

# SMEs' orientation towards new service performance in the Thailand context

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## Abstract

*One of the key issues local banks in Thailand needs to address is how to become "Small-and-medium exporters (SMEs) oriented." This research argues that the concept of SMEs' orientation in domestic banking industry is weak which leads to a passive approach towards how new services have been developed by local banks. This paper examines the SME orientation and examines how local and foreign banks develop new banking service development to assess the effectiveness of current practices in providing better service to SMEs. The domestic banking industry needs to be proactive to the needs of SMEs who generate a huge amount of income based on products exported from Thailand.*

**Key words** : small and medium exporters, new service, bank, Thailand

## บทความวิจัย

# การเรียนรู้ความต้องการของธุรกิจขนาดกลางและขนาดย่อม เพื่อการปรับปรุงการบริการใหม่ๆ กรณีศึกษาของประเทศไทย

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## บทคัดย่อ

ปัญหาที่เกิดขึ้นกับธนาคารภายในประเทศส่วนใหญ่ที่ดำเนินการเจริญเติบโตของประเทศ คือ การเน้นการให้บริการกับบริษัทขนาดเล็กและขนาดกลาง งานวิจัยนี้มีวัตถุประสงค์เพื่อส่งเสริมให้ธนาคารที่ดำเนินกิจการภายในประเทศไทย พิจารณาปรับปรุงการพัฒนาการบริการทางการเงินใหม่ๆ เรียนรู้และทำความเข้าใจอย่างลึกซึ้งถึงความต้องการของ บริษัทขนาดเล็กและขนาดกลางให้มากขึ้น งานวิจัยชิ้นนี้ใช้วิธีวิจัยเชิงคุณภาพและเชิงปริมาณประกอบกัน การวิจัยเชิงคุณภาพเป็นการสัมภาษณ์เชิงลึก เพื่อให้เข้าใจถึงความแตกต่างระหว่างความต้องการของบริษัทขนาดเล็กและขนาดกลาง และการบริการใหม่ๆ ของธนาคาร จากผลการวิจัยเชิงคุณภาพพบว่าธนาคารส่วนใหญ่ควรมุ่งเน้นความต้องการของบริษัทขนาดเล็กและขนาดกลางให้มากกว่าที่เป็นอยู่ ส่วนการวิจัยเชิงปริมาณของบริษัทขนาดเล็กและขนาดกลางพบว่า ถ้าธนาคารในประเทศไทยพัฒนาการบริการทางการเงินใหม่ๆ โดยเน้นกระบวนการในการพัฒนาให้ตอบสนองความต้องการแก่บริษัทส่งออกขนาดเล็กและขนาดกลางให้มากขึ้น น่าจะทำให้ความสัมพันธ์ระหว่างการพัฒนาการให้บริการทางการเงินใหม่ๆ และผลประกอบการพัฒนาการให้บริการทางการเงินใหม่ๆ เพิ่มขึ้นมากกว่าที่เป็นอยู่ในปัจจุบันนี้

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## Introduction

Kasikorn research report (2006) forecasted that the Thai banking system will post net profits after tax in the final quarter of 2005 totalling approximately THB 19.90 billion (Kasikorn, 2006). These figures showing tremendous growth and economic contribution of the service sector not only draw increasing attention to the issues and challenges of service industries worldwide (Bitner, 1997), but also indicate the growing market and potential for the financial services industry, including banking, for the whole nation. For individual banks, there is stiff competition in attracting more customers, especially small and medium enterprises (SMEs), who are a main income generator for Thailand. Increased competition has posed considerable threats to the competitive positions of banks during the past decade. The nature of banking has been changed by the impact of deregulation, financial innovation, new legislation and globalization. Traditionally, commercial banks were the only firms to offer specific financial products, such as credit cards and they dominated the market for commercial and consumer loans. Nowadays, besides competing with existing competitors in the same sector, less regulated non-bank firms have sprung up to offer many banking services. These firms offer competing products and services to highly profitable businesses and ignore the less profitable firms. Such competition continuously

goes after more market share. Banks (as well as many new competitors) tend to bypass SME needs without defining exactly what new services they need, assuming that services developed for larger companies automatically fit SMEs.

