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Marketing Capabilities Development in Small and Medium Enterprises: Implications for Performance

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Abstract

The purpose of the research is to analyze the organizational antecedents of marketing capabilities and their impact on business performance using a sample of small and medium enterprises (SMEs). More specifically, the research analyzes the effect of the organizations' internal marketing (IM) practices on the employees' implementation of a coordinated set of commercial abilities crucial to firms' competitiveness. Results of the research indicate that IM, or the management of human resources as internal organizational clients, is a key determinant in motivating employees effectively to develop both strategic and operational marketing capabilities. Marketing capabilities exert a significant and positive effect on clients' satisfaction and loyalty, which ultimately lead to better organizational performance in terms of sales, profit, and market share. The research also contributes to the scarce amount of empirical evidence on the positive and direct effect of IM strategies on business performance.

Keywords: Marketing capabilities, internal marketing, customer performance, organizational performance, SME

JEL Classification codes: M0, M1, M2, M3

An increasing interest in the empirical study of marketing capabilities has recently emerged in the academic literature (Andreu & Ripollés, 2008; Puga, Ribeiro, Brashear, Isenberg, & Reis Monteiro, 2009; Tsai & Shih, 2004; Vorhies & Morgan, 2005; Weerawardena, 2003) because, according to the resource-based view (RBV) of firm theory, sustainable competitive advantages (SCAs) stem from an organization's distinctive capabilities (Amit & Schoemaker, 1993; Grant, 1991, 1996). Thus, in an attempt to achieve a deeper understanding of the contribution of the marketing discipline to business competitiveness, researchers have focused on three main streams of investigation:

1. identification of organizations' relevant marketing capabilities and more accurate typology to classify them (Day, 1994; Hooley, Saunders, & Piercy, 1998; Weerawardena, 2003),

2. empirical analysis of the link between marketing capabilities and various performance indicators (Fahy, Hooley, Greenley, & Cadogan, 2006; Tuominen et al., 2006; Vorhies, 1998), and

3. study of the antecedents of marketing capabilities or the variables that foster their development in organizations. In this case, previous investigations have mainly considered market orientation as the essential determining factor in marketing capabilities development (Tsai & Shih, 2004).

This paper reflects a combination of the three research trends through the proposal of a specific classification of marketing capabilities, the analysis of their impact on performance, and the introduction of a new agent amongst the factors that may promote the creation of marketing capabilities. In this regard, the research analyzes the extent to which marketing-based human resources management (IM) encourages the development of marketing capabilities. IM is considered increasingly important in the practical application of marketing in organizations, but empirical studies on IM are scarce (Gounaris, 2006; Lings, 2004). This paper also illustrates a scale for measuring IM designed specifically to take into account the characteristics of the population under analysis, SMEs. Another potential contribution of this research, compared to previous studies, is the consideration of two different categories of results amongst the consequences of marketing capabilities: overall organizational performance (market and financial) and customer-related results (degree of satisfaction, loyalty, added value, image, etc.). The latter undergoes analysis as a pure mediating variable determining the effect of marketing capabilities on organizational performance, allowing one to study the mechanisms whereby marketing capabilities help achieve competitive advantage.

The basis of this research was a nationwide sample of SMEs in Spain. SMEs form the core of business in the European Union; thus, they must achieve a competitive edge to consolidate their position, to adapt successfully to new scenarios, and to contribute effectively to the growth of the European economy in the long term. However, SME management must address more challenges than ever due to globalization, increased competition, improved information flows, and fast dissemination of technological advances, which lead not only to ever-changing markets but also to the need to introduce new, improved commercial skills constantly. Fostering the commercial basis of SME competitiveness and helping SMEs to achieve enduring benefits necessitate analysis of possible antecedents of marketing capabilities in SMEs.

The paper has the following structure: the first section includes an analysis of the organizational capability concept together with the different typologies of organizational capabilities identified in the marketing field and the evidence of their effects on business performance. Next is an examination of the IM concept and its role as a potential antecedent of marketing capabilities development. The research hypotheses are evident in the first two sections. A description of the scope of the study and the measures used to evaluate the constructs in the conceptual model follows. The penultimate section involves testing the validity and reliability of the measurement scales and the conceptual model using structural equation modeling (SEM). A discussion of the empirical findings is presented in the final section, which further includes an outline of the main implications for management practice and the limitations of the study.

Marketing Capabilities

Intense debates on the exact definition of marketing capabilities are apparent in the literature (see Fahy et al., 2006; Gibbert, Golfetto, & Zerbini, 2006). Thus, a review of the basic principles of the RBV of the firm is necessary to establish the precise definition of marketing capabilities used in this study.

Organizational Capabilities as a Source of Competitive Advantage

Two major paradigms explain the source of competitive advantage: the theory of competitive forces and the RBV of the firm. According to the theory of competitive forces (Porter, 1980, 1985), each industry has a set of attributes represented by competitive forces (entry barriers, threat of substitutes, bargaining power of buyers and suppliers, and rivalry among existing firms), which determines the potential for market profit. Therefore, the industry's characteristics determine competitive advantage more so than do the firm's qualities and skills, so the market's structural characteristics may hinder the firm's competitiveness or sustain the competitive advantages attained.

RBV theory initially reflected an internal approach to illustrate how to outperform competition. According to the theory, SCA lies in an organization's unique set of resources, which is difficult to imitate (Barney, 1991; Mahoney & Pandian, 1992; Peteraf, 1993; Rumelt, Schendel, & Teece, 1991; Wernerfelt, 1984). The premise of RBV theory is that the heterogeneity and imperfect mobility of resources amongst firms explain why some firms can provide superior customer value and/or achieve lower relative costs, leading to market share dominance and superior financial performance. Resources are inputs or factors of different kinds –human, physical, financial, or intangible (Mahoney & Pandian, 1992)– that companies possess through which they carry out their operations (Amit & Schoemaker, 1993; Grant, 1996).

However, RBV theory gradually evolved towards the belief that resources alone are unlikely to constitute a distinctive competitive basis for companies. Resources need to work in teams in a coordinated way to achieve above-average returns or a superior market position. The skill of coordinating and making resources work together is *organizational capability* (Amit & Schoemaker, 1993; Grant, 1991, 1996).

