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EFFECT OF MARKETING CAPABILITIES ON INNOVATION PERFORMANCE OF SMALL AND MEDIUM ENTREPRISES (SME'S) IN JORDAN

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ABSTRACT

Ownership of marketing capabilities can translate into the performance of the organization that excels in numerous business disciplines and sectors of industries. Nevertheless, studies indicate different conclusions with lack of consensus in the literature, which calls for additional research in the field of marketing capabilities. The objective of the present research is to examine the influence of marketing capabilities on innovation performance among SMEs in Jordan. Data have been collected through an online questionnaire. A total number of 385 samples been collected. SPSS version 23 was used to analyze the data from this Study. The result obtained shows that marketing capability has a significant influence on innovation performance. The conclusion from this study is that marketing capabilities is essential variable that affect SMEs innovation performance. Due to that it is very critical for managers and owners of SMEs to focus on enhancing business strategies that would recognize competitor moves and attempt to increase the quality standards of products and services through innovation performance.

Keywords: Marketing Capabilities, Innovation Performance, SMEs, Jordan

INTRODUCTION

There has been ever more increasing concern over the contributions of SMEs as major promoters of economic expansion in a number of individual country's economy (Gulumser, Nijkamp, Baycan-Levent & Brons, 2008). As posited by Adamu & Ibrahim (2011), SMEs are the primary source of employment, and are contributing enormously to export as well as majority of the commercial ventures in a country's economy. Moreover, the significance of SMEs besides dominates all types of businesses in advanced as well as developing economies of the world; SMEs at the same time become dominant in terms of serving as a catalyst of innovative technological breakthrough (Shackelf & Sun, 2009). Equally, in relation to its size, SMEs are small, nevertheless, in its totality the sector serves as a very important segment of every country's business hemisphere (Eruh, 2012).

In the advanced high-income countries of the world, nearly 55% of the GDP (Gross Domestic Product) and 65% of all employments comes from the SMEs. In the middle- income developing societies SMEs contributes about 70% to GDP and near 95% of all employment. In the same vein, 60% of the total GDP and nearly 70% of all available jobs comes from the SMEs in the low- income developing nations (Hendrickson, 2009; Smedan, 2012). The roles and significance of small enterprises could be attributed to their proliferation, as the SMEs constitutes at least 90% of the manufacturing companies and provides jobs to around 50%-60% of the global labor force (Al

mahrouq & Magablah, 2006). Irrespective of the levels of economic advancement, the SMEs serve and will forever remain the major fulcrum of national growth (Dasanayaka et al., 2011; Hyz, 2011; Hessels & Parker, 2013).

In Jordan like in every part of the globe, SMEs enterprises constitute the greater share of entrepreneurship. Around 98% of manufacturing, as well as firms in the service sector, belongs to small and medium enterprises (Al mahrouq, 2010). Similarly, SMEs consist of 98.5% of total registered companies, and 60% of formal occupations, besides contributing 50% of total GDP in the year 2013, SMEs provide solutions to the unemployed (JYES, 2014). Overall, more than 100,000 SMEs exist in Jordan, representing about 97% of all businesses, based on the estimates by the statistics department. These companies are at the center of the country's economy, contributing up to 50% or more to the GDP; it provides jobs to about 60% of Jordan's workforce; creating up to 70% new employment opportunities in the economy; contributes to about 45% of exports, based on the estimate by the Organization for Economic Cooperation and Development (OECD) (Mumani, 2014).

The competencies in marketing enable organizations to comprehend effectively the present and impending needs of their clients so as to serve them better at the same time identify new customers and to examine competition effectively (Fowler, 2000). As put forward by Kotabe, et al., (2012), marketing competences is a reflection of the firm's ability to distinguish product and services from contestants and maintain brands successfully through value addition to their goods and services. Market-oriented companies advance higher marketing competencies through marketing research, pricing, development of products, and channel, promotion, and market management from less-oriented companies and thus surpass competitions as it relates to the performance of the organization (Vorhies et al., 1999). Marketing capability refers to the capacity of a firm to use its resources both tangible and intangible to comprehend complex consumer-specific needs, realize differentiation of products in relation to competitiveness, and attain greater advantages of performance (Mu, 2015). Firms' innovation performance refers to the containing of new products and new projects which leads to: new products and services and improvement in the quality of goods and services and embracing the structure of the organization in line with the requirement of competitive environment (Khalili et al., 2013).

