

Achieving Superior Performance in Small and Medium-Sized Organizations: Pervasive Role of Innovation and Marketing Capabilities

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Abstract

Organizational improvement methods for success in the market have always been desirable for researchers and managers of the organizations; in this regard, attitudes to the capabilities and their impact on the performance of organizations are more important. Among the capabilities, innovation and marketing capabilities play a vital role in creating competitive advantage and superior marketing performance. However, little research has looked at these capabilities and their combined role on the organization's performance. The preset study provides a more comprehensive look at the relative contribution of innovation and marketing capabilities, their complementary role, and marketing support capabilities in organizational performance. With a resource-based approach on 100 small and medium-sized industrial organization located in the industrialized cities of the Markazi Province, the research suggests that innovation and marketing capabilities are positively and significantly related to the organization's performance; moreover, These capabilities interact with each other to create synergy to achieve superior organization performance.

Keywords:

Organizational Performance, Innovation Capability, Marketing Capability, Backup Capabilities, Small And Medium Organizations.

Introduction

In recent decades, there has been an unprecedented interest in their capabilities and their impact on the performance of organizations. Former studies examined technology capabilities (Song et al., 2008), operational capabilities, marketing capabilities (Wu, 2013), and management capabilities. The results of their studies have empirically determined the significant impact of capabilities on the performance of the organization (Krasnikov and Jayachandran, 2008). The superior innovation capability plays a key role in the organization's performance and innovation capacity can lead organizations to develop top products to meet the changing needs of customers (Li and Mitchell, 2009; Nazari-Shirkouhi and Keramati, 2017; Noruzy et al., 2013), which are essential for market success. Innovation capabilities

play a critical role in creating competitive advantage and superior marketing performance (Hooley et al., 2005). In addition, organizations' superior marketing performance (Hooley et al., 2005). In addition, organizations need to take advantage of marketing capabilities to get their products to market faster and serve customers better than competitors (Vorhies & Morgan, 2005; O'Dwyer et al., 2009). Marketing capability is recognized as one of the key capabilities of the organization in facing its competitors and creating value for customers (Day, 1994). Compared with technological, operational, and other capabilities, marketing capability, given its tacit and special knowledge, is less likely to be replicated (Krasnikov & Jayachandran, 2008). Viewing the market's top features is difficult, unavailable, and not imitated (Krasnikov & Jayachandran, 2008). These capabilities can support the sustainability of the market (Morgan, Vorhies, & Mason, 2009).

While these two key capabilities are potentially related to the company's performance, researches that simultaneously examine their impact on the organization's performance are less. Most articles have been silent about their complementary impact on the organization's performance, which has become an undisclosed source of benefit to organizations (Vorhies 2009). The present research aims to study small and medium enterprises. SMEs play a vital role in most industries, so the innovation and marketing capabilities and their organization's performance will have a significant reflection on the performance of other companies.

The first goal of this study is a more comprehensive look at the relative contribution of the two top-level capabilities, innovation capability and marketing capability, in the organization's market performance. Secondly, it applies such assessments in the field of manufacturing SMEs. Third, the research assesses relative contribution of support capabilities to organizational performance for each of the marketing and innovation capabilities (Bill Merrilees, Sharyn Rundle-Thiele, Ashley Lye, 2011).

Theoretical Framework:

In the early 1990s, the need to differentiate between capabilities and resources to provide a better explanation of value creation paved the way for a source-based perspective in a competitive strategy. Organizational capability, from a source-based perspective in the organization, is recognized as a source of sustainable competitive advantage.

Organizational capabilities are defined as a set of related processes for carrying out specific activities in an organization (Sok, 2013). Capabilities can help in acquiring competitive advantage and be immune to imitation, replacement, loss, and allocation. The capabilities are similar to intermediate goods that are created by the

organization through organizational processes to meet the increased productivity of resources. The source-based view argues that organizations have different meanings of resources and levels of capabilities.

The survival of the organization depends on its ability to create new resources based on its capabilities and create unimpaired capabilities for competitive advantage (Wensley, 1988). Capabilities are considered as recognizing how activities are deployed, which can be seen in different operational environments such as marketing and innovation (Krasnikov & Jayachandran, 2008; Morgan et al. 2009). The basis of this research is to cover some of the gaps in past research to better understand capabilities and performance. This research has had two distinct contributions to the literature of strategic management and marketing. First, this research demonstrates how the role of market orientation as the impact of resources on the performance of the organization can be understood through the mediating role of innovation and marketing capability.

