” made to the employee during the phases of the previous two constructs must continue through the length of the relationship thus enabling satisfaction and long-term retention. The success of this relationship level can lead to rewards for the employer in terms of long-term profitability. The fourth and final significant construct relates to the “*Legal and moral relationship with employees*” and occurs as a result of the development of a level of “*trust*” in which both employer and employee understand the wants and needs of the other party.

The second phase of the investigation concerned the examination of the relationship constructs on recruitment, selection and retention of employees by investigating the framework underpinning the relationships that were thought to exist and had been identified through the quantitative analysis that had determined the four significant constructs.

The quantitative data had provided a very limited view of behavioral issues for the owners/managers of the small businesses. In order to enhance the views concerning the relationship provided through the survey data, it was necessary to further investigate the data through discussions with the owner / managers of the family business.

Accordingly, a series of interviews were conducted with those participants to enable the emotional responses to be sought in order to confirm or disconfirm the findings of the quantitative research. These interviews would enable the researcher to establish of the level of experiences, behaviors and emotions were similar in their interactions and relationships with their employees. Respondents were interviewed until saturation was reached.

### **Research results**

#### **Employer / employee relationships in small business and the use of relationship marketing theory to enhance outcomes**

It is difficult to not experience the interaction between employer and employee in both large and small business without involvement of emotions. While Mathis and Jackson (1991) found that relationship skills were frequently used by owner / managers as they regularly took on the full weight and responsibility of human resource management thus requiring superior levels of rapport. Bolton (1971) found that the owner/managers of small firms are often said to develop enjoyable and peaceful work environments where employee and employer enjoy satisfying work relationships. It is through the marketing, development and mentoring of such interactions between employer and employee that an enhanced framework / theory of 'relationships' can contribute to superior links and retention outcomes.

Gronroos (1996) suggests that relationship marketing requires 'co-operation' and the development of 'partnerships' as a key function of the relationship marketing discipline.

It is evident from this research that this is a key to recruitment and retention relationships. Relationship marketing takes the association between customer and marketer from a mere transaction to a relationship (p. 5 and p. 11). Gronroos (1996) found that ‘attitudes toward customers and their behaviours and ways of executing their tasks are imperative to successful maintenance and enhancement of customer relationships’ (p. 10). “Knowing the long term needs and desires of the customer” as well as the development of a “notion of trusting co-operation” with the customer is a key to successful relationship marketing (Gronroos 1996).

### **Relationship marketing**

The Nordic School of Services inspired the idea of relationship marketing in the 1970’s as a underpinning for the construction and management of relationships (Gronroos 1996). ‘Relationship marketing’ was defined in the 1980’s and 1990’s as a terminology of the marketing industry. Gronroos (1990) confirmed a definition as the activity that can “identify and establish, maintain and enhance relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met”; and that this is done by a “mutual exchange and fulfillment of promises”. The outcome being a “trusting relationship between the parties involved ...enabling the fulfillment of promises if [it] is to be successful (p. 7-8). Foss and Stone (2001) identified the link between relationship marketing for customers and the recruitment of employees suggesting that customers should be “targeted for recruitment” (p. 233). The phases of the relationship marketing process were identified by both Gronroos (1990) and Foss and Stone (2001)



and these showed a firm alignment to the phases that have been identified by the recruitment and retention theory and by the owner / managers of those small family owned businesses who participated in quantitative survey. Doole and Lowe (2004) proposes that relationship marketing is based on customer satisfaction with the prime focus of “retaining customers” and a focus on “customer satisfaction” and “multi-level and multi-directional” communication (p. 323).

It is within the context of this relationship marketing theory that the outcomes of the model established from the quantitative data analysis established the phases of the recruitment, relationship and selection model found in Table 2.

These phases from Table 2 have then been integrated into Table 3 in appendix B. Table 3 demonstrates the development of the links between the new paradigm phases developed from the four new constructs for the sustainable performance in the recruitment, selection and retention of employees and how they parallel the phases of relationship marketing. It is through the integration of these phases of marketing into the recruitment, selection and retention of employees that sustainable performance can be achieved in small business. The phases in Table 3 are now discussed in greater detail.