Improving SMEs orientation to enhance new service performance (NSP) has been recently discussed among research scholars (Alam, 2002; Alam and Perry, 2002; Appiah-Adu and Singh, 1998; Matthing, 2004). As service will be more successful with continual information flow of service ideas, these proponents suggest that more successful new service can be effectively developed with SMEs involvement. A review of new service literature reveals that an overwhelming majority of customer orientation studies have failed to include SMEs. Although there are growing calls to include SMEs in customer orientation, there is a paucity of customer orientation - studies specifically looking at SMEs and few banks which actually are SME oriented.

Developing new products involve cost and risk. Despite the fact that new products are essential for growing firms, many new products finally fail in the marketplace resulting in massive financial losses (Oldenboom and Abratt, 2000). Although in financial services, financial losses were claimed to be low, considerable hidden costs including waste of managerial time and effort, the effect of failure on corporate image, and the loss and constraints implied from used resources following such failures may exist

(Oldenboom and Abratt, 2000).

In Thailand, 45.5 per cent of small and medium enterprises (SMEs) export but less than one out of five newly established SMEs survive as a viable business. One reason, only 20 per cent of SMEs survive while the others have proven to be short-lived is due to shortage of supportive capital. SMEs are in need of big help in terms of financial assistance, especially in marketing new and value added products (Chaitrong, 2004; Pratuangkrai, 2005). This study examines SME orientation and new financial service performance issues in the context of small and medium exporters in Thailand. As Thailand is representative of middle-income developing economies, this is a useful context in which to look at these issues.

Consequently, this study focuses on issues related to customer orientation of small and medium exporters within Thailand in financial services business environment. Our aim is to understand the relationship between small and medium exporters orientation and new service performance (NSP) among private banks and public banks. Private local banks are defined as banks which are established by Thai citizens. Foreign banks are those whose headquarters are outside Thailand, such as in the USA or Singapore.

In the following sections a brief review of the literature on customer orientation concept, new service performance concept, and their

applicability in the small and medium exporters' context is presented. In addition, propositions pertaining to customer orientation in small and medium exporters towards new service performance are developed based on evidence of interview results and literature reviews. Next, the qualitative methodology is described, followed by a discussion of the analysis and results. We conclude by discussing the implications of our findings to banks and small and medium exporters, as well as limitations of the current study and fertile avenues of future research. The work is of potential interest to institutional lenders seeking to develop small and medium exporters orientation; to small and medium exporters' owners seeking debt financing, to regulators intent on economic development; and to academics who want to understand better the nature of relationships between financial institutions and small and medium exporters.

## Literature Review

### Definition of customer orientation (CO)

The definition of CO has changed little for the past decade. But this research is focused on linking CO with such things as successful performance, looking at company size (Appiah-Adu and Singh, 1998; Ambler and Xiucun, 2003; Matsuo, 2006; Saura *et al.*, 2005; Auh and Menguc, 2005), organizational characteristics (Nwankwo, 1995; Burns, 1995), or greater efficiency of new products or service department

(Alt and Puschmann, 2005). This research links SMEs (as a specific group of customers) orientation with domestic banking performance via new service in Thailand.

The first stage of new service development, *idea generation* especially originated by small financial firms through CO is the most important stage of all in the process of developing new service (Alam and Perry, 2002). Besides, the adjustment of government rules and regulations, cost pressures, time pressures (due to services are copied quickly), stiffer competition, and introduction of new technology like the internet narrow down the target segment to medium-to-large firms who definitely are the major income provider (Alt and Puschmann, 2005). This study examines whether SMEs orientation not only enhance positive performance but also increases reputation, and efficiency of new banking services.

No matter what the firms' size is, a greater focus on CO will lead to increased performance. Particularly, SMEs with higher degree of CO tend to be more profitable. Also, the influence of innovation orientation on the degree of CO enlarges competitive advantage to SMEs (Appiah-Adu and Singh, 1998). The research scope of CO efficiency diversifies organization structure with both functional and experiences of top management team (Auh and Menguc, 2005). Moreover, CO influences innovativeness by enhancing positive conflict and

reducing negative conflict within an organization (Matsuo, 2006). However, since most banks only select medium-to-large customers to guarantee their income, little has been researched whereabouts those banks emphasize customer orientation as their target to develop new service and what will affect their performance via innovativeness of such products or services. To be more specifically, if SMEs only select large firms as their CO target, how will this decision affect their performance via service innovation? On the contrary, if large banks only select large firms as their target, how will they affect their new service performance? In this research, if bank only select medium-to-large customers but SMEs, how this decision will affect their new service performance as a consequence?

