A Study on the Effect of Marketing Environment and Capacity on the Business Performance in SMEs

Dong Hyun Kim* · Geon Cheol Shin**

Abstract: It is a well known fact that the marketing activities of a company play a pivotal role in surviving in the current competitive business world. There is, however, no certainty or logical explanation of the correlation between corporate marketing activities and their business performance. Especially small and medium-sized enterprises (SMEs) do not have enough empirical analysis on the correlation between the measurement of marketing activities and their business performance.

This study, mainly based on Kotler’s marketing performance model, shows what factors affect their performance in the context of input level. Existing studies mainly focus in explaining the relations between specific environments such as market orientation, new product development, innovation capabilities and SMEs business performance. The purpose of this study is to find and analyze a mechanism that explains the relation as a process between internal and external environmental factors and the organization’s internal capacity. It also provides some implications for the marketing practitioners of SMEs to enhance their marketing management capability and execution quality as well.

Samples are from SMEs located in Seoul and the surrounding areas. Four latent variables in marketing environmental factors are composed of competitor orientation, marketing oriented organization, top manager's marketing orientation, and marketing strategic orientation. In particular, we assume that the marketing capacity will directly lead to better firm performance between the marketing environment and performance variable besides the expected significant effect of the mediating variable. In the research model, marketing capacities as parameter including market research and marketing management serves as a dependent variable of the marketing environment and an independent variable of marketability. A set of hypotheses for the model was constructed to analyze the impact of the independent variable on the dependant variable with the viewpoint of marketing research. The following hypothesis are proposed:

H1: Competitor orientation will positively influence marketing capacity.
   The measurement factors of competitor orientation which is one of the market orientations (Narver and Slater, 1993) contain 3 items such as i) Amount of competitor information, ii) Response of competitor, and iii) Competitor recognition.

H2: Marketing oriented organizations positively influence marketing capacity.
   To assess marketing oriented orientation, a questionnaire composed of i) Phase marketing organization, ii) Organization marketing department, and iii) Cooperation between departments, was sent

* Senior Researcher, Kyung Hee University(forof0925@hanmail.net)
** Professor, Kyung Hee University(gcshin@khu.ac.kr)
A Study on the Effect of Marketing Environment and Capacity on the Business Performance in SMEs

out to SMEs.

H3: CEO’s marketing orientation will positively influence marketing capacity.

This extraneous variable is composed of: i) Processional knowledge, ii) Understanding of marketing by the CEO and iii) Leadership of the CEO.

H4: Marketing strategic orientation will positively influence marketing capacity.

Marketing strategic orientation is measured by: i) Organizing strategy, ii) Share of marketing strategy, iii) Degree of marketing experience, iv) Marketing mindset, and v) Marketing education and training.

H5: Marketing capacity will positively influence marketing performance.

Marketing capacity which is assessed from excellent previous studies (Vorhies and Mason, 2009) is measured by: i) Market research ability, ii) Development program, iii) Application of market information, iv) Professional market research, v) Segment of market, and vi) Program management.

A web-based e-mail questionnaire was sent to, and direct interviews were conducted with not only the manager level including CEOs, but also marketing staff and other division’s employees of sample firms. Of those, 228 responses were used in the analysis. The fitness of the model was assessed using confirmatory factor analysis (CFA), and reliability and validity were tested. To hypothesize and analyze the causality effect, this study uses the AMOS program, which identifies interrelationships among variables through structural equation modelling. The results showed that all factors are significantly affecting the marketing capacities of SMEs except for the marketing oriented organization. This analysis also shows that there is high causal relationship between marketing capacities and marketing performance. From the hypothesis testing result, a main path for the business performance is “market orientation & marketing strategic orientation → marketing capacity → marketing performance”. In other words, Small and Medium Enterprises competitor orientation and marketing strategic orientation for the marketing capacities were significant factors affecting the results. Here are the conclusions the estimation model derives from this study in detail:

Firstly, there is high correlation between the competitor orientation of organization as a environmental factor and marketing capacities.

Secondly, a marketing oriented organization is not statistically significant in affecting marketing capacities. This result can be interpreted in two ways. One is that a self-marketing organization is not complete in terms of performance, especially in the short term period, as the organization of the system lacks organizational resources, due to the nature of SMEs, the other demonstrates the fact that the marketing organization and by default, capacity and performance of activities leading to performance-based empirical analysis from the correlation, is not relevant.

Thirdly, since factor analysis shows high path coefficient between one factor that is a combination of marketing strategic orientation and marketing capacities, the hypothesis is accepted. Hypothesis testing on CEO’s marketing orientation was excluded because of low goodness-of-fit.

Finally, the hypothesis on the positive influence of marketing capacities on marketing performance is accepted.

In conclusion, this study shows that in order for SMEs to obtain high marketing competency, they must have systematic marketing strategic orientation environment with marketing-oriented mindsets. These are pre-conditions to be met. Marketing organization measured with the fame of marketing organization or organization power has no influence on marketing capacities in SMEs. This result proves, in part, empirically that the marketing performance model for global or big companies in our country can be of little use for SMEs. Medium-Small size companies’ marketing capacities narrow down to the managing power of the marketing