There has been little empirical finding on the correlation between marketing capabilities and business performances (Tsai & Shih, 2004). The association between marketing capabilities and firm performance has received increasing attention from the research community such as studies by Krasnikov & Jayachandran (2008); Morgan, Slotegraaf & Vorhies (2009); Murray, Gao & Kotabe (2011); Vorhies, et al., (2009). Generally, the results from these studies support the positive correlations between marketing and performances, which is in line with the findings of Krasnikov & Jayachandran, (2008). Several researchers differ in view of the association between marketing capabilities and the performance of the firm. Some are of the view that there is a direct and positive association (Day, 1994; Moorman & Slotegraaf, 1999; Krasnikov & Jayachandran, 2008; Nath et al., 2010), while others suggested an indirect relationship (Priem & Butler, 1999).

The literature holds that ownership of marketing capabilities can translate into the performance of the organization that excels in numerous business disciplines and sectors of industries (Liu, 2015). Scientific studies confirm the marketing capabilities associating with organizational performance (Morgan, 2012; Morgan et al., 2012; Vorhies, 1998; Vorhies & Morgan, 2005). However, the studies indicate different conclusions (Morgan, 2012; Morgan et al., 2012). The lack of consensus in literature calls for additional research in the field of marketing capabilities. In particular, on the relationship between marketing capabilities and innovation performances, Weerawardena (2003) reported the influence of marketing capabilities on both innovation performance and competitive advantages. Yusr, et al., (2012) examined the correlations

among marketing capabilities and innovation performances, the result showed that marketing capability contributed considerably to the increased in innovation performances.

According to Day (1994), marketing capabilities are categorized into, outside and inside marketing capabilities. Cadogan, et al., (2002), develops a scale of measuring the marketing capabilities of firms, he recognizes the factors of broader marketing capabilities measurement in accordance with the typology proposed by Day (1994), though with some additions of discrete factors that relate to the network of capabilities. Therefore, the capabilities proposed by Cadogan, et al., (2002) are grouped as outside-in inside-out capabilities, network capabilities, and spanning capabilities. As advanced by Salo, et al., (2016), marketing capabilities are measured amongst eight capabilities: market research, distribution, pricing, product/service development, marketing communications, customer relationships, marketing and management planning, and branding. Based on Vicente, et al., (2016), marketing capabilities are categorized into four dimensions namely: pricing capability, product development capabilities, communication skills, and distribution capabilities.

The Performance of an organization has been assessed in the literature using both financial and non-financial factors that have been used in the literature to measure the performances of the organization. However, both financial and non-financial measures demonstrate a general view of business standing because the strategy involves all dimensions of corporate behaviour (Kaplan & Norton, 1992; Lee & Miller, 1996; Macdougall & Pike, 2003). Murphy & Callaway (2004) used 11 dimensions of performance namely percentage growth in employees, absolute growth in employees, percentage growth in sales, absolute growth in sales, return on assets, return on sales, return on equity, net income, owner's draw, satisfaction with profitability, satisfaction with growth.

Additionally, different measures were employed by various studies, for example; (Gupta & Govindarajan, 1984; Murphy, Trailer & Hill, 1996; Cox & Camp, 2001), sales growth (Jovanovic, 1982; Churchill & Lewis, 1983; Gupta & Govindarajan, Gupta & Govindarajan, 1984; Murphy et al., 1996), new product development (Gupta & Govindarajan, 1984; Gibb & Davies, 1990; Cox & Camp, 2001), Research and Development (R&D) activities (Gupta & Govindarajan, 1984), and labour growth (Gupta & Govindarajan, 1984; Cardozo et al., 1995).

