

## A study on effect of innovation and branding on performance of small and medium enterprises

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### ABSTRACT

Marketing capabilities such as advertising and distribution, in the past, were considered as an intermediate level marketing activities but our focus in this study is on higher potentials of marketing, innovation and branding. The primary objective of this study is to investigate the effect of marketing capabilities on the market of small and medium enterprises in the province of Isfahan, Iran. The research consisted of small and medium enterprises in the industrial towns of the province of Esfahan using random sampling technique to gather the necessary data. Out of the 62 industrial parks and industrial zones in the province, there were 4,326 industrial units, which were active and the study distributes 384 questionnaires and managed to collect 308 properly filled ones. Using some statistical tests, the study has confirmed that innovation and branding influence positively on SMEs in this province.

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## 1. Introduction

During the past few years, there have been tremendous efforts on measuring the effects of marketing management on the success of organizations (Kotler & Armstrong, 2010; Fullerton & Punj, 2004; Mariadoss et al., 2011). Erevelles et al. (2008) investigated the use of ingredient co-branding and applied an econometric modeling technique to offer a rationale for why it happens. They shed light into why downstream manufacturers take part in a relationship that strengthens the supplier's position in the market. They reported that under the threat to the supplier of entry from a competitor whose expenses were unobservable, co-branding relationships could be entered into resulting in a reduced probability of entry. This co-branding arrangement contributes to both the incumbent supplier and the downstream manufacturer. The study explained that the incumbent supplier could also benefit from the reduced probability of competitor entry, and the downstream manufacturer was benefited in turn with a lower

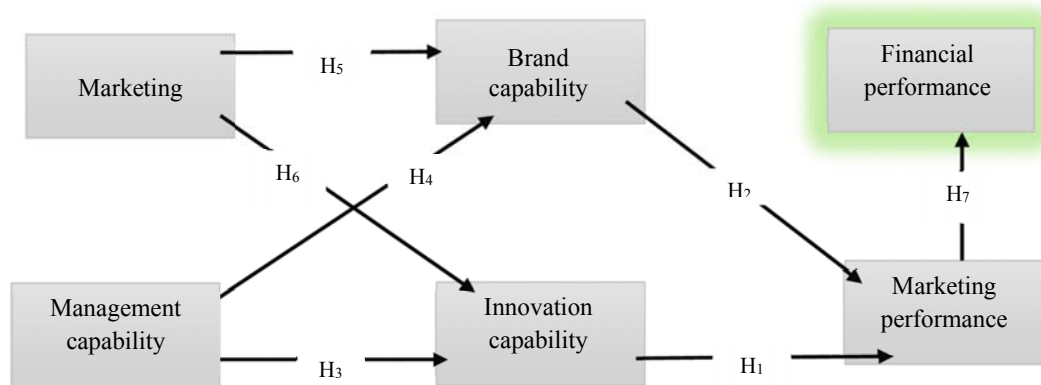
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price. In addition, they reported that the expenses of the co-branded product was lower, because of a mitigation of double marginalization in a vertically-integrated solution. They examined co-branding relationships with and without advertising support and reported that co-branding relationships with advertising support could be superior. Griffith et al. (2010) investigated whether marketing capabilities consistently could mediate intangible capital on performance across institutional environments. They reported that human capital and relational capital could influence marketing capabilities, and that marketing capabilities could influence performance similarly across institutional environments. Organizational capital, however, was determined to only impact marketing capabilities for U.S. importers. In addition, the survey indicated full mediation in both samples. Melitz (2003) developed a dynamic industry model with heterogeneous firms to investigate the intra-industry impacts of international trade. The model explained how the exposure to trade could induce only the more productive companies to enter the export and would force the least productive companies to exit. It also explained how further increases in the industry's exposure to trade could lead to additional inter-firm reallocations towards more productive companies.

