

**MODERATING EFFECTS OF ORGANIZATIONAL
LEARNING CAPABILITY ON THE RELATIONSHIP
BETWEEN INNOVATION, BRANDING AND SMEs
PERFORMANCE IN SPORTS INDUSTRY OF PAKISTAN**

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**MODERATING EFFECTS OF ORGANIZATIONAL LEARNING CAPABILITY
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SMEs PERFORMANCE IN SPORTS INDUSTRY OF PAKISTAN**

**By
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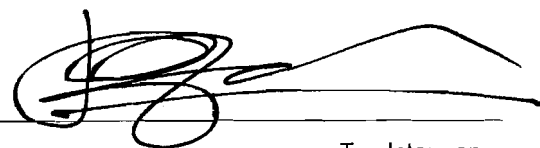
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ABSTRACT

Small and medium enterprises (SMEs) play a catalytic role in strengthening the economy of developing countries. The performance of SMEs depends on various factors. Among those factors include innovation and branding practices. This study aimed to investigate the nature of relationship that exists between Innovation, Branding and SMEs performance in sports industry of Pakistan. Furthermore, the study intended to examine the moderating effects of organizational learning capability on relationship between Innovation, Branding and SMEs performance. A structured questionnaire representing dimensions related to innovation, branding, organizational learning capability and SMEs Performance was designed. Survey method was used to conduct study on 352 SMEs in sports industry of Pakistan. Multiple Regression analysis was employed in order the study the nature and strength of relationship between Innovation and SMEs Performance, as well as between Branding and SMEs Performance. Results indicated that both Innovation and Branding have a significant positive effect on SMEs performance. Hierarchical Regression Analysis was utilized to see the moderating effects of Organizational Learning Capability on relationship between Innovation, Branding and SMEs performance. Findings revealed that Organizational learning Capability does not moderate the relationship between Innovation, Branding and SMEs performance. These results imply that SMEs must emphasize on bringing innovations and embracing branding practices if they desire to enhance their performance. The study also contributed to the theory as it extended Resource Based View, Dynamic Capabilities Perspective and the Theory of the growth of the firm by integrating three distinct literature streams pertaining to Innovation, Branding and Organizational Learning.

Keywords: innovation, SMEs branding, organizational learning capability, SMEs performance, sports industry

ABSTRAK

Perusahaan Kecil dan Sederhana (PKS) berperanan sebagai pemangkin dalam memperkukuh ekonomi Negara membangun. Prestasi PKS bergantung kepada pelbagai faktor, termasuklah amalan inovasi dan penjenamaan. Kajian ini bermatlamat untuk menyelidik sifat hubungan yang wujud antara inovasi, penjenamaan dengan prestasi PKS dalam industry sukan di Pakistan. Selain itu, kajian ini turut berhasrat untuk meneliti kesan penyederhana kemampuan pembelajaran organisasi terhadap hubungan antara inovasi, penjenamaan dengan prestasi PKS. Soal selidik berstruktur yang memperlihatkan dimensi yang berkaitan dengan inovasi, penjenamaan, kemampuan pembelajaran organisasi telah direka. Kaedah tinjauan digunakan bagi mengkaji sejumlah 352 PKS dalam industry sukan di Pakistan. Analisis Regresi Berganda telah diupayakan bagi meneliti sifat dan kekuatan hubungan antara inovasi dengan prestasi PKS dan antara penjenamaan dengan prestasi PKS. Hasil kajian menunjukkan bahawa kedua-dua inovasi dan penjenamaan mempunyai kesan positif yang signifikan terhadap prestasi PKS. Analisis Regresi Berhierarki telah diupayakan untuk menentukan kesan penyederhana kemampuan pembelajaran organisasi terhadap hubungan antara inovasi, penjenamaan dengan prestasi PKS. Dapatan kajian menunjukkan kemampuan pembelajaran organisasi tidak sederhana hubungan antara Inovasi, Penjenamaan dan prestasi PKS. Dapatan-dapatan ini menunjukkan bahawa PKS perlu menekankan inovasi dan mengamalkan penjenamaan mereka sekiranya mereka mahu meningkatkan prestasi. Kajian ini turut menyumbang kepada teori dengan mengembangkan Pendekatan Asas kepada Sumber, teori kemampuan dinamik dan teori pengembangan firma dengan menyepadukan tiga aliran kosa ilmu yang penting yang berkaitan inovasi, penjenamaan dan pembelajaran organisasi.

Kata kunci: inovasi, penjenamaan PKS, kemampuan pembelajaran organisasi, prestasi PKS, industri sukan

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LIST OF ABBREVIATIONS

BMP	Brand Management Practices
EIU	Economist Intelligence Unit
GDP	Gross Domestic Product
IFC	International Finance Corporation
OECD	Organization for Economic Cooperation and Development
R&D	Research and Development
RBV	Resource Based View
SMEs	Small and Medium Enterprises
SME Corp.	Small and Medium Enterprise Corporation
SMEDA	Small and Medium Enterprise Development Authority
WEF	World Economic Forum

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Small and medium enterprises (SMEs) are regarded as pillars of economic performance in developed as well as developing nations. In case of developing nations the role of SMEs is further enhanced and magnified as their economy is not built on shoulders of large Multinational Enterprises (MNEs) (Hussain, Si, Xie & Wang, 2010). Developing countries largely rely on the performance of SMEs for the uplift and growth of their economy. Similarly, the economy of Pakistan also depends enormously on performance of SMEs.

In Pakistan, SMEs represent about 99% of total business establishments. They are mostly dealing in wholesale and retailing and restaurant and hotel (53%), social and personnel services (22%) and manufacturing (20%). These SMEs are accounting for 30% of annual gross domestic product (GDP) of the country, employment of 80% of non agricultural labor force, 25% of total exports and 35% of value added manufacturing (Hussain *et al.*, 2010).

It has been identified that despite of magnanimous economic support and contribution towards development, the performance of SMEs remains below expectations in the developing countries (Arinaitwe, 2006). The factors contributing towards low

performance comprise of unfavorable economic conditions, inconsistent public policies, lack of infrastructural support, financial constraints, mounting operating costs and corruption (Oboh, 2002; Okpara 2000; Wale-Awe, 2002). In Pakistan, the situation is not very different. SMEs are experiencing a low growth trap (Khawaja, 2006). In terms of performance, SMEs in Pakistan are struggling for longevity and sustainability of their businesses. It is evident from statistical facts that 19% of SMEs are less than 5 years old and only 4% of the firms are able to operate for more than 25 years (Hussain, *et al.*, 2010). A look at table 1.1 shows that the performance of small scale manufacturing firms in recent decade was quite dismal compared to previous decades.

Table 1.1
Growth Performance of Small Scale Manufacturing in Pakistan: A Decade-Wise Comparison

Years	Growth Performance of Small Scale Manufacturing in Pakistan
1981-1990	8.4%
1991-2000	7.8%
2001-2010	4.6%

Source: Ministry of Finance, 2011.

A large number of factors have been highlighted and discussed in the literature that can be considered as a cause of poor performance of SMEs in Pakistan. According to Hassan, Khan and Saeed (1998) failure to embrace new technology is the prominent cause of poor productivity of Small scale manufacturing sector in Pakistan. This finding has been further supported by Roomi and Hussain (1998). Moreover, they also added that lack of finance, unfavorable government policies, scarcity of skilled human resources and entrepreneurial capabilities as causes of SMEs failures. Ali and Sipra (1998) and Nishat

(2000) discovered that the lack of finance and inability to get financial assistance are hindering higher performance of SMEs.

A few other studies alleged social, political and physical infrastructure of Pakistan for poor economic and market performance of SMEs (Khan, 1997; Kemal, 2000, Small and Medium Enterprise Development Authority (SMEDA), 2001; World Bank, 2001). In the recent Economic Survey of Pakistan (Ministry of Finance, 2012), the significance of innovation has been highlighted in order to enhance productivity and achieve high performance. Innovation has been one of the major concerns of SMEs in Pakistan. SMEDA (2006) formulated SMEs policy that demands aggressive pursuit of innovation to leverage performance through up-gradation of technology.

Innovation has been considered as a significant contributor towards generation of wealth for the firms (Drucker, 1973; Srinivasan, Pauwels, Silva-Risso, & Hanssens, 2009). The role of innovation is regarded as quite instrumental in augmenting firms' performance (Han, Kim, & Srivastava, 1998; Hurley & Hult, 1998; Weerawardena, O'Cass, & Julian, 2006).

It can be observed from the past studies regarding innovation that much of the focus remained on the technical/technological aspects of innovation such as developing a new process or a new technology. Whereas the non-technological dimensions of innovation such as administrative/managerial or market/marketing innovations have received lesser emphasis (Ngo & O'Cass, 2013). It is evident from some of the studies that more innovative firms are in a better position to exploit market opportunities thus

they can achieve a differential competitive edge over their market rivals (Calantone, Cavusgil & Zhao, 2002; Hall & Bagchi-sen, 2002). However there are studies where the results do not exhibit a strong positive relationship between innovation and firm performance (Roper & Love, 2002; Darroch, 2005). Damanpour and Evan (1990) concluded that there were no differences in performance between less innovative and more innovative firms.

Roper and Love (2002) compared manufacturing firms in UK and Germany with respect to innovation activity and firm performance in foreign markets. Results of their study interestingly revealed that there exists a negative relationship between innovation activity and firm performance in German Firms because, unlike in UK, innovators in German firms failed to exploit the spill-over effects of innovation in terms of resource endowments and firms' internal capability enhancement. Darroch (2005) conducted a study in medium to large sized firms in New Zealand and found that no significant relationship exists between innovation and firm performance.

Thus the results regarding the relationship between innovation and firm performance are conflicting. Hence, it is quite significant to see the relationship between innovation and firm performance in the context of small firms in a developing country like Pakistan.

Apart from innovation, another key factor that hinders the performance of SMEs is the inability to have a sustainable competitive advantage by marketing differentiated offerings (Tanvir, Rizvi & Riaz, 2012). This marketing problem can cause firms to lose market share rapidly. The solution to this problem lies in branding. Branding paves the

way for differentiation and distinction (Abimbola, 2001). Branding has become a crucial field of research because it can be highly beneficial for marketing strategists who desire to develop their brands and figure out the strategic plans in order to achieve competitive advantage (Low & Lamb, 2000). The concept of brand in the modern age is not as simple as it used to be about ten years ago, when it was thought of as just a name, term, logo or an advertising slogan.

Today, the brand represents the combination of expectations and associations evoked as a result of interactions with a firm or a product. All that matters is the way potential and existing buyers view a particular firm or a product. If the buyers' perceive positively, it will pay huge dividends to the business in the form of market share and return on investment. In the world markets, branded products are considered to be superior. Branded products offer a higher leverage to their manufacturers as they generate premium thus yield more profits as compared to non-branded products.

Regretfully, in Pakistan, the focus on branding is less evident. Marketers of Pakistani products have somewhat ignored the significance of branding in achieving superior, firm performance that leads to sustainable performance. Despite of producing high quality textile products, agricultural goods, sports products, equipments and accessories, surgical equipment, ceramics, cutlery, and furniture, Pakistani business owners have failed to achieve the sales and profits they could have yielded if they had developed their own strong individual and corporate brands (Tanvir *et al.*, 2012). Significance of branding in achieving competitive advantage and business success cannot

be refuted. Benefits of branding are not limited only to large firms. SMEs can also be benefitted if they pursue branding processes.

Surprisingly, SMEs Branding has received very modest attention from researchers (Berthon, Ewing & Napoli, 2008; Abimbola & Vallaster, 2007; Krake, 2005; Wong & Merrilees, 2005; Mowle & Merrilees, 2005; Inskip, 2004) despite of the fact that more than 95 percent of businesses worldwide are regarded as SMEs. If we see the literature on SMEs marketing, we come to know that it is quite extensive and well developed. But it merely touches branding in the context of SMEs (Carson, 1990; Carson & Cromie, 1990; Carson & Gilmore, 2000).

Most of the branding research has been conducted in the large firms' scenario (Aaker, 1991; Aaker & Keller, 1990; Srivastava & Shocker, 1991). Depending upon their resource constraints and entrepreneurial decision making, small firms deal with the marketing issue quite differently as compared to larger firms (McCartan-Quinn & Carson, 2003; Carson, 1990).

Furthermore, today's competitive local and global business environment demands differentiation both in the context of consumer marketing as well as business to business marketing. If developed and marketed effectively, brands can deliver the required level of differentiation. Through the establishment of a distinguished brand identity a firm can build favorable brand image in the perceptual maps of its customers which can enable the firm to achieve superior performance (Srivastava & Shocker, 1991). In spite of the significance of branding for the successful business performance, it has been observed in

the literature that SMEs have not placed a higher emphasis on branding activities (Inskip, 2004; Gabrielsson, 2005; Ojasalo, Natti & Olkkonen, 2008).

Similarly it can be seen in case of SMEs in general and sports industry of Pakistan in specific that inability to focus on branding processes as a strategic marketing practice is contributing towards the decline in performance. Sports Industry in Sialkot is manufacturing wide range of sports goods including, footballs, cricket, hockey, rugby, volley ball, beach ball, squash, horse riding accessories and sports garments, bags and gloves. But it is very hard to find the brands of good national and global repute developed by SMEs in sports industry. A few manufacturers of hockey sticks have developed their own brands (Abdi, Awan, & Bhatti, 2008). Football is considered as the main stay of Pakistan's sports industry. World's known brands like Nike, Adidas, Reebok and Puma get their products manufactured from Sialkot to be used in world famous events like World cup, Euro cup and English premier league. But, Pakistani SMEs have failed to build a single football brand of global repute (Mansoor, 2011). Similar situation can be witnessed in case of other sports good manufactured by SMEs in Pakistan.

This background information serves as a platform for conducting a study to examine innovation, branding and SMEs performance relationship in sports industry of Pakistan. But, rather than measuring the direct effects of innovation and branding on SMEs performance, it was more appropriate to add a moderating variable. As Baron and Kenny (1986, p. 1178) suggested that "when the relationship between predictors and dependent variable is inconsistent or weak, a moderating variable significantly related with predictor variables can be added".

In the literature it has been found that the effectiveness of innovation and branding in SMEs significantly relates with organizational learning capability (Weerawardena *et al.*, 2006). The process through which learning takes place within organizations is known as Organizational learning.

Learning is any transformation or modification in the organizational *modus operandi* that results in sustaining or improving firm performance. If an organization desires to bring in transformational changes and to be innovative, it must possess the organizational learning capability to pursue its objectives (Chang & Harrington, 2003; Hult, Hurley & Knight, 2004; Lemon & Sahota, 2004).

Considering the definitions of capability, given by Zander and Kogut (1995) and Teece, Pisano and Shuen (1997), organizational learning capability (OLC) can be understood as a set of tangible and intangible resources or expertise the firm employs to gain novel forms of competitive advantage such as innovation and brand management. These resources and expertise facilitate the course of organizational learning.

Keeping in view the importance of organizational learning capability with respect to innovation and branding, it is imperative to test the moderating effects of organizational learning on the relationship between innovation, branding and SMEs performance empirically.

1.2. Problem Statement

SMEs Performance is the core concern of this study. According to Drucker (1954, p. 37) “Any business enterprise has two—and only two—basic functions: Marketing and

Innovation. Marketing and innovation produce results; all the rest are costs”. He further added, “Marketing is the distinguishing, unique function of the business. Innovation refers to continually establishing new means by which a company can attain success since, as is often the case, the "tried and true" previous methods of success are no longer useful”. This old saying still holds true and represents the problem of marketing and innovation encountered by SMEs in Pakistan.

It is quite evident from the background information that Performance of SMEs in Pakistan has been quite dismal in the past decade. Poor performance has been mainly attributed to the issues of lower productivity, lack of competitiveness and inability to pursue marketing programs that can help the firms in creating and sustaining competitive advantage (Khawaja, 2006; Tanvir *et al.*, 2012).

Lower productivity has been credited to reliance on traditional methods of producing goods, such as labor intensive production rather than technology oriented manufacturing. Similarly, in today's age of hyper competition innovativeness is not only limited to production process, rather it is extended to other business processes such as managerial and marketing practices exercised by the firm (Weerawardena *et al.*, 2006; Tanvir *et al.*, 2012).

Innovation is considered a major issue in SMEs in Pakistan. In an Economist Intelligence Unit (EIU) report, Pakistan scored 3.13 on innovation index, and was ranked 77th among 82 countries listed as world's most innovative countries (EIU, 2009). Similarly, according to World Economic Forum (WEF) report, Pakistan was ranked 124th among 144 countries with respect to focus on business sophistication, technology

readiness and innovation (WEF, 2011). Lack of Innovation has hampered the performance of SMEs of Pakistan in general and sports industry in particular.

According to Khawaja (2006) there are anti competitive market practices in SMEs in Pakistan. There are a large number of firms producing identical or me too products. Problem of lack of marketing competitiveness is deep rooted in firms' futile efforts to distinguish themselves from their competitors through differentiated marketing offering such as brands (Mansoor, 2011).

According to WEF report, Pakistan is positioned at the bottom 25% of surveyed countries with respect to competitiveness. Pakistan is ranked at 118th position among 142 countries (WEF, 2011). There are more than 3.2 million business enterprises in Pakistan; 99% of those businesses are SMEs (Hussain *et al.*, 2010). However, non competitive SMEs sector has suffered loss of market share both in local as well as foreign markets, ultimately resulting in overall decline in SMEs performance.

Sports industry is concentrated in Sialkot region and is the largest SMEs setup in Pakistan. 3516 SMEs are manufacturing sports goods in Sialkot. This industry has been among the major foreign exchange earners for Pakistan. But recently the performance of sports industry has been declining. In past four years industry sales have experienced a significant drop of more than \$50 million in local and foreign market (Dawn, 2011). One of the major causes of this decline is reliance on older technologies and lack of attention towards innovative measures in addition to inability to market brands of global repute.

Pakistani sports industry is losing its market share rapidly to China, India and Thailand who are aggressively employing innovative measures in their products, processes and marketing practices (Mansoor, 2011; Tanvir *et al.*, 2012). Furthermore, the world is moving towards Knowledge based economy, but Pakistani SMEs are focused on getting good returns mainly if not solely through production (Khalique, Isa & Shaari, 2011). In today's dynamic environment of business, firms need to have the capability to learn about latest developments in their internal and external business environments. Learning Capability is instrumental in enabling the firms to be more innovative and come up with creative marketing solutions. Thus Organizational learning Capability can prove catalytic in achieving innovation-led and market-driven superior performance (Weerawardena *et al.*, 2006; O'Cass & Weerawardena, 2010).

In addition to the practical importance of the study with respect to performance of SMEs in Pakistan, the literature also reveals that there exist a few gaps which need to be plugged with respect to issues under the scope of the study. To illustrate it further, in literature several researchers have explored the relationship between innovation and firm performance in SMEs (Wright, Palmer & Perkins, 2005; Mansury & Love, 2008; Jimenez-Jimenez, Valle, & Hernandez-Espallardo, 2008; Jimenez-Jimenez & Valle, 2011).

The results of the studies show conflicts and inconsistency. Some researchers have identified positive relationship between innovation and firm performance (Damanpour & Evan, 1984; Bierly & Chakrabarti, 1996; Roberts, 1999; Schulz & Jobe, 2001; Thornhill, 2006). Whereas, a few researchers have discussed that no relationship

exists between innovation and firm performance (Damanpour & Evan, 1990; Darroch, 2005; Wright *et al.*, 2005). Inconsistent results with regard to innovation and performance relationship leave room for further investigation of this relationship.