Alhniy, et al., (2016) averred that the small business industries in Jordan serve a very vital part in the contributions to Jordan's social and economic advancement. SMEs are the main suppliers of income and employment, of which nearly 98% of the entire businesses in Jordan are classified as SMEs, two out of three of these have less than 19 workforces (JEDCO, 2010). Based on indices obtained from the ministry of planning and international cooperation, small and medium businesses in Jordan constituted more than 98% of all institutions engaged in the recruitment of 60% workforce which contributed nearly 50% to the gross domestic product compared to 80% for advanced countries (guiding microfinance institutions and micro-Jordan, 2006). Due to the vulnerable nature of the Middle East and recent developments in Iraq and Syria's instability and insecurity contributes to a massive blow to the Jordanian economy, essentially to the SMEs sector, resulting to a significant upsurge in unemployment (AL-Hyari et al., 2011).

Nonetheless, a lot of SMEs in Jordan are striving for survival in the current competitive atmosphere, as the majority of SMEs encountered several obstacles in their quest for effective competition and a sustainable environment (Al-Hyari, 2013). The statistics of failed businesses were 19,128 from 165,879 total business organizations (Department of Statistics, 2012). In addition, small businesses proprietors also were pressured to engage in competition with overseas companies that employ the latest technologies and methods of businesses in Jordan (Magableh & Abuyageh, 2012). In relation to that, Mohammed Rifai, a member of the Industry Board of Amman Chambers, shows that 1550 companies, comprising 8000 employees, do not renew their membership in 2015 (Alrai newspaper, 2015). The most fundamental challenge encountered by Jordan's economy is the high rate of population growth and the decline in rates of economic development for many years

ago. This has some repercussions particularly as it affects the employment sector (Alnswor, 2008). Increased risk resulting in unemployment gave rise to political stagnation is important, and therefore becomes more obvious the significance of SMEs as an avenue of decreasing this challenge (Al-Hyari, 2013). Consequently, Jordan needs to re-evaluate its situation and offer assistance to the SMEs to continue and improve their function as the foundation economy in Jordan (Al-Hyari, 2013).

Theoretically, innovation performance literature suggests that researches conducted in measuring the effect of marketing capabilities on innovation performance are even more confusing. Consequently, broad research of relevant literature now reveals gaps in theory that needs to be resolved in this research. On the contrary, there is little investigation collectively on the theory that explained the association between marketing capabilities and innovation performance. Still, given the inconsistent findings in the relationship between marketing capabilities and innovation performance ushers a gap in relevant theories to support scientific evidence that needs to be tackled. Furthermore, Sekaran & Bougie (2013) opined that the same variables can be used as independent, mediation, or moderating variables, it depends on the way the theoretical model is conceptualized. The objective of this research is therefore to examine the effect of marketing capabilities on the performance innovation of Jordanian SMEs. This paper, therefore, intends to investigate whether there is a significant relationship between marketing capabilities and innovation performance and how these variables influence the innovative performance of SMEs in Jordan.

METHODOLOGY

This study implements a number of variables that have been investigated in other previous researches. This research is going to adopt measures and instrument either partially or in full used in previous researches as it is found the measures to be suitable. The questionnaire is in form of five points Likert-scale. The five points Likert-scale ranges from 'strongly disagree', "disagree", "neutral", "agree", and "strongly agree". Although there are differences in the degree of intensity measured, mostly settled on a minimum of 4-5 scales (Isaac & Michael, 1995; Lleuman, 2004; Wolfer, 2007).