Organizational capabilities represent a complex set of abilities to perform a firm's operations efficiently and systematically using a series of organizational resources coordinately. Developing and sharing information amongst human resources to make better use of available resources is the basis of a firm's capabilities. Thus, capabilities are deeply embedded in organizational processes, and they accumulate over time. In short, a capability relates to the knowledge, experience, and skills required to perform a task and the complex patterns of coordination and cooperation between individuals and resources (Grant, 1996; Schulze, 1994)[1].

As for resources, the uniqueness of capabilities increases their potential to achieve SCA; in this sense, distinctive capabilities reflect the firm's ability to execute organizational routines in a manner that outperforms competitors (Weerawardena, 2003). Additionally, organizational capabilities must be valuable; that is, they must assist in providing superior value to customers (Barney, 1991). This consideration introduces an explicit reference to the external forces in the RBV; both resources and capabilities are more valuable to the extent to which they allow the provision of superior market value, so each market may modulate the usefulness of organizational capabilities to attain SCA.

In this way, the concept of organizational capability also introduces a dynamic aspect to the RBV and emphasizes that sustaining a competitive advantage requires constant improvement of the firm's resources and capabilities. Therefore, a company's competitive advantage depends on its resources and capabilities, which, in turn, rely on investments made in the past to improve the competitive position. As a result, ongoing reinvestment of profits in the organization's resources and capabilities to thwart imitation and prevent erosion creates and sustains the advantage. Competitive advantage will eventually lead to above-average results in the market (Day & Wensley, 1988).

In this context, one can define *marketing capabilities* as complex processes that involve combining market knowledge and organizational resources to generate added value. Marketing capabilities aim to fulfill the market-related needs of the business, allowing firms to provide superior added value and to adapt better to changing market conditions (Vorhies, 1998). Marketing capabilities are evident when individuals use accumulated knowledge of clients, markets, and the environment; their experience; and the company's resources to resolve commercial problems, to generate higher value for the organization's clients, and to be competitive (Tsai & Shih, 2004; Vorhies, 1998; Weerawardena, 2003). Therefore, the skill of generating greater customer value strongly depends on the availability of distinctive marketing capabilities (Day, 1994; Guenzi & Troilo, 2006; Slater & Narver, 2000). As a result, marketing capabilities allow firms to reach competitive advantages based on higher customer value, which ultimately facilitates above-average returns.

The literature on the effects of marketing capabilities on business competitiveness is recent, and the performance indicators used differ among researchers. The first studies available reflected analysis of the link between business capabilities and organizational performance, jointly measured using financial (profits, returns, etc.) and market-related (sales, market share, etc.) indicators. Such an approach is evident in the studies of Fahy et al. (2000), Tsai and Shih (2004), and Vorhies and Morgan (2003), who confirmed a positive link between marketing capabilities and organizational performance. More recently, Vorhies and Morgan (2005) introduced a new feature to the procedure by adding customer-related performance indicators (satisfaction, loyalty, and value) as a subdimension of the organizational performance construct. In this case, the authors also confirm a positive relationship between marketing capabilities and organizational performance.

However, Hooley, Greenley, Cadogan, and Fahy (2005) evaluated the effects of marketing capabilities by analyzing the different types of results (clients, market, and financial) separately, as well as some of the interactions amongst these dimensions. In this way, Hooley et al. provided a more detailed view of the specific range

of marketing capabilities effects. Accordingly, the present study involved analyzing the effect of marketing capabilities on customer-related performance measures and considering the influence of marketing capabilities on organizational performance measures, thus following recent research trends in the field (Krasnikov & Hewett, 2006; Ritter, 2006; Tuominen et al., 2006).

Therefore, in this study, marketing capabilities were deemed to have a direct, positive effect on customer value creation, satisfaction, and loyalty, as confirmed by Hooley et al. (2005), and customer performance was considered to exert a direct, positive effect on business performance. Considering the mediating role of customer results allows for the identification of the specific mechanisms by which one can improve firm performance. In short, this procedure results in a more detailed view of the mechanisms through which capabilities can encourage competitive advantages.

The first two research hypotheses are as follows:

H1: Marketing capabilities have a direct, positive effect on customer performance.

H2: Customer performance has a direct, positive effect on organizational performance.

Day (1994) warned that identifying all the possible marketing capabilities developed by organizations was impossible because the capabilities could vary depending on the competitive characteristics of markets, the nature of demand, and the passing of time. In fact, the literature reflects discovery of a very wide set of marketing capabilities (Hooley et al., 1998; Vorhies & Morgan, 2005; Weerawardena, 2003). Thus, establishing the marketing capabilities considered in this research is necessary.

Types of Marketing Capabilities

Among the different typologies of marketing capabilities available in the literature, many recent works (Hooley et al., 2005; Ritter, 2006; Vorhies & Morgan, 2005) include frequent reference to the classification suggested by Day (1994). Day established three categories of marketing capabilities that depend on the orientation of the processes in which they are involved:

1. Inside-out capabilities allow companies to offer certain products or services; the capabilities are exercised because of market requirements, competitive changes, and opportunities in the environment. Within this category are activities of production and transformation, logistics, cost control, financial and human resources management, and technological development. In essence, this type of capability corresponds to different functional activities in the company.

2. At the other extreme are outside-in capabilities, which help organizations to understand their clients; to be the first in anticipating market requirements (market-sensing capabilities such as market research); and to create lasting relations with their customers, suppliers, and distributors (market-bonding capabilities such as customer relationship management). The aim of outside-in capabilities is to connect the internal processes that sustain prior capabilities with the external environment.

3. The last group represents those capabilities needed to integrate and connect internal and external processes. Spanning capabilities are based on the analysis or knowledge of both the market and the company's internal functioning; for example, the new product development skill combines information on customer needs with technical capabilities. These capabilities also include customer order fulfillment, pricing, or customer service delivery.