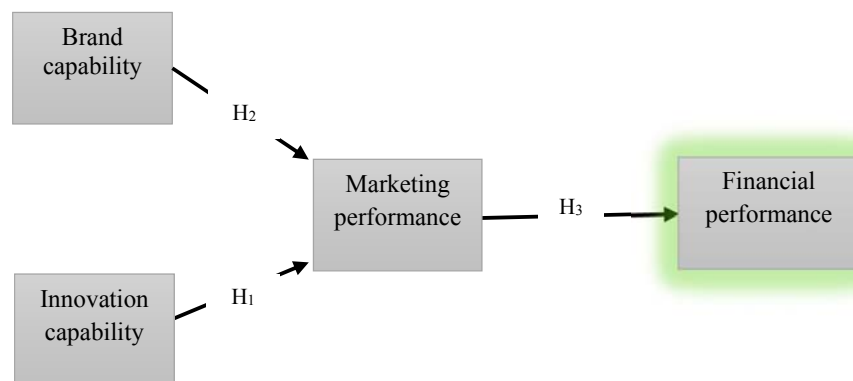
## 2. The proposed study

Marketing capabilities such as advertising and distribution, in the past, were considered as an intermediate level marketing activities. While our focus in this study is on higher potentials of marketing, innovation and branding. The primary objective of this study is to investigate the effect of marketing capabilities on the market of small and medium enterprises in the province of Isfahan. The study uses a framework originally proposed by Merrilees et al. (2011) shown in Fig. 1 as follows,



**Fig. 1.** The conceptual model proposed by Merrilees et al. (2011)

The proposed study of this paper has customized the Mellilees's model as shown in Fig. 2 as follows,



**Fig. 2.** The conceptual model

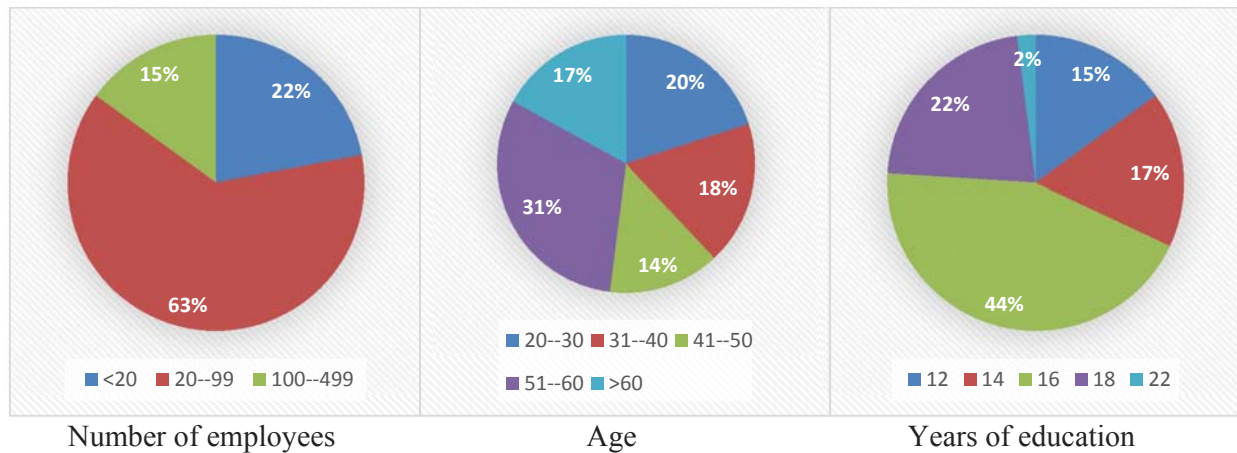
As we can observe from Fig. 2, there are three hypotheses associated with the proposed study of this paper as follows,

H<sub>1</sub>: Innovation capability influences positively on marketing performance.

H<sub>2</sub>: Brand capability influences positively on marketing performance.

H<sub>3</sub>: Marketing performance influences positively on financial performance.

The research consisted of small and medium enterprises in the industrial towns of the province of Esfahan and the study uses random sampling technique to gather the necessary data. Out of the 62 industrial parks and industrial zones in the province, there were 4,326 industrial units, which were active and the study distributes 384 questionnaires consists of 23 questions and managed to collect 308 properly filled ones. Cronbach alpha has been calculated as 0.881, which is well above the minimum desirable level. Therefore, we confirm the validity of the questionnaire. In our survey, 89% of the participants were male and 11% of them were female. Fig. 3 demonstrates other personal characteristics of the participants.