Moreover, the emphasis of majority of the past research has been on innovation in small firms in developed economies like Canada (Branzei & Vertinsky, 2006), United States of America (Wolff & Pett, 2006; Allocca & Kessler, 2006), Netherlands (de Jong & Vermeulen, 2006), England (Edwards, Delbridge & Munday, 2005), New Zealand (Clark, 2010) and Turkey (Ar & Baki, 2011). The theoretical models formulated in the context of developed countries may not be applied or replicated in the context of a developing country (Najib & Kiminami, 2011). Thus, the study linking innovation and performance in SMEs of a developing country is quite essential to enrich the literature regarding innovation-performance relationship.

In case of SMEs branding, there appears to be very limited scholastic study on the role of branding in SMEs performance. The previous research has been quite inadequate and insufficient. SMEs branding being predominantly a less explored area came under prime focus for researchers in this current decade. Several aspects of SMEs have significantly been discussed in marketing literature (Gilmore, Carson, O'Donnell & Cummins, 1999), but its bondage with brand management is almost unheard of. Abimbola (2001) explored the position of branding as a competitive strategy and became one of the pioneers who discussed brand management with reference to SMEs.

There are very limited studies which discuss the significance of branding in SMEs (Abimbola, 2001; Inskip, 2004; Krake, 2005; Abimbola & Vallaster, 2007). In case of empirical studies, there is acute shortage of literature suggesting the relationship between branding and firm performance in SMEs. A few rare empirical studies discussing this relationship were conducted by Berthon *et al.* (2008) and Hirvonen and Laukkanen (2011) who categorized high and low performing SMEs on the basis of differences in brand management practices.

According to Berthon *et al.* (2008) high performing SMEs have well defined and well executed brand management practices. Similarly, Hirvonen and Laukkanen (2011) found positive relationship between branding and SMEs performance in Finland. On the contrary, Koh, Lee and Boo (2009) found in their study conducted in USA that brand reputation, in general, has a positive influence on a firm's value performance but no significant relationship with accounting performance. Brand recognition shows no significant relationship with both value and accounting performance measures.

As the empirical results of the studies examining the relationship between innovation and SMEs performance are inconsistent, the relationship between branding and performance also show varying results and lack of consistency, it is appropriate to add a moderating variable that can determine the ability of SMEs to be benefitted from innovation and branding practices.

Literature suggested that Organizational learning capability can significantly impact innovation and branding in SMEs as differences in capabilities to explore and exploit internal and external knowledge can influence innovation and branding practices of a firm (Weerawardena *et al.*, 2006). Thus it is important to see the moderating effect of organizational learning capability on innovation, branding and SMEs performance relationship.

A few previous studies have also used organizational learning and learning capability in an organizational perspective as moderating variable Hsu and Pereira (2008) studied the moderating effect of organizational learning on the relationship between internationalization and performance in American multinational enterprises.

Ussahawanitchakit and Sriboonlue (2011) found in their study conducted on 111 firms in Thailand that organizational learning capability moderates the relationship between leadership and firm performance. Thus, the use of organizational learning capability is evident from the literature. However, the moderating effect of organizational learning capability on the relationship between innovation, branding and performance is yet to be studied.

Based on aforementioned discussion this study seeks to examine the moderating effect of organizational learning capability on the relationship between innovation, branding and SMEs Performance in Sports Industry of Pakistan.

1.3. Research Objectives

In general, the objective of this study was to examine the relationship between Innovation, Branding and SMEs Performance along with moderating effect of organizational learning capability. Specifically, this study looked to fulfill following objectives.

1. To examine the positive relationship between Innovation and SMEs performance.
2. To examine the positive relationship between Branding and SMEs performance.
3. To examine the moderating effect of organizational learning capability on the relationship between Innovation and SMEs Performance.
4. To examine the moderating effect of organizational learning capability on the relationship between Branding and SMEs Performance.
5. To examine the moderating effect of organizational learning capability on the relationship between Innovation, Branding and SMEs Performance.

1.4. Research Questions

In general the study attempted to ask following major questions: To what extent do innovation and branding practices relate with firm performance of SMEs in Sports Industry of Pakistan; and, To what extent the relationship between innovation, branding and SMEs performance is facilitated by firm's organizational learning capability?. Specifically the research questions are as follows:

1. Does positive relationship exist between Innovation and SMEs Performance?
2. Does positive relationship exist between Branding and SMEs Performance?
3. Does organizational learning capability moderate the relationship between Innovation and SMEs performance?
4. Does organizational learning capability moderate the relationship between Branding and SMEs performance?
5. Does organizational learning capability moderate the relationship between Innovation, Branding and SMEs performance?

1.5. Scope of the Study

The study was conducted in Sports Goods Manufacturing SMEs in Pakistan as the study intended to examine branding practices which are quite uncommon in other SMEs (retailing, banking, trading, servicing) in Pakistan. The scope of study refers to variable determination for the study, the determination of research design, the determination of population and sample, the determination of research instrument and data gathering, and the determination of statistical testing method. One moderating variable namely organizational learning capability and two independent variables namely innovation and branding are believed to have influence on the SMEs performance (dependent variable) in Sports Industry of Pakistan. Further explanation of the variables used in the study is as follows.

In this study, innovation refers to firm's practice that brings novelty in firm's operations either through gradual/incremental changes or radical transformations at once

regarding new product development, new production technologies, hunting new customers/markets, designing new marketing strategies and modifying firm's managerial/administrative practices. Moreover, the attention has also been paid to referent dimension of innovation that refers to the view point of firms' customers and employees regarding the innovation practices employed by the firm. Branding is a critical issue in the SMEs sector because brands allow firms to say things about themselves in ways that every-day language cannot convey. In this study, branding refers to firm's orientation to build, manage and nurture their brands in order to establish a distinct identity that can better place the firm in the minds of its stakeholders in comparison to firm's competitors. The scope of branding with reference to this study encapsulates SMEs practices regarding corporate branding, marketing program, brand awareness, targeting specific audience and secondary brand associations.

In the context of present study, organizational learning capability refers to firm's ability to explore and exploit, explicit and tacit knowledge existing internal as well as external to the firm in order to leverage firm performance through experimentation, risk taking, interaction with external environment, dialogue and participative decision making. Finally, SMEs performance with respect to this study refers to subjective assessment of firms' owners/managers with reference to growth in sales, market share, operating profits, return on investment, ability to develop new products, entry in to new markets, pursuing R&D activities, and employee growth and development.

The mail survey method using questionnaires was selected for this study and the population comprised of 3516 Sports SMEs that are operating in City of Sialkot which is regarded as hub of sports manufacturing goods and is known world over for its reputed quality. Statistical analysis comprises of descriptive, correlation, exploratory factor analysis and Hierarchical Regression Analysis using SPSS.

1.6. Significance and Contributions of the study

This study presents an integrated multidimensional framework by integrating three distinct literature streams from innovation, branding and organizational learning perspective and analyzes their combined associated impact on firm performance in SMEs in sports industry of Pakistan.

It is anticipated that this study would be regarded as among very few pioneer studies that have examined the integrated impact of innovation and branding on SMEs performance. The study provides practical implications to owners/managers of SMEs regarding the importance of innovation and branding practices in SMEs. In addition, the study has examined the moderating effect of organizational learning capability on the relationship between innovation, branding and SMEs performance. It is also very rare to find previous studies where moderating effect of organizational learning capability is examined in the relationship between Innovation, branding and SMEs performance.

This study intended to address the following issues and research gaps as identified in the literature.

Although, in previous studies (Tanvir *et al.*, 2012; Mansoor, 2011) the researchers have identified that lack of innovation and branding are among the causes of declining performance in SMEs of Pakistan; the relationship between innovation, SMEs branding and firm performance is yet to be explored empirically. This study intended to conduct a quantitative study to empirically explore the above mentioned relationship.

Previous research on innovation and SMEs branding is fragmented. Innovation-performance linkage (Roberts, 1999; Schulz & Jobe, 2001; Weerawardena, 2003; Thornhill, 2006) and SMEs branding-performance linkage (Berthon *et al.*, 2008) has been examined in disparate studies. This study aimed to examine the combined effect of innovation and branding on firm performance of SMEs.

Most of previous studies on innovation have emphasized on technological innovations. There are very limited studies that have examined the impact of non-technological dimensions of innovation such as market/marketing innovations and administrative/managerial innovations (North & Smallbone, 2000; Weerawardena, 2003) on firm performance. This study adds to the body of knowledge by examining the impact of both technological as well as non-technological dimensions of innovation on SMEs performance.

There is scarcity of literature regarding branding and firm performance in SMEs. A few studies have examined brand equity (Omar & Ali, 2010) and corporate branding (Inskip, 2004; Abimbola & Kocak, 2007; Juntunen, Saraniemi, Halttu & Tahtinen, 2010) in SMEs. But it is very rare to see a study discussing branding and SMEs performance linkage. Berthon *et al.* (2008) as discussed earlier, is an exception in this regard. Therefore, there is a dire need to enrich the academic literature with respect to SMEs Branding and SMEs performance relationship.

A vast majority of previous researchers that have studied SMEs Branding, have mostly used qualitative case studies as their methodology (Abimbola, 2001; Inskip, 2004; Krake, 2005; Abimbola & Vallaster, 2007, Wong & Merrilees, 2005, Horan, O'Dwyer & Tiernan, 2011); this study intended to cover this methodological gap by employing quantitative approach to study a larger data set. In case of empirical studies, a rare study conducted by Berthon *et al.* (2008) compared brand management practices (BMP) between large and small firms and also compared high and low performing SMEs with respect to differences in BMP. But they used the dimensions discussed in brand report card by Keller (2000). Keller discussed those dimensions in the context of large businesses.

Therefore, the relationship between branding practices and SMEs performance remains to be explored using a measurement instrument appropriate for branding practices in SMEs. This study intended to bridge this methodological gap by using the

SMEs branding dimensions proposed by Abimbola (2001) for examining branding practices in SMEs.

It has been found in previous studies that organizational learning capability can strongly affect innovation (Ireland, Hitt, Camp & Sexton, 2001; Weerawardena *et al.*, 2006; Bueno, Aragon, Salmador, & Garcia, 2010) and branding practices of a firm (Weerawardena *et al.*, 2006; Prieto & Revilla, 2006; O'cass & Weerawardena, 2010). However, the past studied have overlooked to examine the moderating effect of Organizational learning Capability on Innovation, Branding and Performance Relationship. This study intended to address this gap by examining the moderating effect of organizational learning capability on innovation and branding practices in SMEs.

In Pakistan there is very limited research if any with respect to innovation (Hanif & Manarvi, 2009), branding, and organizational learning (Malik, Khan, Bhutto & Ghouri, 2011) in the context of SMEs. A few authors have researched about success and failure factors of SMEs competitiveness (Hussain *et al.*, 2010), Challenges for SMEs in Pakistan (Khalique *et al.*, 2011). However, to the best of our knowledge; there are very limited studies if any that have tried to empirically explore the relationship between Innovation, SMEs branding and firm performance of SMEs in general; and moderating effect of organizational learning capability on relationship between Innovation, SMEs branding and SMEs performance in particular in a single study.

Furthermore, in addition to addressing the research issues discussed above, the study aimed to further enrich the theories that guided this study. From the theoretical perspective, this study employs Resource-based view (RBV) to emphasize the significance of brands as rare, valuable and inimitable organizational resources (Barney 1991). It also employs Dynamic Capabilities Perspective (Teece, 2007) to explicate the importance of organizational learning capability and innovation as strategic capabilities for elaborating the success of firms over their business rivals. This study also employs Theory of Economic Development (Schumpeter, 1934) which emphasizes the significance of innovation with respect to firm's economic performance and development. In addition this study is guided by the theory of the growth of the firm (Penrose, 1959) as an underpinning theory of firm performance.

1.7. Operational Definitions

This section provides the operational definitions of the terms used in the study as follows.

1.7.1 SMEs Performance

Performance refers to the firm as a collective entity, not to a single product or a product line and in all markets where the firm operates in order to ensure that the study focuses on the firm level of analysis and not on the product or market level. The performance measures can be objective in terms of return, growth or market-based indicators such as sales and market share, as well as subject to respondents' subjective

assessment on return, growth or market-based performance indicators. SMEs performance with respect to this study can be defined in terms of subjective rating of firms' owners/managers with reference to growth in sales, market share, operating profits, return on investment, ability to develop new products, entry in to new markets, pursuing R&D activities, and employee growth and development.

1.7.2 Innovation

In this study, a comprehensive definition of innovation is adopted. Therefore, we define innovation as a firm practice that brings novelty in firm's operations either through gradual/incremental changes or radical transformations at once regarding new product development, new production technologies, hunting new customers/markets, designing new marketing strategies and modifying firm's managerial/administrative practices.

1.7.3 Branding

Branding is a critical issue in the SMEs sector because brands allow firms to say things about themselves in ways that every-day language cannot convey. In this study, we define branding as firm's orientation to build, manage and nurture their brands in order to establish a distinct identity that can better place the firm in the minds of its stakeholders in comparison to firm's competitors.

1.7.4 Organizational Learning Capability

This study adopts a comprehensive definition that considers organizational learning capability as firm's ability to explore and exploit, explicit and tacit knowledge existing internal as well as external to the firm in order to leverage firm performance through experimentation, risk taking, interaction with external environment, dialogue and participative decision making.

1.8. Organization of the Study

The thesis is divided into five chapters and organized according to the research process employed in this study.

Chapter One: Introduction

This chapter outlines the various important contents that are relevant to this research topic. The specific contents are: background of the study, overview of SMEs in Pakistan, problem statement, research objectives and research questions, significance of the study, scope and limitation, and organization of the study.

Chapter Two: Review of the Literature

This chapter discusses the underlying theories of the Performance of SMEs and Models. The relevant contents of this chapter include underlying theories, and review of

existing literature with reference to SMEs performance, Innovation, Branding in SMEs and Organizational learning capability.

Chapter Three: Research Methodology

This chapter elaborates a few important concepts that relate to the development of theoretical model for this study. The various contents in this chapter comprise of research model, conceptual framework, research hypotheses, research design, sampling techniques, questionnaire design and distribution, and statistical analysis.

Chapter Four: Data Analysis and Findings

This chapter discusses in detail about the methods used to analyze the data. The contents of the chapter include data cleaning, validity and reliability of the research instrument and hypotheses testing using multiple regression and hierarchical regression analysis.

Chapter 5: Discussion, Conclusion and Recommendations for Future Research

This chapter summarizes the overall study. Findings of the study have been have been elaborated in detail and compared with past studies. In addition, it highlights the contribution of the study to the literature and to the existing theories. It also entails policy

implications. In the end, recommendations for future research have been discussed followed by concluding remarks.

1.9. Summary of the chapter

This chapter presents the background and layout of the study. The chapter begins with a few definitions of entrepreneurship and then links entrepreneurship with marketing as entrepreneurial marketing is becoming a popular area of research. After discussing the amalgamation of marketing and entrepreneurship, the significance of SMEs in the world as well as in Pakistan has been discussed. It has been highlighted that, although, the SMEs are contributing largely in the economic development of Pakistan, yet the performance of SMEs in Pakistan in recent decade (2001-2010) has declined if compared with performance of SMEs in past two decades (1981-2000).

Previous studies have identified a number of factors hampering performance of SMEs in Pakistan. Some of the recent studies have emphasized on the importance of Innovation and SMEs Branding for achieving high performance generally in all SMEs but more specifically in Sports Industry of Pakistan. Previous studies have looked at innovation and branding separately and very limited attempts were made to study both the variables and examine their combined impact on firm performance.

Moreover, past studies have focused majorly on technological aspect of innovation and there is quite limited literature that discusses the significance of non-technological dimensions of innovation. Furthermore, it is stated that the moderating role

of organizational learning capability needs to be examined as the past studies indicate that organizational learning can determine the extent to which the firm can be benefitted from its innovation and branding measures. Thus it looked appropriate to conduct a study that links innovation and branding to SMEs performance by examining the moderating role of organizational learning capability.

The subsequent chapter thoroughly reviews the literature and underpinning theories with respect to variables used in the study.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter reviews the literature extensively about the variables used in the study. This chapter also reviews the literature to discuss the underlying theories with reference to variables used in the study. In section 2.2, academic field of entrepreneurship has been introduced briefly; various definitions of entrepreneurship have also been discussed. Furthermore, the importance of marketing in entrepreneurial and small business context has been discussed. In section 2.3, definitions of SMEs with respect to various countries and regions in the world have been discussed. Significance of SMEs is highlighted in section 2.4. In section 2.5 problems encountered by SMEs have been discussed. Section 2.6 entails the discussion concerning SMEs performance; furthermore, measurement of SMEs Performance in the light of literature is also discussed in this section.

In section 2.7, the literature regarding the definitions and significance of Innovation has been discussed. In addition, a special emphasis has been given to the role of innovation in SMEs. Keeping in view the dynamic nature of innovation, various types and degrees on innovation have also been discussed in this section.

Section 2.8 discusses the definitions of brand; sheds lights on the salience of branding with special reference to SMEs. It also discusses the various dimensions of

SMEs Branding. Definitions, significance and dimensions of organizational learning capability have been explicated in section 2.9. Section 2.10 discusses the underlying theories that guide this study. Section 2.11 comprises the summary of the chapter.

2.2. Background of Entrepreneurship

The research domain that encompasses the field of study of entrepreneurs and entrepreneurship is rich, complex, broad in scope, yet somewhat undisciplined and undefined (Beaver & Jennings, 2005; Davidsson, 2004; Smart & Conant, 1994; Carland, Hoy, Boulton, & Carland, 1984). Although entrepreneurship has been studied since the 1500s, to date, many of the researchers have been hindered by the domain's lack of a common definition, reliance on small samples, and the use of simplistic analytical methods (Beaver & Jennings, 2005; Carland *et al.*, 1984; Smart & Conant, 1994).

The concept of entrepreneurship has a wide range of meanings. Its definitions as cited in Zheng, Zhining and Wang (2009) include the bearing of uncertainty (Knight, 1921), the carrying out of new combination of production resources (Schumpeter, 1934), the ability of entrepreneurs to fill market deficiencies through input-completing activities (Leibenstein, 1968), alertness to opportunities and the arbitrage that follows the alert discovery of an opportunity (Kirzner, 1973), the ability to deal with disequilibria (Schultz, 1975), and the ability to make judgmental decisions about coordination of scarce resources (Casson, 2003). Thus, it can be said that no single definition of entrepreneurship can fit all contexts, in order to understand the concept of

entrepreneurship there is a need to amalgamate the definitions mentioned above. So entrepreneurship can be defined as the ability of an entrepreneur to optimally utilize the scarce resources in an innovative manner during the times of high risk and uncertainty in order to exploit market opportunities.

Although interpretations on the role of entrepreneurship vary, yet entrepreneurship is often viewed as a function which involves the exploitation of opportunities existing within a market. Hence, entrepreneurship is often related to creative and innovative actions. Creativity and innovation lies central to the marketing concept. In recent literature the significance of marketing-entrepreneurship interface has been emphasized. Entrepreneurial marketing has received fame in both the marketing and entrepreneurship disciplines by firms looking to achieve competitive advantage (Hills, Hultman & Miles, 2008). Hills *et al.* (2008) pointed out that the notion of entrepreneurial marketing has been embraced equally by practitioners and academia, special issues of journals and by an exclusive journal such as Journal of Research in Marketing and Entrepreneurship. Morrish and Deacon (2011) highlighted the importance of entrepreneurial marketing for small and medium enterprises (SMEs) as an appropriate marketing strategy in order to enhance their comparative capabilities and gain competitive advantage. Entrepreneurial Marketing has acknowledged that entrepreneur plays a key role in marketing process (Morrish, Miles & Deacon 2010).