In view of the need to establish limits for the study of marketing capabilities, this study focus on the spanning capabilities because, for efficient performance, these capabilities have to be based on sound inside-out and outside-in capabilities. Therefore, if firms affirm to have spanning capabilities, it can be assumed that they have previously developed inside-out and outside-in capabilities. Six types of spanning capabilities were of interest:

1. Planning flexibility reflects the extent to which companies carry out strategic marketing planning and to which they adjust to relevant environmental contingencies, which is an essential skill in today's competitive contexts.

2. Marketing implementation shows the firm's ability to develop and control commercial plans.

3. Product development relates to the capability to develop new products and services, ensuring constant adaptation to market needs.

4. Service responsiveness is the ability to respond quickly in terms of the service associated with the existing offer. Service responsiveness also depends on the organization's own adaptability and reflects its interest in maintaining long-term relations with its customers.

5. Pricing involves the capability to set the price policy to obtain the best possible revenue from the market.

6. Marketing communications aid in managing customer expectations along with the perceived image and perceived value of the firm.

The relevant capabilities considered in this research involve the basic marketing mix policies, or the four Ps (see Theoharakis & Hooley, 2003; Tsai & Shih, 2004; Vorhies & Morgan, 2003), and the capabilities used to coordinate the actual development and implementation of these policies, such as flexible planning and marketing implementation (Morgan, Zou, Vorhies, & Katsikeas, 2003; Theoharakis & Hooley, 2003; Vorhies & Morgan, 2005). The purpose of selecting these capabilities was to reveal the consistent development of the commercial function in SMEs at the strategic and operational level. All these capabilities are complex and develop over time based on the skills and knowledge of individuals and other organizational capabilities. The complexity of the capabilities prevents imitation by competitors, preserves their uniqueness, and limits their transferability amongst companies, which further reinforces their potential for achieving SCA.

At this point, defining the type of treatment for marketing capabilities in the empirical model is necessary; the decision was whether to consider them in isolation (Hooley et al., 2005) or as integrating elements of an underlying factor (Tsai & Shih, 2004). The RBV theory indicates that a degree of interdependence exists amongst an organization's capabilities, which in itself may be a source of competitive advantage (Teece, Pisano, & Suhen, 1997). Vorhies and Morgan (2005) showed that the effect of capabilities on results is greater when considering their joint application. Thus, in this study, the marketing capabilities are included in the conceptual model as dimensions of a single underlying factor to reinforce the premise that developing them simultaneously allows taking advantage of the synergies derived from their joint implementation.

Internal Marketing

Based on the seminal work by Berry (1981), the IM concept has evolved over the last three decades and has generated special interest amongst researchers in the field of service quality and relations marketing. The basic premise underlying the IM concept is that, just as organizations design specific actions aiming to anticipate and meet their customers' demands, achieving the firm's objectives is also intrinsically related to the development (attraction), follow-up (motivation), and satisfaction (retention) of the internal market, which is represented by the company employees (Berry & Parasuraman, 1991). In service markets, company employees play an essential role in the quality provided and in the establishment of long-term relations with customers, which is one reason that human resources management is of special strategic relevance in the service industry. Nowadays, however, implementation of the IM concept is necessary in any sector. Thus, when human resources management is developed from a commercial or an IM approach; that is, considering employees as internal clients who deserve to achieve high satisfaction levels in their exchanges with the firm (Gounaris, 2006; Lings, 2004), organizations can reap diverse benefits. Such benefits include (a) more satisfied customers through the action of employees who are more committed; (b) better integration and coordination of different functions within the organization; and, consequently, (c) more efficient implementation of the organizational strategy (Rafiq & Ahmed, 2000).

IM is also a key antecedent for proper development of external marketing (Foreman & Money, 1995). Thus, the final aim of IM is that the market-oriented culture reaches all levels of the organization so that employees focus on improving the internal activities to increase results in the external market (Ballantyne, Christopher, & Payne, 1995). IM involves a planned effort to promote the sharing of information on the market amongst members of the organization (Lings, 2004), to achieve greater individual and organizational skills (Ahmed, Rafiq, & Saad, 2003), to overcome resistance to change (Rafiq & Ahmed, 2000), and to update knowledge available in the organization (Ballantyne, 2003). Taking advantage of knowledge and experience, with the objective of creating greater market value, finally improves the efficiency of internal operations.

Following this reasoning, IM is a key antecedent for marketing capabilities development. Marketing capabilities combine employees' knowledge and skills with the organization's resources to commercialize an offering that will generate greater market value (Tsai & Shih, 2004; Vorhies, 1998; Weerawardena, 2003). IM helps individuals in the organization to become aware of the accumulation of commercial information and to be prepared to share it and transform it into collective knowledge to develop an offering and a commercial strategy that will lead to better results. In this way, IM essentially promotes the development of complex processes addressed to provide added value by exercising the skills of the company's employees. As a result, the third hypothesis is as follows:

H3: An organization's IM has a positive, direct effect on the development of marketing capabilities.

The improved internal climate may influence both customer-related performance (satisfaction, loyalty, value perception, etc.) and business performance. If workers are more satisfied and better motivated, more customer- and service-oriented, better trained and more flexible, more committed to the firm's strategy and objectives, and more concerned about coordinating their activities with other departments, external marketing should improve. Several studies indicate theoretically the positive influence of IM on customer satisfaction (Gounaris, 2006; Piercy, 1995; Rafiq & Ahmed, 2000); customer loyalty and retention (Lings, 2004; Zahay & Griffin, 2004); perceived added value for customers (Grönroos, 1997); adaptation to customers' wishes and needs (Greene, Walls, & Schrest, 1994; Lings, 2004); and communication with customers, complaints, and image (Lings, 2004). Accordingly, the fourth hypothesis is as follows:

H4: An organization's IM has a direct, positive effect on customer performance.

Finally, IM initiatives may allow firms to obtain better commercial (increased sales and market shares) and financial (profit) results. Although empirical evidence in this field is limited, some researchers claim that more satisfied employees change jobs less, leading to reduced recruitment and training costs (Lings, 2004); thus, IM leads to greater profits. Further, Rafiq and Ahmed (2000) suggested that coordinated adhesion of the human resources to the purpose of achieving a more valuable offer is an exceptionally useful basis for proper implementation of organizational strategies, thus helping to attain the objectives of greater business performance. The final hypothesis for this research is as follows:

H5: An organization's IM has a direct, positive effect on organizational performance.

