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Marketing capabilities: Antecedents and implications for B2B SME performance

Bill Merrilees *, Sharyn Rundle-Thiele, Ashley Lye

Department of Marketing, Griffith University, Gold Coast Campus, Queensland, Australia, 4222

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ABSTRACT

The study provides a new perspective on SME marketing strategies in the B2B context. Using a resource-based view of the firm, the study develops a structural model linking marketing capabilities and marketing performance. A study of 367 SME Australian firms reveals that two key marketing capabilities, namely branding and innovation, have major performance outcomes in the SME B2B context. This is the first SME study to evaluate *concurrently* the contribution of innovation and branding marketing capabilities, with innovation capability the strongest determinant of SME performance. The study also finds market orientation and management capability act as enabling mechanisms for building marketing capabilities. Disaggregation tests indicate that the same findings apply to three size categories denoting micro firms (less than 20 staff), small firms (20–99 staff) and medium-sized firms (100–499 staff).

1. Introduction

Using a resource-based theory of the firm, the current study explores which marketing capabilities impact SME performance. Current approaches usually focus on a single marketing capability, often innovation (O'Dwyer, Gilmore, & Carson, 2009) or branding (Abimbola & Vallaster, 2007) as potential key drivers of SME performance. While such approaches are useful and indicate that each driver is important, they do not establish a pecking order of importance, nor do they indicate a clear mechanism for improving performance. The current study provides a more comprehensive approach to assessing the relative contribution of two major, higher-level marketing capabilities, innovation and branding, to marketing performance.

One objective of the current paper is to progress the literature in terms of assessing the contribution of higher-level marketing capabilities to performance. In particular, it is unclear which of the higher-order capabilities are most important to performance. A second objective is to model such assessments in the context of B2B SME firms. Very little is known about the relative contribution of different higher-order marketing capabilities in the SME context. A third objective is to examine the relative contribution of marketing support capabilities to each of the higher-level marketing capabilities. Evaluating such relative contributions clarifies the mechanisms by which marketing capabilities are created and managed. A fourth objective is a specific variation of the third, namely in terms of explaining innovation capability, to test whether firm size is a *moderator* rather than an *antecedent* to the innovation process (Harmancioglu, Droge, & Calantone, 2009).

To address these objectives, we first provide a broad theoretical context. Then we conceptualize directional relationships between particular higher-order marketing capabilities (innovation and branding) and marketing performance. Next, we conceptualize the relationship between marketing support capabilities (market orientation and management) and each of the marketing capabilities. The structural model is developed by conceptualizing the relationship from marketing performance to financial performance. The total structural model is estimated using structural equation modeling (AMOS software) with a sample of 367 Australian SMEs in the B2B sector. Additional tests use multiple regression analysis at a disaggregated level, with three different firm size levels. In particular, the disaggregation method tests whether firm size moderates marketing capabilities.

Firm size is an important dimension of the study. The upper size boundary for a small and medium-sized firm lacks consensus, but the current study adopts a common choice, namely 499 (Berthon, Ewing, & Napoli, 2008; Hooley, Greenly, Cadogan, & Fahy, 2005; Motwani, Dandridge, Jiang, & Soderquist, 1999; Pfirrmann, 1995). The range of 1–499 covers a potentially wide diversity of resource endowments and behaviors, leading many researchers to distinguish between *small* (defined here as less than 100 employees), and *medium*-sized (100–499) firms. Selection of the 100 cutoff-level is commonly used (Bonaccorsi, 1992; Coviello, Brodie, & Munroe, 2000; Motwani et al., 1999). Within the small category, a further division between small (defined as 20–99 in our study) and very small or micro (defined as less than 20 employees in our study), allows for further potential size-based differences in behavior. The aim is to make the micro size cutoff as small as practical, noting a range of cutoff selections in the literature, 20 (Bonaccorsi, 1992; Cobbenhagen, 2000; Hooley et al.,

* Corresponding author. Tel.: +61 7 5552 7176; fax: +61 7 5552 9039.
E-mail address: bill.merrilees@griffith.edu.au (B. Merrilees).

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2005; Lybaert, 1998), 25 (Berthon et al., 2008) and 50 (Motwani et al., 1999).

2. Theoretical context

The resource-based view of the firm argues that competitive advantage and hence performance depend on resource endowments (Hooley & Greenley, 2005). Newbert (2007), in his review of empirical research on the resource-based view of the firm, emphasizes *capabilities* rather than *resources*, in terms of relevance and potential impact on performance. Resources *per se* cannot do anything. What is important is the capacity to utilize resources effectively, that is, a capability. Recent work (Liao, Kickul, & Ma, 2009) also emphasizes the greater relevance and importance of capabilities compared to resources.

Day (1994) especially focuses on marketing capabilities, with a special focus on market sensing and customer-linking capabilities. Subsequent conceptual literature has endorsed the relevance of marketing capabilities to understanding firm strategy and performance (Srivastava, Shervani, & Fahey, 1998, 1999; Varadarajan & Jayachandran, 1999). Varadarajan and Jayachandran (1999), in their seminal marketing strategy review, propose a way forward in terms of understanding and explaining firm behavior in the realm of deploying marketing resources for competitive advantage. Their review article frequently refers to intangible market based assets (capabilities) such as brand equity and customer equity. The subsequent decade of academic research (for example: Berthon et al., 2008; Li & Mitchell, 2009; Weerawardena, O'Cass, & Julian, 2006; Wong & Merrilees, 2008) has picked up the two main suggestions for moving forward, namely emphasizing firstly marketing capabilities in what is usually referred to as the resource-based theory of marketing strategy and secondly the link from marketing capabilities to performance. These insights guide the theoretical foundation for the current study, which links marketing support capabilities to marketing capabilities, and then to marketing performance.