Entrepreneurs are responsible for sensing and responding to the market needs. They see the emerging opportunities and strategize to avail and exploit those

opportunities. Entrepreneurial marketing processes are integral for the exploration and exploitation of the existing and emerging opportunities. But, those processes are dependent on firms' resources. If the resources are rare, valuable, non-imitable and non-substitutable; they can lead to sustainable competitive advantage that would yield superior firm performance (Barney, 1991). In order to cope with ferocious competition, the firms need to look beyond traditional resources.

SMEs generally lack the legacy that large firms enjoy; thus they frequently need to overcome the problem of limited resources. They find it hard to have the possession of critical resources that can lead towards sustainable profitability and performance. However, Day and Wensley (1988) argued that although SMEs have limited resources, some of them are unique and well-positioned as compared to their competitors, thus, SMEs can create valuable products for consumers and also provide the greatest potential for wealth creation and redistribution. SMEs play their part in income generation and improving growth rate in under-developed and developing economies.

Though SMEs have gained considerable support with reference to their role as an engine for economic growth, yet, with reference to innovation and branding which are the core concern of this study; it was argued by past researchers that young and inexperienced SMEs lack the critical resources and market knowledge that is possessed by large firms in order to foster innovation (Koc & Ceylan, 2007). Furthermore, it was emphasized that greater emphasis must be placed on size of SMEs as smaller SMEs would face more obstacles and challenges as compared to medium sized

firms (Reijonen, 2010). Similarly, it was argued that noteworthy differences may exist in branding practices of SMEs based on their size and age of business (Hirvonen, Laukkanen & Reijonen, 2013). The following subsections discuss in detail about the definitions of SMEs, significance and problems of SMEs, and measurement of performance in SMEs in the light of an extensive literature review.

2.3. Definition of SMEs

The term “SME” was coined by the European Commission for the firms employing lesser than 250 employees (Burns, 2001). There is no uniform definition of SMEs available in literature. The number of employees, amount of capital invested, and annual turnover has been used frequently as the key measurement indicators of SMEs in various countries and regions of Asia, Europe and North America.

In Malaysia, According to Small and Medium Enterprises Corporation (SME Corp.), SMEs were defined with reference to different sectors on the basis of annual sales turnover and number of full time employees as given in table 2.1.

Table 2.1
Malaysia's Definition of SMEs

Sector	Small Enterprise	Medium Enterprise
Manufacturing including Agro-based and manufacturing related services	Sales Turnover Between RM 250,000 to less than RM 10 Million OR 5-50 Employees	Sales Turnover Between RM 10 Million to RM 25 Million OR 51-150 Employees
Primary Agriculture, Services and Information & Communication Technology (ICT)	Sales Turnover Between RM 200,000 to less than RM 1 Million OR 05-19 Employees	Sales Turnover Between RM 01 Million to RM 05 Million OR 20-50 Employees

Source: (SME Corp., 2012)

Similarly in Japan the SMEs have been defined differently with respect to different sectors, given the criteria of number of employees and capital invested in the business as can be seen in table 2.2.

Table 2.2
Definition of SMEs in Japan

Sector	No. of Employees	Invested Capital
Manufacturing, Mining, Services, Construction	1-300	Up to JY 100 Million
Wholesale, Trading	1-100	Up to JY 30 Million
Retailing, Service Trading	0-50	Up to JY 10 Million

Source: Hanchuan & Zhongqi (2000).

In table 2.3, definitions of SMEs with reference to manufacturing, mining, services, construction, wholesale, retailing and service trading sectors is presented pertaining to the criteria of number of employees and capital invested in to the business.

Table 2.3
Definition of SMEs in South Korea

Sector	No. of Employees	Invested Capital
Manufacturing, Mining, Services, Transportation	1-300	Up to SKW 500 Million
Constructions	1-200	Up to SKW 500 Million
Wholesale, Trading	1-50	Up to SKW 200 Million
Retailing, Service Trading	0-20	Up to SKW 5 Million

Source: Hanchuan & Zhongqi (2000).

In table 2.4, definitions of SMEs in various countries of Europe (France, Sweden, and Denmark), European Union, and North America (United States of America and Canada) on the basis of number of employees and annual turnover have been exhibited as given below.

Table 2.4

Definition of SMEs by North American and European Countries

Countries	No. of Employees	Annual Turnover
United States of America	1-500	Up to US\$ 1000 Million
Canada	1-500	Up to C\$ 20 Million
European Union	1-250/10-500	NA
France	10-500	NA
Sweden	1-200	NA
Denmark	50-100	NA

Source: Hanchuan & Zhongqi (2000).

Generally all those organizations are considered to be large enterprises which employ more than 500 employees as discussed by Hanchuan and Zhongqi (2000). Table 2.5 gives the general definition of SMEs on the basis of number of employees as follows.

Table 2.5

Definition of SMEs based on Number of Employees

Micro	Small	Medium	Large
0-19	20-100	101-500	More than 500

Source: Hanchuan, L., & Zhongqi, W. (2000).

Keeping in view the variances and lack of consensus regarding categorization and definition of firms, International Finance Corporation (IFC) and World Bank introduced their own definitions of SMEs for a common purpose and understanding around the globe as given in table 2.6.

Table 2.6

Definition of SMEs by International Finance Corporation (IFC) and World Bank

Category	No. of Employees	Invested Capital	Annual Turnover
Micro Firm	Less than 10	Less than US\$ 100,000	Less than US\$ 100,000
Small Firm	10-50	US\$ 100,00 to US\$ 300,000	US\$ 100,00 to US\$ 300,000
Medium Firm	51-300	US\$ 30,00,000 to US\$ 15,00,000	US\$ 30,00,000 to US\$ 15,00,000

Source: IFC, World Bank Group-SME (2002).

In Pakistan, SMEs have been defined differently by various sources namely Small and Medium Enterprises Development Authority (SMEDA), SME Bank, Federal Bureau of Statistics, State Bank of Pakistan, Sindh Industries Department, Punjab Industries Department and Punjab Small Industries Corporation as exhibited in table 2.7. However, this study employs the definition provided by SMEDA that defines SMEs as firms having 10-99 employees and invested capital/productive assets up to Rs. 40 million.

Table 2.7
Definition of SMEs by various Institutions in Pakistan

Institution	Small	Medium
Small and Medium Enterprise Development Authority (SMEDA)	10-35 Employees or Productive assets of Rs.2-20 million	36-99 Employees or Productive assets of Rs.20-40 million
SME Bank	Total Assets of Rs.20million	Total Assets of Rs.100 million
Federal Bureau of Statistics	Less than 10 employees	N/A
State Bank of Pakistan (SME Prudential Regulations)	An entity , ideally not being a public limited company, which does not employ more than 250 persons (manufacturing) and 50 persons (trade / services) and also fulfills one of the following criteria: (i) A trade / services concern with total assets at cost excluding land and buildings up to Rs.50 million. (ii) A manufacturing concern with total assets at cost excluding land and building up to Rs.100 million. Any concern (trade, services or manufacturing) with net sales not exceeding Rs.300 million as per latest financial statements.	
Sindh Industries Department	Entity engaged in handicrafts or manufacturing of consumer or producer goods with fixed capital investment up to Rs.10 million including land & building	
Punjab Industries Department	Fixed assets with Rs.10 million excluding cost of land	
Punjab Small Industries Corporation	Fixed investment. up to Rs.20 million excluding land and building	N/A

Source: Small and Medium Enterprises Development Authority (SMEDA)

This study is based on the definition proposed by SMEDA. Moreover, SMEs were mainly categorized as small or medium on the basis of number of employees in the firm; as it is quite difficult to get financial information from SMEs in Pakistan.

2.4. Significance of SMEs

All over the world, SMEs are regarded as the largest proportion of business establishments. According to Organization for Economic Cooperation and Development (OECD) SMEs contribute tremendously in creating employment opportunities, market creation and development, delivering a higher standard of living, as well as hugely contributing to the gross domestic products (GDPs) of a vast majority of countries (OECD, 2000). In addition, SMEs contribute substantially towards high productivity and resultantly towards increased level of competitiveness and aggregate growth of an economy.

SMEs are strategically important in many developing countries, particularly those located in the Asian region. In Malaysia, SMEs represent 99.2% businesses, account for 56.4 % of employment and contribute 32% of GDP; In Japan, SMEs represent 99.7% of businesses, provide 71% of employment and contribute 55.3 % of GDP; In China, SMEs represent 99% of total business establishments, account for 75% of employment and contribute 56% of GDP; In Indonesia, the corresponding figures are 99.7%, 99.6% and 57% respectively (Rosman & Rosli, 2012).

Similarly in South Asia, SMEs contribute immensely towards economic growth and development. In Bangladesh SMEs contribute 50% to industrial GDP and employ 82% of industrial sector employees. In Nepal, SMEs represents almost 98% of businesses and contribute 63% of the value-added segment. In India, SMEs' contribute 30% of GDP.

In the same manner, SMEs are making significant contributions in Pakistan's economic development. In Pakistan economically active SMEs are approximately 3.2 million which contribute almost 80% non-agricultural employment and 30% to GDP (Hussain *et al.*, 2010).

Dynamic and flexible SMEs are playing their part in reducing unemployment levels, earning foreign exchange, upgrading the knowledge profile of the work force, improving the business management skills, and diffusing technological learning all over Pakistan. In addition, SMEs are constructively and productively mobilizing the domestic resources which otherwise could have lain idle and unemployed. The new era challenges the competitive strengths of the SMEs sector (Akhtar, Raees & Salaria, 2011).

Ahmad, Rani and Kassim (2011) argued that SMEs contribute enormously towards competitiveness of any economy. The significance of SMEs in economy cannot be underestimated because SMEs are major sources of poverty eradication, growth in the national economy, pillars of employment and social uplift (Akhtar *et al.*, 2011).

2.5. Problems of SMEs

There is no denial to the fact that SMEs play a catalytic role in the development of economy of any country. However, contrary to the above, the failure rate of SMEs is frightening for developing as well as developed nations. Previous studies have indentified that a large number of new SMEs fail within initial five years of their commercial

operations (Hodges & Kuratko 2004; Zimmerer, Scarborough & Wilson, 2008). Numerous studies from Australia, USA and England indicated that almost 80% to 90% of SMEs fail within 5-10 years (Ahmad *et al.*, 2011; Hodges and Kuratko 2004; Peacock 1985; Zimmerer *et al.*, 2008). Similarly, In Malaysia the estimated collapse ratio of SMEs is near about 60% (Ahmad & Seet, 2009). The situation in Pakistan is much more serious and alarming. It is estimated that 90-95% of Pakistani SMEs collapse at very early stages (Ullah, Shah, Hassan & Zaman, 2011). It signifies that SMEs in Pakistan have greater threats for their continued existence as a competitive enterprise.

This scenario demanded a broad based analytical insight of the factors that influence the competitiveness of SMEs. Previous studies have identified a variety of factors influencing performance of SMEs. It has also been observed that SMEs face almost similar nature of problems all over the world. Saleh and Ndubisi (2006), Samad (2007); Abu Bakar, Mad and Abdul (2006); Aris (2006); Harvie (2004); Wafa, Noordin and Kim-Man. (2005); Ritchie and Brindley (2000); Decker, Schiefer and Bulander (2006); Foon and Eu-Gene (2006); Leitao and Franco (2008); Werner and Moog (2009); Amtonilo, Mazzanti and Pini (2011); Muhammad, Char, Yaso and Hassan (2010); Alam (2010); Ullah *et al.* (2011); Malik, *et al.*, (2011); Jaffari *et al.*, (2011) have identified several challenges facing SMEs in a global context.

The findings of aforementioned studies revealed that economic conditions, global sourcing barriers, lack of finances or financial assistance from government and other external sources, low productivity, regulatory burdens, lack of managerial capabilities,

lack of organizational capital, inability to embrace new technology, improper entrepreneurial work conditions, and innovation are the factors that largely influences SMEs performance in both developed as well as developing countries of the world.

It has been identified that despite of magnanimous economic support and contribution towards development, the performance of SMEs remains below expectations in the developing countries (Arinaitwe, 2006). The factors contributing towards low performance comprise of unfavorable economic conditions, inconsistent public policies, lack of infrastructural support, financial constraints, mounting operating costs and corruption (Oboh, 2002; Okpara 2000; Wale-Awe, 2002). In Pakistan, situation is not very different. To elaborate this statement further the following discussion takes in to account the findings of previous studies conducted in SMEs in Pakistan. Cheema (1978) observed low productivity trends as cause of poor performance in SMEs in manufacturing industries of Pakistan.

Hassan, Khan and Saeed (1998) discussed the lack of orientation and inability of SMEs to embrace new technology causing low productivity and poor performance. Ali and Sipra (1998) and Nishat (2000) discovered that the lack of finance and inability to get financial assistance are causes of lower performance. In addition to financing problems, SMEs in Pakistan experience unfavorable government policies, scarcity of skilled human resources and entrepreneurial capabilities (Roomi & Hussain, 1998). A few studies held social and physical infrastructure of Pakistan responsible for lower performance of SMEs (Khan, 1997; Kemal 2000; SMEDA 2001; World Bank, 2001).

Khawaja (2006) discussed that SMEs in Pakistan are facing low growth entrapment. He stated that anti-competitive market practices are the major reasons of low growth. He added that marketing problems and lack of innovativeness are among the root causes of non-competitiveness leading towards low growth. Memon, Rohra and Lal (2010) emphasized the importance of performance management system by attributing incompetence and inefficiency of Pakistani SMEs to lack of focus on designing and executing performance management systems. He also stressed on the importance of methods of recruitment and performance appraisal of human resources.

Akthar *et al.* (2011) discovered that Pakistani SMEs face severe problems in entering as well as performing well in international markets because of lack of competitiveness. Ullah *et al.* (2011) reported that the major challenges faced by SMEs in Pakistan are the lack of entrepreneurial skills, education and characteristics that are fundamental for better performance of SMEs. They found the essential entrepreneurial skills and characteristics such as risk taking and innovativeness missing in Pakistani entrepreneurs. Similarly a large number of entrepreneurs were either illiterate or lacked formal education relevant to their businesses.

Khaliq *et al.* (2011) highlighted the importance of knowledge based competence for higher performance of Pakistani SMEs. They argued that the economies of developed countries are moving from production based economies to knowledge based economies. So there is a dire need to explore and exploit the available knowledge resources. They stressed on the importance of knowledge workers to boost SMEs

organizational knowledge and learning capability. Ramezan (2011) also emphasized that organizational knowledge is the foundation of intellectual capital therefore, it is considered central to the organizational capabilities to perform well.

Mansoor (2011) analyzed the problems of SMEs in sports industry of Pakistan. She stated that lack of branding orientation and inability of Pakistani SMEs to develop brands of global repute are leading towards declining sales of Pakistani sports goods. Tanvir *et al.* (2012) also studied the problems of sports industry and identified low productivity, technological issues and responding to customer needs through marketing solutions as among major challenges facing SMEs in sports industry especially football manufacturers.

The review of literature revealed a number of issues associated with firm performance. Some of those issues such as financing, government regulations, entrepreneurial skills and working conditions of SMEs have received considerable attention from the researchers and have been studied in various contexts. It is observed that Organizational Learning, Innovation and Marketing are a few contemporary issues highlighted in the recent studies. Therefore, this study intended to focus on these contemporary issues with reference to performance of SMEs in Pakistan. The next discussion entails the issues related to measurement of SMEs performance.

2.6. SMEs Performance

Performance of SMEs is quite significant for the socio-economic development of every country in general and developing countries in particular. High performing and dynamic SMEs are fundamental for the economic progress and prosperity of developing economies in this age of hyper competition and international challenges. SMEs are known as growth engines and lifelines of prospering economies worldwide. In developing countries their role is further more important as they contribute in employment generation, offering innovative products and services, enhancing international trade of an economy.

SMEs performance is an academic domain that has yielded loads of interest and attention from past researchers. SMEs performance can substantially influence not only the individual entrepreneurs but the whole society (Kirchoff & Phillips, 1988; Cooper, 1993). Thus, the understanding and measurement of SMEs or entrepreneurial performance are issues of vital importance (Chandler & Hanks, 1993). It is argued that measurement of performance is essential in order to understand organizations; what is being measured is of equal significance as how it is being measured (Kanter & Brinkerhoff, 1981). Hence, as researchers, we have to emphasize on both issues that what should constitute and comprise performance and how it should be measured.

Performance measurement is an issue which has not gained due attention in SMEs. A holistic approach of performance measurement is usually ignored by SMEs.

Small companies typically have a greater focus on their financial and operational performance. It is quite rare in SMEs to focus on Research and Development, Innovation and Human Resource related measures of performance (Chennell *et al.*, 2000; Hvolby & Thorstenson, 2000; Tenhunen, Rantanen & Ukko, 2001).

According to Barnes *et al.* (1998) SMEs do not plan for performance measurement, they follow an informal approach and do not adopt or implement any well defined model for measuring performance. Past researchers have also identified some limitations and barriers that hinder SMEs to measure their performance in a well planned manner. A few researchers have revealed that SMEs do not have adequate number of human resource to take care of the issue of performance measurement. The entire staff is usually engaged in day to day operational activities; thus, there is no one having spare time to look after performance measurement (Noci, 1995; Hudson, Bourne, Lean & Smart, 2000; McAdam, 2000).

According to Hudson *et al.* (2000) SMEs mostly require their employees to be technically sound and involved in production and other operational processes. As a result, managerial culture is generally deficient in such firms; hence managerial role, techniques and procedures are deemed as of little value to the firm. In most cases, employees hold multiple positions because of flat organizational structures, thus an entrepreneur who is supposed to give an equal importance to both operational as well as managerial functions, usually fails to do so and pays more attention to operational tasks. Thus performance measurement being a managerial task is often neglected. Some of the researchers have

pointed out that shortage of financial resources is another barrier that limits SMEs to develop and implement performance measurement programs. Unlike large companies, SMEs cannot afford to install expensive software platforms meeting their specific needs with reference to measuring and monitoring their financial and non financial performance (Neely & Mills, 1993; Ghobadian & Gallear, 1997; Barnes *et al.*, 1998; Hvolby & Thorstenson, 2000; Bititci, Turner, Nudurupati & Creighton, 2002).

According to Brouthers, Andriessen and Nicolaes (1998) SMEs are not known for good strategic planning and formalization. They are less proactive and more reactive in their approach towards firm management activities. They usually have a short term focus and lack explicit methodologies and strategies to assist control processes such as performance measurement.

Bourne (2001) revealed that the concept of performance measurement is largely ill understood and misconceived by SMEs which usually fail to envision the potential merits of developing and implement a performance measurement program. It was further added that SMEs perceive the implementation of performance measurement programs as a step forward towards bureaucratization and to limit the extent of flexibility in SMEs (Hussein, Gunasekaran & Laitinen, 1998; Hvolby & Thorstenson, 2000).

While discussing the issue of performance measurement, it is of utmost importance that the measures of performance must not be devised whimsically. There must be an in-depth thought process and purpose behind developing those measures, it is

a strategic issue which should be dealt with in a most conscious and planned manner. Therefore, past researchers have underlined the critical characteristics of good performance measures. Table 2.8 presents the set of those characteristics as follows.