### **New service performance (NSP)**

When assessing new service performances most scholars focus attention on the performances that define successful service – the success measures (de Brentani, 1991; Voss, 1992; Storey and Easingwood, 1996). Oldenboom and Abratt (2000) defined the term success as the achievement of something desired, planned or attempted and the term failure as the non-achievement of the targets set. This definition of success clearly points out that success towards the new service product depends on the objective the service firm for developing it. As in the case of success measures for new banking service, new service performances

are usually assessed by a number of measures (Storey and Easingwood, 1996). These measures indicating success in new service development (NSD) are often arranged by different criteria, and they are named and arranged differently according to each scholar's research. Success on one performance criteria does not necessarily mean success on the others (Kleinschmidt and Cooper, 1988).

De Brentani (1991) suggested four dimensions of new service success measures in order of their importance to the firm. They are sales performance, competitive performance, cost performance, and other measures. Voss (1992) has made a distinction between measuring success of the development (results or outcomes of NSD) and measuring the performance of the development process. But since this research will focus on success of NSD outcome, not of the development process, success measures are identified accordingly : - financial measures, competitive measures, and quality measures. Storey and Easingwood (1996) have also identified the performance dimensions for new service success as sales performance, enhanced opportunities, and profitability.

### **Who measures service performance : Firm Oriented vs. Customer Oriented**

Clow *et al.* (1997) suggested two different approaches to measure the performance of a product : namely **internal measures** and **customer measures**. Internal measures of

service quality are purposely designed to measure the firm's performance while customer measures are designed to measure attitudes and opinions of customers.

Both service performance measures have their advantages and drawbacks. The internal measures are advantageous in the way that they can locate weak areas and identify areas of expertise, but they may lack the customer perspective resulting in an outcome which may not be considered important to customers, and it may not measure the behavioral side of service.

On the other hand, customer measures are advantageous in the way that they provide information about how customers feel, and thus let the firm know what their needs are. But they may not reflect the opinion of non-customers who may be the firms' potentials customers in the future. Moreover, unless a benchmark or an industry average is used, the measurement of customer performance does not provide any comparative information. Although a service firm may score well in each performance, this may be misleading if the other service firms scored higher.

To measure the performance of a service product, service firms must understand the concept of service quality from the customers' point of view, not from the firm's point of view (Clow, 1997) as suggested by the gaps model of service quality, i.e. that the quality of a service

is the difference between the perception and expectation of a customer (Bitner, 1997). In addition, it is the provider's role to close such gaps by improving their internal activities and balance the customers' perceptions and expectations.

## Methodology

Successful new service performance factors were derived from the literature review and then confirmed by data from banking interviewees. These pilot interviews were conducted with top level financial experts from both bank and financial service companies. Top executives have broader responsibilities throughout the entire business group in strategically planning and marketing financial services to their customers. The banks' respondents were chosen for access to information through the relationships between the researcher and the bank officers. This study gave an overview of how financial services companies use information from customers in their new service performance process. Qualitative analysis was also conducted in the form of exploratory study using in-depth interviews with the nineteen selected personnel from banks and insurance companies who propose new services to small and medium exporters in Thailand. The semi-structured main questions were provided to interviewees prior to each interviewing period but additional questions were asked depending

on their responses to the main questions in each interview. Respondents in this main study include specific companies that were chosen based on access to senior managers having great experience in financial services for small and medium exporters. The main sample is summarized in Table 1. The new service performance was explored in detail focusing on the sources of information from customers used in the NSD process. The judgment needs for choosing respondents included connections at a sufficiently high level in banks to get in-depth data. Asia's business environment is highly geared toward business secrecy, and usually connections are necessary to get any internal data (e.g. Srijumpa *et al.*, 2004).

## Analysis of data

In maintaining existing customers and attracting new customers, foreign banks have an advantage with advanced technology instruments, while Thai banks have an advantage in terms of networks and long-term relationships. New service that foreign banks forecasted and developed should fit with what their main group of customers needs. Many new services are technology based. As followers, local banks apply that technology after foreign banks had introduced it whenever their capital is sufficient and human resource skills are adequate, they will introduce them. As the senior sales officer of foreign bank number 3 stated :