Figure 1 shows the theoretical model, depicting the hypothesized relationships among IM, marketing capabilities, customer performance, and organizational performance.
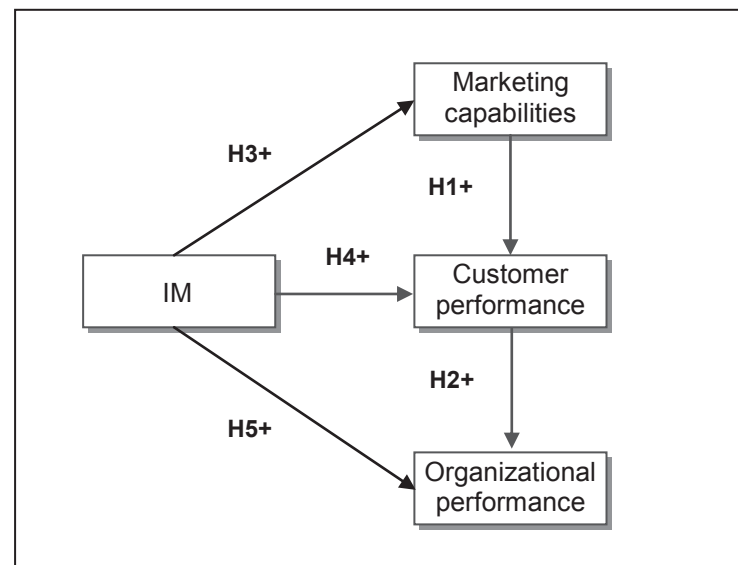

Figure 1. Conceptual model.

Methods

Sample and Data Collection

The Sistema de Análisis de Balances Ibéricos (SABI) database was useful in identifying the population for the empirical study. For the study, SMEs reflected firms with between 10 and 249 workers that did not exceed the limits for turnover laid down in the Commission Recommendation (2003) of the European Communities concerning the definition of micro, small, and medium-sized enterprises (Commission EC, 2003). The sectors selected for analysis were chemicals, machinery and electrical equipment, optical and surgical equipment, electronics, motor vehicles and other transport elements, and metallurgy. All these industrial sectors are characterized by intense innovation patterns, above the average for the Spanish industry, which makes them specially attractive for this study because they need to have greater commercialization skills due to the regular flow of innovations they introduce.

Data collection involved the use of a questionnaire. General managers and chief executive officers (CEOs) were identified a priori as key informants because they are expected to be fully knowledgeable about their organization's IM implementation, marketing capabilities, and performance. Prior to starting data collection, the questionnaire was pre-tested through six in-depth interviews with experts on the sectors under study. The aim was to include any contributions or suggestions and to ensure that the respondents would understand the measurement tool properly. The questionnaire was disseminated in several consignments by mail. The organizations were then contacted by telephone in order to raise the response rate, which led to some questionnaires being re-sent and returned via e-mail. Altogether 1900 surveys were sent out, and the response rate was 8.75%; that is, 163 valid questionnaires were received.

Measurement of the Variables in the Model

Measurement of the variables included in the theoretical model occurred through 7-point Likert-type multi-item scales (see the Appendix). Development of the marketing capabilities scales incorporated the work of Morgan et al. (2003), Theoharakis and Hooley (2003), Tsai and Shih (2004), and Vorhies and Morgan (2003, 2005). Respondents indicated the extent to which their firms possess the capabilities considered compared to their direct competitors. Evaluating the firm's abilities in relative terms allows assessing the capabilities' potential for sustaining competitive advantage.

The most recent proposal in the literature regarding the measurement of IM, the scale validated by Gounaris (2006), formed the basis of the IM scale used in the study. However, adaptation of the instrument to the specific context of the research was necessary because Gounaris designed and validated it for large-size enterprises, which have a greater degree of departmentalization. Nevertheless, the final IM operational scale used in the study included Gounaris's three key dimensions: (a) generation of information on the internal market, (b) dissemination of internal information, and (c) response to internal information. The 16 items finally included in the questionnaire received special evaluation in the pretest to guarantee their content validity for measuring the IM concept.

With regard to the performance scales, respondents evaluated the degree to which their company had achieved the different types of results considered over the last three years relative to their main competitors (Avlonitis & Gounaris, 1999; Theoharakis & Hooley, 2003). Explicit reference to performance within a period also allows estimating the sustainability of the competitive advantages achieved (Grant, 1991). The customer performance scale included aspects such as adaptation by the firm to customers' wishes and needs (Greene et al., 1994; Lings, 2004), added value provided (Grönroos, 1997; Vorhies & Morgan, 2005), levels of satisfaction achieved (Gounaris, 2006; Hooley et al., 2005; Rafiq & Ahmed, 2000; Vorhies & Morgan, 2005), customer loyalty (Hooley et al., 2005; Lings, 2004; Vorhies & Morgan, 2005; Zahay & Griffin, 2004) and degree of communication achieved, reduction in the number of complaints, and improved customers' perception of the firm's image (Lings, 2004). The organizational performance scale included measures relating to the market, such as sales and market share, and financial measures, such as profits obtained. These indicators have been widely used in the literature for evaluating organizations' performance (Darroch, 2005; Theoharakis & Hooley, 2003; Tippins & Sohi, 2003; Vorhies & Morgan, 2005; Weerawardena, Cass, & Julian, 2006), and according to the evidence from the pretest, they are clearly identifiable for smaller firms.

Results

Analysis of the results involved two stages in line with the methodological suggestions of Anderson and Gerbing (1988) and Churchill (1979). Stage 1 included analysis of the psychometric properties (reliability, content validity, convergent validity, and discriminant validity) of the scales used to measure the constructs in the conceptual model. Stage 2 related to the testing of the proposed hypotheses.

