

The impact of strategic marketing on the performance of micro small & medium enterprises-An Indian scenario

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Keywords

Innovations in Marketing, Management Model, Manufacturing Firms, MSME, Strategic Marketing (SM).

Abstract

Strategic marketing (SM) is a strategy aimed at achieving excellence in business organizations. SM deals with the pricing, selling and distribution of a product. Top management in Indian organizations recognize the importance of SM, paradoxically devote little time and effort to it. In recent years, innovations in technology have enabled businesses to predict the future with reasonable accuracy. With this, they can exploit the potential of the emerging scenarios and gain a competitive advantage in the industry. Consequently, it is important to evaluate the appropriateness of SM for achieving performance. This research attempts to investigate how SM influences the performance of organizations and reveals scope for research with respect to Indian MSMEs in the post-liberalized scenario. A set of constructs describing SM and performance were identified. A research framework depicting the relationship between them was developed and a set of hypotheses were formulated. A detailed questionnaire with Likert rating scale was developed to collect primary data and was administered to Senior Managers to measure the perception of top management regarding SM and performance of their organization.

The study consists of two stages - a pilot study and the main study. In the pilot study stage, data were collected from a few organizations and the validity and reliability of the questionnaire were estimated along with its overall acceptability. The reliability was then estimated using Cronbach alpha and validity by the multi-trait-multimethod matrix. The main study helps devise strategies to improve the performance of MSMEs in India.

1. Introduction

MSMEs are the engines of growth of any country's economy. They are an essential source of a country's jobs, create entrepreneurial spirit and jobs in a country and are crucial for fostering competitiveness and employment. Indian MSMEs are a vital part of our economy. The present data related to Indian MSMEs is that the sector's contribution is around 45% of the total industrial output, 40% of exports and create around 1.3 million jobs every year. They are the second highest sector in employment after the agricultural sector as per the Development Commissioner of Micro, Small and Medium Enterprises. It is also one of the most promising sectors that have huge potential for development in the future.

Strategic marketing is a strategy aimed at achieving excellence in organizations. Strategic Marketing deals with the pricing, selling and distribution of a product. Using this strategy, a business unit can improve its market share for current products through market saturation and penetration or develop new products for existing markets (R. Srinivasan, 2014). Strategy primarily involves issues that have long-term implications. It provides a 360-degree plan of how the organization should work to gain more business opportunities which could provide them with a competitive advantage. Since the quality of the products produced has come to a saturation level, strategy marketing is of utmost importance to the companies to improve their businesses and compete on a global scale.

1.1 Definition of MSMEs

The acronym MSME stands for Micro, Small and Medium Enterprises. There is a difference in the definition of MSMEs across the globe and across the industries in different sectors. According to the

Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as follows,

1. Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and Regulation Act, 1951). The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

2. Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

MANUFACTURING SECTOR	
Enterprises	Investment in plant & machinery
Micro	less than Rs 25 lakhs
Small	over Rs 25 lakhs but not exceeding Rs 5 Crores
Medium	over Rs 5 Crores but less than Rs 10 Crores

SERVICE SECTOR	
Enterprises	Investment in plant & machinery
Micro	less than Rs. 10 lakhs
Small	over Rs. 10 lakhs but not exceeding Rs. 2 crores
Medium	over Rs. 2 crores but not exceeding Rs. 5 crores

With the recent pronouncement of the MSMED Act, 2006, the Indian government has explicitly recognized the dynamic role to be played by the MSMEs in an increasingly globalized world.

1.2 Importance of Strategy Marketing in Improving Performance

MSMEs are diverse in terms of size, products and services offered, turnover and technology adoption. Given the fragmented nature of the sector, challenges differ from one enterprise to the next, driven by differences in size, location, nature of product/service. Despite their diversity, all three types of micro and small businesses share many of the same emerging challenges that limit their ability to compete with larger and more-established players in the market. In the light of the ongoing liberalization process, Planning for strategic marketing assumes greater importance due to rapidly changing markets and their increasing complexity. Strategy primarily deals with issues of long-term implications Kotler (2003). In recent years, business organizations have gained the power to predict the future with reasonable accuracy using various performance management systems and harnessing the tremendous increases in computing power and communication technology. With this, they can exploit the potential of the emerging scenarios and gain a competitive advantage. Many organizations and industry associations are also thinking in the lines that strategic marketing is the order of the day and the focus of SM by the organizations is to shift towards 'achieving excellence through strategies'.