Marketing Capability Measurement

In relation to marketing capabilities, literature provides numerous methods, and theoretical evolution, and certain methodologies. The research includes the production and testing of extensive marketing capabilities (Conant et al., 1990, 1993; Smart & Conant, 1994; Vortices et al., 1999; Vorhies & Harker, 2000), to analyse the combination of marketing and organization capabilities such as multinational firm or R & D intensity (Kotabe et al., 2002). Therefore, this study adopts Zou, et al., Dimension of Scale 2003 *i.e.*, pricing capabilities, product development capabilities, communication capabilities and distribution capabilities.

| No. | Item | Source |
|-----|--|-----------------------|
| 1 | Respond quickly to competitors' pricing tactics. | Zou et al., (2003) |
| 2 | Use pricing skills to respond quickly to any customer change. | |
| 3 | Communicate pricing structures and levels quickly to customers. | |
| 4 | Develop new products for export to exploit R&D investment. | |
| 5 | Speedily develop and launch new products for export. | |
| 6 | Manage overall new product development systems for export market well. | |

| | |
|----|--|
| 7 | Successfully launch new products for exports. |
| 8 | Skilfully use marketing communications. |
| 9 | Use marketing communication skills and processes well. |
| 10 | Effectively manage marketing communication programs. |
| 11 | Attract and retain the best distributors. |
| 12 | Satisfy the needs of distributors. |
| 13 | Add value to distributors' businesses. |
| 14 | Close to working with distributors/retailers. |
| 15 | Provide a high level of support to distributors. |

Innovation Performance Measurement

There is no general agreement globally on assessing firm performance among scholars, authors, and researchers (Croteau & Bergeron, 2001). We can divide all of them into two broad categories, financial and non-financial measures. Literature suggests that non-financial measures are better than the financial measures (Gosselin, 2005). Also, Performance can measure from subjective and objective perspectives. The subjective data can be collected through respondent's perception or self-rated approach (Croteau & Bergeon, 2001; Durand & Coeurderoy, 2001; Han, 2000; Hoque, 2004; Hoque, Mia & Alam, 2001; Santiago & Moesel, 2007; Tsamenyi, Onumah & Tetteh-Kumah, 2008) whereas the objective data calls upon from company financial reports and statements (Dess & Robinson, 1984; Haversjo, 2000; Heras, Casadesus & Dick, 2002; Sharma, 2005; Simmons & White, 1999). Realistic data on small firms' performance are mostly non-existent as many of the small firms are owned privately and it is not binding by law for the owners to publish or willing to reveal their financial information to outsiders on their own (Dess & Robinson, 1984). Furthermore, small firms' owner/managers are likely to give a biased assessment evaluation of the performance of their firms (Sapiena, Smith & Gannon, 1988). Many past studies employed the use of self-report to generate data on the performance of the business, and, even though this kind of data is subjective, yet, it stands to be the only reliable source (Dess et al., 1997; Knight, 2000; Nayyar, 1992). Measures that are subjectively centered on managers' assessment of their business performance in relation to their opponents or how performances tally with expectation. For this purpose, the innovation performance measure was based on the set of subjective performance measures which included the capacity to create new product and service and bring to the market ahead of a competitor. The proportion of the new products in the prevailing product collections, quantity of new products and services projects, introduced innovation in the process and method of work, the Introduced new product and service quality, the quantity of innovations protected under intellectual property, reintroducing system of administration and the mind- set in tune with the environment of the firm.

Table 2
INNOVATION P

| No. | Item | Source |
|-----|--|-------------------------|
| 1 | Ability to introduce new products and services to the market before competitors. | Gunday et al., (2010) |
| 2 | Percentage of new products in the existing product portfolio. | Gunday et al., (2010) |
| 3 | Number of new product and service projects. | Gunday et al., (2010) |
| 4 | Innovations introduced for work processes and methods. | Alzuod, et al., (2017). |
| 5 | Quality of new products and services Introduced. | Alzuod, et al., (2017). |
| 6 | Number of innovations under intellectual property protection. | Alzuod, et al., (2017). |
| 7 | Renewing the administrative system and the mind set in line with firm's environment. | Alzuod, et al., (2017). |