Both processes involved using SEM. Structural equation models are multiequation regression models. Unlike the more traditional multivariate linear model, the response variable in one regression equation in SEM may appear as a predictor in another equation; indeed, variables in SEM may influence one another reciprocally, either directly or through other variables as intermediaries. In addition, general structural equation models include unobservable exogenous or endogenous variables (also termed factors or latent variables) measured by their respective indicators or observed variables. In the conceptual model, the main constructs (IM, marketing capabilities, customer performance, and organizational performance) were latent variables. Evaluating psychometric properties of the scales and estimating the causal model depicted in Figure 1 required the use of the statistical package EQS 6.1 and the robust maximum likelihood method for estimation to avoid problems of nonnormality with the data.

Psychometric Properties of Measurement Scales

Reliability - Stage 1:

The reliability of an instrument relates to its ability to yield the same results on repeated trials. Internal consistency is one method that is useful for assessing reliability (Nunnally, 1978). Internal consistency indicates how well the different items of a scale measure the same concept; it is generally measured by means of a reliability coefficient, such as Cronbach's coefficient alpha. Cronbach's alpha was calculated separately for each of the scales used in this research, with item-to-total scale correlations being plotted. Generally, reliability coefficients of 0.70 or more are good, and eliminating those items that diminish the coefficient value is advisable. Results showed that the values of Cronbach's alpha derived for the different scales used in the research ranged between 0.873 and 0.961, indicating a high level of reliability.

Validity:

Validity refers to the degree to which a measure accurately represents what it is intended to measure. Three different types of validity are generally important: content, convergent, and discriminant validity (Nunnally, 1978). Content validity represents the extent to which an empirical measure reflects a specific content domain. Unlike the other validity analyses, content validity does not involve a numerical evaluation. Researchers must ensure that a survey addresses all issues relevant to the content domain under study to guarantee content validity. Development of the scales for measuring the constructs in this research resulted from an extensive review of the literature and detailed evaluations by academics and practitioners alike. Thus, one could consider the conceptual constructs to have content validity.

Determining the scales' convergent and discriminant validity, explained in the next subsections, required analysis of a structural model in which two-headed covariance arrows connect all pairs of latent variables considered in the research. In this model, their respective indicators represent the latent variables (i.e., straight arrows connect the latent variables to their respective observed variables, but no direct effects connect the latent variables). Such a model, usually referred to as a *measurement model*, allows researchers (a) to know the indicators' loadings in their respective latent constructs (to evaluate the convergent validity of the measurement scales considered) and (b) to know the correlations among any pair of variables in the model (to evaluate discriminant validity among latent constructs).

One can perform this process in different stages (Atuahene-Gima & Li, 2002; Bentler & Chou, 1988; Doney & Cannon, 1997) when the number of parameters to estimate is too large in relation to the sample size (Bentler & Chou, 1988; Jöreskog & Sörbom, 1995). Thus, analysis of the scales' convergent and discriminant validity involved three steps: first was consideration of a measurement model including the dimensions conforming the IM construct (Measurement Model 1; see Table 1). Second was correlation of the different marketing capabilities under study (Measurement Model 2; see Table 2). Third was simultaneous correlation of the IM and marketing capabilities constructs with the customer and organization performance factors in the conceptual model (Measurement Model 3; see Table 3). In Measurement Model 3, the IM dimensions and the various marketing capabilities considered in this study were represented by the mean of their observed

indicators for two reasons. One, having at least five cases per parameter to estimate was deemed necessary, following the recommendation of Bentler and Chou (1988) and Jöreskog and Sörbom (1995). Two, as previously explained, the purpose of the conceptual model is to consider the effects of the joint implementation of strategic and operational marketing capabilities.

Convergent validity:

Convergent validity refers to the degree to which a measure converges on the same model with the remaining measures forming part of the same concept. Thus, a strong condition of convergent validity is that all scale items in the aforementioned measurement models load significantly on their hypothesized latent factor and have a loading of 0.6 or better (Gerbing & Anderson, 1988; Hildebrandt, 1987; Steenkamp & Van Trijp, 1991). Tables 1, 2, and 3 illustrate that all the measurement scales in the conceptual model have convergent validity.

Reliability - Stage 2:

By using indicators' loadings from the measurement models, one can obtain an additional internal consistency measure for each scale as a test of reliability: composite reliability (Fornell & Larcker, 1981). Composite reliability is a measure of the average variance shared between a latent factor and its measures. Unlike Cronbach's alpha, composite reliability does not assume that all the loadings are equal to 1; the number of attributes associated with each factor does not influence it.

Fornell and Larcker (1981) suggested another measure to examine the shared variance among a set of observed variables measuring an underlying construct: the average variance extracted (AVE). The AVE is also calculated when evaluating the reliability of the scales, although, as Fornell and Larcker noted, AVE is an even more conservative measure than composite reliability. In general, composite reliabilities of at least 0.7 and AVEs of at least 0.5 are desirable (Hair, Anderson, Yatham, & Black, 1999). In the present study, construct reliability was again evaluated using estimated model parameters (e.g., composite reliability and AVE). Tables 1, 2, and 3 show the results of these analyses, which confirm the reliability of the scales used in the research.

Discriminant validity:

Discriminant validity is evident when the measurement items posited to reflect a construct differ from those not believed to make up the construct. Discriminant validity is particularly important when constructs are highly correlated and similar in nature. An alternative test of discriminant validity is to determine whether the correlation between constructs is significantly less than 1. In practice, the test requires that the 95% confidence interval for each pairwise correlation (i.e., plus or minus two standard errors) does not contain the value 1 (Anderson & Gerbing, 1988). Such a result would prove that the correlation between the dimensions is significantly far from 1, so the dimensions represent different concepts.

A stronger criterion establishes that discriminant validity is apparent when the square root of AVE for each latent variable exceeds correlations between that variable and any other latent variable in the model; that is, when the average variance shared between a concept and its indicators is greater than the variance shared among latent variables (Fornell & Larcker, 1981). Table 1 and Table 2 show the discriminant validity results for the IM scale and for marketing capabilities, respectively; no items were deleted in the evaluation process of these scales. The discriminant validity for the performance scales and the previous constructs is evident in Table 3.

