The Relationship between Marketing Network Processes (MNP), Strategic Marketing Planning (SMP) and SMEs’ Performance

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Abstract—Researchers that investigate the competitive advantage of SMEs have constantly emphasized the significance of strategic planning, marketing, and entrepreneurship as critical factors in business survival and growth. In addition, it has been widely acknowledged that SMEs need to develop a suitable marketing framework and networking is a useful way for SME owner/managers to expand marketing expertise and improve their performance. In this paper, regarding the analytical construct of SMEs’ marketing networks, the authors propose that three dimensions of marketing network processes (structural dimension, relational dimension and usage dimension) as important factors that have impact on SMEs’ performance and their strategic marketing activities. In this study, through literature review, a model will be conceptualized by hypothesizing the relationship between three dimensions of marketing network processes (MNP) with SMP and SMEs’ performance. In addition, based on literature review we consider the role of some contextual variables that have effect on strategic planning and performance relationship in the SME’s context. Researchers believe that to build a model for MNP-SMP-Performance relationship will be beneficial because it will provide some information for developing suitable marketing framework and improving SMEs’ performance as a seed-bed for the country’s economic growth.

Keywords—Marketing Network Processes; Strategic Marketing Planning; SMEs’ performance

I. INTRODUCTION

Strategic marketing planning (SMP) is a rational series of activities that leads to the setting up the marketing objectives, the formulation of plans to attain them, and the determination of benchmarks against which marketing fulfillment can be judged [1]. Regarding that networking is a naturally inherent aspect of SME owner-manager decision making, particularly those decisions relating to marketing, a firm’s competitive strategy might encompass both networking and market-based competitive methods [2]. Furthermore, a key aspect of understanding SME marketing networks is in defining a network as an analytical construct [3].

While there are many factors that can affect on the success of a venture, only recently have researchers begun to highlight the potential significance of an owner–manager's networking involvement[4]. There is a limited number of studies that have documented a positive association between networking and various aspect of performance [5-6]. Reference [4] in his work on marketing networking and firm performance states that (after allowing for age, industry and size of business) networking appears to be significantly positively associated with firm survival and, to a lesser extent, growth. The extent of marketing in each firm is related to the level of networking, whereby an SME owner-manager who proactively networked and utilized his/her marketing network processes displayed a sophisticated level of marketing[7].

The concept of networking can be further developed by studying the network linkages which exist within the marketing network of an SME owner-manager. The literature argues that formation and subsequent success of SME networks is largely determined by the owner-manager’s efforts and skills to develop cooperative goals with network members [8]. This introduces a relational aspect whereby marketing networks are considered in terms of the strength of the linkages and the relational components which determine that strength, principally trust, commitment and co-operation.

In this article the authors propose a new model that contains the relationship between dimensions of marketing
network processes (MNPs), strategic marketing planning (SMP) and SMEs performance.

A. Marketing network

Marketing networking in SMEs is defined as the network process that are undertaken by SME owner-manager in managing their marketing activities[9]. In an SME context, owner/managers will have some kind of network that is likely to encompass all aspects of their business [10]. The literature supports the three dimensions of MN that have been identified, to help better understand networking in SMEs within a marketing context.

First, the structural dimension is defined in terms of sources used [11], and focuses on the physical structure of each marketing network. This is a logical starting point for understanding MN within SMEs in that it builds upon existing research which has examined the physical nature of SME networks addressing fundamental questions, what do they look like and who is involved in them. Second, the relational dimension is defined in terms of network linkages and measured in terms of the strength of the marketing network linkages which exist [12].

Finally, the third dimension of MN is the usage dimension that is defined in terms of how the MN of SMEs influences their marketing activities. So having examined both the structural and relational dimensions of MN, the usage dimension focuses on the outcomes or benefits as a result of owner-manager network activities.

B. Structural Dimensions of MNPs

The structural dimensions of each marketing network is defined in terms of structural components including network size, network formality, network diversity, network density, network stability, and network flexibility[9], [13]. Network size is defined as actual number of direct contacts used by the owner-manager in each SME, to help him or her do marketing [13]. It is measured by counting the number of sources used within the firm and outside to make marketing decisions or carry out marketing activities. There is some evidence that SME networks are extensive.

Network diversity is defined in terms of the variety of network sources used. It is measured by counting the number of different network sources that an SME owner-manager uses in doing marketing[9].

Network density is defined in terms of the connectedness that is the extent to which network members are linked to each other.