Importantly, this research focuses on the performance related to innovation and marketing as separate attributes of market performance outcomes (Collis and Montgomery, 1995). Second, the research shows that improving the complementary relationship between innovation capability and marketing capability to avoid imitating organizational capabilities to improve market performance results is a useful approach.

Innovation capability

There has been considerable interest among researchers in the role of organizational innovation capability (for example, Li and Mitchell, 2009). Innovative capability or innovative capability has been introduced as a successful productivity talent of new ideas or as internal energy for generating and discovering new and radical ideas and concepts. Innovation capability has been used to understand the potential patterns of vacancy in the market to develop them into influential and consumer innovations. Innovation ability has also been introduced as the ability to generate and build new knowledge in value creation. The innovation capability helps the organization in the process of developing superior products to meet the changing needs of customers, which requires market success. (Li and Mitchell 2009). Innovation relates to products, trends, marketing, and organization. The innovation capability in this research is defined as a set of related processes that are used to develop, improve, and implement successful product innovation of the organization (Sok et al., 2013). There is a clear tendency among researchers regarding the role of innovation capability in promoting the performance of SMEs (Li and Mitchell 2009). According to Li and Mitchell (2009), SMEs with a stronger innovation have a competitive advantage over competitors, which guides them to superior

performance. Even SMEs facing a significant shortage of resources. They are usually successful innovators (Vorhies and Melenberg 2005). Since SMEs are small and agile, they are capable of being flexible and delivering new products quickly to meet the changing needs of customers (Sok et al. 2013). Accordingly

Hypothesis 1: Innovation capability has a positive relationship with the performance of small and medium enterprises.

Marketing capability

The role of marketing capability on the performance of small and medium enterprises has also been very much considered. Marketing capability is defined as an integrated process in which the organization uses its tangible and intangible resources to understand the specific and complex needs of its customers, to obtain a difference in the product's relevance to competition and to obtain a superior brand value (Day, 1994; Dutta et al.; 1999, Song et al., 2008). Moreover, marketing is defined as a set of activities that an organization uses to develop and implement its marketing mix strategies against its competitors (Sok et al., 2013). In other words, the organization's marketing capability not only shows the organization's ability to perform marketing-based activities such as pricing, advertising, and efficient channel management, but also develops and implements marketing strategies in the organization. Since it is difficult to see superior marketing capabilities from the market, it is difficult to achieve them everywhere, and their imitation is difficult (Krasnikov and Jayachandran 2008). They support a sustainable competitive edge (Vorhies, Morgan and Otterle 2009). The same idea holds true for SMEs. Accordingly:

Hypothesis 3: Marketing capability has a direct impact on the performance of small and medium enterprises.

Combined role of capabilities

An organization needs a moving target in the eyes of its competitors for its superior performance in the market through sustained investment in advantageous resources. Day (1994) highlighted the particular need for the integration of resources to achieve superior market performance. The integration of specific resources reconfigures capabilities, offsets resource scarcity, and makes use of new resources (Song et al. 2008). The combination of complementary capabilities (for example, resources - capability or capability - capability) has attracted much attention as an emerging research topic. For example, Song et al. (2008) found that the technological capability and marketing capability are complementary to achieve superior performance. Similarly, Morgan et al. (2009) found that the complementary role of market orientation and marketing capability is effective in achieving organization

performance.

While researchers have consistently focused on the role of innovation and marketing capabilities on the performance of the organization, very few researches have focused on the complementary role of marketing and innovation, especially their role on the performance of small and medium enterprises. The research argues that innovation and marketing capabilities are complementary to achieving superior organizational performance; organizations pursuing opportunities for specific markets, but they are not creative, cannot achieve superior performance. Besides, innovation capability alone cannot guide the organization to a great performance because when organization employs the power of its innovation capability to produce new products, it is a marketing capability that imports the product into the market better than its competitors (Weerawardena & O'Cass, 2010). Therefore, the research argues that small and medium enterprises that have a capability and do not utilize other capabilities will have a weaker performance than organizations that have multiple capabilities at the same time. Accordingly:

Hypothesis 4: The complementarity between innovation capability and marketing capability has a positive relationship with the performance of small and medium organizations.