### **Phase I : RELATIONSHIPS IN ATTRACTING THE CORRECT EMPLOYEES**

The recruitment phase of the employment cycle finds the employer seeking a group of suitable people from who they will select a person with which to establish a working relationship. The first construct for *Human resource management framework for*

*employment relationships* as identified the factors that “*attracted*” the new employees to the first phase of the relationship by the owner managers of the small businesses in rural and regional Australia found in Table 3. This coincides with Christy, Oliver and Peen (1996) who suggests that relationship marketing’s success depends on the extent to which participants “understand ... the potential rewards and the reciprocal duties necessary to make it work (p. 3). Relationship recruitment must establish this as part of the attraction phase for establishing the framework of the relationship. Gronroos (1997) more closely aligns the phase by suggesting that it is the “attraction” of the customer (or in this case the employee) while establishing the relationship concept, that enhances sustainability of performance in a human resources context.

## **Phase II: RELATIONSHIP DEVELOPMENT AND ORIENTATION OF EMPLOYEE**

This the second phase in relationship marketing to enhance recruitment and retention involves the “building of the relationship” Gronroos (1997). Once the new employee has been selected in phase one the orientation process must focus on building the relationship. Gronroos (1997) identifies this as the employer building relationships with the customer (in this case the employee) so that the economic goals of the relationship can be achieved. This coincides with the second significant construct that has been identified as creating sustainable performance through relationship marketing, that of the *Initial employee relationship orientation* which identified the factors that contributed to the employer “*building the relationship*” with the employee so that the economic goals of both parties can be achieved found in Table 3.

### **Phase III: RELATIONSHIP CONTRIBUTION TO FULFILLING PROMISES**

#### **MADE TO EMPLOYEES**

The third phase in relationship marketing to enhance recruitment and retention involves the involvement of employees and the development of the long-term relationship. This aligns to that part of the relationship marketing phase which identified with “Fulfilling promises that have been given is equally important as a means of achieving [employee] customer satisfaction, retention...[and] long-term profitability” (Calonius 1988; Reichheld and Sasser 1990; Gronroos 1997). The alignment with the third significant construct and that of the “*Long-term relationship and employee involvement*” is that the employer’s attempt to fulfill the “*promises*” made to the employee during the phases of the previous two constructs and this must continue during the length of the relationship thus enabling satisfaction and long-term retention found in Table 3. Employee involvement must commence from the start of their employment and continue with the encouragement of their involvement within the business through training and increased challenges. This in turn enhances the sustainability of performance in the long-term relationship. It is at this phase that the employer must be seen to meet the promises made during the recruitment, selection and orientation phases. If “promises” are not met the leads to disenchantment and loss of trust within the relationship.

#### **Phase IV: RELATIONSHIPS CONTRIBUTION TO TRUST AND LONG-TERM OUTCOMES**

This final phase in the enhancement of the recruitment and retention of employees through the application of the relationship marketing model involves the development of

a level of “Trust”. The fourth and final significant construct relates to the “*Legal and moral relationship with employees*” and occurs as a result of the development of a level of “*trust*” in which both employer and employee understands the wants and needs of the other party and continues to try to commit to the relationship with a certain amount of morality to the commitment found in Table 3. Gronroos (1997) and Moorman and Zaltman (1993) suggest that “...a willingness to rely on an exchange partner in whom one has confidence”. Trust in relationship marketing is seen as “a behavior[u]ral intention that reflects reliance on the other partner and involves uncertainty and vulnerability on part of the trust or”, in tern creating sustainable performance through this new paradigm of relationship marketing for recruitment and retention of employees in small business.

## **Conclusion**

### **THE THREE R's OF RECRUITMENT, RELATIONSHIP AND RETENTION OF STAFF: CREATING SUSTAINABLE PERFORMANCE THROUGH RELATIONSHIP MARKETING**

Small businesses enhancement of entrepreneurship and creation of sustainable performance through the use of relationship marketing characteristics in the recruitment, selection, orientation and development of trust between employers and employees can only enhance the long term sustainability and performance of small businesses who participate in this new and innovative model for recruitment and retention of staff.