Table 1

Internal Marketing - Measurement Model 1: Reliability and Validity

Factor	Measures	Standardized Lambda (robust *t* value)	Factor	Measures	Standardized Lambda (robust *t* value)
GENERATION	GEN1	0.78 (10.61)	RESPONSE	RESP1	0.63 (7.88)
(GEN)	GEN2	0.74 (12.42)	(RESP)	RESP2	0.51 (6.88)
	GEN3	0.60 (9.87)		RESP3	0.93 (17.05)
Scale CR: 0.903	GEN4	0.68 (9.71)	Scale CR: 0.875	RESP4	0.87 (19.00)
AVE: 0.575	GEN5	0.75 (12.98)	AVE: 0.594	RESP5	0.84 (12.16)
	GEN6	0.89 (15.98)			
	GEN7	0.83 (14.20)			
DISSEMINATION	DIS1	0.67 (10.38)			
(DIS)	DIS2	0.86 (10.87)			
	DIS3	0.91 (15.54)			
Scale CR: 0.912	DIS4	0.93 (14.64)			
AVE: 0.725					

Summary statistics			
S-B χ (101) = 181.34	BBNNFI	CFI	RMSEA
(*p* = 0.00)	0.930	0.941	0.070

Discriminant validity: Correlation matrix			
	GEN	DIS	RESP
GEN	**0.758**	---	---
DIS	0.745	**0.851**	---
RESP	0.626	0.579	**0.770**

Note. Square root of AVE appears in bold on the diagonal. Correlations appear below the diagonal.

Table 2

Marketing Capabilities - Measurement Model 2: Reliability and Validity

Factor	Measures	Standardized Lambda (robust *t* value)	Factor	Measures	Standardized Lambda (robust *t* value)
PLANNING FLEXIBILITY	PLANFLEX1	0.86(14.41)	SERVICE RESPONSIVENESS	SERVRESP1	0.91(12.54)
	PLANFLEX2	0.82(13.06)		SERVRESP2	0.91(14.64)
Scale CR: 0.949	PLANFLEX3	0.82(12.56)	Scale CR: 0.945	SERVRESP3	0.91(13.00)
AVE: 0.822	PLANFLEX4	0.91(15.84)	AVE: 0.740		
	PLANFLEX5	0.88(15.23)			
	PLANFLEX6	0.86(15.18)	PRICING	PRICING1	0.64(8.56)
				PRICING2	0.87(14.73)
MARKETING IMPLEMENTATION	MKIMPLE1	0.89(13.00)	Scale CR: 0.852	PRICING3	0.90(12.42)
	MKIMPLE2	0.90(14.77)	AVE: 0.661		
Scale CR: 0.868	MKIMPLE3	0.92(14.41)			
AVE: 0.624	MKIMPLE4	0.91(15.08)	MARKETING COMMUNICATIONS	MKCOMM1	
				MKCOMM2	0.80(9.14)
PRODUCT DEVELOPMENT	PRODEVEL1	0.74(10.24)	Scale CR: 0.934	MKCOMM3	0.85(12.94)
	PRODEVEL2	0.82(11.73)	AVE:0.826	MKCOMM4	0.84(10.53)
Scale CR: 0.868	PRODEVEL3	0.82(12.32)			0.65(10.04)
AVE: 0.622	PRODEVEL4	0.77(10.69)			

Summary statistics			
S-B χ^2 (237) = 345.51 ($p = 0.00$)	BBNNFI 0.950	CFI 0.957	RMSEA 0.053

Discriminant validity: Correlation matrix						
	PLANFLEX	MKIMPLE	PRODEVEL	SERVRESP	PRICING	MKCOMM
PLANFLEX	**0.907**					
MKIMPLE	0.647	**0.790**				
PRODEVEL	0.689	0.646	**0.789**			
SERVRESP	0.477	0.306	0.572	**0.860**		
PRICING	0.622	0.584	0.690	0.480	**0.813**	
MKCOMM	0.580	0.780	0.669	0.388	0.637	**0.909**

Note. Square root of AVE appears in bold on the diagonal. Correlations appear below the diagonal.

Table 3

Reliability and Validity of the Model's Constructs: Measurement Model 3

Factor	Measures	Standardized Lambda (robust *t* value)	Factor	Measures	Standardized Lambda (robust *t* value)
MARKETING CAPABILITY (MARKCAP)	MARKCAP1	0.72(10.33)	CUSTOMER PERFORMANCE (CPERF)	CPERF1	0.82(11.45)
	MARKCAP2	0.80(11.14)		CPERF2	0.63(9.18)
	MARKCAP3	0.76(10.26)		CPERF3	0.71(9.69)
	MARKCAP4	0.76(10.88)		CPERF4	0.78(10.70)
Scale CR: 0.878	MARKCAP5	0.81(12.96)	Scale CR: 0.906	CPERF5	0.75(10.43)
AVE: 0.548	MARKCAP6	0.57(7.26)	AVE: 0.548	CPERF6	0.73(8.71)
				CPERF7	0.81(12.11)
				CPERF8	0.66(9.23)
IM	IM1	0.83(12.04)			
	IM2	0.78(9.51)	ORGANIZATIONAL PERFORMANCE (ORGPERF)		
Scale CR: 0.832	IM3	0.76(11.46)		ORGPERF1	0.95(13.61)
AVE: 0.622				ORGPERF2	0.91(14.50)
				ORGPERF3	0.89(13.04)
			Scale CR: 0.940		
			AVE: 0.839		

Summary statistics			
S-B χ^2 (164) =332.82 ($p = 0.00$)	BBNNFI 0.891	CFI 0.906	RMSEA 0.080

Discriminant validity: Correlation matrix			
	IM	MARKCAP	CPERF	ORGPERF
IM	**0.789**	---	---	---
MARKCAP	0.713	**0.741**	---	---
CPERF	0.580	0.705	**0.741**	---
ORGPERF	0.560	0.707	0.584	**0.916**

Note. Square root of AVE appears in bold on the diagonal. Correlations appear below the diagonal.