Marketing support capability

The potential connections between capabilities and performance of the organization are important, but explaining the guidance mechanism to creating and managing capabilities is even more important. It seems that an organization needs the resources and capabilities through to create innovation and marketing capabilities. In fact, capabilities create capabilities (Merrilees et al. 2011). They have distinguished three classes of capabilities. First, main features that directly guide the organization towards competitive advantage. Second, the value-added support capabilities that facilitate the main capability. Third, the essential capabilities that do not provide the benefits and not something that facilitate the benefits, but it must be done to keep the business going. In this research, marketing and innovation capabilities are the main capabilities that bring our attention to identifying the capabilities that directly affect them. Although many variables are potential candidates for inclusion in marketing support capabilities, we follow Hooley et al. (2005) and specifically use two features, market orientation, and management capability.

There is strong support for linking market orientation and innovation in literature (Han et al. 1998). Han et al. (1998) clearly articulated the relationship between market orientation and innovation. They argue that market orientation is basically a business philosophy, a culture that

needs to be operationalized through innovation. Ideally, innovation and market orientation are aligned. A number of studies have shown a high level of relationship between the two structures. However, there is no explicit model of this connection. While most studies point to a positive relationship between market orientation and innovation, some evidence has shown the opposite including poor communication in Hooley et al. (2005). Based on most papers (and, of course, not all), the fifth hypothesis is outlined as:

Hypothesis 5: Innovation is positively related to market orientation.

Hooley et al. (2005) describe management capability as a feature of innovation capability. They argue that superior managerial capability, through teamwork and integration, promotes innovation. Their empirical results strongly support this relationship. Innovation does not only combine the creation of new ideas, but also it includes processes or stages of systematic and structured management. Accordingly:

Hypothesis 6: Innovation capability is positively related to management capability.

The theory of source-based highlights the importance of linking Know-What and Know-How capabilities to the organization. It suggests that market orientation of the organization and the marketing capability are interconnected to reconcile the use of resources and the business environment (Day, 1994). There are two main reasons for this interaction. First, the source-based theory states that organizations need to invest in knowledge sources in order to achieve an economic outlook. The marketing capability in literature is seen as an important market-related mechanism, through which market knowledge is used by the organization to generate economic benefits and it sets marketing capability in direct communication and direct interaction with the market-oriented organization's knowledge assets such as market orientation (Day, 1994).

Second, since the marketing capability and market orientation are in line with economic benefits, and each of them alone is regarded as the source of competitive advantage, the interaction between market orientation and marketability creates the basis of "asset lending" that confuses competitors in identifying the source of the performance of the organization. With regard to this interaction between market orientation and marketing capability, it is stated:

Hypothesis 7: Marketing capability has a positive relationship with market orientation

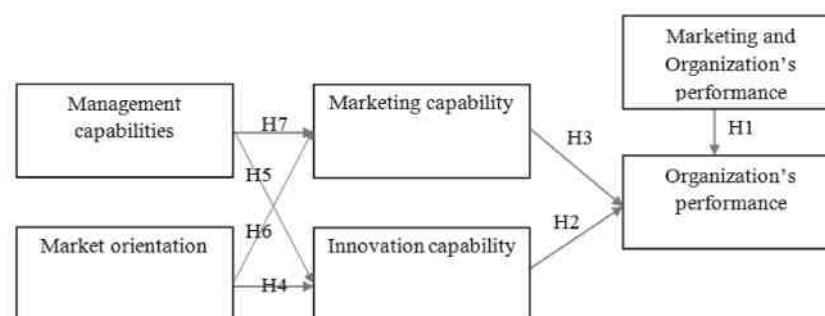
Hooley et al. (2005) argue that superior management capability will enter into all performance areas, such as marketing and sales. Marketing capability not only effectively and efficiently performs the ability to conduct hybrid activities such as pricing, advertising, and channel management, but also develops and implements the marketing strategy correctly (Vorhies and Morgan 2005). This requires strong communication with management capabilities to implement the strategy in the organization. In addition, accordingly, this research regards marketing capabilities as the ability to move that results in two important components: the ability to plan and execute, which utilizes management capabilities. Accordingly:

Hypothesis 8: Marketing capability has a positive relationship with management capabilities.