Table 1 – Respondents profile

Type of bank	Registered capital (Bt. Mil.)	No. of employees (approx.)	Interviewees' position	Number of interviewees	Year of interview
Local bank number 1	40,000	20,000 (in 2003)	• Vice-President of SMEs department	1	2005
			• Customer service operation officer, counter service	1	2006
			• Senior relationship officer	2	2006
Local bank number 2	70,000	9,000 (in 2004)	• Credit department officer	1	2004
			• Director of Research & Development department • Assistant Director of Research & Development department	2	2005
Local bank number 3	30,000	10,000 (in 2004)	<ul style="list-style-type: none"> <li>• Vice-President for retail commercial credit, product and marketing department, and retail business group</li> <li>• Assistant Vice-President of retail commercial credit product and marketing department, retail business group</li> <li>• First Vice-President, head of international trade product and administration management</li> <li>• Manager of international trade products and market development department</li> </ul>	4	2006
Insurance 1	390	1,000 (in 2004)	• Senior Vice-President at the Non Motor Claims Department	1	2005
Insurance 2	NA	NA	• Supervisor and insurance agent	2	2005

Table 1 – Respondents profile (continued 1)

Type of bank	Registered capital (Bt. Mil.)	No. of employees (approx.)	Interviewees' position	Number of interviewees	Year of interview
Foreign bank number 1	11,000	NA	• Senior VP credit risk department and operational staff	2	2004
Foreign bank number 2	NA	NA	• Senior VP credit risk department	1	2004
Foreign bank number 3	NA	4,000 (in May 2006)	• Senior sales officer - consumer	1	2006
Foreign bank number 4	NA	NA	• Middle management	1	2006
Total number of interviewees				19	2004 - 2006

Note : NA means not applicable

*“Our services are great, especially credit cards and individual credit services. Customers can use our credit card worldwide. Therefore, we continuously develop our new service to fit customers worldwide. Our latest one is the cyber banking system. All international trade transactions can be transferred through the internet only if you apply for a member. Our customers give high creditability feedback to such service. In comparison with other banks, all transactions of our bank are accurately recorded - no errors.”*

Also, Senior VP credit risk department and operational staff of foreign bank number 1 stated as well as Senior VP credit risk department of bank number 2.

*“In order to launch new service to serve customers on time, we primarily collect information like changes of environmental factors from the country manager. Then, he reports to the portfolio committee, which is comprised of the corporate head of wholesale banking as well as consumer banking. They internally share information of each country among themselves and set up benchmarks. Then, they know in which country they should forecast and prepare propose service new and appropriate.”*

*“We mostly use technology as a tool as our new service to fit with what our customers need.”*

Vice President at the retail commercial credit product and marketing department, retail business group of local bank number 3 stated : -

*“Currently, we are planning to apply technology e-banking system in Thailand. This will customize financial plan as needed by customers.”*

Those new services that foreign banks have created depend constant monitoring of the level of commitment and orientation to customers' needs. Local banks react differently. They need a reengineering of the organizational structure developed by new generation employees. This is due to those activities consuming a lot of time and money in order to react towards customers' needs on time. These differences can be shown through the statements of middle manager of both foreign and local banks as shown below. As senior sales officer - consumer of foreign bank number 3 and senior VP credit risk department officer of foreign bank number 2 consequently stated : -

*“At the customers contact staff's table (for dealing with customers), we place nothing else but only services or new services readily provided to customers. We believe that this strategy makes our customers more quickly satisfied.”*

*“We immediately study as soon as we complete our market survey. If we consider that it is worth investment, we will definitely work on such new service project right away.”*

While Credit department officer of local bank number 2 stated : *“Our organization have to restructure in order to fit with new advanced technological tools implemented within organization. This includes new trained skills by younger generations.”*

Customers of foreign banks freely communicate information about their service experiences to staff of the banks because the banks are quite close to customers. Information can be accessed through technological tools, so that they respond to customers' requests more rapidly. On the contrary, local banks use the personal relationship as a tool to create access to customers personal information. Local banks are quite successful in applying this method to Thai exporters, and add value for SMEs through the relationship. However, local banks do not necessarily use the information in developing new services that fit the customer's needs. As stated by a senior credit officer of foreign bank number 3, Senior VP credit risk department and operational staff of foreign bank number 2, and senior credit risk department officer of foreign bank number 4 shown below : -

*“We provide special privileges to our long-term customers by granting them more credit term extension even if industry environment has been affected by external factors, such as by the terrorist situation and oil crisis. This is because we would like to maintain long-term rigid relationships with them.”*

*“We discussed details with individual customers in the same industry about what they exactly want in terms of new services. Then, we are able to timely and strategically design and launch new service(s) based on those data plus the speculated demand based on changes of external environmental factors as I mentioned above at the forecasted period of time.”*