2. A Brief Review of Literature

Although studies have suggested the importance of Strategy in improving the performance of MSMEs (Yen and Chew, 2011). Most Indian MSMEs are either unaware or reluctant to focus on Strategic Marketing. Initial literature survey indicates that not much study has been carried out in the area of SM as far as Indian organizations are concerned; post the economic liberalization i.e. after 1991. From 1991 onwards due to economic liberalization, foreign direct investment was allowed, and a number of multinational organizations invested in India. These organizations created a stiff competition to Indian organizations by providing superior quality products with a variety, all at a competitive price to Indian customers. As the market competition increased, providing quality products and services alone was not sufficient, but in addition, it was required to provide products with a touch of newness to attract customers. This demanded innovation in product, process, technology, system and in almost all areas of an organization. Klomp and Van Leeuwen (1999) show that firms which perform R&D on a permanent basis have a significantly higher innovation output than firms not performing R&D on a continuous basis. These necessitated talking of strategies and performance together and derive benefits. In this context, it is required to investigate how these two are related. Though research studies could be traced regarding the relationship of these two with respect to organizations outside India, such studies could not be traced with respect to Indian context. There is also a research gap in measuring the impact of SM in improving

the performance of an organization.

3. Research

In the modern complex business world, strategies have become the basis for creating and sustaining competitiveness. Strategic marketing can help organizations to achieve the perceived quality as expected by customer from the offered quality. Consequently, it is important to evaluate the appropriateness of SM for achieving performance. This research attempts to investigate how SM is influencing the performance of organizations. Considering this, the following specific objectives were formulated for the research.

3.1 Research Objectives

Studies with respect to Indian organizations in MSME sector are scarce and there exists a scope for doing studies with respect to organizations in India. For doing research in this area, certain specific objectives were identified as given below.

- Develop measures of Strategic Marketing(SM) and performance and formulate a research framework for studying the relationship between them.
- Study the relationship existing between SM and performance within organizations and the impact of SM on its performance by developing an appropriate measuring instrument.
- Make appropriate suggestions on the need for adoption of SM as a management model in the future, by Indian MSMEs particularly if they want to achieve a high performance.

3.2 Research Design

A set of well-defined constructs of SM and performance were identified and used to develop a research framework to find out the relationship. Four constructs have been identified for Strategic Marketing keeping in mind that the four constructs put together cover almost all the areas where Strategic Marketing can have an impact on the organization (Kotler and Keller, 2008). Similarly, five constructs were identified for innovation performance such that it covers almost all types of innovation that a manufacturing organization can adopt. The constructs of Strategic Marketing and innovation are identified as the variables. Each variable is defined by a set of statements or attributes that can be measured using a measuring instrument. Table 1 gives us a detailed view of the framework used for the research and answers all the possible doubts and questions that may arise to the readers.

Questions for Research Design Decisions	Answers to the proposed research
What is the study about?	Strategic Marketing and innovation Performance
Why is the study being made?	Innovation, the need of the hour for organizations
Where will the study be carried out?	Manufacturing Organizations
What type of data required?	Primary data
Where can the required data be found?	Organizations falling under Small and Medium category
What periods will the study include?	Post liberalization in India (after 1991) cross-sectional at one point of time
What will be the sample design?	Non-probability sampling
What are the techniques of data Collection?	Questionnaire
How will the data be analyzed?	Multivariate statistical techniques
Style of the report?	Ex Post facto research report

Table 1: Research Framework Questions and Answers

4. Data collection and Analysis

4.1 Primary Data Collection

The research requires the collection of primary data from organizations. Primary data is the data specially collected in a research for the first time and thus happen to be original in character. In this research, Questionnaire was used to collect primary data as used for data collection in survey research for large samples. A measuring instrument in the form of a detailed questionnaire was developed with Likert Scale Rating. The Likert type summated scale is regarded as the most useful in a situation wherein it is possible to compare the respondents score with a distribution of scores from some well-defined group (Krishnaswamy, K N, *et al.*, 2006). The scores on the Likert scale can be correlated to other measures without any concern for the absolute value of what is favourable and what is unfavourable. (Kothari, 2006). The questionnaire is targeted towards senior top management who are holding key responsibilities in the overall management of the organization with additional responsibilities in strategic marketing, or who are well informed about the strategic marketing systems of the manufacturing organization. Table 2 shows the details of the number of items for each variable considered during the questionnaire development.