Table 2.8
Characteristics of Performance Measures

Characteristics	Reference
Derived from strategy	Globerson, 1985; Maskell, 1989; Dixon, Nanni & Vollmann, 1990; Lynch and Cross, 1991; Neely <i>et al.</i> , 1996
Clearly defined with an explicit purpose	Globerson, 1985; Neely <i>et al.</i> , 1996
Relevant and easy to maintain	Maskell, 1989; Lynch and Cross, 1991
Simple to understand and use	Maskell, 1989; Lynch and Cross, 1991; Neely <i>et al.</i> , 1996
Provide fast and accurate feedback	Globerson, 1985; Dixon <i>et al.</i> , 1990; Maskell, 1989; Neely <i>et al.</i> , 1996
Link operations to strategic goals	Lynch & Cross, 1991
Stimulate continuous improvement	Lynch & Cross, 1991; Maskell, 1989; Neely <i>et al.</i> , 1996

Source: Hudson, Smart and Bourne, 2001.

Present literature on SMEs differentiates them from large corporations on the basis of a number of factors. SMEs are characterized by personalized management, little delegation of power and authority, acute shortage of human as well as financial resources, dependence on a few customers, limited to a few markets, flat and flexible organizational structures, high potential to innovate, reactive and fire fighting mindset, informal and dynamic in nature (Addy, Pearce & Bennett, 1994; Burns, 2001; Appiah-Adu & Singh, 1998; Marri, Gunasekaran & Grieve, 1998; O'Regan, Ghobadian & Liu, 1998; Haywood, 1999).

Keeping in view the above mentioned characteristics of SMEs, there is a dire need to measure the performance of SMEs in a holistic manner. Well formulated performance

measures can trigger and mobilize the managers and employees of SMEs and provide impetus for achieving the success. Shortage of financial and human resources indicate that SMEs need to be very sensitive about time and quality dimensions, as on one hand, they can ill afford any wastage; on the other hand, they need to ensure higher levels of productivity by employing the available resources optimally as well as by bringing innovation in existing production processes.

In the same manner, dependence on a few customers demands SMEs to remain highly competitive. It can be done through the provision of greater levels of customer satisfaction by being innovative and investing in research and development in order to offer customers newer and better products than those of competitors. The existence of flatter and flexible organizational structure in SMEs often requires the employees to perform multiple tasks and assignments; in this regard SMEs need to put a special emphasis on employee growth and development dimension as a measure of performance (Gupta & Govindarajan, 1984).

Past studies have also suggested that SMEs must link their day to day operations with their business strategies if they aspire to outperform their competitors. It implies that while developing performance measures, it must be assessed whether those measures are strategically linked with business strategies and also exhibit explicit alignment with the operational processes (Argument, Harrison & Wainwright, 1997; Greatbanks & Boaden, 1998).

Penrose (1959) defined performance as an indicator of how effectively a firm fulfils its objectives (financial and nonfinancial). Performance is defined in the same manner in this study to describe the performance of SMEs by using measures like profitability and growth with respect to various financial as well as non financial aspects of business. Gill (1985) demonstrated that SMEs grow largely in their performance as a result of their ability and flexibility to exploit the existing and emerging opportunities. It means that firm's performance is linked with growth in its business operations. Bennett (1989) defined firm growth performance as getting bigger in size, sales and profitability, customers, exports, product development and business expansion.

Gibb and Davies (1990) signified that growth performance of a firm may well be assessed with reference to how it performs in the competitive market and especially in terms of financial performance and the capability to operate at optimum efficiency levels. Thus Gibb and Davies (1990) pointed to the three facets of firm performance namely market performance, financial performance and operational performance.

Market performance referred to firm's ability to grab, sustain and enhance competitive position in the market by means of aggressive penetration in the existing markets, developing new products and services, entering new markets, and through diversifying in to related and unrelated businesses (Gibb & Davies, 1990). Financial performance referred to sound financial health, and access to required capital (Boardman, Bartley & Ratliff, 1981); as well as adopting cost reduction measures (Gibb & Davies, 1990). Operational performance referred to skilled managerial practices with reference to

day to do operations of the business (Gibb & Davies, 1990). Davidsson and Wiklund (2000) discussed the significance of entrepreneurial activities such as innovation that can foster growth led firm performance. However, the extent to which a firm performs or achieves its targeted objectives determines the magnitude of firm performance such as high or low (Barney, 1991; Davidsson, 2004; McMahon, 2001).

Different measures have been used by different studies, for example; profitability (Gupta & Govindarajan, 1984; Murphy, Trailer & Hill, 1996; Cox & Camp 2001), sales growth (Jovanovic, 1982; Churchill & Lewis, 1983; Gupta & Govindarajan, 1984; Hoy, McDougall, & D'Souza, 1992; Hall & Adams, 1996; Petrakis , 1997; Wiklund, 1999; Davidsson & Wiklund, 2000), market share (Gupta & Govindarajan, 1984; Cardozo, Harmon, & Ardishvili, 1995; Butler, Keh & Chamormmarn, 2000), return on investment (Gupta & Govindarajan, 1984; Murphy *et al.*, 1996), new product development (Gupta & Govindarajan, 1984; Gibb & Davies, 1990) , market development (Gupta & Govindarajan, 1984; Gibb & Davies, 1990; Cox and Camp, 2001), research and development (R & D) activities (Gupta & Govindarajan, 1984), and employee growth (Gupta & Govindarajan, 1984; Cardozo *et al.*, 1995).

Moreover, the previous studies also measured performance by employing measures such as efficiency (Arrighetti, 1994), liquidity (Boardman *et al.*, 1981), size (Cardozo *et al.*, 1995; Hall & Adams, 1996), leverage (Boardman *et al.*, 1981) and success/failure (Hall & Adams, 1996).

However, the use of dimensions proposed by Gupta and Govindarajan (1984) using stated satisfaction level of respondents is quite evident in studies measuring performance in SMEs (Murphy & Callaway, 2004). Murphy and Callaway (2004) highlighted the importance of stated level of satisfaction of entrepreneurs with reference to various performances measures. Stated level of satisfaction refers to subjective assessment of performance based on the views of entrepreneurs. There exists a noteworthy scholastic debate in the literature of entrepreneurship concerning the equivalence of subjective and objective performance measures.

Past researchers have proposed and employed satisfaction with various dimensions of entrepreneurial performance as surrogate of objective measures (Gupta & Govindarajan, 1984; Covin & Slevin, 1990; Naman & Slevin, 1993). Moreover, Cooper and Artz (1995) regarded satisfaction with performance as a significant entrepreneurial performance measure in its own capacity, regardless of its parity with other performance measures.

Acquiring objective data pertaining to performance with respect to SMEs/entrepreneurial firms is a very hard task as those private firms are not legally bound or required to unveil their financial details to general public (Dess & Robinson, 1984). Consequently, it is quite rare to find in depth financial performance information about entrepreneurial firms through the secondary sources of data. Unlike large corporate firms, SMEs don not publish their annual reports disclosing their financial performance thoroughly in numerical form.

The issue becomes even more complex and complicated as the response rate may be reduced if a research instrument asks for any piece of information which is considered confidential and sensitive (Dillman, Sinclair & Clark, 1993) which makes it near impossible to collect such information through primary data. In order to cope with the aforementioned limitations and barriers, numerous researchers have recommended the employment of subjective measures of performance as an appropriate and acceptable surrogate of objective measures (Dess & Robinson, 1984; Gupta & Govindarajan, 1984).

The equality and suitability of utilizing subjective measures in contrast to objective measures has been proposed and supported in the scholarly literature about entrepreneurial performance. Dess and Robinson (1984) opined that in case of non availability of objective data, the performance of a firm can be precisely evaluated by asking respondents to make subjective comparison of their firm's performance with the performance of those firms who are considered as close competitors. As an alternate approach, Gupta and Govindarajan (1984) proposed that performance of firms can be subjectively examined by assessing respondents stated satisfaction level with various dimensions of performance.

In order to justify the use of subjective measures as an alternate to objective measures, the researchers have mostly employed correlation analysis. Dess and Robinson (1984) revealed positive correlation between objective and subjective measures of sales levels and average return on assets in their study on 26 firms. Similarly, a positive correlation was found between objective and subjective measures of performance by

Glaister and Buckley (1998) in their study on international alliances in United Kingdom (UK).

Chandler and Hanks (1993) conducted a comprehensive study based on 120 firms belonging to various manufacturing industries. They examined appropriateness, and availability and goodness of performance measures in terms of their reliability and validity by self reported responses indicating performance of firm in various categories and a stated satisfaction level with various dimensions of performance similar to proposed instrument by Gupta and Govindarajan (1984). In addition, they asked the respondents to indicate their perceived performance in comparison with their close competitors on a Likert type scale. The findings of their study revealed that self reported growth and volume in various categories are positively correlated with two subjective measures, the satisfaction with performance dimensions and performance comparison with competitors.

On the basis of a thorough literature review, it was deemed as quite appropriate to employ subjective measures as recommended by Gupta and Govindarajan (1984) for measuring performance. Gupta and Govindarajan (1984) proposed 12 dimensions of performance namely sales growth rate, market share, operating profits, profit to sales ratio, cash flow from operations, return on investment, new product development, market development, R&D activities, cost reduction programs, personnel development, and political/public affairs. Hence, this study adapts the dimensions from Gupta and Govindarajan (1984). Further details about the adapted measures and measurement scale

are discussed in the subsequent chapter. The advantages of the measures employed in the present study are that, they are widely understood, precise, able to be verified and replicated. The use of multiple dimensions to measure performance is also in line with the suggestions by Kaplan (1983), Venkatraman and Ramanujam (1986), Gupta (1987), and Randolph, Sapienza and Watson (1991).

To conclude, SMEs performance with respect to this study can be defined in terms of growth in sales, market share growth, operating profits, return on investment, ability to develop new products, ability to develop new markets, pursuing R&D activities, and employee growth and development.

The subsequent section reviews literature regarding various issues associated with innovation in general terms as well as in specific context of SMEs.

2.7. Innovation

In search for constitutive elements of entrepreneurship, some of the noteworthy scholars such as Schumpeter (1983) and Davidsson (2004) posit that innovation is the differentiating feature which distinguishes business management from other disciplines. In addition, considerable literature based on practical experiences of firms' owners and managers signifies that in order to sustain and excel in the hypercompetitive local as well as global markets, innovation appears to be the only turnkey solution (Kim & Mauborgne, 2004).

Innovation has been regarded as a catalyst of socio-economic growth and development (Marchese, 2009; Lewis, 2008) In general, the literature emphasized the significance of innovation as an instrumental factor contributing to firms' sustainable superior performance especially in competitive markets (de Jong & Vermuelen, 2006; Hui & Qing-xi, 2006; Weber & Weber, 2007; Baker & Sinkula, 2002; Balkin, Markaman, & Gomez-Mejia, 2000; Darroch & McNaughton, 2002; Lyon & Ferrier, 2002).

In competitive environments, firms need to be innovative in order to perform well and succeed. Thus, the firms that embrace innovation gain competitive advantage and stand a better chance to outperform their rivals. It has been observed that firms with greater innovation orientation and capability achieve a better response from the environment, obtaining more easily the competencies required to enhance organizational performance and secure a sustainable competitive advantage (Calantone *et al.*, 2002; Hurley & Hult, 1998; Zaltman, Duncan, & Holbek, 1973).

The following discussion entails definitional issues, dimensions of innovation and influence of innovation on firm performance.

2.7.1. Definitions of Innovation

Innovation has been defined in a variety of ways in the literature. As cited in Hansen and Wakonen (1997), one of the very first definitions was coined in late 1920s by Schumpeter who defined innovation as a novel good or novel quality of good, new

production process, newer market, novel source of supply or a novel organizational structure. Thus, doing the things in a different matter was considered as innovation by Schumpeter. However, Hansen and Wakonen (1997, p.350) argued that "it is practically impossible doing things identically", thus every change qualifies as an innovation. Innovation is linked with a variety of issues concerning organizational processes, learning, and capabilities (Freeman & Soete, 1997). Kanter (1983) defined innovation as the creation, adoption, and execution of novel ideas, processes, products, or services. In the words of van de Ven & Poole "the process of innovation refers to the temporal sequence of events that occur as people interact with others to develop and implement their innovation ideas within an institutional context" (van de Ven & Poole, 1989, p. 32).

According to Wolfe (1994) and Damanpour and Gopalakrishnan (1998) innovation is defined in terms of the adoption of an idea, behavior, system, policy, program, device, process, product or service that is novel to the firm. In the words of Weerawardena (2003) innovation is "the application of ideas that are new to the firm, to create added value either directly for the enterprise or indirectly for its customers, regardless of whether the newness and added value are embodied in products, processes, work organizational systems or marketing systems" (Weerawardena, 2003, p. 412).

According to OECD "Innovation is the implementation of any new or significantly improved product (goods or services), operational processes (methods of production and service delivery), any new marketing methods (packaging, sales and

distribution methods), or new organizational or managerial methods or processes in business practices, workplace organization or external relations” (OECD, 2005, p. 46).

In this study, a comprehensive definition of innovation is adopted. Therefore, we define innovation as a firm practice that brings novelty in firm’s operations regarding new product development, adoption of new production technologies, hunting new customers/markets, designing new marketing strategies and modifying managerial/administrative system either through minor and gradual improvements or major transformations at once.

2.7.2. Dimensions of Innovation

The literature review has revealed that different authors put forward different dimensions of innovation. A large number of studies have emphasized on product and process innovation in SMEs. Product innovation that concerns with newness with reference to product development is considered as an important dimension of innovation. Product development is regarded as a path-reliant distinctive dynamic capability (Teece *et al.*, 1997; Eisenhardt & Martin, 2000). It guides the innovative firms to competitive advantage through augmentation, reconfiguration or development of resources and their exploitation in value-generating strategies (Branzei & Vertinsky, 2006). The capability to recombine or reconfigure the resource base because of greater flexibility and agility is an impregnable advantage of SMEs as compared to their larger counterparts. From dynamic capabilities viewpoint, SMEs have a great potential to be benefitted from innovation.

Product/service innovation is "the novelty and meaningfulness of new products introduced to the market in a timely fashion" (Wang & Ahmed, 2004, p. 304). Process innovation is the "introduction of new production methods, new management approaches, and new technology that can be used to improve production and management processes" (Wang & Ahmed, 2004: 305). In other words, product innovation refers to new product offerings or enhancements to current products, whereas process innovation encapsulates creation or modification of an existing method, and enhancements in the processes or systems (Oke, Burke & Myers, 2007). There are numerous studies that have emphasized the significance of product and process innovations and their contribution to firm performance. Prajogo, Power and Sohal (2004), Wang and Ahmed (2004), Avermaete *et al.* (2004), Leiponen (2005), Freel (2005), Tang (2006) and Ar and Baki (2011) are some examples in this regard.

In addition to product and process innovations which are also termed as technical/technological dimensions of innovation, previous studies have also stressed on the significance of non-technical/non technological dimensions of innovations such as administrative/managerial innovations and marketing innovations. It can be observed from the past studies regarding innovation that much of the focus remained on the technical/technological aspects of innovation such as developing a new process or a new technology. Whereas the non-technological dimensions of innovation such as administrative/managerial or market/marketing innovations have received lesser emphasis (Ngo & O'Cass, 2013).

Gopalakrishnan and Damanpour (1997) have distinguished between administrative and technical innovations thus reflecting the marked difference between social structure and technology. Technical innovations refer to products, processes and technologies employed to produce products or deliver services directly linked with the basic operations of a firm. On the contrary, administrative innovations are indirectly linked with the basic operations of a firm and are more concerned to firm's managerial characteristics and practices such as organizational structure, administrative procedures and human resource practices.

North and Smallbone (2000) conducted a study in SMEs in UK where they suggested five types of innovations namely product or service innovations (improving existing products/services or creating new products), market development innovations (entering new markets), marketing innovations (designing new marketing & communication methods), process technology innovations (introducing new computerized production technologies or automated material-handling) and administrative innovations (introducing computerized systems for administrative tasks/office work or introducing new employee reward or training methods or introducing new departments or project teams or obtaining new sources of financing) in order to comprehensively conceptualize and measure innovation.

Weerawardena (2003) carried a study in large manufacturing firms in Australia with an intention to measure the organizational innovation within the respondent firms. In his study he employed four dimensions of innovation which were product innovations,

production process innovations, managerial innovations and marketing innovations. His proposed dimensions of innovation were later on employed in a study conducted on a large sample size in SMEs in Australia by Weerawardena *et al.* (2006). Thus the later study confirmed the applicability of his proposed dimensions in the context of SMEs.

Moreover, researchers have also discussed an interesting dimension of innovation namely 'referent' innovation. Referent refers to how new an innovation is seen or perceived by a firm's stakeholders such as firm itself or employees of the company (Davila, Epstein, & Shelton, 2006), customers (Wang & Ahmed, 2004) or market (Lee & Tsai, 2005). The referent dimension ascertains the point of reference which considers the newness of innovation. It is quite fundamental that the stakeholders of the firm must perceive the firm's innovation as new in order to realize the benefits of that innovation otherwise the innovative effort would be quite futile.

Furthermore, some studies argued that it is also quite important to understand the magnitude or degree of innovation (Tushman & Nadler, 1986; Gopalakrishnan & Damanpour, 1997; Marvel & Lumpkin 2007). It was suggested that the intensity of innovation should be analyzed that whether the innovation refers to gradual changes or minor improvements (incremental innovation) in existing routines and practices (Marvel & Lumpkin 2007; Weerawardena, 2003; Damanpour, 1991; Dewar & Dutton, 1986; Ettlie, Bridges, & O'Keefe, 1984) or major changes such as replacement of older technologies and other processes at once (radical innovation) also labeled as

'revolutionary,' 'disruptive,' 'discontinuous,' or 'breakthrough' innovation (Freeman, 1974; Garcia & Calantone 2002; Weerawardena, 2003; Marvel & Lumpkin 2007).

Tushman & O'Reilly (1996) observed that although both incremental and radical innovations are important, firms believe it quite hard to practice both of them simultaneously. Jansen, Vera, & Crossan (2009) argued that academia and practitioners placed a greater emphasis on radical innovations while somewhat ignored the importance of incremental innovation. Incremental innovation is more common in case of product and process innovations, where as radical innovation is more applicable to business management and administrative practices. However, radical innovations are also quite evident in case of product innovations (Chandy & Tellis, 2000; Sorescu, Chandy & Prabhu, 2003). It can be noted that the referent and magnitude dimensions of innovation are quite interrelated. Incremental innovation or continuous improvement measures may be considered new to the firm, radical innovation could more likely to be related with newness to the market and industry.

Based on the importance of types, degree/magnitude and referent dimensions of innovation, this study incorporates the types (product innovations, process innovations, marketing innovations and managerial innovation), degree/magnitude (incremental and radical innovations) and referent dimensions (perception of newness by customers and employees) in order to have a comprehensive insight of types of innovation exercised by the firms, extent of firms' innovation intensity and perception of newness by the stakeholders of the firms such as customers and employees.