Estimation of the Causal Model

Having checked the scale validity and reliability of the scales, the next step was to estimate the causal model to test the hypotheses proposed. Again, SEM and the EQS statistics package for Windows 6.1 were useful. The equations corresponding to the conceptual model depicted in Figure 1 (a plus sign linked to each causal relationship indicates the expected effect) are the following:

$$MC_2 = \gamma_{21} IM + \zeta_2$$

$$CP_3 = \gamma_{31} IM + \beta_{32} MC + \zeta_3$$

$$OP_4 = \gamma_{41} IM + \beta_{43} CP + \zeta_4$$

Note. IM - internal marketing, MC - marketing capabilities, CP - customer performance, OP - organizational performance.

The variables on the left-hand side of the structural equations are endogenous variables (i.e., variables whose values are determined by the model). Endogenous variables are on the receiving end of single-headed straight arrows indicating a regression path and implying a causal relationship. The path to the endogenous variable may come from an exogenous variable or another endogenous variable. Exogenous variables are independents with no prior causal variable; in the proposed model, only IM is an exogenous variable. In general, one structural equation exists for each endogenous variable in SEM.

The ζs are error variables, also called structural disturbances or errors in equations; they play a role analogous to the error in a single-equation regression model. The γs are structural parameters (regression coefficients) relating the endogenous variables to the exogenous variables. Subscripts in the γ indicate first the variable receiving the effect and second the origin variable. The βs are structural parameters relating the endogenous variables to one another. Table 4 shows the standard coefficients obtained when analyzing the causal relationships in the model and the goodness-of-fit indices for the model, which fall within the recommended ranges.

Table 4
Antecedents and Consequences of Marketing Capability

Hypothesis	Parameter (value *t*)	Result
H1: MC → CP	0.72 (5.22)	sig.
H2: CP → OP	0.37 (3.28)	sig.
H3: IM → MC	0.76 (10.53)	sig.
H4: IM → CP	0.03 (0.19)	n.s.
H5: IM → OP	0.39 (3.32)	sig.

Note. Sig. - significance relationship at 0.05.
Summary statistics: S-Bχ^2(162) = 316.29, $p = 0.00$; BBNNFI = 0.900, CFI = 0.914, RMSEA = 0.077.

The results obtained from the analysis of the sample of SMEs show that the MC developed by these firms have a direct, positive influence on CP (H1); that is, on the extent to which these organizations are able to achieve customer satisfaction and loyalty, added value, communication with clients, and an improved image. The achievements with the client base of SMEs affect business success positively and significantly in terms of sales, market share, and profits (H2). The research also illustrates that the degree to which SMEs manage staff using an IM approach (promoting a working environment that encourages internal communication, shared experiences, and the development of collective knowledge and skills) has a direct, positive effect on the MC developed (H3). However, it is not confirmed that IM has a direct, significant effect on SME CP (H4). The effect of IM on such results should be obtained indirectly, through the mediating role of MC (0.547). The research indicates, however, that the IM of SMEs helps improve OP directly and positively (H5).

Discussion and Limitations

One of the key factors for business success in the current competitive environment is proper implementation of the marketing concept, which leads organizations towards meeting market needs proactively, allowing for the achievement of better results. Market orientation has a positive effect on firms' competitiveness whatever the size of the business (Brooksbank, 1999; Siu, 2000); however, this casual link is less apparent for many SMEs (Fuller, 1994). Commercial practices in SMEs not only differ greatly from those of larger firms, which seems reasonable considering their more limited resources and smaller markets (Wong, 2005), but they also appear less developed (Gilmore, Carson, & Grant, 2001). More specifically, SMEs usually adopt a limited number of

marketing initiatives, on both the strategic and operational level, often revealing the low strategic relevance conferred to commercial planning (Hogarth-Scott, Watson, & Wilson, 1996). The circumstances leading to the limited development of the commercial function are not altogether clear. The usual arguments include the frequent lack of specialized marketing personnel, especially at management level (Meziou, 1991), which means that the organization does not fully recognize the role of marketing in the organization, so it receives low priority. However, the current research shows that the strategic and operational marketing capabilities of SMEs have a direct, positive impact on the achievement of above-average customer results, which eventually lead to an overall improved business performance and the likelihood of outperforming the competition. The findings contribute to the extant literature on the importance of marketing in SMEs and reinforce the evidence on the contribution of marketing capabilities to the development of SCA, extending this support to SMEs.

Treatment of marketing capabilities as an underlying construct in the causal model allows one to evaluate the effect of their simultaneous implementation. Although analyzing the effects of each capability separately may be possible, using a single underlying construct is interesting because this procedure involves that the application of the marketing concept in organizations has to be developed in a consistent, organized way at both the strategic and operational levels. Thus, implications for management practice include that the adoption of a coherent set of marketing capabilities (relating to the design of the marketing mix policies, the flexible commercial planning, and the effective strategies implementation) facilitates achievement of SCA. Organizations should generate commercial capabilities together and sustain them over time without neglecting any. Such a recommendation is consistent with the assumption that synergies result from the joint application of different, related capabilities, which in turn helps to improve competitive advantage (Teece et al., 1997).

In addition to considering the effects of marketing capabilities on the achievement of competitive advantage in SMEs, the purpose of the study was to analyze the role of IM as a potential antecedent of marketing capabilities development. Because smaller firms seem to experience more difficulty developing a full implementation of the marketing concept in their activities, investigating the potential forerunners of the commercial skills that may sustain a more widely strategic and operational market-oriented approach is relevant. Thus, in this study, a specifically designed scale for measuring IM in SMEs highlighted an area in which SMEs may benefit from their smaller size, namely market-oriented human resources management. The research results on the IM concept contribute to a field in which empirical evidence is still limited.

Findings indicate that viewing human resources management from the marketing perspective (i.e., encouraging employees to generate added value for the organization's customers) has a direct, positive effect on the development of marketing capabilities as well as on business performance. The effect was evident in a sample of industrial SMEs and emphasized the importance of IM beyond the services sector. From the SME management viewpoint, the results indicate that managers should focus on the implementation of IM policies. The flatter structures of such firms and their greater flexibility in comparison with larger organizations can facilitate such implementation. The small size of SMEs and the accompanying greater personal contact allow organizations to monitor employees' needs regularly, assess their satisfaction, and promote the sharing of information and interdepartmental coordination. In this sense, Spillan and Parnell (2006) proved that interdepartmental coordination in SMEs is a key element in their performance.