Empirically, evaluation of the contribution of marketing capabilities to firm performance is surprisingly scant. Two early studies, Capron and Hulland (1999) and Grewal and Tansuhaj (2001) demonstrate the role of marketing capabilities in two very specific circumstances, namely horizontal acquisitions and managing an economic crisis. Other studies seeking a more general assessment of the contribution of marketing capability to performance divide into two approaches. One approach, especially the earlier studies, conceptualize marketing capabilities in terms of the *mid-level* marketing processes supporting strategy and include the marketing mix (4Ps) elements, market research and market management (Vorhies, 1998; Vorhies & Morgan, 2005). A limitation of this stream, recognized by one of the proponents (Vorhies & Morgan, 2005) is that it precludes any assessment of *higher-level* integrative capabilities, such as brand management, innovation and customer relationship management, which is the second approach. Vorhies and Morgan (2005) leave this opportunity to future researchers. However, in the same year, Hooley et al. (2005), building on preliminary work in Hooley et al. (1999) provide an assessment of several higher-level marketing capabilities, including brand reputation, customer relationship marketing and innovation.

A recent Journal of Marketing study (Krasnikov & Jayachandran, 2009) provides a meta-analysis to demonstrate the link between marketing capabilities and performance. Although reassuring, this state of the art finding is in the mould of the first approach where marketing capability is the sum of many *mid-level* marketing activities. There is limited research since Hooley et al. (2005) evaluating two or more higher-level marketing capabilities compared to studies of either a *single higher-level* marketing capability (Berthon et al., 2008; Li & Mitchell, 2009; Weerawardena et al., 2006; Wong & Merrilees, 2008) or focusing on *mid-level* marketing capabilities (Krasnikov & Jayachandran, 2009; Vorhies and Morgan (2005).

3. Theoretical development: marketing capabilities and performance

As noted, initial studies conceptualize marketing capabilities as the sum of *mid-level* marketing activities, such as advertising and distribution (Vorhies, 1998; Vorhies & Harker, 2000; Vorhies & Morgan, 2005; Weerawardena, 2003). Although our emphasis is on *higher-level* marketing capabilities, such as innovation and branding, the aforementioned studies are used when relevant, such as the link from innovation to performance.

Discerning the B2B and SME literatures for salient higher-level marketing capability studies that examine the impact of marketing capability on performance suggests that two prevail, namely innovation and branding. In the interests of parsimony, the current paper confines itself to examining just two higher-level marketing capabilities, innovation and branding. We summarize the potential links as follows.

Innovation receives a dominant share of attention in performance studies. Innovation capabilities are seen as critical for competitive advantage and superior marketing performance (Han, Kim, & Srivastava, 1998; Hooley et al., 2005). Innovation seems to be a particularly powerful determinant of marketing performance. In the B2B context, innovation has a major positive influence on performance (Hult, Hurley, & Knight, 2004; Weerawardena, 2003; Weerawardena & O'Cass, 2004). In the SME context, similar studies have shown the importance of innovation on performance (Weerawardena et al., 2006). Another recent study of dynamic B2B industries in China finds that SME innovation is very favorable relative to large enterprise innovation (Li & Mitchell, 2009). Thus, in sum, we have hypothesis one:

H1. SME marketing performance is positively related to innovation capability.

Branding is a second major higher-level marketing capability that is a potential determinant of marketing performance. In the B2B field, Gordon, Calatone, and diBenedetto (1993), Mudambi, Doyle, and Wong (1997) and Kim, Reid, Plank, and Dahlstrom (1998) highlight the benefits of branding. The importance of branding in the B2B context is also emphasized in Mitchell, King, and Reast (2001), Webster and Keller (2004), Bendixen, Bukasa, and Abratt (2004), McQuiston (2004) and Van Riel de Mortanges and Streukens (2005).

SME branding is a relatively recent approach. Historically, branding was considered the domain of large firms and little research was undertaken in the SME area. Most of the research in this area is less than ten years old (Abimbola, 2001; Abimbola & Vallaster, 2007; Berthon et al., 2008; Doyle, 2003; Krake, 2005; Rode & Vallaster, 2005; Wong & Merrilees, 2005). One study indicates that branding is the major determinant of SME marketing performance (Wong & Merrilees, 2008). The direction and strength of this branding research leads us to our second hypothesis:

H2. SME marketing performance positively relates to branding capability.

4. Theoretical development: marketing support capabilities and marketing capabilities

The potential link of marketing capabilities to marketing performance is important, but it is also necessary to explain the mechanisms leading to the creation and management of marketing capabilities. It seems likely that a firm needs a certain mix of capabilities in order to create marketing capabilities, that is, capabilities create other capabilities. A neglected, but nonetheless very useful exposition of the