Network formality is closely related to the concept of network diversity and is defined as the extent to which formal business network contacts are used in doing marketing compared to informal and social network contacts. It is therefore measured by counting the number of strong network contacts which an SME owner-manager has of a formal nature and social nature.

Network stability is defined as the number of network linkages within the marketing network of an SME owner-manager that have existed for a minimum length of time. Network stability is measured by determining how many of these linkages between an SME owner-manager and his or her network sources have existed for a certain time [9], [13].

Network flexibility is closely related to network stability but is a distinct feature of network structure. Network flexibility is defined as the number of network linkages formed and the number of network linkages broken within a specific period. It is measured by establishing the number of new and broken linkages within a specific time period [11].

C. Relational dimension of MNPs

This dimension considers the actual network linkage between an SME owner-manager and hid or her network sources. More specifically, the relational dimension develops the concept of linkage strength and key relational components that determine the strength of marketing network linkages. The relational dimension has three components: trust, commitment and co-operation [9].

Trust is defined as a willingness to rely on an exchange partner in whom one has confidence. Trust is measured in terms of the nature of the information shared and the confidence in advised received [14].

Commitment is defined as the time and effort in maintaining network linkages. It is measured in terms of the frequency of communication between an SME owner-manager and each network member.

Co-operation is defined as the level of interdependence between an SME owner-manager and each marketing network member. It is measured in terms of the level of co-ordinated market activities and the level of reciprocity and mutual compatibility regarding marketing goals between an SME owner-manager and his or her linkage partners.

D. Usage dimension of MNPs

Having considered MNPs in terms of network structure, and linkage strength, the third and final dimension of MNPs to consider is the usage dimension of MNPs, focusing on SME marketing activities. In determining the propensity for SME owner-managers to use marketing networks in doing marketing, the role of MNPs is defined in terms of the usage dimension. This usage dimension focuses on marketing activities in terms of how MNPs influence, or impact upon, the various marketing activities of SMEs.

While there is a wide and hug range of marketing activities that SMEs can draw upon, the key marketing activities cited in marketing texts (for example, [15-16]) are those that encompass planning and delivering marketing mix activities. Those that have a strong literature support and were deemed to be most important for SME owner/managers are: Planning marketing activities; Increasing market knowledge; Managing distribution; Managing product decisions; Managing promotional activity; Acquiring marketing resources; Marketing innovation [7, 9].

E. Marketing networking and marketing planning

Networking is used by managers to make sense of what happens in complicated markets and provides understanding of inter-organizational relationships in business-to-business markets [17]. Networking can be an important business dimension given the resource constraints and limitations SMEs work within [18]. This is especially true in relation to the marketing decisions of SMEs, as owner/managers recognize the need to utilize their limited resources more
effectively to compete with increasingly powerful competitors.

The network view provides a framework for analysis of business situations, highlighting the range of influences on individual companies and relationships as well as the nature and implications of different actions by relationship participants [19].

Networking is a naturally inherent aspect of SME owner-manager decision making, particularly those decisions relating to marketing. This is because owner/managers must go outside the businesses' physical confines in order to do business and this business is marketing-led activity [18]. There is clear evidence that SMEs actively network [9]. In the context of SMEs, the existence of an owner/manager’s network is built around his/her normal interactions and activities [13]. Network theory suggests that the ability of owners to gain access to resources not under their control in a cost effective way through networking can influence the success of business ventures [20].

The need to develop marketing frameworks suitable for smaller firms has been widely acknowledged [18], [21] and networking is a useful way for SME owner/managers to expand marketing expertise and knowledge.

Reference [7], states that proactive marketing networking is a key determinant of marketing sophistication in SMEs. The extent of marketing in each firm is related to the level of networking, whereby an SME owner/manager who proactively networked and utilized his/her marketing network processes displayed a sophisticated level of marketing.

F. Marketing networks and SMEs performance

The literature provides support for the importance of strategic planning and marketing practice for SMEs [22-27], but there is very little objective data relating marketing activities to business performance in SMEs yet there are claims by academics and managers that marketing activities do improve business performance [28]. Furthermore there is an observable difference between marketing activities conducted by SMEs and best practice defined in academic theory [29].

Reference [4], states that (after allowing for age, industry and size of business) networking appears to be significantly positively associated with firm survival and, to a lesser extent, growth, but not ROE. He also indicates that both formal and informal networks are associated with firm survival, but that only formal networks are associated with growth (and neither formal nor informal networks are associated with ROE). In terms of individual networks, accessing advice from external accountants was the only network source positively associated with both firm survival and growth. Further, he stated that network intensity was more critical to firm survival than network range and the opposite was true for firm growth.