2.7.3. Influence of Innovation on SMEs Performance

Determinants of firm performance have been comprehensively investigated in previous studies (Combs, Crook, & Shook, 2005). According to researchers in the field of business management, ability to innovate is the most fundamental determinant of firm performance (Mone, McKinley & Barker, 1998). Undeniably, this academic proposition has been empirically verified by numerous studies (Deshpande, Farley, & Webster, 1993); Baldwin & Johnson, 1996; Capron, 1999; Danneels & Kleinschmidt, 2001; Salavou, 2002; Calantone *et al.*, 2002; Klomp & van Leeuwen, 2001). However, as different authors have employed different dimensions of innovation and utilized different measures of performance, thus it is quite hard to generalize the findings of above mentioned studies.

A study by Deshpande *et al.* (1993) demonstrated that innovativeness is positively linked with firm performance measured with reference to relative profitability, market share, and growth. Baldwin and Johnson (1996) reported the significant effect of innovation on a range of firm performance measures such as market share and return on investment. Capron (1999) and Danneels and Kleinschmidt (2001) revealed that a positive link exists between innovation capability and firm performance and between different aspects of innovation (such as innovation design, speed or flexibility) and performance. Salavou (2002) also explored that product innovation was a significant determinant of firm performance based on return on assets. Calantone *et al.* (2002) reported a positive relationship between firm innovativeness in terms of a firm's

capability to change and adopt innovations and overall profitability and objective measures of performance (Return on Investment, Return on Assets and Return on Sales). Klomp and van Leeuwen (2001) used a feedback model to establish a positive relation between process innovation and performance measured in terms of sales performance, sales per employee and employment growth.

Moreover, Wheelwright & Clark (1992), Roper (1995), North and Smallbone (2000), Salavou (2002) and Lisboa, Skarmeas & Lages (2011) found a positive link between technological innovation and firms' performance. Whereas, a few previous studies conducted in England by North and Smallbone (2000) and Weerawardena (2003) who performed a study in Australia revealed that non technological innovation substantially contributes in enhancing the performance and competitiveness of SMEs.

A major topic in the innovation literature is the importance of firm size for innovation. It has been argued that large firms possess certain characteristics that foster innovation and enhance firm performance (Koc & Ceylan, 2007). They have the ability to mobilize the resources demanded by innovation. Large firms are well suited to exploit an unforeseen innovation and to achieve learning curve economies through investing in innovative production. They can afford to set up large R&D laboratories and can take the time and resources to build external science and technology networks, logistics and servicing facilities, the absorptive capacity of new knowledge/technology and access to external finance. They are also capable to support diversification and synergy. They have formal managerial skills and specialized, knowledge and skilled workers. Finally, they have expertise in staff functionaries and are experienced in the development of new

products (Damanpour, 1992; Nystrom, Ramamurthy & Wilson, 2002; Vossen, 1998). These characteristics help accelerate innovation and enhancement in firm performance.

However, Innovation and improvement in performance are also commonly found in SMEs (O'Regan, Ghobadina & Sims, 2006; Subrahmanya, 2005). Greater flexibility enables small firms to be more innovative and perform higher, as they are in a better position to respond to market changes and have shorter and faster decision chains (less bureaucratic inertia). SMEs can gain competitive advantages by dominating market niches through innovation efficiency. They have more capacity for customization and possess the ability to learn faster and adapt routines and strategies to leverage firm performance.

Innovation in the perspective of SMEs has gained tremendous interest and attention because of the key role that SMEs play for socio-economic and technological growth and development in the context of developed as well as developing countries (Acs & Audretsch, 1988). Though, SMEs characteristically encounter substantial resource limitations, they often emerge as thriving innovators. Smaller, flexible organizations boosted by entrepreneurial aspirations facilitate innovative processes in SMEs (Nooteboom, 1994; Vossen, 1998). SMEs in continuous pursuit of innovation can reap several benefits.

Schumpeter (1934) opined that innovation presents opportunities for small entrepreneurial firms to seek rents as a result of temporary establishment of a monopoly

that enables the innovating firms to dictate their terms in the markets where they operate. This due to marked difference between the products and services they offer in the markets as compared to their competitors' offerings. He further added that continuous innovation serves as a vital source of success of small firms in the long run. Porter (1980) supported the views of Schumpeter by highlighting the need for introducing innovative offerings, production processes, technologies and implementing business models that can cater the demands of attractive niches so that SMEs can gain unassailable ascendancy from their competitors.

During this pursuit of continuous innovation, SMEs can successfully raise the level of brand loyalty of their customers and lower the price sensitiveness as the buyers gradually value the distinctiveness of innovation (Lieberman & Montgomery, 1988). Moreover, innovative offerings can generate new demand and, therefore, foster firm growth. The innovative SMEs can successfully create and manage high entry barriers that can prevent and limit the competitors from entering in to the market, which can strengthen the innovating firms' market position in the industry and consequently lead to sustainable above-par returns (Porter, 1980).

Besides the direct impact on SMEs' performance, during the process of innovation, learning generates absorptive capacity which refers to the organizational capability to discover, incorporate, and apply knowledge (Cohen & Levinthal, 1990). This organizational learning capability helps the firms to identify, absorb and exploit

knowledge, thus, serves as a competitive advantage (Zahra & George, 2002) and facilitates higher performance.

Additional advantages of innovation comprise of economies of scale, economies of scope, forestalling of resource constraints, benefits in further innovation, and the capability to set benchmarks (Shepherd & Shanley, 1998). However, despite of aforementioned discussion that suggests positive effects of innovation, the literature also reflects some of the negative outcomes of innovation. In addition to the merits of engaging in innovation processes, a few scholars consider innovation as risky task to be undertaken by smaller firms. Berggren and Nacher (2001) considered innovation as a task linked with higher rates of failure. According to Block and MacMillan (1993) innovation often results in temporarily unprofitable investments. The risk of unprofitable investments or getting lesser returns on investment is something which small businesses can ill afford. Unlike large firms, SMEs do not enjoy the luxury of surplus finances to fund innovations along with financing their day to day business operations.

In addition, innovation may sometimes cause resistance to its adoption and diffusion in the innovating organization (Damanpour, 1991; Hultink & Atuahene-Gima, 2000) and the market where it is introduced (Waarts, van Everdingen & van Hillegersberg, 2002; Rogers, 2010). Furthermore, innovation is a risky activity that consumes considerable resources of the firm (Nooteboom, 1994; Eisenhardt & Martin, 2000; Li & Atuahene-Gima, 2001). However, considering the potential link with performance a large number of SMEs perceive innovation as the risk that is worth taking.

According to Kleinknecht, Van Montfort and Brouwer (2002) innovation is a multifaceted phenomenon. Some forms of innovation may be more beneficial to organization than others. However, the successful introduction of innovations requires distinctive organizational resources, skills and abilities to facilitate the generation and appropriation of the gains of innovation (Thornhill, 2006; Branzei & Vertinsky, 2006; Junkunc, 2007; Sethi & Sethi, 2009). More importantly, the environment which surrounds the innovating firm can significantly influence the result or an outcome which innovation yields for that particular firm (Thornhill, 2006; Droge, Calantone & Harmancioglu, 2008; Anokhin & Schulze, 2009).

In the light of considerations as discussed before it is quite appropriate to infer that the impact of innovation as a whole on the performance of SMEs is an accumulated outcome resulting from positive as well as negative effects which are further moderated by environmental and contextual factors. Thus, it can be argued with confidence that although innovation has a positive cumulative impact on SMEs performance, yet this impact is largely context dependent (Rosenbusch, Brinckmann & Bausch, 2011).

According to Parthasarthy & Hammond (2002) innovation is commonly modeled as a process. While thinking of innovation as a process, it is imperative to segregate the factors that are deployed as inputs (financial resources allocated to innovative tasks, human resources employed in research and development activities) from those factors that are the outcomes of innovation (new products, services, technologies or production processes) (Brouwer and Kleinknecht, 1999). Firms differ with reference to volume of

inputs they deploy in the process of innovation. However, the deployment of greater volume of inputs in the process of innovation does not necessarily assure the desired outputs of innovation as the process of innovation is highly complex and associated with higher risks (Wolff, 2007).

Thus, the development of innovation requires a strategic focus and attention in order to enhance firm performance, otherwise there is a greater risk that the firm might commit valuable resources to the process of innovation but fails to convert those resources into innovative products and services, consequently squandering the resources and hurting the firm performance (Howell, Shea & Higgins, 2005; Rosenbusch *et al.*, 2011).

The loss of valuable resources because of improper or erroneous process of innovation management is quite detrimental for SMEs in particular as they are mostly resources constrained and cannot afford losing those resources. The survival and growth of SMEs can be seriously threatened if they commit a substantial volume of their worthy resources to the innovative tasks, yet, remain unable to get a considerable gain on their investments. Thus, innovation management is an issue of strategic importance and demands strategic orientation.

Firm's strategic orientation determines how an organization views the business environment in which it operates (Kohli & Jaworski, 1990; Lumpkin & Dess, 1996), establishes its objectives, deploys resources, and manages the value generation process

(Andrews & Welbourne, 2000; Siguaw, Simpson & Enz, 2006), and nurtures organizational capabilities (Eisenhardt & Martin, 2000). Literature pertaining to entrepreneurial orientation recommends that an orientation towards innovation enhances SMEs' performance specifically in circumstances of resource limitations, entering in dynamic markets, and while encountering more mature, well established competitors who possess abundant resources to support their businesses (Covin & Slevin, 1989).

Therefore, innovation oriented SMEs can lessen the risk of squandering resources in wasteful activities and are well suited to commit resources to those tasks that can yield innovative market offerings (Lumpkin & Dess, 1996). Hage (1980) stressed that a blend of a positive attitude of the organization towards novelty and change amalgamated with specialized knowledge expedites the innovation process.

Moreover, innovation driven SMEs can achieve higher levels of competence with reference to adoption and diffusion of modern technologies and innovative manufacturing processes (Lumpkin & Dess, 1996). Consequently, SMEs that are in pursuit of innovation can develop specialized innovative abilities that are exploited to introduce innovative market offerings. It is strongly believed that innovation orientation models the organizational culture of the SMEs. In organizations which have a central focus towards developing innovations, employees become more committed and proactive as they can sense and foresee the growth of the organization which would result in their personal growth and development (Zhou, Gao, Yang & Zhou, 2005). The employees feel more satisfied when they can foresee that the firm promises to grow, they do not think of

switching, thus it reduces employee turnover, additionally the firm can also attract new and highly competent employees who aspire to join an innovative firm; ultimately the productivity and the performance of the firm is enhanced.

Particularly in the context of resource-scarce SMEs an innovation orientation can be very useful in order to attract and combine different forms of resources like highly-skilled employees, growing revenues from customers, and/or financial support from investors who otherwise have a preference for more reputable, larger companies. If SMEs desire to surmount the problems and liabilities linked with smallness, the best response is to pursue innovation.

It is also quite important for entrepreneurs or owners/managers of small and medium enterprises to decide how they should embrace innovations. One of the options is to develop innovations from within using the internal human and technological capabilities of the firm. The alternate option is to look for external interactions and collaborations with other supply chain members and stake holders such as suppliers, distributors and customers in certain cases, as proposed by Shan (1990) and Zahra and Bogner (2000). Nevertheless, the literature concerned with establishing the innovations though externally collaborated ventures recommends both type of implications positive and negative particularly for SMEs operating in developing economies.

Research emphasizing upon the positive impacts of pursuing innovation in mutual concurrence with external and comparatively larger business partners suggests that newly

established SMEs in particular lack the resources and capacities in order to successfully cope with the innovation demands at a given point of time (Eisenhardt & Schoonhoven, 1996; Yli-Renko, Autio & Sapienza, 2001). Therefore, the mutual collaboration of external and internal resources helps improve the capacities of SMEs so that they might be enabled to enhance and expedite the effective delivery of innovations to the potential and existing customers (Tyler & Steensma, 1998). Though, the monetary and non-monetary benefits of the projects has to be shared or divided among the partners in case of innovation oriented collaborations and external interactions; yet the probability of success of such projects in terms of profitability and long term sustainability is increased (Zahra & Bogner, 2000).

External interactions have a synergic effect on the business performance of the partners involved. All the partners are mutually benefited. This phenomenon applies equally to both large as well as small businesses. However, it has a critical significance specifically in case of SMEs who are resource constrained thus they require external support in order to enhance their knowledge base and exploit the available opportunities in volatile market environments (Eisenhardt & Schoonhoven, 1996; Yli-Renko *et al.*, 2001).

Contrarily, there are some critiques who oppose the applicability of the concept of external interactions for developing and managing innovations in the context of SMEs (Soh, 2003; Kelley, Peters & O'Connor, 2009; Edmondson & Nembhard, 2009). They argue that there are a number of intricacies regarding configuration and coordination of

projects, preservation of confidential information and division of yields from the collaborative projects. Aforementioned intricacies further enhance the burden on the SMEs.

According to McGee, Dowling and Megginson (1995) SMEs targeting external support and interactions must themselves possess some knowledge and expertise in the relevant field so that they can be in a position to understand and manage the intricacies involved in such collaborations. However, he further argued that larger firms can exercise greater control and influence over SMEs.

As a result, SMEs might suffer from such influence of bigger partners who would look to dictate those terms and conditions which are in their best interest, overlooking the interest of SMEs. Bigger innovation partners would enjoy the luxury of making the decisions about the volume of resources SMEs have to invest in collaborative innovation projects and what would be the percentage of profits or other benefits would be shared with SMEs. In other words bigger partners would exploit the smallness of SMEs as they would know that SMEs are dependent on external support from them in order to initiate and manage their innovation projects.

Keeping in view the complexities of external support, the better option available to SMEs is the development of innovations by employing the indigenous resources. Reliance on indigenous resources would lessen the complexities and the firm may learn to modernize its products and processes more speedily as there is no interference from

other stakeholders. The yields from the projects that are the result of innovations developed internally need not to be shared with any external stakeholder. Thus the overall profitability would increase and consequently the success of SMEs would be ensured.

According to Rosenbusch *et al.* (2011) SMEs possess distinct capabilities to generate value through innovations. They found that internally developed innovation projects augment the SMEs performance significantly; whereas innovations developed through external support and interactions with external environment that comprises of supply chain partners and other stake holders does not impact SMEs' performance significantly.

There are several other studies conducted in SMEs to see their innovation practices. Studies conducted by Hyvarinen (1990), McAdam, Armstrong, and Kelly, (1998), Avermaete *et al.* (2004), Freel (2005), Yap, Chai, and Lemaire (2005), Allocca and Kessler (2006), de Jong and Vermuelen (2006), Oke *et al.* (2007), and Dibrell, Davis and Craig (2008) can be considered as a few examples of these researches carried out in SMEs.

Sure enough, the pursuit for the winning idea that assures entrepreneurial success is typified by identifying highly innovative products, processes, marketing and managerial styles, all in all a thoroughly innovative business model as a whole. This innovation driven venture approach conforms to the prevalent assumption that the small businesses ought to have an innovative ascendancy or edge in order to compete and succeed against their bigger and more established business rivals.

Yet, it has to be examined that to what extent the empirical evidence supports this wide spread assumption. It needs to be seen that innovation is undeniably a winning formula or a big idea leading towards entrepreneurial success. It is of prime importance to identify that what are the types and dimensions of innovation that can have a strong impact on the innovation–performance relationship in the context of SMEs.

According to Rosenbusch *et al.* (2011) innovation positively impacts the performance of SMEs. Their findings revealed that orientation towards innovation yields greater rewards and results in higher performance of SMEs. Similarly, they stressed on the salience of allocating firms' resources on innovation processes. They argued that innovation is not only concerned with bringing new products and/or services in the market rather what really matters is the focus on innovation process.

Thus, Rosenbusch *et al.* (2011) placed a greater emphasis on innovation process rather than innovation outcomes. They claimed that innovation processes have a more positive impact on innovation performance relationship as compared to the impact of innovation outcomes. Hence, they opined that SMEs focusing solely on creation of innovative offerings may fail to spot important dimensions that are fundamental for realizing the worth that innovation may offer to their firms. So, it is imperative for SMEs to manage the process of innovation in a more diligent manner.

Past studies reveal SMEs possess the capabilities to adapt and adjust to dynamic business environments much faster than their bigger counterparts because of their

nimbleness and lack of hierarchies that enable them to make quick decisions (Nootboom, 1994; Vossen, 1998). Besides, the potential customers attribute greater promise to SMEs that invest extensively in innovations as compared to larger corporations (Lee & Chen, 2009). Resultantly, it can be inferred with confidence that there is a greater likelihood of SMEs to be benefitted from innovation specifically within the challenging business environments.

Surprisingly, most studies pertaining to innovation are performed in developed countries like Canada (Branzei & Vertinsky, 2006), United States of America (Wolff & Pett, 2006; Allocca & Kessler, 2006), Netherlands (de Jong & Vermeulen, 2006), England (Edwards *et al.*, 2005), New Zealand (Clark, 2010) and Turkey (Ar & Baki, 2011), and resultantly, policy makers from developing nations often analyze those findings when designing policy measures (Radas & Bozic, 2009). However, the theoretical models formulated in the context of developed countries may not be applied or replicated in the context of a developing country (Najib & Kiminami, 2011).

To conclude, with reference to empirical research, despite of some conflicting evidences (Hage & Aiken, 1967; Armour & Teece, 1978; Kimberly & Evanisko, 1981; Darroch, 2005; Rogers, 2010), majority of the studies have demonstrated the positive relationship of innovation with firm performance (Damanpour & Evan, 1984; Damanpour, Szabat & Evan, 1989; Caves & Ghemawat, 1992; Wheelwright & Clark, 1992; Brown & Eisenhard, 1995; Bierly & Chakrabarti, 1996; Hansen, Nohria, &

Tierney, 1999; Roberts, 1999; Schulz & Jobe, 2001 Garcia-Morales, Llorens-Montes & Verdu-Jover, 2008, Garcia-Morales, Jimenez-Barrionuevo, Gutierrez-Gutierrez, 2012).

However Inconsistent results with regard to innovation and performance relationship leave room for further investigation of this relationship. Thus, study focusing on exploring the relationship between innovation and firm performance is still relevant and remains an area of interest in business and academic circles (Brio & Junquera, 2003).

As discussed earlier, majority of the research has been conducted in the developed countries targeting large firms as the sampling unit of the study. Therefore, it is hard to generalize the findings of those studies because of differences in socio-cultural, political and technological contexts. Theoretical models established in a developed country may not be well suited to, and applicable in developing economies' situation. Thus, in this study, we intend to examine the relationship between innovation and performance in the context of SMEs in a developing country like Pakistan.

The following section discusses the issues related to branding as highlighted and explicated in the literature.

2.8. Branding

The strategic significance of branding has been well established in marketing literature. The literature recommended that the firms which employ their managerial inputs towards building, nurturing, and leveraging branded goods and services will achieve competitive gains and superior performance (Noble, Sinha & Kumar, 2002). According to Schultz and Barnes (1999), Brand management refers to the process of

creation, coordination and monitoring of interactions occurring among the firms and their stakeholders. It is quite significant to ensure consistency between a firm's foresight and stakeholders' perceptions about a brand.

The concept of brand in the modern age is not as simple as it used to be about ten years ago, when it was thought of as just a name, term, logo or an advertising slogan. Today, the brand represents the combination of expectations and associations evoked as a result of interactions with a firm or a product. All that matters is the way potential and existing buyers view a particular firm or a product. If the buyers' perceive positively, it will pay huge dividends to the business in the form of market share and return on investment. In the world markets, branded products are considered to be superior. Branded products offer a higher leverage to their manufacturers as they generate premium thus yield more profits as compared to non-branded products.