*“We are willing to learn the needs of Thai people in different regions nationwide. We need to get the right access into our customer not only large but also small and medium enterprises even to individual customers. We educate our customers on new service prior to launching such (new) service. Thus, they will understand how to use them more properly.”*

On the contrary, customer service of operating officer, counter service of bank number 1 and as credit department officer of local bank number 2 stated : -

*“We have received customer feedback to initiate new services to fit with their needs. However, what we do may be different from what the customer expected. This is due to the credit terms we lend to the project that ensures the profit. For example, fruit importers in neighboring countries lower the price they will pay whenever seasonal supply result in over-demand on the Thai market. Therefore, we may not lend to such customers because we may not get as high a profit as expected in the beginning. We also have a public relation manager along with his or her*

*assistant (s) to follow up with small and medium exporters’ feedback.”*

*“We train our customers in knowledge such as how to manage their accounting and how to reduce cost structure through electricity usage and new exporting rules and regulations. We also join with the Ministry of Industry to reduce cost structures for our customers. We check customers’ records and check on the legitimacy of their overseas suppliers.”*

Foreign banks pay attention to new services as to what exactly customers’ need. Such services can be used as a competitive advantage for both local banks and other banking subsidiaries in the same region. Thai banks instead start to carefully recruit young talented employees for training such skills. As stated by senior VP credit risk department and operational staff of foreign bank number 1 and stated by senior relationship officer of local bank number 1 shown below.

*“We are very good at understanding our customers as we run their businesses with them. Thus, we know exactly what services they want now and when they want new services. Also, we are able to forecast what they will want in the near future. We strictly follow the group’s policy on which direction of new service to launch for customers in which country.”*

*“Due to the fact that they are importers, they are able to control financial transactions. Thai exporters need to follow them sometimes.*

*We have a competitive disadvantage compared to the foreign banks in terms of quick service through advanced technology. Also, our best personnel resources mostly transfer to foreign banks due to better salary and allowances.*

With a well-organized database system, it is easier for foreign banks to measure customers' satisfaction systematically and frequently. This means that they are able to continuously develop new services to meet customers' needs worldwide. On the contrary, with insufficient database system tools, local banks may fulfill little of their customers' satisfaction through slowing process in developing new service. As stated by senior sales office of foreign bank number three and Customer service of operating officer, Counter service of local bank number 1 shown below.

*"Information from our customers is very important to us. We constantly talk with our customers and use that feedback to continuously initiate new service to fit their needs."*

*"Nowadays, we barely take new SMEs because their forecasted financial risk is quite high. We only take the ones for whom we can ensure their financial status. Most are long term customers since we continuously follow up with them. So we know them well enough. We also are able to foresee the potential customer especially medium-to-large and clear view of their financial status through industry analysis and rigid*

*long-term relationship with them or with their new generations."*

At foreign banks, data on customer satisfaction is disseminated at all levels of the business unit on a regular basis. The dissemination starts from the head quarter to regional and then finally to individual countries. At local banks, low manager levels are knowledgeable about customer satisfaction, but middle-to-top management focus on bank performance. As stated by senior credit officer of foreign bank number 3, Senior credit risk and operational staff of foreign bank number 1, middle manager of bank number 4, and credit officers of local bank number 2 shown below.

*"New services are proposed by country managers to the headquarters. If it is a big proposal, the head office will send an expatriate manager to see the potential on their own."*

*"We outsource research and development to collect information about customer satisfaction towards our bank in every angle in order to find the benchmark and compete with others. We finally found that we are number one on every customer perspectives."*

*"We collect feedback not only from our customers but also their suppliers, so that we really know how to proactively react towards their needs."*

*"The Export-Import Bank of Thailand<sup>2</sup> offers short-term as well as long-term credit to*

<sup>2</sup> Export-Import Bank of Thailand (EXIM Thailand) is a financial institution wholly owned by the Royal Thai Government under the Ministry of Finance's supervision. EXIM Thailand was established by the Export-Import Bank of Thailand Act B.E. 2536 (1993) which became effective on September 7, 1993.

fulfill their customers' contentment. This bank focuses on SMEs and provides more comprehensive support to Thai investors' overseas as well as local investors in business relating to export or business which they earn or saves foreign exchange. We arrange a seminar for SME projects to see how we are able to help them so far. Customers are our primary source of information to develop new service. Sometime, they request some service that we do not offer. For example, they request not to pay fees for transferred money. With practical technological tools, (this might be possible), but foreign banks already have it, while we are still developing it.