Researchers suggest that well-networked entrepreneurial firms may enjoy higher growth rates [20] and better performance [30]. Marketing networks serve as a means of facilitating business activity in transition economies, and have been widely recognized in the literature as affecting firms’ strategic choices and performance [31-34].

From the literature, there is clear evidence that SMEs actively network [18, 35-37]. However, there is limited evidence focussing on SME networking in relation to marketing activities, or the need for marketing networks to be proactively developed by SMEs in doing marketing. The literature indicates that SME marketing difficulties are due to a lack of suitable marketing frameworks and severe constraints or limitations on SME marketing resources [18], [38]. The need to develop marketing frameworks suitable for smaller firms has been widely acknowledged and networking is a useful way for SME owner/managers to expand marketing expertise and knowledge [2].

G. Strategic Marketing Planning (SMP) and Performance

The literature review indicates that in spite of the importance of SMEs and the increase in knowledge in strategic management, few empirical studies have examined SMEs from this perspective [39-40]. Moreover it would appear that marketing did contribute positively to small business success and the ability to think strategically [28]. This clearly indicates the importance of strategic marketing to SMEs’ performance. Beside researchers uphold that critical to the survival and success of smaller, entrepreneurial companies, is their ability to think and plan strategically, and the last purpose of all strategic marketing efforts is the development of a sustainable competitive advantage for the business [23]. Reference [41] indicates that strategic factors seem to significantly influence the business performance of Malaysian exporting SMEs.

A link between the success of the marketing strategy and formalization of the strategic marketing process (i.e., setting the plan in writing) has been established. Formal written plans are considered to be better than informal, unwritten plans for several reasons. First, the formalization of the process (i.e., writing and editing) forces planners to carefully think through their goals and objectives. Second, a written plan provides a visual medium for communicating plans to both internal and external audiences. Finally, a written plan provides a record for use as a control mechanism for course correction. Hence, formalization of the strategic marketing process may lead to successful development, implementation, and evaluation of the firm’s strategic response to its environment.

H. SMEs’ performance

Measurement is very important and is the only approach to understand whether performance is improving or worsening and whether correction action is needed urgently. But the measurement of the performance of SMEs seems to be difficult and problematic. The performance of SMEs is difficult to assess because of normal fluctuations in activities arising from year to year[28]. The principal performance measures are financial returns and firm growth (short and long term)[42].

Previous studies have used either a subjective or an objective approach to measuring performance. It seems that the simplest way to measure performance is using the objective financial measures [43]. Although, obtaining objective financial data is difficult in SMEs, because the most of small firms are privately held, it is unlikely that CEOs will be willing to provide detailed accounting data on
the firm’s performance [44]. Hence, these data are sometimes confidential. Furthermore, checking the accuracy of objective financial data on SMEs is impossible, because these data are not openly available.

In addition, industry-specific factors affect on absolute scores on objective financial performance measures. Consequently, making any comparison between objective financial data obtained for SMEs in different industries could be misleading and inappropriate. In contrast, subjective measures are more flexible and useful for SMEs, particularly for multi-industry comparison [43]. It is well documented that subjective performance measures are valid and reliable for founder reported performance measures [45]. In other hand, there is a strong relationship between owner/managers mentality and subjective financial performance of their enterprises [46]. Moreover, the subjective approach has been widely used in empirical studies. Using subjective measures based on executives’ perceptions of performance, have been justified by several authors [47-50]. All of them have found consistency between executives’ perceptions of performance and objective measures [51]. Some researchers [24], [41] have measured the performance of exporting SMEs by using the return on assets (ROA), return on sales (ROS), return on investment (ROI), and also growth. Growth is based on the composite of the average performance of the ROA, ROS and ROI of the SMEs (BPCI). Reference [52] based on their work on English SMEs stated overall, financial measures are most widely used than another measures for performance measurement in SMEs. They stated difficulty defining new performance measures and training of employees are most important obstacles to the adoption of new performance measures. Hence we will utilize subjective financial measures for SMEs’ performance measurement, including: ROA, ROS, ROI and growth that is based on the composite of the average performance of three mentioned indices.

As stated earlier, the authors propose a model on relationship between marketing network processes (MNPs), strategic marketing planning (SMP) and SMEs’ performance. Based on the literature review, we propose strategic marketing planning as independent variable and subjective measures SMEs’ performance consist of ROI, ROA, ROS and BPCI as dependent variables. Beside three dimensions of MNPs have moderating effect on the relationship between SMP and SMEs’ performance.