POPULATION AND SAMPLING

The population for this present research consists of all SMEs in Jordan. Although there is no generally established definition of Small and Medium Enterprises, there are usually conventional traits; that the number of workforces in an organization cannot go beyond a particular quantity. In Jordan, the Ministry of Planning and International Cooperation (2011), defines small enterprises to refer to those firms with fewer than twenty workers, and medium enterprises stand for those firms with between twenty to ninety-nine personnel. The study adopted non-probability convenience sampling as a technique for obtaining the appropriate data from respondents. The sample size in this research was determined by using the table provided by Krejcie & Morgan (1970). Based on this table, a number of 377 SMEs need to be selected as a sample in order to represent the overall population which is 19392 SMEs in Jordan. Online survey questionnaires *via* google doc's application were used in the data collection process. The survey questionnaires were sent to the SMEs owners/managers. SMEs usually have a moderately restricted quantity of essential product and technologies. Hence, the managers or owners are expected to have a good perception of their organizations and therefore improves the precision of the response (Isobe et al., 2004). The follow-up emails were also sent to the respondents. The data were collected within a twelve months period (August 2018 to July 2019). The questionnaire originally used was written in English, however, as the intended respondents under this study (SMEs owners/managers) speak Arabic as it is official language, the questionnaire was interpreted into Arabic as recommended in literature (Brislin, 1970; 1986). The procedure of back- translation was adopted in order to achieve validity and reliability of the wordings. The total number of collected and usable questionnaires 385 out of 800 questionnaires was e-mailed to the respondents, with response rate 48% which is fairly good enough for survey questionnaire method. SPSS version 21 is used to analyze the data from this Study.

RESULTS AND DISCUSSION

Respondents Demographic Characteristics

The respondents' demographic characteristics examined include; gender, marital status, age, educational qualification, position, employee number, year of establish, sector and state as shown in Table 4.1. With respect to marital status, majority of respondents 73.5% are married; whereas, 26.5 % of them are single. In terms of personal information from the findings, the gender composition shows that 72.2% of the respondents who participate in the study are male, while 27.8% of the respondents are female. Then, the highest group composition of respondents' age is from 51-60 years which is 26.5%, followed by the 41-50 years and 31-40 years with 25.2% and 22.3%. Whereas; the Less than 30 which 14.8%. While the lowest group composition of age is more than 61 years which is only 11.2%. Then, the large number of respondent's highest-level education is the Bachelor level which shows that 67.0% Next, it is followed by the master and Diploma with 11.4% and 9.6% while the lowest group composition of level education is PhD which is only 5.2 %. While the number of secondary schools' group is 6.8%. In relation to position of respondents at the respective enterprises, the owner and manager is the most with 49.9%. And the lowest number of position of respondents at the SMEs is owner with only 18.2%. The position of manager represents 31.9% of respondents. The Table 3 shows the number of respondent's position in the enterprises. With respect to firm size, 31.7% of the firms had 6-10 employees, whereas 53.8% and 11.4% represents 11-20 and 21-50 employees, while the lowest group is 51-99 employees with 3.1%. With respect to enterprises sector 147 enterprises are from the Services sector representing 38.2% of the total sample; Internal commerce sector comprises 105 enterprises making 27.3%; the industry sector is represented by 78 enterprises or 20.2 % of the total sample; Building sector comprises 29

enterprises 7.5%; Transportation and inventory industry constitutes 13 enterprises 3.4%; and the same number of enterprises for Financial and insurance sector.

| | Variable | Frequency | Percentage (%) |
|---------------------|------------------------------|------------------|-----------------------|
| Marital status | Single | 102 | 26.5 |
| | Married | 283 | 73.5 |
| Age | Less than 30 | 57 | 14.8 |
| | 31-40 | 86 | 22.3 |
| | 41-50 | 97 | 25.2 |
| | 51-60 | 102 | 26.5 |
| | More than 61 | 43 | 11.2 |
| Level of education | Secondary school or less | 26 | 6.8 |
| | Diploma | 37 | 9.6 |
| | Bachelor | 258 | 67 |
| | Master | 44 | 11.4 |
| | PhD | 20 | 5.2 |
| position | Owner | 70 | 18.2 |
| | Manager | 123 | 31.9 |
| | Owner & Manager | 192 | 49.9 |
| Number of employees | 10-Jun | 122 | 31.7 |
| | 20-Nov | 207 | 53.8 |
| | 21-50 | 44 | 11.4 |
| | 51-99 | 12 | 3.1 |
| Enterprises Sector | Services | 147 | 38.2 |
| | Internal commerce | 105 | 27.3 |
| | Industry | 78 | 20.2 |
| | Building | 29 | 7.5 |
| | Transportation and inventory | 13 | 3.4 |
| | Financial and insurance | 13 | 3.4 |