Strategic Marketing Variables	Items	Innovation Variables	Items
Price (X1)	12	Technological Innovation(Y1)	10
Product (X2)	12	Product innovation (Y2)	10
Promotion (X3)	12	Process Innovation (Y3)	10
Place (X4)	12	System Innovation (Y4)	10
		Innovation Management (Y5)	10
TOTAL	48		50

Table 2: Number of items for each variable

4.2 Sampling Design

In the current research, we have used a non-probability sampling. The identification and selection of the organizations for the collection of data play a very important role in the outcome of the research. From the database of MSME Development Institute, Bangalore and Peenya Industries Association, Bangalore. 150 organizations were identified for collecting primary data. As far as possible, the collection of information has been carried out by personal visits and discussions to improve the general response rate and to eliminate false responses. In other words, data collection was done with utmost importance to gather credible primary data.

4.3 Formulation of Hypothesis

The objective of the current research is to test the hypothesis regarding the relationship of Strategic Marketing (SM) and Innovation performance. The models with its hypothesis were formulated keeping in mind of the exact outcomes required from the research.

Model 1: Relationship of Technological Innovation to SM

Ho: The various variables of SM performance do not have any impact on Technological Innovation performance of the organization

Ha: At least one variable of SM performance has an impact on Technological Innovation performance of the organization

Model 2: Relationship of Product Innovation to SM

Ho: The various variables of SM performance do not have any impact on Product Innovation performance of the organization

Ha: At least one variable of SM performance has got an impact on Product Innovation performance of the organization

Model 3: Relationship of Process Innovation to SM

Ho: The various variables of SM performance do not have any impact on Process Innovation performance of the organization

Ha: At least one variable of SM performance has an impact on Process Innovation performance of the organization

Model 4: Relationship of System Innovation to SM

Ho: The various variables of SM performance do not have any impact on System Innovation performance of the organization

Ha: At least one variable of SM performance has an impact on System Innovation performance of the organization

Model 5: Relationship of Innovation Management to SM

Ho: The various variables of SM performance do not have any impact on innovation management performance of the organization

Ha: At least one variable of SM performance has an impact on Innovation management performance of the organization

4.4 Data Analysis Methodology**4.4.1 Pilot Study**

Pilot Study was done to test the applicability of the questionnaire used and to measure the reliability and Validity of the measuring instrument used in the research. Initially, the feedback obtained from around 10-15 randomly selected organizations was analyzed for the pilot study. The Reliability of the questionnaire was measured by Cronbach alpha and validity was measured by Multitrait-Multimethod Matrix. Cronbach alpha method ensured reliability as it yielded the lowest value of 0.620 and the highest being 0.965. The validity of measuring instrument was ensured since the average intercorrelation between the scores of the same construct was the largest correlation in the matrix (Krishnaswamy, K N, *et al.*, 2006).

4.3.2 Main Study

The Primary Data consists of feedback through the questionnaire developed from all the organizations identified for data collection. The main research study obtained feedback from 91 organizations out of 150 achieving a good response rate of 60.6%. All the 91 firms responded completely, which was used for the main data analysis. Table 3 gives us the exact response rate from organizations contacted for the research.

	Micro	Small scale	Medium scale	Total
Number of organizations Contacted	15	75	70	150
Number of organizations Responded	04	38	49	91
Response rate Percentage	26.66%	50.66%	70.0%	60.66%

Table 3: Response rate

For Multiple Regression, this sample of observations very well meets the guideline for the minimum ratio of observations to independent variables (5:1) (Joseph F. Hair, *et al.*, 2007). With 91 organizations, this ratio becomes around 22:1 with 4 independent variables. The next data in Data analysis is Data reduction which is the transformation of information into corrected, ordered and simplified form. It was done by Confirmatory factor analysis (Joseph F. Hair, *et al.*, 2007) using SPSS and items with a value of less than 0.5 were ignored. Summated score was calculated for all the four constructs of SM and Five constructs of Innovation performance defined in the research.

Score for the construct = (Sum of the response values for the statements) / (Number of statements)

The data is then transcribed to the data summary spreadsheet for further statistical analysis.