The research evolved from an entrepreneurial ideal of the owner manager of a small business who realized the importance of reducing the expenses involved in maintaining sustainable performance in a volatile employment market. Exploratory quantitative research identified four relationship constructs that paralleled the four relationship marketing phases. These findings were enhanced through qualitative interviews that confirmed the quantitative findings as providing a new paradigm for creating sustainable performance through the entrepreneurial application of relationship marketing characteristics. Hence forth, known as the three RRR's of Recruitment, Relationship and Retention that are intuitive as a means of creating sustainable entrepreneurship in SME's.

## Appendix A

**Table 1: Causative Demographics of Recruitment & Retention**

<b>CAUSATIVE DEMOGRAPHICS EFFECTIVE RECRUITMENT AND RETENTION IN SMALL BUSINESS</b>			
<b>Age of Small Business Owner / Manager</b>	<b>Education Level of Small Business Owner / Manger</b>	<b>Small Business Trading Type</b>	<b>Gross Income of the Small Business</b>

Source: Established for this research

**Table 2: Causative Relationship Factors of Recruitment and Retention**

<b>CAUSATIVE RELATIONSHIP FACTORS EFFECTIVE RECRUITMENT AND RETENTION IN SMALL BUSINESS</b>			
<b>Human resource management framework for employment relationships</b>	<b>Initial employee relationship orientation</b>	<b>Long-term relationship and employee involvement</b>	<b>Legal and moral relationship with employee</b>

Source: Established for this research

**Appendix B**

**Table 3 New paradigm model of Recruitment, Relationship and Retention (RRR) overlaying the Relationship Marketing Model**

Phase I		Phase II	Phase III	Phase IV*	BENEFITS FOR SMALL BUSINESS
Position needs to be filled by new employee		New appointment is made	Employee takes up position	Employee encouraged to become a long term employee	
Employee is recruited		Orientation must be conducted as soon as possible after employee commences work within the small family-owned business	Employee involvement must be instigated immediately and continued throughout the length of employment	Understanding of the wants and needs of long term employees must be applied to encourage longevity of placement.	
Construct for <i>Human resource management framework for employment relationships</i> policy must be applied here		Construct for <i>Initial employee relationship orientation</i> factors must be applied here	Construct for <i>Long-term relationship and employee involvement</i> must be applied here	Construct relating to the <i>legal and moral relationship with employees</i> must be applied here	<ul style="list-style-type: none"> <li>• Improved employee/ employer relations</li> <li>• Decreased turnover</li> <li>• Increased profits</li> <li>• Reduced stress on employee and small business owner by reduction of unmet promises</li> </ul>
<b>RELATIONSHIP MARKETING OF NEW RECRUITMENT RELATIONSHIP &amp; RETENTION MODEL</b>	'Attract' customer (employee) Is the first phase in establishing the relationship marketing concept. (Gronroos 1997)	'Build relationship' Employer builds relationship with the employee (customer) so that economic goals of the relationship can be achieved (Gronroos 1997)	'Promise' concept 'Fulfilling promises that have been given is equally important as a means of achieving [employee] customer satisfaction, retention ...[and] long-term profitability' (Calonius 1988) & (Reichheld 1990) in (Gronroos 1997)	Develop 'Trust' That is '... a willingness to rely on an exchange partner in whom one has confidence'. Trust in relationship marketing is seen as "a behavior[ur]al intention that reflects reliance on the other partner and involves uncertainty and vulnerability on part of the trustor" (Moorman 1993) in (Gronroos 1997)	RELATIONSHIP MARKETING 'is to establish, maintain and enhance relationship with customers [employees] ... at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfillment of promises' (Gronroos 1997, p. 327)

\* While the model appears to be linear, the relationship building process is a continuous process.

**Source: Developed for this research**

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