The exposition of local banks competition experience towards the greater number of foreign bank representatives operating in Thailand brightens up their knowledge in terms of

advanced technology and as a result new service development to local customers (see 1, 2, 3, and 4 in illustration 1). At the same time, foreign representatives can capture local customers through such knowledge. One of several reactions in addition to the traditional approach like the long-term and rigid relationships is to focus not only on large but also to provide a lot more opportunities to small and medium exporters' orientation. Therefore, such the relationships provided by the Thai banks should have started to cover overseas customers (non-Thai) either exporters or importers. This is because small and medium exporters or overseas importers become the source of greater market value of Gross Domestic Product (GDP) of the country. To be more specifically, Punyasavatsut (2007)'s report from the Economic Research of

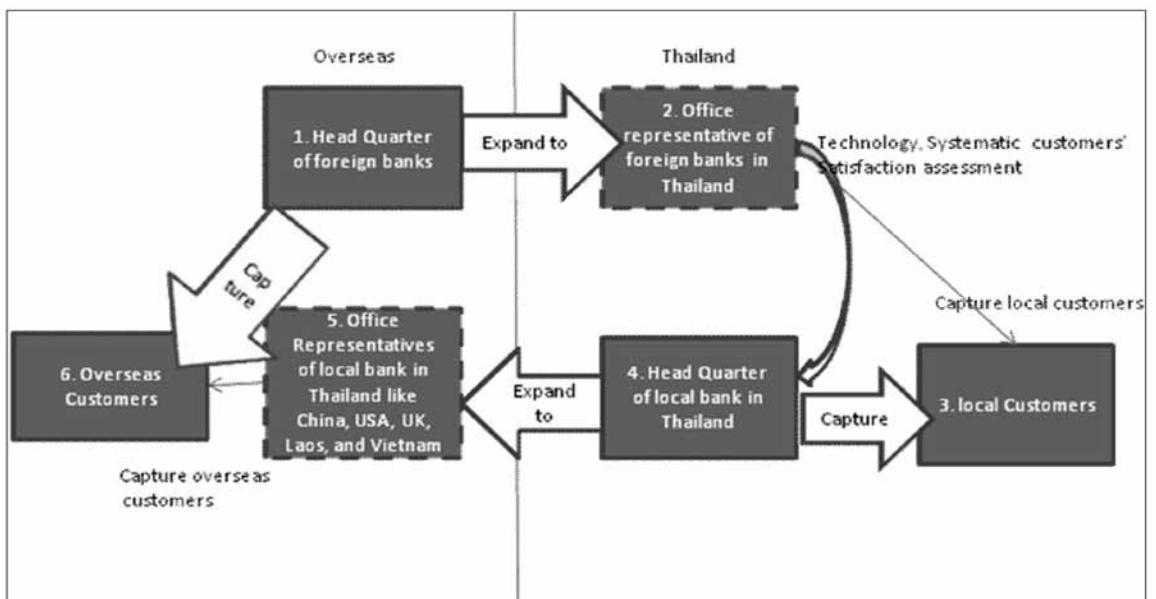


Illustration 1 – Thai local banks gained from overseas expansion

Institute of Asean and East Asia (ERIA) contributed by small and medium enterprises accounted for 34 per cent of GDP in 2006. Pongvutitham (2010) and reported that Office of Small and Medium Enterprises Promotion (Osmep) expected that Thailand's GDP based only on small and medium enterprises will gain 42 per cent, a considerable increase from 38.2 per cent in 2009. To specify the appropriate needs of specific local and overseas customers, another reaction can be the opening of greater number Thai branches in the targeted countries like China, Lao, Vietnam, Cambodia, and also western countries (see 4, 5, and 6 in illustration 1) in order to capture more overseas customers. As well, the successful of international trade transaction of Thai bank representative overseas depend on whether they are able to compete with other foreign bank overseas (see 1 and 6 in illustration 1) like what overseas bank use technology to capture Thai customers' needs. However, Do Thai banks really care for their local and overseas customers? This is the question for further research in terms of quantitative methodology. Finally, this study focused on customer orientation especially small and medium exporters' orientation that may affect new service performance. Therefore, another potentially important theoretical extension of the present study would be to investigate other contextual factors. Because of the limitations mentioned earlier, the present study is only a first step towards a more thorough understanding of

the new service development in the banking industry. Despite these limitations, we hope that the present findings have provided a foundation for more rigorous research on new service development in the very near future.

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