In literature, the term "Brand" is defined by several authors in different words. But they all have consensus with reference to the thought that identification and differentiation of products and services of one firm from the others are the major functions of branding. Dictionary of Business and Management defined brand as, "a name, sign, or symbol used to identify items or services of the seller(s) and to differentiate them from goods of competitors" (Rosenberg, 1983, p, 70). Farquhar (1989) and Cobb-Walgren, Ruble and Donthu (1995) differentiated a product from a brand by stating that the product refers to something which provides some functional utilities whereas the brand refers to a name, term, sign, symbol or logo for the identification of a particular product.

So far as product branding is concerned, many commonly agreed definitions are available in the literature (Aaker, 1992). Brand is considered to be a product or service which according to customer's perception possesses distinguishing features irrespective of price and practical outcome. It can also be defined as a symbol which differentiates the products and services of one firm from the other (Kapferer, 1997). Researchers have developed a general consensus about branding which is definitely more than just naming a specific product; it incorporates a complete package of physical and socio-psychological characteristics and concepts. Because of being an intangible asset and possessing individualistic attributes different people respond to brands quite differently in their own ways (de Chernatony, 1999).

The evolutionary development in the product branding is witnessed to have been characterized by constant and consistent process of value addition around the very basic usability of the product or service in order to establish and uphold the individuality in a specific market. Significant features of product branding comprise of brand image (Keller, 1993) brand identity (Kapferer, 1997) and brand positioning (Ries & Trout, 1982). Recently services branding has also been recognized as an important addition in this academic debate encompassing branding, as emphasized by McDonald, de Chernatony and Harris (2001). Services branding is considered to be different from the product branding as the focus is more on development of brand by constituting and strengthening the intangible and behavioral aspects of a firm's offering/s rather than physical attributes of firm's product/s (Berry, 2000).

However, in contemporary literature, there is greater emphasis on the concept of corporate branding. In terms of significance, corporate branding is placed over and above the notions of product or service branding. Several studies in the literature suggest that corporate branding seems to differ altogether from product and services branding (Balmer, 2001; Gylling & Lindberg-Repo, 2006). Corporate Branding refers to establishment of image and identity for the firm as an entity. Firm's pursuing corporate branding strategy markets their products and services using the name/identity of the firm. Corporate branding has been regarded as quite relevant and beneficial branding strategy for SMEs that are usually resource constrained and cannot afford launching multiple brands (Krake, 2005).

Based on the aforementioned discussion, we can define branding as the process of building, managing and nurturing brands in order to establish a distinct identity that can better place the firm in the minds of its stakeholders in comparison to firm's competitors. The importance of branding research has been largely acknowledged in the business literature, as it can lead the development of successful marketing strategy (Gladden & Funk, 2002; Keller, 1993 & 2003). The prime purpose of branding is identification of the products of one producer and to differentiate those from the competitors' products. A thriving brand is a distinctive product, service, personality, or place, presented in a way that the buyers imagine and visualize important and exclusive symbolic and functional utilities that are harmonious with their desires.

A vast majority of branding literature focused on branding processes and practices in large corporations. The most prominent and well known authors in the field of

branding such as Aaker, Kapferer, Keller and Kotler have focused on branding phenomenon in the context of large organizations. Branding in the context of SMEs has mainly been ignored.

Branding is a contemporary conceptualization in the context of SMEs according to Inskip (2004). Branding or brand management are the concepts which originated from the notion of product marketing that regarded branding as a strategy to create differentiation and prioritization in the perceptual maps of potential customers with reference to the products and services of a specific firm as enunciated by Knox and Bickerton (2003).

In the backdrop of SMEs the study of Gilmore *et al.* (1999) has been regarded as a noteworthy contribution concerning the area of branding and organizational identity and its reputation, as expressed by Abimbola and Vallaster (2007). With regard to SMEs, several new branding concepts such as corporate branding, brand orientation, brand identity and brand associations have been discussed during recent years. Since the originality and credibility of these ideas has not been established in most of the discussions so far, one common thought that emerged from these studies was that irrespective of the fact that almost 95 percent of entire business belong to SMEs; branding is still traditionally associated with larger companies thus lagging far behind in SMEs perspective (Krake 2005; Wong & Merrilees 2005; Berthon *et al.*, 2008).

However, the significance of branding for SMEs has been enunciated by Abimbola (2001), Opoku, Abratt, Bendixen and Pitt (2007) and Hirvonen and Laukkanen

(2011). Contemporarily, the researchers have recommended the crucial role of branding in SMEs sector, emphasizing that owners can become successful in building up strong brands provided they strictly follow an unconventional approach in this area (Hirvonen & Laukkanen, 2012). According to an argument by Berthon *et al.* (2008) even within the limited budget resources SMEs marketers can effectively maintain and control the complete potential of their brands. The focal point is how to exploit the most agreeable brand management system, practice and ideology to its fullest. So far as attention paid to brand management during day to day affairs of SMEs is concerned, Krake (2005) considered it as quite insufficient.

SMEs do not possess adequate financial resources due to which brand management is not prioritized in a manner to create strong brands (Opoku *et al.*, 2007). He further added that brands are the symbolic representation around which social actors build up their identities. Firms, suppliers, supplementary organizations, the public at large and specifically the customers are the most significant elements of this social group. In the perspective of SMEs sector, branding has turned up to be a critical issue as brands are an unconventional method to convey something about the organization which is not otherwise conveyed through every-day communication. Various reasons have been highlighted for holding brand management as extremely crucial for SMEs such as dismal firm performance and competitive environment (Mowle & Merrilees, 2005; Kollmann & Suckow, 2007).

As aforementioned, it is generally believed that SMEs lack required resources and market power to execute branding practices (Knight, 2000). It is also generally assumed

that as the SMEs face constraints with reference to time and money, they tend to have a psyche to survive rather expand and grow. It leads to the assumption that because SMEs are hunting for short term gains, they cannot afford to invest in practices which do not yield results in short span of time. Branding is one such activity which takes substantial time in contributing to firm performance. Thus, it is thought that branding is not the interest area for SMEs. However, Gilmore *et al.* (1999) argued that the smallness can be quite advantageous for SMEs as they can be more entrepreneurial, innovative and flexible; thus they are more suited to target the needs of specialized market segments.

In continuation of the scholastic debate pertaining to orientation and management of branding in large versus small organizations, the following section compares the various aspects of branding in large organizations and SMEs as studied and discussed in the literature.

2.8.1 A comparison of Branding practices in SMEs and Large Organizations

The scope of the branding research has been extensively broadened over a period of last thirty years; however it is surprising that the contextual focus of this research poses certain clashes and contradictions with the realistic scenario. Krake (2005) pointed out that the prime focus of the entire branding literature is on the large organizations irrespective of the fact that SMEs play a significantly essential financial and social foundational role in most of the eastern and western economies.

This research pattern also referred to as a biased tradition is further intensified by applying similar marketing principles to both small and large firms (Gabrielli and Balboni, 2010). However, recently emerging research on SMEs related marketing principles recommends that so far as branding issues are concerned, SMEs substantially differentiate from the larger organizations (Berthon *et al.*, 2008; Krake, 2005; Wong & Merrilees, 2005). According to an argument put forward by Gilmore, Carson and Grant (2001) marketing-based strategies in SMEs are considered to be generally casual, disorganized and loosely structured. While the marketing strategies of large companies as a contrast, turn out to be highly formal, very well planned and adequately structured (Reijonen & Laukkanen, 2010).

Furthermore, differentiation is not only seen to have been existed between SMEs and the large organizations, rather an intensified discrimination can also been tracked down to inter-SMEs as well (Reijonen & Laukkanen, 2010). Some firms are more oriented towards branding whereas the others have somewhat overlooked and ignored the importance of branding. Branding is indeed significant for every firm (Keller, 2003) hence, recommending that it does create a positive impact upon the performance of the firm in one way or the other.

Large organizations have managed to establish skillful strategies to launch their brands locally as well as internationally (Keller, 1999). While for SMEs, branding has never been prioritized as such. This concept has been viewed to involve just the logo, the respective product, the service or the technology of the firm (Inskip, 2004). Several

empirical as well as and conceptual papers have endeavored to highlight the pertinent elements and procedures in brand building and management of SMEs recently. Comparative analyses of SME's branding practices with the ones commonly found in large organizational models have been elaborated as follows.

According to the suggestion proposed by de Chernatony (2001), creative and imaginative management should be the core value of every brand building strategic move. Branding decisions are guided by strategies for brand identity which necessitates the consistency of market decisions over a period of time (Madhavaram, Badrinarayanan & McDonald, 2005). According to de Chernatony (2001) and Urde (2003) brand identity should be connected with all particular foundational values, complementary for organizational morals and culture.

In large corporations, there are specific teams of individuals who are responsible for developing marketing programs in order to build distinguished identity and enhance the level of awareness among customers with reference to firms' brands. However, the scenario of building brand identity in case of SMEs is somewhat different. In SMEs, Entrepreneurs are those imaginative individuals who become the pivotal point for brand building and identity establishment (Krake, 2005). Krake (2005) further emphasized upon the strong relationship between the entrepreneur's personality and the respective brand because he/she eventually becomes the symbolic representation of the brand.

Interestingly, according to Krake (2005) and Centeno, Hart and Dinnie (2013) SMEs branding has been considered to be associated with the overwhelming role of owner's decision making, starting from the development of brand identity to the organization level inspiration and commitment towards brand's overall performance. While Juntunen *et al.* (2010) contrarily described the involvement of multiple stake holders in the SMEs branding mechanism, consisting of family, friends and investors and financiers from the early stages of establishment of the business. Utilization of respective networks by SMEs for the enhancement of their marketing performance has also been considered as a strategic tool by Gilmore *et al.* (2001).

The results from SMEs based studies manifest the difference between branding approaches adopted by larger firms as compared to SMEs, where branding is not a highly organized process (Hirvonen & Laukkanen, 2012). This is further emphasized by Krake (2005) that while generally SMEs are concerned about their brand management, a large number of SMEs still consider it to be an issue that is not worthy of high priority. So, the development of an effective and powerful brand and professional maintenance of its performance have not been prioritized by SMEs as yet (Krake, 2005; Horan *et al.*, 2011).

According to the results shown by Ojasalo *et al.* (2008) while conducting a study on Software Industry argued that SMEs branding cannot be regarded as systematic and its integration with other company functions is also quite weak and deficient. Centeno *et al.* (2013) characterized the concept of SMEs branding as a surrogate name of experimentation and trial and error. 'Survival mentality' is the core issue that SMEs

mostly rely upon (Berthon *et al.*, 2008), focusing entirely on their sales through products rather than building brands, in order to keep the business going (Krake, 2005).

In spite of the recognition of the significance of strong brands, for many SMEs the branding-related investment remains an issue to be handled in future (Wong & Merrilees, 2005; Ojasalo *et al.*, 2008; Horan *et al.*, 2011). The major reasons for SMEs to avoid and defer the issue of branding have been mentioned by Horan *et al.* (2011) as budget, time and knowledge restraints coupled with improper and insufficient managerial and technical expertise.

However, the previous researches have unanimous consensus on branding to be a pertinent and valuable strategic tool for SMEs, from their business point of view (Wong & Merrilees, 2005; Abimbola & Kocak, 2007; Berthon *et al.*, 2008). Branding can be considered as the best instrument for SMEs for the development of innovations, identification of prospective opportunities and elucidation of various business models according to Merrilees (2007).

In order to demarcate SMEs branding, multiple frameworks have been presented so far. According to Wong and Merrilees (2005), there are three branding models, known as minimalist, embryonic and integrated brand orientations respectively. These models represent the concept of a brand orientation ladder. As SMEs moves further on the next step of the ladder, according to this model, from minimalist to embryonic and then to integrated brand orientation, simultaneously their brand performance advances as well.

Respective movement from one step of this ladder to the next one is characterized by long term approach to branding, a stronger role of the brand as strategic marketing tool, higher branding-related investments and increased level of awareness about brands being crucial elements of a successful business. Nonetheless, resource limitations may prove to become brand barriers potentially hampering the development of SMEs brand orientation (Wong & Merrilees, 2005).

Krake's (2005) 'funnel' model also seems to be very interesting where he classifies three significant factors contributing in SMEs brand management, as the influences of the entrepreneur, of the company structure and that of the market. An important observation about the influence of the market is that SMEs undertake their brand-related strategic policies keeping their external environment in mind and such dependency on market environment is due to their relatively smaller size.

This 'funnel' model by Krake (2005) complements the model by Wong and Merrilees (2005) by combining the internal factors also termed as brand barriers with the external or contextual factors (market environment), influencing the SMEs performance and progress on the brand orientation ladder.

The realization of SMEs' strategic moves into practical business performance is definitely affected by resource limitations. According to Wong and Merrilees (2005), in order to establish a strong brand, the prioritization of branding as a central business

approach is undoubtedly significant, however it is the perception of brand management that must be implemented to its core.

It is extremely tough for resource constrained firms be brand oriented and to invest in brand building processes because branding always remains out of their budgetary limits. Because of these restrictions, small firms are compelled to compromise on short-term business plans where branding is almost ignored and overlooked (Wong & Merrilees, 2005; Ojasalo *et al.*, 2008; Horan *et al.*, 2011). Ojasalo *et al.* (2008) suggested that small firms should be encouraged to develop original, focused and reasonable branding methods capable of coping up with their budget limitations quite effectively. Berthon *et al.* (2008) takes up the similar approach by saying that there are prospects for SMEs marketers to maintain and explore the true potential of their brands even within the limited available resources. Thus, even the budget restrictions do not hinder the possibility of building a strong brand; however, it preconditions the acquisition of most updated branding knowledge that can uplift an SME's capability for expansion, selection and introductions of those branding practices that ultimately ensure the best performance results.

The significance of up to date branding knowledge is a prerequisite for achieving sustainable competitive advantage. Competitive advantage has been classified to have two sources according to Day (1994), which are capabilities and assets. Capabilities can be regarded as an intricate web of skills and knowledge, upon which the assets of a firm greatly depend, thus declaring them as resources of greater concentration. It becomes

obvious that realistic implementation of branding practices becomes more effective in case of the firms possessing higher branding knowledge as compared to firms potentially lacking in such knowledge. Firms that possess higher knowledge about branding can successfully develop unique and powerful identities for their brands.

Establishment of brand identity is of great significance as it serves as a foundation stone for high brand equity. As Aaker (1996) and Keller (2003) emphasized that in order to create brand equity the initial step is to create brand identity which is ultimately acquired through an exceptional package of associations that every firm desires to create or uphold. High brand equity is perceived as value of the product being enhanced after its association with a particular brand name and the meanings attached thereby (Kapferer, 1997; Keller, 2003). Sources for brand equity include customers' knowledge of the brand and their powerful, positive and unique associations with the brand.

As brand associations are potentially capable of controlling customer choices, preference, purchase intentions and also the acceptance of brand extensions, their relative significance has been highlighted through various studies (Park & Srinivasan, 1994; Yoo, Donthu & Lee, 2000). These associations have been categorized into two main groups depending upon their direct relationship with the customer's need. There can be functional associations (concerning consumption related issues) and symbolic associations (regarding consumer's need for self-enhancement, group affiliations, etc) (de Chernatony, Harris & Dall'Olmo Riley, 2000).

It is argued that with regard to differentiation, symbolic associations carry more potential than the functional values (de Chernatony *et al.*, 2000). Moreover, it is not only the direct associations of the brand that the customers can draw their beliefs from, rather it is the secondary associations as well which include brand's original country, reputation of the firm, personality of spokespersons or the arranged events, provided these associations are supported by the brand (Keller, 1993).

With respect to the brand building in SMEs, the success of the firm's brands is also regarded to have been based on pertinent associations. Moreover, these associations must not necessarily be reflective of the consumer's need as it has been in the case of large organizations; rather they are the personified embodiment of entrepreneur's character. It has also been noticed that entrepreneurs, being the actual translators of their firms' brand identity, must reflect strong level of interconnectedness between their personal character and their relative brand associations. Resultantly, entrepreneurs have to develop their images exactly at the same extent and patterns of CEOs of large organizations. In this regard both symbolic and functional values can be made use of along with their mutual interdependence, as has been the case in the large organizations (Mowle & Merrilees, 2005).

It is also recommended that only one or two product features must be selected by SMEs to develop the brand's central associations (Krake, 2005). So in SMEs we find close inter-linkages between these associations and firm's personality primarily reflective of entrepreneur's personality, rather than associations being designed to cater the

underlying needs and demands of their customers as have been practiced in large organizations. The actual value of brand equity can only be assessed when it has already been measured. Multiple customer-based and accounting-based methods have been introduced to undertake such evaluations in large organizations.

In case of SMEs this practice cannot be properly employed as their internal systems are quite uncompetitive and less organized. According to Krake (2005) observations, SMEs do not possess any potential criteria for evaluating a brand's recognition thus rendering their comparative analysis with each other absolutely out of scope. Whereas, Berthon *et al.* (2008) pointed out that the distinguishing feature between the brand management of SMEs and large organizations is the measurement of the effectiveness of their past actions. The assessment of their brand strategies might have become a problematic issue for several SMEs.

Another difference in branding orientation and practices between SMEs and large firms lies in their approach towards launching number of brands. Due to increased levels of foreign competition, SMEs also have to seek opportunities in international markets. It has been evidenced that a huge number of SMEs are heading towards international markets right after their establishment exactly following the strategic moves of large organizations in diversified fields (Oviatt & McDougall, 1994; Jones, 1999; Torres & Julien, 2005).

With respect to the administration of brand management practices, it must be remembered that SMEs in fact belong to a diversified group strongly manipulated by their immediate environment and other close communities (Krake, 2005). Therefore, SMEs require integrated brand management practices that can lead to enhanced performance (Berthon *et al.*, 2008) and may also assist in expanding the business operations beyond national boundaries. While determining branding strategies, it is imperative to keep in consideration the nature of existing and potential customers. In case of foreign customers the perspective of branding is quite differentiated as compared to local customers (Gabrielsson, 2005).

According to Krake (2005), SMEs generally concentrate upon establishing just one or two brands instead of going beyond their limited resources, contrary to the large organizations where they have to expand their visibility and accessibility in order to cater for huge number of customers. He further noted that in most of the SMEs, their brands' names generally do not become part of their company names. Internationally applied strategies like corporate branding, co-branding and mutual cooperation and ventures with other businesses are not commonly practiced in the SMEs. Krake (2005) also suggested SMEs that where the brand has established sufficient equity, it must be represented by the company name as well.

However, a number of SMEs do not adopt corporate or multiple branding, rather they focus on novelty in their products when they enter in foreign markets. According to Knight (1997) SMEs dealing in international markets usually fall short of required

resources in order to pursue branding processes intensively, thus they primarily indulge in product innovation in order to distinguish themselves from the competitors.

In Contrast, large multinational organizations might have the experience of launching various brands in a single market. The central aspect upon which the managers do emphasize while developing their potential brand portfolio for the maximization of market coverage and minimization of brand overlapping is mainly the strength of their strategic branding practices regarding nature and number of brands marketed (Keller, 2008).

Some of the several strategies adopted by large organizations during their procedures of going international include: promotion of already established local brands, utilization of global concepts and localized adaptations, creation of new brands, purchasing of local brands and internationalizing them or building up of brand extensions. The brand portfolio of the organization would be evaluated by its capability to maximize brand equity, no matter whatsoever strategy is employed. Hence, the secret of successful international branding lies with a scientifically operationalized brand strategy that manages to maintain its global image in terms of both content and consumer recognition (Spence & Essoussi, 2010). Another perspective of this internationally successful branding is the utilization of different brands through coordinating them at an international forum in order to minimize the clashes between their images and positioning.