II. PROPOSED MODEL

1) Hypothesis

The following hypothesis are proposed to test the validity of the model

1. There is positive relationship between marketing networks processes (MNPs) and strategic marketing planning (SMP) in SMEs.
   a. There is positive relationship between structural dimensions of MNPs and SMP in SMEs.
   b. There is positive relationship between relational dimensions of MNPs and SMP in SMEs.
   c. There is positive relationship between usage dimensions of MNPs and SMP in SMEs.

2. There is a positive relationship between MNPs and SMEs’ performance.
   a. There is a positive relationship between structural dimensions of MNPs and SMEs’ performance.
   b. There is a positive relationship between relational dimensions of MNPs and SMEs’ performance.
   c. There is a positive relationship between usage dimensions of MNPs and SMEs’ performance.

3. The structural dimensions of MNPs will positively moderate the relationship between SMP and SMEs’ performance.
   a. The size of marketing network will positively moderate the relationship between SMP and SMEs’ performance.
   b. The formality of marketing network will positively moderate the relationship between SMP and SMEs’ performance.
   c. The diversity of marketing network will positively moderate the relationship between SMP and SMEs’ performance.
   d. The density of marketing network will positively moderate the relationship between SMP and SMEs’ performance.
   e. The stability of marketing network will positively moderate the relationship between SMP and SMEs’ performance.
   f. The flexibility of marketing network will positively moderate the relationship between SMP and SMEs’ performance.

4. The relational dimensions of MNPs will positively moderate the relationship between SMP and SMEs’ performance.
   a. The level of trust in network linkage will positively moderate the relationship between SMP and SMEs’ performance.
   b. The level of co-operation in network linkage will positively moderate the relationship between SMP and SMEs’ performance.
   c. The level of commitment to network linkage will positively moderate the relationship between SMP and SMEs’ performance.

5. The usage dimensions of MNPs will positively moderate the relationship between SMP and SMEs’ performance.
III. METHODOLOGY

To test the hypotheses, a survey method will use to seek responses from SMEs’ owners-managers. Data for this study will collect using self-administered questionnaires via a mail survey from strategic decision makers (SMEs’ owner-manager) to identify the characteristics of the marketing planning behavior of successful small firms and testing the relationship between this behavior and performance. All the measures in our study are grounded in literature and adopted, with modification, from previous studies. The sample will be based on Malaysian SME Business Directory. Regarding the control variables, the Stratified Random Sampling Method will be used. We will use the ability of Artificial Neural Networks (ANNs) to analyzing the relationship between SMP and SMEs’ performance regarding the moderating effects of dimensions of marketing network processes. Artificial neural networks are distributed information-processing systems composed of many simple computational elements interacting across weighted connections [53]. Inspired by the architecture of the human brain, ANNs exhibit certain features such as the ability to learn complex patterns of information and generalize the learned information. In particular, the ability of neural networks to identify patterns in the data could be utilized in market research, especially in areas which were once reserved for multivariate statistical analysis. For this reason, neural networks are often considered to be statistical methods [54].

It was decided for several reasons that a neural network analysis, rather than a more complex non-linear multivariate analysis, would now be the best way to proceed. Firstly, the input data was judgmental rather than factual, so there was some “fuzziness” in the data — the numbers used in the analysis was indicators of feelings or perceptions rather than exact observed values. It was more important to look for overall patterns in the data than to try to formulate equations relating inputs to outputs. Secondly, there was a high degree of correlation between the different inputs — this does not impact on the performance of neural network or the validity of its results as it would on a regression analysis. Finally, the use of a neural network allows the labeling of hidden layer nodes — thus conjunctions of factors contributing to each hidden node could be examined to see if they indicated an underlying management philosophy which would impact either positively or negatively on performance [55].

IV. CONCLUSIONS

The proposed model provides the relationships between dimensions of marketing network processes and strategic marketing planning (SMP) and SMEs’ performance. Beside the moderating effect of dimensions of marketing network processes on the relationship between SMP and SMEs’ performance has been demonstrated. The authors’ intention is to fill up the gap about the lack of research on MNPs-SMP-Performance relationship in SMEs’ context. Furthermore, the study will be carried out resulting from the proposed model to investigate the role of dimensions of marketing network processes as important moderators on this relationship, in regard with some contextual variables as control variables. It is expecting, this study contributes to clarifying the relationship between MNPs and SMP and SMEs’ performance and also make clear the importance of dimensions of marketing network processes on the relationship between SMP and SMEs’ performance and could help to SMEs’ owners-managers in their marketing planning and increasing their performance using marketing networks.

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REFERENCES