Development of Hypotheses and Conceptual Model:

The hypotheses discussed above have suggested the link between marketing and innovation capability and the performance of the organization on the one hand, and their combined role and complement to performance on the other hand. Two important capabilities of market orientation and management were also proposed as support for marketing and innovation capabilities. Seven paths are embedded in a structural model corresponding to 7 hypotheses (Model 1). This model was evaluated in LISREL by a sample of 100 small and medium-sized manufacturing companies.

Model 1: Structural Model of hypotheses



Research Methodology:

The research method is descriptive and a structural questionnaire was used to measure the variables. The sample framework was used from the database of Industrial Towns Organization, Markazi Province, Iran. Random sampling classification has been employed in the research in which society is classified into two groups of small and medium enterprises after sampling. According to the definition of the Central Bank of Iran and the Center for Statistics of Iran, small organizations have up to 50 workers and medium organizations have between 50 and 100 workers. The questionnaire asked respondents to express their perceptions about marketing capability, innovation capability, market orientation, management capability, and organization performance compared to competitors. For this purpose, the questionnaire statements were measured on a

five-point scale within the range of "strongly agree" and "strongly disagree". Most of the questions were taken from Hooley et al. (2005).

A total of 300 questionnaires were sent. 140 completed questionnaires were received, of which 100 were proportional to the model and analyzed; the response rate is 33%. Table 1 shows descriptive statistics of respondents.

Data Analysis and research finding

Non-response bias

The study compared the number of respondents (140 organizations filled out the questionnaire) and those who did not respond (160 organizations who did not send the questionnaire) (Sok et al., 2013). No major difference was seen in them, so it is assumed that non-response bias does not create a problem.

Table 1: Descriptive statistics of respondents

Organization's life	
Less than 5 years	12
6 to 10 years	24
11 to 15 years	34
More than 15 years	30
Organization size	
Less than 50	59
Between 50 and 100	33
More than 100	8
Organizational level of respondents	
Chief Executive Officer	77
Production manager	12
Sales Manager	11

Reliability of the Questionnaire

Cronbach's alpha coefficient test was used to determine reliability of the questionnaire. As seen, their Cronbach's

alpha coefficient is higher than 0.7; thus, the questions are reliable and the variables' data are valid.

Table 2: Reliability of the questionnaire

Variable	Number of questions	Cronbach's alpha coefficients
Marketing capability	7	0.850
Innovation capability	5	0.886
Market trending	6	0.890
Management capability	4	0.756
Organization's performance	3	0.89

Comparison of Mean and Data Normality

When evaluating the normality of data, we test the null hypothesis based on the normal distribution of data at a 5% error rate. Therefore, if the test statistic is greater than 0.05,

then there is no reason to rule out the hypothesis that the data is normal. In other words, the distribution of data will be normal. Since the results of the Kolmogorov-Smirnov test are all above 0.05, the data are normal.

Table 3: Comparison of mean and data normality

	Marketing	Innovation	Management	orientation	performance	Innovation * Marketing
Mean	3.9200	4.0600	3.8100	3.7200	3.5100	3.9300
Standard deviation	0.54086	0.66393	0.61455	0.69747	0.72048	0.64597
Asymp. Sig. (2-tailed)	0.499	0.776	0.443	0.543	0.234	0.656

Structure Validity

Table 4 shows the convergence rate and validity of the evaluation results. The 6 main outputs of the software were examined. According to structural analysis, if the

coefficients for CFI, NFI, NNFI, and GFI are more than 0.9, then we state that the model has good fit and coefficients greater than 0.95 are excellent fit. In this study, coefficients show that all variables have acceptable fit.

Table 4: Convergence Validity of Evaluation Results

CFI	IFI	NNFI	NFI	AGFI	GFI
0.89	0.91	0.85	0.92	0.86	0.96

Chi-square statistics is 207.4 and the degree of freedom is 92. The rate of Chi-square to degree of freedom as well as degree of freedom represents significance of the model.