Large organizations have been strategically focusing upon enhancement of their corporate image because of the fact that corporate brand/image has become increasingly significant in the present era as a resource to be exploited in acquiring sustainable competitive advantage (Kowalczyk & Pawlish, 2002). In certain circumstances companies have to change their names in order to redefine their images. In the wake of ever-expanding scenario of global business and global corporate mergers and alliances, it becomes fundamental for large organizations to carefully consider their corporate images when designing their branding strategies. Certainly same is not the case with the SMEs.

Moreover, a few researchers have highlighted the role of organizational structure in implementing and promoting branding practices. According to de Chernatony (2001) the large organizations carry a team-based approach over a time period of ten years that includes the senior team, staff and external constituencies, so far as their brand building strategies are concerned. It must involve a holistic and intermingling continuous process introducing various linkages between the different parts of the organization by practically implementing its core values (Urde, 2003).

Branding is commonly perceived as an outcome of multiple functions like marketing, management and corporate communications coordinated and conducted by high-ranked professionals. According to an argument put forward by de Chernatony (2001) the culture of an organization is extremely crucial for the brand building process because of its contributory role in brands practical and emotional values. In case of large

organizations, it is recommended that they must incorporate a holistic approach in their brand management practices.

Abimbola and Vallaster (2007) opined that SMEs have a definite edge over larger firms as they possess more agile organizational structures and processes that are well integrated in branding processes. They got support from Abimbola and Kocak (2007) who confirmed that undeniably, SMEs are highly integrative as their branding processes are shared more intensively among different work groups and networks within and outside the organization as compared to large organizations. Contrarily, a few studies reveal that brand building and brand image and reputation is chiefly managed either by the entrepreneur or by a small team of managers (Krake, 2005; Ojasalo *et al.*, 2008). The rationale behind this fact is that usually the entrepreneurs are the flesh and blood of the SMEs; thus, the culture and identity of small firms is mainly influenced by the personality traits of the entrepreneurs (Rode & Vallaster, 2005).

It is quite evident from the past studies that consistent and coherent communications between firm and brand values are vital in the context of SMEs as well as large organizations (Krake, 2005; Keller, 1993; Madhavaram *et al.*, 2005). According to Yip (1997) large organizations have a tendency to standardize their branding strategies which results in standardizing the overall marketing programs. He further added that in case of large firms, the competition is more on brands rather than the products. The success of branding mainly relies on effective integrated communications and positioning strategies. Effective positioning is vital in order to generate brand awareness and develop

a favorable brand image which can lead towards enhancement of customers' knowledge about brands of a particular firm (Keller, 1993).

In addition, marketing communications and positioning play their part in integrating firm's brand identities such as products, pricing, promotion and logistics decisions into holistic marketing programs. According to Madhavaram *et al.* (2005) firms pursuing branding oriented culture are well suited and in a better position to integrate their communications programs.

However, in the perspective of SMEs, the product is regarded as central core of the brand. Wong and Merrilees (2005, p. 157) talked about brand "distinctiveness" and posited that this can be achieved through the development of "distinctive products/services or any other marketing activities (such as distribution)".

In addition, there are other creative marketing strategies that enhance brand image and awareness and ultimately add value to firm's brands. In the words of Gilmore *et al.* (1999, p. 29) "Added value can be achieved through one or a number of activities, including product, packaging, delivery/distribution, sales, advertising and customer service".

Furthermore, optimally designed, well organized and efficiently managed branding processes in SMEs rely on strong corporate and product associations established by the firm itself or with the support of supply chain partners; and finding low cost

marketing and communication programs (Krake, 2005). He further added that because of the heterogeneous nature of SMEs and the specificity of their clients, SMEs must vigilantly decide whether to develop a single corporate brand or pursue multiple branding with reference to different products and customers.

The following section explicates the various issues of branding in SMEs as studied and discussed in the literature.

2.8.2. Branding Issues in SMEs

Abimbola (2001) can be regarded as a pioneer in the field of SMEs Branding who challenged the beliefs and thoughts about the inability of SMEs to pursue branding practices. She illustrated that the world renowned large corporations like Microsoft, Dell and Starbucks started as small businesses that developed and nurtured their brands to become the corporate giants of today. In her conceptual paper, she stressed the need for branding in SMEs as a driver of innovation, source of competitive advantage and ultimately the major factor contributing to higher Performance of SMEs. She proposed the branding strategies that could contribute to effective and successful brand management in SMEs.

Abimbola (2001) proposed that SMEs should focus on building corporate brands or one or two strong brands rather than multiple brands. Corporate branding can be defined as "a systematically planned and implemented process of creating and maintaining a favorable image and consequently a favorable reputation for the company as a whole by sending signals to all stakeholders and by managing behavior,

communication, and symbolism” (Einwiller & Will, 2002, p. 101). Focus on corporate branding in SMEs was further stressed upon by Krake (2005) and Witt & Rode (2005). In addition to corporate branding, Abimbola (2001) suggested the SMEs to design creative marketing programs including communication, media and packaging in order to strengthen the market position and facilitate the future extensions of their brands. Her suggestion was in line with that of Murphy (1992) who suggested the use of unique marketing program in his famous work on branding as a key marketing tool.

Similarly, Abimbola (2001) also recommended the use of simple, easy to speak and easy to recall brand names along with well integrated brand elements such as symbols, logos, slogans and trademarks in order to enhance brand awareness and image in the minds of its stake holders. This recommendation was in consistency with Aaker (1991) and Murphy (1992). Simple and memorable brand names increase brand familiarity and help the potential customers to recall them at the time of decision making.

Furthering her suggestions for SMEs, Abimbola (2001) added that the focus of SMEs should be low cost and specific promotional tools bearing in mind their specific audience in contrary to large target audience of large corporations. She stressed on the use of networking, word of mouth, in house publications, trade shows and event sponsorships to strengthen the branding efforts. Lastly, she emphasized the significance of leveraging the secondary brand associations for SMEs brands. Secondary brand associations refer to linking the company brands with famous spokes persons, celebrities, events to create strong unique and favorable brand associations (Aaker, 1991; Keller, 1998).

Supporting the views of Aaker (1991) and Keller (1998), Brown and Dacin (1997) and Berens, van Riel and van Bruggen (2005) found in their study that corporate brand associations can contribute to the success of firms by generating positive responses of customers towards the brands/products of firms with strong corporate associations. Aaker (1996) also regarded corporate brand associations as source of competitive advantage.

Besides, the dimensions discussed above, Brand Orientation has received great attention in the literature pertaining to Branding in SMEs. It is a relatively newer and contemporary concept with reference to its application in the context of SMEs. This concept remained in oblivion, far beyond the research limelight for quite a several years after it was first introduced by Urde (1994).

However, recently various researchers and academics have directed their concentration towards this particular ideology (Urde, Baumgarth & Merrilees, 2013; Hirvonen & Laukkanen, 2012; Hirvonen & Laukkanen, 2011; Baumgarth, 2010; Laukkanen, Tuominen & Reijonen, 2010; Tuominen, Laukkanen & Reijonen, 2009; Wong & Merrilees, 2008). Not only the number of studies has been increasing, various definitions have also managed to evolve over a period of time.

Urde (1999) attempted to build up an interrelationship between brand orientation and brand identity. Bridson and Evans (2004) defined it as an organization's focus and emphasis on its commitment towards branding; determining the extent to which it values building, nurturing, sustaining and thriving its brands. According to Wong and Merrilees

(2008) brand orientation is a firm's way of thinking which directs its efforts towards development of brands and introducing them into the markets it operates in.

Contemporary studies claim that brand orientation is positively linked with brand performance ultimately yielding higher performance of the firm as a whole (Baumgarth, 2010; Wong and Merrilees, 2008). Brand performance is essential for firm's business outcome (Keller, 1993; Lassar, Mittal & Sharma, 1995). Undoubtedly, brand performance leads to superior firm performance; however, it demands an optimal level of execution of branding ideology in day to day business operations of the firm (Wong and Merrilees, 2005). The prime task of the firms oriented towards branding is development of brand image and identity (Reid, Luxton & Mavondo, 2005; Urde, 1999).

According to de Chernatony (1999) and Keller (2003) brand vision and values must be at the heart of brand identity development process. Brand values serve as a bridge between customers and the firm (Urde, 2003). Intangible elements of brands such as symbols, characters, trademarks and logos contribute a great deal in promoting brand identity as they are regarded as among the key sources of integrated brand communications (Kapferer, 1997; de Chernatony, 1999).

Firms that are in continuous pursuit of achieving holistic branding orientation through integrated brand communications would be able to position a unique and differentiated image in the minds of their existing and potential customers (Urde, 1994).

Resultantly, such firms would succeed in yielding higher sales and profitability lead to firms' overall growth performance.

It is imperative that branding orientation must prevail throughout the organizational hierarchies if the firms desire to achieve the status of brand oriented firms. Each and every employ within the firm should be well versed with the strategies and anticipated outcomes of branding ideology adopted by the firm, according to Aurand, Gorchels and Bishop (2005).

If the brand message is pervasive and prevails coherently among the employees of the firm, they are in a better position to support the brand to live up to its potential and convert the brand promise into commercial success (Papasolomou & Vrontis, 2006). Aurand *et al.* (2005) argued that efforts to develop brand identity would remain fruitless if the employees are not fully aware of firm's branding ideology and are unable to provide the required support to build and uplift brand image through their skills and behaviors.

Past studies have claimed that orientation towards branding significantly enhances performance of SMEs. To illustrate a few examples, Bridson and Evans (2004), Napoli (2006), Wong and Merrilees (2007, 2008) Persson (2007, 2009), Baumgarth (2009, 2010), Gromark and Melin (2011) and Hirvonen and Laukkanen (2011, 12) revealed a positive linkage between brand orientation and firm performance.

Based on the highlighted significance of Branding in SMEs by Abimbola (2001), fellow researchers focused their interest towards branding practices in SMEs. However, most of them used a qualitative approach to address the issues of Branding in SMEs.

In SMEs context, a variety of ideas of branding have been discussed in the past. However, the conceptualization and detection of the background of such discussions has been quite weak. In general, branding was classified as an issue of large firms. Thus, branding lacked an SME perspective (Krake, 2005; Wong & Merrilees, 2005; Berthon *et al.*, 2008). Yet, this general thought could not discourage researchers to emphasize on the significance of branding for SMEs (Abimbola, 2001; Opoku *et al.*, 2007).

However, it needs to be remembered that entrepreneurs require a nontraditional perspective on branding to build a strong brand as they cannot imitate the branding strategies of large enterprises because of resource constraints (Boyle, 2003). Berthon *et al.* (2008) argued that SMEs can creatively exploit the full potential of their brands despite of limited budgets. The question worth pondering is that which branding practices are most suitable and appropriate for SMEs.

The literature has revealed that SMEs branding has borrowed numerous issues from the stream of traditional product branding. To illustrate further, Keller's brand report card developed by Keller (2000) has been tested in a study on SMEs by Berthon *et al.* (2008). Similarly, Opoku *et al.* (2007) employed brand personality dimensions presented by Aaker (1992). Furthermore, the significance of functional and symbolic values discussed by de Chernatony *et al.* (2000) was highlighted in the studies performed by (Krake, 2005; Kollmann & Suckow, 2007).

The branding issues represent a diverse range of perspectives on branding; ranging from brand management (Krake, 2005; Berthon *et al.*, 2008) to regarding branding as a competitive strategy for demand management (Abimbola, 2001), and brand affiliation as a mode of internationalization in SMEs (Yakhlef & Maubourguet, 2004). In addition, the general discussion in most of past studies was about brand management in established firms, but lately the significance of understanding of corporate branding issues before the establishment of firms was highlighted (Rode & Vallaster, 2005; Merrilees, 2007; Kollmann & Suckow, 2007).

Theoretical background of past studies varies from conventional product branding (Krake 2005; Mowle & Merrilees 2005; Opoku *et al.*, 2007) to franchise branding (Holverson & Revaz, 2006) and also ranges to criteria for selecting financial services by customers (Aish, Ennew & McKechnie, 2003). Although SMEs branding studies majorly emphasize product branding, it is noteworthy that corporate branding issue has frequently been incorporated in SMEs studies (Rode & Vallaster, 2005; Kollmann & Suckow, 2007; Merrilees, 2007).

Furthermore, as the previous studies have majorly focused on branding issues as their theoretical background, Merrilees (2007) employed an entrepreneurial branding viewpoint in his conceptual work to address the issues in brand-led SMEs using the case studies. Therefore, Merrilees (2007) truly incorporated an entrepreneurial perspective to study branding in SMEs. He highlighted the general issues of entrepreneurial research, such as innovativeness, creativeness and opportunity sensing capabilities, in his discussions.

2.8.3 Nature of Studies on Branding in SMEs

The literature has revealed that a diverse variety of methods have been employed to study and discuss the phenomenon of branding in SMEs. It is quite interesting that only one study was purely conceptual in nature (Abimbola 2001). The other conceptual work employed existing case studies to claim the validity of conceptual findings (Merrilees, 2007). Shortage of conceptual studies is one of the reasons why the term “SMEs branding” lacks a commonly accepted definition. In empirical studies there is an acute shortage of quantitative studies.

A few rare quantitative studies discussing the relationship between branding and firm performance were conducted by Berthon *et al.* (2008) and Hirvonen and Laukkanen (2011) who categorized high and low performing SMEs on the basis of differences in brand management practices. Majority of the studies are qualitative in nature (Abimbola, 2001; Inskip, 2004; Krake, 2005; Abimbola and Vallaster, 2007). In case of empirical studies data sources include both primary and secondary data. Most of the studies with primary data employed case study method. This indicates a relatively new status of the branding studies in the context of SMEs; case studies are frequently conducted when the phenomenon is new (Yin, 2003). Hence, evidently, analyses methods of quantitative studies also lag the contemporary techniques such as structural equation modeling and other multivariate analyses.

In general, target respondents of the previous studies represented founders, entrepreneurs, owners and managers of the firms. These are typical in entrepreneurship

literature where entrepreneurs, owners and/or managers are considered responsible for the firms' operations (Hill, 2001).

To conclude, the literature suggested that branding is not only an issue of large firms' but it also is almost equally important for SMEs. As SMEs differ in their marketing practices in contrast to large firms, similarly a unique set of branding strategies need to be employed by SMEs. Corporate branding, creative marketing programs, well designed and integrated brand elements and unique brand associations should be developed for effective brand management in SMEs. These dimensions can spur brand-led SMEs performance.

Thus, there is a lot of room for further research and learning as far as branding in SMEs is concerned. SMEs branding as an academic domain is still in its infancy. It is evident from the literature that ever since the work of Abimbola (2001) there are less than 30 scholarly research articles published in reputed journals that have studied branding issues in SMEs. It is an interesting and unsaturated research area with an abundant scope for further research.

Therefore this study intended to investigate the state of branding in SMEs employing the branding dimensions discussed above, and evaluate their impact on SMEs performance.

The following section discusses the significance of organizational learning capability in the light of literature.

2.9. Organizational Learning Capability

The conceptualization of organizational learning capability appears to emphasize on the significance of the determinant factors for organizational learning or the organizational tendency and orientation to learn (DiBella, Nevis & Gould, 1996; Goh & Richards, 1997; Hult & Ferrell, 1997; Jerez-Gomez, Cespedes-Lorente & Valle-Cabrera, 2005). Organizational learning generally referred to as an organization's explorative and exploitative ability to make an optimum use of knowledge that is available within as well as outside the organization in order to leverage organizational performance.

Due to ever changing, hyper competitive and dynamic environment it has become fundamental for the firms to remain updated with changes taking place in the surroundings of an environment (Pedler, Burgoyne & Boydell, 1997). Organizational learning capability has received substantial attention from the academia and practitioners alike. The following discussion entails the definitions, dimensions and significance of organizational learning capability in fostering innovation, branding and firm performance, as discussed in the literature.

2.9.1. Definitions of Organizational Learning Capability

The literature review has revealed wide range of definitions of organizational learning capability. According to Cyert and March (1963) and Hedberg (1981) learning refers to any change in the organization's operations that sustains or enhances

performance. According to Fiol and Lyles (1985) learning can be defined as “the process of improving actions through better knowledge and understanding” (p. 803). In general, organizational learning refers to acquiring, assimilating and disseminating internal and external knowledge to update firms’ knowledge about its surrounding environment and utilize that knowledge to enhance firm performance.

According to Huber (1991) if an organization or part of organization acquires some knowledge and information, and makes it available for use to others in the organization or itself, organizational learning has occurred. According to Argyris and Schon (1996) “The generic schema of organizational learning includes some informational content, a learning product; a learning process which consists in acquiring, processing and storing information; and a learner to whom learning process is attributed” (p. 3). Thus in an organizational context the learning process can be contributed to agents or employees of the firm who are responsible for gathering, sharing and utilizing the internal and external knowledge for the greater benefit of the firm.

Hence, it can be argued that as organizations refer to collection of individuals so organizations learn when their individuals learn. Such an assumption though seems logical, yet is highly philosophical because it has been observed that organizational learning takes place only when knowledge possessed by its individuals enters in the organizational systems. If the knowledge of individual remains limited to themselves, the organizational learning process suffers (Argyris & Schon, 1996).

Dibella *et al.* (1996) described Organizational learning as capability of the firm to keep up or enhance the level of firm performance based on knowledge and experience. It demands gathering of explicit and tacit knowledge, knowledge sharing and optimal utilization and integration of learning and new knowledge. Goh and Richards (1997, p. 577) defined organizational learning capability as “the organizational and managerial characteristics or factors that facilitate the organizational learning process or allow an organization to learn”.

Zander and Kogut (1995) and Teece *et al.* (1997) considered organizational learning capability as a set of tangible and intangible resources or abilities employed by the firm to attain and sustain new forms of competitive advantage. These set of resources and capabilities foster the organizational learning process. According to Teece (2007) organizational learning is considered as an integrative capability of the firm that explores and exploits the internal and external knowledge and integrates it with the stock resources of the firm in order to generate competitive advantage and achieve superior performance.

Based on the above mentioned definitions, this study adopts a comprehensive definition that considers organizational learning capability as firm’s ability to explore and exploit, explicit and tacit knowledge existing internal as well as external to the firm in order to leverage firm performance.

The following discussion entails the dimensions of organizational learning capability as discussed in the literature.

2.9.2. Dimensions of Organizational Learning Capability

Past studies have examined a variety of dimensions of organizational learning namely internally focused learning, relationally focused learning and market focused learning. Internally focused learning refers to firm's capability to gain knowledge through internal sources and to share and spread this knowledge for organizational change. Internally focused learning comprises of experimentation or learning through trial and error (Dixon, 1992; Huber, 1991). A frequently employed experimental learning process in manufacturing firms is in-house Research and Development (R&D) activity which is a prime source of gaining knowledge (MacPherson, 1992). According to Cohen and Levin (1989) industry characteristics such as the intensity of competition, demand, and technological opportunities can potentially influence internally focused learning.

In addition to internal learning firms can also learn through neighboring firms and networks. Rothwell (1989) and Dodgson (1990) studied the inter-firm networking and relational aspects of learning and signified the importance of linkages with other firms in the industry, research institutes such as scientific laboratories and universities in order to effectively respond to changing environment.