4.3.3 Multiple Regression techniques

Multiple regression provides a means of objectively assessing the degree and character of the relationship between dependent and independent variables. Linearity, constant variance (homoscedasticity) and normality are the three assumptions that were addressed for all the individual variables. The model building process now proceeds to the estimation of the regression model and assessing the overall model fit. The confirmatory regression model is adopted wherein we have specified the independent variables to be included in the regression equation. Here, the theory is the guiding factor in evaluating the regression model (Joseph F. Hair, *et al*, 2007). This approach is especially appropriate in situations for validation purposes. The other approach of regression, a stepwise regression is also adopted for a cross verification in the interpretation stage of the regression model, mainly to capture the strengths of both these approaches. The outliers and influential cases were identified, and regression was executed after removing them.

Assumptions and Conditions	Regression models				
	1	2	3	4	5
Ratio of cases to IV > 5	21.0	22.25	22.50	22.25	22.0
ANOVA significance < 0.05	0.000	0.000	0.000	0.000	0.000
Absence of non-linear patterns	OK	OK	OK	OK	OK
Residual normality ($p > 0.05$)	0.3254	0.3442	0.2850	0.1296	0.1154
Homoscedasticity ($p > 0.05$)	0.0770	0.0500	0.0880	0.0500	0.1990
Multicollinearity (VIF < 10)	2.136	2.158	2.245	2.347	2.211
Autocorrelation (DW \approx 2.0)	2.061	2.188	2.026	2.298	2.030
$R^2 > 0.5$	0.571	0.609	0.641	0.504	0.518
Model Adequacy	OK	OK	OK	OK	OK

Table 4: Summary of assumptions of regression analysis

From the table, there is an overall model fit and the models could be interpreted based on the coefficients. Interpretation of the regression variate was done by evaluating the estimated regression coefficients for their explanation of the dependent variable. The estimated regression coefficients termed the B coefficients represent both the type of relationship (positive or negative) and the strength of the relationship between independent and dependent variables in the regression variate.

5. Results

The amount of variance explained by all models (R^2) range from nearly 50.4% to 64.1% (Table 4). These R^2 values are quite substantial enough to prove that SM has a significant impact on improving the performance of an organization. Out of the four variables of Strategic Marketing(SM) considered for measuring its impact on innovation performance as many as three variables viz. Product (X_2), Promotion (X_3), and Place (X_4) are quite significant and are having a strong impact on the innovation performance of the organization (Table 5). Regarding another variable of SM i.e. Price (X_1), is not significant even though its coefficient is positive. Sufficient evidence is not there to support its impact on innovation performance.

	Dependent Variable		Strongly Influencing Independent variable		B	Sig.
1	Technological Innovation	Y ₁	Place	X ₄	.442	.000
2	Product Innovation	Y ₂	Product	X ₂	.233	.03
			Promotion	X ₃	.334	.002
3	Process Innovation	Y ₃	Promotion	X ₃	.263	.021
			Place	X ₄	.304	.001
4	System Innovation	Y ₄	Place	X ₄	.470	.000
5	Innovation Management	Y ₅	Place	X ₄	.513	.000

Table 5: Strong Influencers of Innovation performance

6. Conclusion

A detailed insight into the various variables involved in Strategic marketing (SM) and innovation performance within an organization were obtained through this work. This research was done mainly to identify the impact of SM on improving the performance of MSMEs in the Indian context. Out of the four variables of SM considered, as many as three variables- Product, Promotion and Place are having a significant impact in one way or the other way on the overall performance of the organization. The relationship established between SM and innovation performance clearly indicates that SM in general has a strong impact on the innovation performance of an organization. Hence, achieving SM performance can lead to achieve innovation performance also within an organization. The research exhibits the important role played by the Place, which is an element of SM for the improved performance of an organization. It emphasizes the need to strengthen the location-focused activities like launching new products in a suitable place or introducing new Business ideas, its deployment and its monitoring. Growth oriented organizations should lay a lot of emphasis on location. Although significant evidence for the contribution of the SM variable Price towards innovation performance is not seen, this does not necessarily mean that this variable is not at all contributing to the innovation performance but contribute with a very weak significance. Some of the common ideas of SM and innovation well revealed by this research consists of, the need for considering Product, Promotion and Location focussed activities to be taken for achieving competitive advantage. This work would help MSMEs in India to realize the importance and adopt Strategy Marketing and provide its top management with a framework for developing strategies for improving innovation performance through SM.

7. References

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