The Simple Linear Regression Analysis

Simple linear regression analysis was conducted to examine the influence of marketing capability on innovation performance among SMEs in Jordan. The Linear Regression determines the influence of the independent variables (X1), on the dependent variable (Y) using SPSS version 22.0. The regression model can be defined as defined as:

$$Y = \text{constant} + X1 \times 1 + e$$

Where;

Y: innovation performance

X1: marketing capability

e=Error term

Simple linear regressions model was run and produces good model fitness. The results revealed that the linear data fit the model. The R-value which is referred to as the correlation coefficient shows the strength of relationship between the observed and predicted values of

dependent variable. The correlation coefficient (R) obtained from the model (0.504) indicates that the strength of relationship between dependent and independent variable is strong and positive. This result shows that the independent variable (marketing capability) has a substantial positive relationship with the dependent variable (innovation performance). On the other hand, R-square (the coefficient of determination R^2) value obtained was 0.254, which mean that 25.4% of the innovation performance (Y) is explained by marketing capability (X). The remaining 74.6% were caused by the other factors that were not captured by the model, indicating a good model.

The result of the analysis as shown in Table 4, revealed that the independent variable (marketing capability) has a significant influence on the dependent variable (innovation performance) with coefficient weight value of 0.253 and statistically significant at 1% confidence level. Based on the result obtained, it revealed that marketing capability is a significant predictor of innovation performance. The link between marketing capabilities and innovation performance is mixed as one group of studies supported this relationship (Weerawardena, 2003; Mu, 2015), and the other found no link (Haas & Hansen, 2005). However, the findings of this study come in line with the results of Wiklund & Shepherd (2003); Li, Tan & Liu (2008). Furthermore, Weerawardena (2003) reported the influence marketing capabilities on both innovation performance and competitive advantages. Yusr, et al., (2012) also reported the links between marketing capabilities and innovation performances.

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|--|-----------------------------|------------|---------------------------|--------|------|
| | B | Std. Error | Beta | | |
| (Constant) | 11.671 | 1.015 | | 11.5 | 0 |
| MC | 0.253 | 0.022 | 0.504 | 11.416 | 0 |
| a. Dependent Variable: Innovation performance. R.=504a, R Square=0.254 | | | | | |

CONCLUSION AND RECOMMENDATION

The main objective of this research work is to examine the connection between marketing capabilities and innovation performance of SMEs in Jordan. This was aimed to come up with outcomes that might be valuable for practical benefits to SMEs managers and owners. The conclusion from this study is that marketing capabilities are an essential variable that affects SMEs' innovation performance. Due to the fact that the external environment is continuously varying and enterprises face uncertainty from competitor and customers. It is very critical for managers and owners of SMEs to focus on enhancing business strategies to recognize competitor moves and attempt to increase the quality standards of products and services. The results also stressed that being entrepreneurial is among the key features of enterprises that could help it to survive and to make a position in the market. The findings from this study will make significant contribution to the body of literature on innovation performance and SMEs, specifically on innovation performance among Jordanian SMEs. Furthermore, the findings will add to the existing knowledge on the direct relationship between marketing capabilities and innovation performance.

Although the study has some limitations, it has opened up some opportunities for future research and it can be extended in several ways. Even though the current research has a suitable response-rate and a sample size that is suitable, the future studies can adopt alternative research designs such as interview, focus group discussion, or observation through case study, and in-depth interviews in order to capture the open-ended views of the respondent which can different outcomes in the future studies.

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