Path Analysis in Structural Model

As shown in Table 5, the hypotheses are measured by two factors, T and the standard coefficient. The basis for deciding whether to reject a null hypothesis is the coefficient of T. As observed, all T coefficients of the hypothesis are higher than 2.58 and at 99% confidence level, null hypotheses are rejected, and alternative hypotheses are approved. In addition,

The correlation between the two index variables should be calculated as the correlation coefficient. As observed, the correlation coefficients between variables are positive in the main hypotheses and they are approved in different degrees

of hypotheses.

Discussion and Conclusion:

In the study, it was found that the common role of marketing and innovation capabilities in small and medium enterprises is positively related to organizational performance. In small and medium sized organizations, such as Sok et al. (2013), the joint role of capabilities has a special impact on the performance of the organization. More importantly, the results of this research extend the scope of previous research that focused on the individual role of marketing and innovation capabilities on organizations. Specifically, the result of analyzing the shared role of marketing and innovation capabilities (in addition to their individual role) is significantly confirmed by the extent of the source-based theory in the joint effect of capabilities.

Table 5. Comparison of the hypothesis

			T value	standard β coefficient	Result
Marketing capability	→	Performance	3.99	0.59	Confirm
Innovation capability	→	Performance	2.76	0.41	Confirm
Marketing capability	→	Performance	3.76	0.68	Confirm
Market orientation	→	Innovation capability	3.85	0.47	Confirm
Management capability	→	Innovation capability	5.45	0.75	Confirm
Management capability	→	Marketing capability	3.26	0.54	Confirm
Management capability	→	Marketing capability	2.75	0.57	Confirm

The roles of factors influencing innovation in the activities, behaviors, procedures and business processes in small and medium-sized organizations such as research and development, up-to-date technology, improving quality and expanding product ranges, and better managing trends to reduce costs (Hooley et al. 2005), which were questioned in this study, confirm the convergence of inclusiveness with improving business performance. According to this study, innovation capability is one of the key components of success for small and medium-sized enterprises that relate to the company's capacity to take advantage of innovation. Merrilees et al. (2011) found the innovation capability is one of the main actors in achieving the organization's superior performance.

Such as Day (1994), Dutta et al. (1999), results of this research confirm the positive impact of marketing capabilities on the performance of small and medium organizations and state that small and medium-sized organization can understand the specific needs of a consumer, achieve product differentiation from competitors, and thus achieve superior performance over competitors using their tangible and intangible resources. Although the transformation of marketing strategies into action among organizations was sluggish, organizations have used marketing capability as a dynamic feature in access to superior performance over competitors. Unlike Sok et al. (2013), this research represented lower impact of marketing capability in the target community because of stagnation of supply and research of new products in the studied period.

Market orientation and management capability were investigated as supporting capabilities in this research. Contrary to the findings of Hooley et al. (2005), the results showed that market orientation has a positive and significant effect on innovation capability. As with Hooley (2005), management capabilities have a positive impact on organizational innovation capability. According to Hooley et al. (2005), small and medium-sized organizations need to turn to creative, market-sensitive trends that are directly related to market orientation. Moreover, it has been found that effectiveness of management capabilities has a direct and effective role in organizational innovation.

As support capabilities of marketing capabilities, Market orientation, as Merrilees et al. (2011) stated, were positive in this study. Because of the high competition on sales and the need to understand customer needs, and customer satisfaction, market orientation plays an important role in marketing product capability in small and medium enterprises. As another support capability of marketing capabilities, management capability has a significant role in marketing capability, as noted by Merrilees et al. (2011). Therefore, it can be concluded that support capabilities

effectively affect the marketing capabilities and subsequently affect the performance of the organization.

Research Limitations and Suggestions:

The surveyed community involved suppliers of components and products from large organizations; managers have not sought to innovate and market new products in some of these small and medium-sized organizations, especially when conducting this research with regard to the economic conditions. Products in most of the community are duplicate routine products and old technology. Since innovation and marketing have been regarded as premise, it was more proper to include manufacturing organizations of the final product or organizations that have the ability to innovate as targets to achieve accurate results (See Nazari-Shirkouhi et al., 2015).

It is suggested for further studies to consider this model with different variables. For example, researchers can examine variables such as financial performance or brand capabilities. This model can also be considered in another statistical society; for example, food industry can be a statistical society of future research.

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