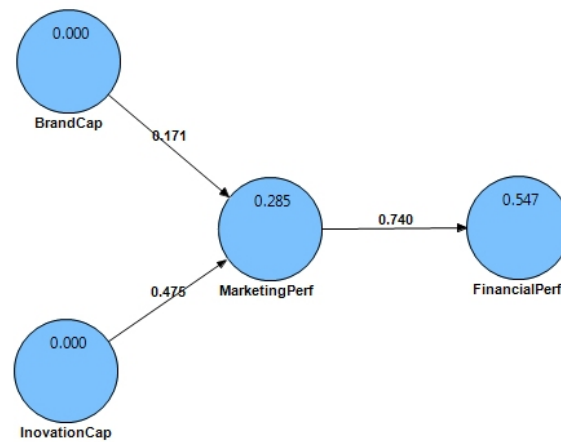
**Fig. 3.** Personal characteristics of the participants

As we can observe from the results of Fig. 3, 78% of the firms had, at least, 20 employees who were mostly middle age people. In addition, most employees maintained some university degrees. Next, we present details of testing the hypotheses of the survey using partial least square (PLS) technique.

### 3. The results

In this section, we present details of our findings on testing various hypotheses of the survey using PLS technique. Fig. 4 demonstrates the results of the standard coefficients.

Table 1 demonstrates the results of Cronbach alphas for different components of the survey. In our survey, all student statistics were well above 2 and they were meaningful when the level of significance was one percent. In addition, AVE values were all more than 0.5, and Cronbach values were also well above the minimum desirable level. Therefore, we may verify the hypotheses of the survey based on the results given in Fig. 4 and the results are summarized in Table 2.



**Fig. 4.** The results of standard coefficients using PLS method

**Table 1**

The summary of Cronbach alphas

Variable	AVE	Multiple reliability	Cronbach alpha
Brand capability	0.5955	0.954	0.928
Financial performance	0.6886	0.813	0.793
Innovation capability	0.5349	0.836	0.873
Market performance	0.5905	0.864	0.832

**Table 2**

The summary of testing hypotheses

Path	Factor loading	t-value	Result	Effect
Financial performance → Market performance	0.740	2.709	Confirmed	High
Market performance → Innovation capability	0.476	5.476	Confirmed	Average
Market performance → Brand capability	0.171	4.630	Confirmed	Weak

#### 4. Discussion and conclusion

As we can observe from the results of Table 2, financial performance influences positively on market performance and the effect has been determined very strong. Market performance also influences moderately on innovation capability and the effect was positive. Finally, market performance had weak impact on brand capability. The marketing function is critical in establishing strategic goals and due to limited resources, we need to prioritize actions. In this study, the most common strategies were based on branding and innovation. In planning for the future, companies need to know which areas maintain the highest priority and strategic objectives provide valuable data. This research is important for highlighting two key capabilities for marketing, branding and innovation in small and medium enterprises. This will lead small and medium businesses to learn on how they can expand the capabilities of their marketing. The results of this study has concluded that among the features of innovation and brand marketing, small and medium enterprises in the province Esfahan must focus on innovation priority. Innovations include the complexity and change, whether in technology companies, the organization and what it is in the economic environment. As a result of technological opportunities and threats, defining innovation strategies and expected results are often difficult for small businesses and medium-sized province. There are many preconditions that are necessary to pave the way for the company to enhance creativity and innovation strategies. However, planning a flexible, broad and flat organizational structure and organizational culture based learning are the most important factors for strengthening innovation. What innovation strategy is looking for is associated with value creation and

competitive advantage, which require strategies that are market-based enriched by creativity. Another factor in implementing innovation in SMEs is the role of knowledge in organizations. The results of this survey are somewhat consistent with other findings in the literature (Pourmand et al., 2010; Taleghani et al., 2011; Solomon, 2004). Nath et al. (2010) tried to find out the relative effect of a firm's functional capabilities; namely, marketing and operations and diversification strategies on financial performance. This study explained that a market-driven firm was likely to have better business performance than a firm concentrating primarily on operational capabilities. Also, companies, in their survey, were better off when they concentrated on a narrow portfolio of products/services for the clients and concentrate on a diverse geographical market. The results provided a new perspective to model a firm's functional capabilities and diversification strategy on its financial performance. O'Cass and Weerawardena (2010) advocated that firms perceiving their industry environment as turbulent could develop superior market learning and marketing capabilities. Market learning could also assist in the process of building superior marketing capabilities. Theodosiou et al. (2012) developed a model, which linked alternative strategic orientations with company performance, through the mediating impact of marketing capabilities. Wang (2007) tried to explore the underlying mechanism between Western relationship marketing and Chinese guanxi by investigating the construct equivalence of the two concepts.

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