The basis of this research was a sample survey, distributed to 1900 Spanish firms, which yielded data from 163 companies. The dataset corresponds to a developed economy, and accordingly, one may generalize the results obtained from the study more easily to similar countries in terms of economic development and comparable SME definitions and structures. Further empirical research is required to test the causal relationships analyzed in this study.

However, recent research conducted among firms operating in developing countries reinforces the importance of both IM and marketing capabilities for the competitiveness of SMEs; although the IM-marketing capabilities link remains unexplored. According to Puga Ribeiro et al. (2009), Brazil is capable of producing quality goods cheaply, but many firms are still unable to sell the goods internationally because they lack efficient marketing capabilities. In this sense, one can consider marketing capabilities to be key factors for the success of Brazilian firms in meeting the challenges of the coming years and generating superior market performance. Researchers further determined that marketing capabilities are especially necessary for improving the performance of Chinese (Eng & Spickett-Jones, 2009) and Indian (Rasiah, Kaur, & Kumar, 2010) SMEs.

Regarding IM, Yang and Coates (2010), who also analyzed Chinese SMEs, noted the positive influence of IM on firms' competitiveness and even on employees' marketing abilities. Ghanaian SMEs benefit from IM practices as well according to Owusu-Frimpong and Martins (2010). Racolta-Paina and Mone (2009) similarly observed

that IM procedures, such as acknowledging employees' merits or coaching and training them with the purpose of facilitating their professional and personal development, should be imperative in Romanian SMEs to improve their performance. Barragán (2002) reinforced the importance of IM for Mexican SMEs. In conclusion, researchers suggest that IM and marketing capabilities support the competitiveness of SMEs in developing countries. The current study empirically confirms this point among Spanish SMEs and illustrates a causal relationship between IM and marketing capabilities, which emphasizes the strategic value of IM to compete.

The limitations of this study include the following: first, collection of the information on the independent and dependent variables occurred at the same time and from a single informant, so the procedure used may have produced biased results. However, such a problem is more likely to arise when measuring constructs involving emotional aspects, such as attitudes, than with result variables (Chen, Reilly, & Lynn, 2005). Moreover, in this study, the precaution was taken to include a psychological separation in the questionnaire between the section on IM and the section requesting results data (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). Implementing this separation required the inclusion of other questions so that respondents would not directly link the predictive and dependent variables. Second, the use of subjective measures of financial results may have been a limitation, although this is current practice in research because firms are reluctant to supply quantitative data on sales, market share, or profits.

Endnote

1 One can therefore reserve the resource concept for organizations' static availability of inputs, both tangible and intangible.

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Appendix

Internal Marketing

Generation of information on the internal market

GEN1: The firm is conscious of its employees' needs and expectations.

GEN2: We regularly assess our employees' satisfaction with their work situations.

GEN3: We are aware of the personnel policies of our competitors.

GEN4: The firm is alert to the characteristics of the labor market in its sector of activity.

GEN5: We know which firms can attract our key employees.

GEN6: We understand the specific labor needs of each group of employees in our firm.

GEN7: Our firm's personnel policies take into account the characteristics of each group of employees.

Dissemination of internal information

DIS1: Employees provide information on their personal problems when these affect their performance.

DIS2: Managers in our organization are prepared to listen to workers' problems.

DIS3: Managers communicate and share problems with the employees.

DIS4: Management receives information on any problems and/or difficulties employees experience in their work.

Response to internal information

RESP1: Job posts reflect consideration of employees' professional capabilities.

RESP2: Job posts reflect consideration of employees' careers.

RESP3: The purpose of the personnel policy is to improve actively the job satisfaction and working conditions of employees.

RESP4: Training provided in the firm relates closely to the needs of each employee.

RESP5: The firm has a training plan for its employees.

Marketing Capabilities (compared to competitors)

Planning flexibility

PLANFLEX 1: Our company can easily change its strategic plan if a new competitor enters the market.

PLANFLEX 2: If a shift in customer needs and preferences occurs, we can easily change our strategic plan.

PLANFLEX 3: Our company can easily change its strategic plan if a new technology emerges.

PLANFLEX 4: If shifts in economic conditions occur, we can easily change our strategic plan.

PLANFLEX 5: If a new opportunity emerges, we can easily change our strategic plan.

PLANFLEX 6: If an unexpected threat arises, we can easily change our strategic plan.

Marketing implementation

MKIMPLE1: Allocating marketing resources effectively.

MKIMPLE2: Translating marketing strategies into action.

MKIMPLE3: Executing marketing strategies quickly.

MKIMPLE4: Monitoring marketing performance.

Product development

PRODEVEL1:   Superior price/quality ratio.

PRODEVEL2:   Ability to develop new products/services adapted to customer needs.

PRODEVEL3:   Successfully launching new products/services.

PRODEVEL4:   Ability to develop better products than the competition.

Service responsiveness

SERVRESP1:   Ability to provide rapid response to clients.

SERVRESP2:   Superior levels of service customization.

SERVRESP3:   Rapid response to customer complaints.

Pricing

PRICING1:   Using pricing skills and systems to respond quickly to market changes.

PRICING2:   Knowledge of competitors' pricing tactics.

PRICING3:   Monitoring competitors' pricing and pricing changes.

Marketing communication

MKCOMM1:   Sales management skills.

MKCOMM2:   Giving the salespeople the training they need to be effective.

MKCOMM3:   Providing effective sales support to the sales force.

MKCOMM4:   Developing and executing advertising programs.

Customer Performance (compared to competitors)

CPERF1:   Customer satisfaction.

CPERF2:   Customer loyalty/retention.

CPERF3:   Added value provided to customers.

CPERF4:   Adaptation to customer preferences.

CPERF5:   Improved communication with customers.

CPERF6:   Reduction in the number of customer complaints.

CPERF7:   Improved customers' perceived image of the firm.

CPERF8:   Retained most-valued customers.

Organizational Performance (compared to competitors)

ORGPERF1: Sales growth.

ORGPERF2: Market share growth.

ORGPERF3: Profit growth.