Past studies have emphasized on the salience of relational learning, networking and collaborative linkages with external institutes and skilled competitors in order to be more innovative and responsive to dynamic and competitive environments (Mody, 1993; Shan, 1990; Lee, Lee & Pennings, 2001). Furthermore, the significance of market

focused learning has been emphasized in the literature along with internal and relational learning. Market focused learning refers to gathering, sharing and utilizing the knowledge pertaining to market. Learning that incorporates changing customer demands or changes in competitors' business models in order to have updated information regarding latest developments in the market is considered as core competency that can serve as a base for competitive advantage (Sinkula, 1994).

Day (1994) asserted that market driven firms are best suited to respond to emerging market challenges. Similarly, it has been discussed that market focused firms can develop more innovative offerings keeping in view the customer demands and competitive developments thus they can pioneer the competitive advantage (Slater & Narver, 1995). Literature has regarded market focused learning as instrumental in supporting innovation and branding in the context of small as well as large firms (Weerawardena, 2003; Weerawardena *et al.*, 2006; O'cass & Weerawardena, 2010).

In addition to the above mentioned dimensions past studies have proposed a few other dimensions to study organizational learning capability. Pedler *et al.* (1997) proposed Interaction with external environment, Communication among Employees and Employees' involvement in decision making as important dimensions of organizational learning. Isaksen, Lauer, & Ekvall (1999) developed a situational outlook questionnaire intended to measure the firm's climate in order to bring change and innovation.

Based majorly on the work of Pedler *et al.* (1997) and Isaksen *et al.* (1999), Chiva, Alegre & Lapiedra (2007) developed an Organizational Learning Capability Scale to measure Organizational Learning Capability of SMEs in Spanish ceramic industry. In order to select most appropriate and widely recognized dimensions of organizational learning, Chiva *et al.* (2007) thoroughly reviewed the literature related to organizational learning and learning organizations. He proposed five dimensions of organizational learning capability namely Experimentation, Risk taking, Interaction with external environment, Dialogue and Participative decision making.

Experimentation refers to the extent to which novel ideas and opinions are encouraged and appreciated. Experimentation is quite frequently employed and widely recognized dimension in the literature of organizational learning (Hedberg, 1981; Nevis, DiBella, & Gould, 1995; Tannenbaum, 1997; Weick & Westley, 1996; Goh & Richards, 1997; Pedler *et al.*, 1997). Nevis *et al.* (1995) elaborated experimentation as employing novel ideas and techniques to solve problems of organizations. However, Weick and Westley (1996) argued that in the context of organizational learning, small experiments and incremental changes are more important rather than big experiments and radical changes.

Risk taking refers to tolerance for ambiguity, uncertainty and acceptance of error in a bid to be innovative and creative. Hedberg (1981) proposed a variety of tasks to support organizational learning, including designing the climate that encourage risk orientation and tolerance towards faulty attempts in a bid to do something new. Sitkin

(1996) emphasized the importance of failed attempts in order to break the status quo. According to Sitkin (1996) and Popper and Lipshitz (2000) failures promote organizational learning and ultimately lead towards success. Amabile, Conti, Coon, Lazenby and Herron (1996) stressed the importance of creativity led risk taking.

Interaction with the external environment is a dimension that is quite similar to relational and market focused learning as discussed earlier. A number of researchers have signified the importance of interacting with external actors (such as suppliers, customers, competitors, research institutes, universities and scientific laboratories) that can directly or indirectly influence organizational performance (Pedler *et al.*, 1997; Popper & Lipshitz, 2000; Bapuji & Crossan, 2004).

Dialogue is defined as “a sustained collective inquiry into the processes, assumptions, and certainties that make up everyday experience” (Isaacs, 1993, p. 25). Dialogue refers to sharing of information and open communication among various teams, departments and hierarchical levels. The image of organizational learning as a social construct entails the establishment of a mutually shared understanding, initiating from social relationships between individuals (Brown & Duguid, 1991). Nevis *et al.* (1995) considered learning as a function of the spontaneous everyday exchanges among individuals. They further added that interactions with people from other departments, working on different projects enhance collective learning. In the same manner, Goh and Richards (1997) advocated the importance of working in cross departmental and multifunctional teams in fostering the learning of all concerned.

Participative decision making refers to involvement of employees working at various hierarchical levels in organizational decision making process (Cotton, Vollrath, Foggat, Lengnick-Hall, & Jennings, 1988; Goh & Richards, 1997; Pedler *et al.*, 1997). Organizations practice participative decision making to be benefitted from the employees' motivation and sense of ownership that could contribute towards greater employee involvement, job satisfaction and organizational commitment (Scott-Ladd & Chan, 2004). He further added that employees' learning is enhanced as a result of exposure to quality of information and organization is also benefitted from diverse opinions as an outcome of participative decision making.

Thus, in this study the dimensions proposed by Chiva *et al.* (2007) were employed to measure Organizational learning capability of SMEs. The use of dimensions proposed by Chiva *et al.* (2007) is appropriate as his proposed dimensions are grounded in the literature and are widely recognized and well established measures of organizational learning capability.

The following discussion highlights the importance of organizational learning capability in terms of its contribution to lead the firms to innovation as elaborated in the previous studies.

2.9.3. Influence of Organizational Learning Capability on Innovation

According to Sinkula, Baker, and Noordewier (1997) considered firm's learning capabilities as catalytic, instrumental and preconditions for developing innovations. Empirical studies have extensively supported the influence of organizational learning

capability on innovation (Bueno *et al.*, 2010; Cohen & Levinthal, 1990; Glynn, 1996; Hurley & Hult, 1998; Ireland *et al.*, 2001; Mezas & Glynn, 1993). Previous studies have also indicated the linkages between various types of learning and innovation. MacPherson (1992) and Kim, Song and Lee (1993) have emphasized on the role of internal learning in research and development activities in order to promote innovation.

In addition to internal learning, past studies have highlighted the significant contribution of collaborative links and networking with other firms and research institutes to develop and foster innovations (Mody, 1993; Shan, 1990; Lee *et al.*, 2001). Furthermore, past studies have also signified the importance of market focused learning along with internal learning and relational learning.

Learning from market developments has emerged as a key source of innovation in the literature on the market led firm paradigm (Day, 1994; Slater & Narver, 1995; Weerawardena, 2003; Weerawardena *et al.*, 2006). Generally, the accent of the market-focused learning approach to innovation has been on customers' underlying needs (Prahalad and Hamel, 1990; Brown, 1991). As asserted by Prahalad and Hamel (1990) the vital task for management is to design an organizational system that possesses the capability of developing products offering higher levels of functional utility; however, an even greater contribution is to create products that customers require but have not even imagined.

In addition to discussing the linkage between various types of organizational learning capability and innovation, past studies have also established the relationship

between Organizational learning capability and various types (product innovations, process innovation, marketing innovations and managerial innovations) and degree (incremental and radical) of innovations (Weerawardena, 2003; Weerawardena *et al.*, 2006).

Thus it can be argued with confidence that in order to exploit the benefits of innovation, firms must have the capability to learn from and respond to internal (within firm) and external (outer environment) developments and challenges.

Past studies have also examined the importance of organizational learning capability with reference to branding in large as well as small businesses in addition to studying the relationship between organizational learning capability and innovation, as discussed below.

2.9.4. Influence of Organizational Learning Capability on Branding

The influence of organizational learning capability on Branding practices of small and large enterprises is grounded in the literature. According to Shocker, Srivastava and Ruekert (1994) the firms who quickly adapt and respond to market developments as a result of their learning about actors who shape market behavior are more likely to achieve brand led sustainable competitive advantage.

Prieto and Revilla (2006) found in his study conducted in 111 Spanish firms that learning capability enhances the organizational financial and non-financial performance. His findings with reference to positive relationship between learning capability and financial performance have been supported by numerous empirical studies (Bierley & Chakrabarti, 1996; Baker & Sinkula, 1999; Calantone *et al.* 2002; Ellinger, Ellinger, Yang & Howton, 2002; Tippins & Sohi, 2003).

However, finding of critical substance in the study conducted by Prieto and Revilla (2006) was in terms of positive relationship between learning capability and non financial performance which referred to satisfied employees, loyal customers, successful launch of new products and enhanced corporate reputation also termed as Corporate Brand Identity or Corporate Branding.

Weerawardena *et al.* (2006) conducted a study in SMEs in Australia and came up with the findings that organizational learning capability influences brand performance of a firm. O’Cass & Weerdawardena (2010) conducted a study in 1000 manufacturing firms in Australia. They argued that though, most of the emphasis is on macro perspective such as firm performance as a whole, it is critically important to study the micro perspective such as product performance specifically in terms of brands of a firm.

The importance of building strong brands is extensively recognized in the marketing literature (Aaker, 1991 & 1996, Perrier, 1997; Keller, 2001; Hoeffler & Keller, 2002). The chief advantage of branding is that it creates a distinguished reputation and identity for the firm. The literature investigating the linkage between learning capability and branding purported that organizations that pursue market oriented learning are more

likely to possess strong brands (O'Cass & Ngo, 2007). Results of another study performed by O'Cass & Weerdawardena (2010) confirmed that market led organizational learning capability is positively linked and significantly associated with firm's branding performance.

Therefore, on the basis of the above mentioned discussion it can be argued that in order to enhance branding performance or in order to gain the benefits of firm's branding, the firm must be backed and led by market focused organizational learning capability.

The subsequent discussion entails the relationship between organizational learning capability and firm performance.

2.9.5. Influence of Organizational Learning Capability on Firm Performance

Influence of organizational learning capability on firm performance is evident in the literature with reference to small as well as large firms. Wyer and Mason (1999) put forward that organizational learning is a strategic processes in small firms that effectively contributes towards firm development and performance. Chaston, Badger and Sadler-Smith (2001) also regarded the introduction of organizational learning in the SMEs as a significant proposition. Hence, organizational learning is considered as a mechanism for supporting SMEs survival, and higher-order performance by means of enhanced management competencies (Oyelaran-Oyeyinka & Lal, 2006).

Hurley and Hult, (1998) and Larsen, O'Driscoll and Humphries (1991) discussed that organizational learning capability establishes a platform for enhanced firm

performance through innovation. It was further supported by Garcia-Morales, Llorens-Montes and Verdu-Jover (2007) who found that organizational learning has a positive impact on firm performance directly as well as indirectly through innovation in large as well as small firms.

It has been observed that organizational learning assists in behavioral transformation that directs the firm towards superior performance (Fiol & Lyles, 1985; Senge, 1990). It has also been emphasized in the literature that development of new knowledge, derived from organizational learning, minimizes the probability that a firm's competencies will become obsolete, enabling the competencies to remain dynamic, resultantly, leading the firm towards higher performance (Argyris & Schon, 1996; Fiol and Lyles, 1985; Inkpen & Crossan, 1995; Ireland *et al.*, 2001; Senge, 1990).

It is interesting to note that along with the views promoting a positive connotation regarding organizational learning and organizational performance relationship (Argyris & Schon, 1996; Fiol & Lyles, 1985; Inkpen & Crossan, 1995; Ireland *et al.*, 2001; Senge, 1990), there exist contrasting and contradicting thoughts regarding the learning-performance linkage.

Some studies have argued that learning may not always improve organization's results, therefore the claims promoting an increase in organizational learning leading to enhanced firm performance are misleading and erroneous (Hoopes & Postrel, 1999; Tsang, 1997). However, in general understanding, organizational learning positively

influences firm performance (Argyris & Schon, 1996; Decarolis & Deeds, 1999; Senge, 1990). Firms that demonstrate in-depth learning from variety of sources and more importantly learn faster than competitors achieve and sustain superior performance benchmarks (Hurley & Hult, 1998).

2.9.6. Rationale for Organizational Learning Capability as Moderator

The scholastic debate with regards to innovation-performance relationship has yielded contradictory results and mixed findings. Some empirical studies reveal that there is no influence of innovation on firm performance (Birley & Westhead, 1990; Heunks, 1998) or report that innovation negatively affects firm performance (McGee *et al.*, 1995; Vermeulen, de Jong & O'Shaughnessy, 2005).

On the other hand, there are substantial empirical evidences that support positive relationship between innovation and firm performance (DeCarolis & Deeds, 1999; Li & Atuahene-Gima, 2001, 2002; & Guo, Lev & Zhou, 2005). Therefore, the literature review of the innovation–performance research portrays the evidence as mixed, contradictory and inconclusive (Li & Atuahene-Gima, 2001).

These inconsistent findings hold true for both large as well as small firms. However, it is quite important to determine the impact of innovation on the success of entrepreneurial ventures or small businesses. The emerging and promising domain of entrepreneurship needs to critically inspect the elementary pillars it is built on. If

innovation does not really add value to the entrepreneurial businesses, queries are raised about its status, scope and significance in the literature pertaining to small businesses.

As aforementioned, due to the inconsistencies and mixed findings, previous studies assert that the relationship between innovation and performance should be moderated (Covin & Slevin, 1989; Li & Atuahene-Gima, 2001; Thornhill, 2006). Past studies indicate that a number of factors can moderate and facilitate the innovation-performance linkage. Potential moderators comprise of firm and firm-environment specific factors. Some researchers emphasized the importance of firm's learning capability and external collaborations such as learning and sharing resources from business partners to facilitate innovation-performance relationship in SMEs (Weerawardena *et al.*, 2006; Rosenbusch *et al.*, 2011) thus indicating firm's learning capability as a potential moderator.

Similarly there are inconsistent and contradictory results with reference to relationship between branding and firm performance. Berthon *et al.* (2008) and Hirvonen and Laukkanen (2011, 2012) found positive relationship, whereas Koh *et al.* (2009) found no significant relationship between branding and firm performance.

It has been found in previous studies that organizational learning capability can strongly affect innovation (Ireland *et al.*, 2001; Weerawardena *et al.*, 2006; Bueno *et al.*, 2010) and branding practices of a firm (Weerawardena *et al.*, 2006; Prieto & Revilla, 2006; O'cass & Weerawardena, 2010). However, the past studies have overlooked to

examine the moderating effect of Organizational learning Capability on Innovation, Branding and Performance Relationship. This study intended to address this gap by examining the moderating effect of organizational learning capability on innovation and branding practices in SMEs.

To conclude, the major goal of organizational learning is to alter and transform firm attitude and behavior in order to augment performance in terms of productivity and competitiveness, permitting the firm to achieve sales growth; attract, sustain and broaden its customer base. Furthermore, fast learning organizations boost their strategic competence, leading them towards securing and sustaining competitive advantage. Such attitudinal, behavioral and strategic outcomes organizational learning will direct organizations towards superior long-term performance (Guns, 1996; Senge, 1990).

Thus, the aforementioned discussion with reference to linkages between Organizational Learning Capability and Innovation, Branding and Firm performance has set up a base for the study to examine the moderating effects of organizational learning capability on the relationship between Innovation, Branding and Performance in SMEs.

As the literature has revealed the inconsistent relationship between organizational learning capability and firm performance; and strong relationship between organizational learning capability and predictor variables (innovation and branding); hence organizational learning capability satisfies the criteria for selection as a moderator (Baron & Kenny, 1986). Therefore this study has examined the moderating effects of

organizational learning capability on the relationship between innovation, SMEs branding and SMEs performance.

The next section comprises the detailed discussion on underlying theories that guide this study.

2.10. Underlying Theories of the study

This section discusses the various underlying theories that guide this study. These theories include Resource Based View (RBV) as a theoretical background of Branding. In addition, the study uses Dynamic Capabilities Perspective as theoretical background of Innovation and Organizational Learning Capability as they are regarded as integrative capabilities of the firms. Furthermore, the theory of Growth of the firm is employed as a theoretical background of SMEs Performance. Aforementioned theoretical perspectives are discussed as under.

2.10.1. Resource Based View

Resource-based theory becomes an important part in the management literature as it focuses on set of rare, valuable and inimitable resources which enable the firms to achieve and sustain superior performance through competitive advantage. The present study used resource based theory to discuss branding as a valued resource influencing the performance of SMEs.

Several authors have articulated the basic assumptions and propositions of this theory concerning the relationship between firm resources and performance (Wernerfelt, 1984; Rumelt, 1984; Barney, 1991; Barney, Wright & Ketchen, 2001). Wernerfelt (1984) regards critical resources as highly instrumental in gaining differential advantage and higher firm performance.

The resource based view (RBV) posited that the unique resources of a firm generate competitive advantages (Wernerfelt, 1984; Barney, 1991; Peteraf, 1993). As the resource based view emphasized on firms' distinct bundle of resources, of the firm focuses on a firm's unique set of resources, it is crucial for growth and survival of small firms to identify those critical resources. The RBV of the firm presents a framework for small firms to strategize based on those critical resources that can enable the firm to gain sustainable competitive advantage.

However, little efforts have been made to unveil those resources which are possessed and employed by small firms to gain and sustain competitive advantage leading towards superior performance. It is argued that small firms may be able to survive and perform with inferior resources when the environment is favorable and less competitive. But in hostile and hypercompetitive environment, firms must possess superior resources (Covin & Slevin, 1989).

It is imperative for the firms to sustain those gains which they yield from their superior resources. According to Barney (1991) such resources include managerial skills, organizational processes, information and knowledge.

He further added that there are four key attributes that a resource must possess in order to generate a sustainable competitive advantage; a resource must be: valuable (worth something), rare (unique), imperfectly mobile (cannot be easily sold or traded), and non-substitutable (is not easily copied).

Fiol (2001) argued that an organization's identity can serve as a source of competitive advantage. Brand identity or image has been viewed as a resource in the literature (Barney, 1991; Peteraf, 1993; Runyan & Huddleston, 2006).

Brands do meet the criteria mentioned by Barney (1991). They are highly valuable; a strong brand name is worth millions of dollars. Brands are unique and cannot be easily imitated. Brands are also frequently used as examples of imperfectly mobile resources (Wernerfelt, 1984; Peteraf, 1993). They can be traded, but are mobile only to the extent that they provide equal value to the new owner.

The message that brands convey to its stakeholders is referred to as positioning, and is mostly conveyed through slogans or symbols, designed to communicate and reinforce a distinct position not only in the marketplace but in the perceptual maps of stakeholders (McDaniel & Gates, 2001). A positioning statement helps in distinguishing

firm's offerings from competitors' offerings. It also communicates to its customers and other stakeholders how the firm desires to be seen or perceived.

Thus, branding is an organizational process of effectively utilizing its resources (brands) to build a differentiated firm identity and image that can yield competitive gains which can further be translated in to higher firm performance.

2.10.2. Dynamic Capabilities Perspective

Teece *et al.* (1997) extended resource based view by formulating dynamic capabilities perspective which gives importance to those organizational processes which employ organizational resources. Thus, dynamic capabilities perspective asserted that what really matters is how efficiently and effectively the critical resources are employed by the various processes taking place at different levels within the firm in order to manage innovation.

Innovation is a firm's capability to develop new value propositions by introducing new products and services, embracing new operating practices, technologies, organizational routines, and market-oriented skills and competencies (Miles & Snow 1978; Schumpeter 1934). Innovation is both content related as well as process related. Content wise, a firm can introduce new market offerings. Process wise, a firm can develop novel ways of conducting business, such as, a new operational procedure in quality control, new work flow design, and achieving new competencies in identifying

and attracting valuable customers. The definitive objective of innovation is the creation and delivery of customer value in the form of new products and services.

Teece (2009) discussed the Theory of dynamic capabilities and its role in organizing and managing Innovation processes. It states that rare and valuable, non-substitutable and inimitable resources significantly contribute towards creating a platform for continuous innovation process. However, mere accumulation of valuable resources is not sufficient to spur a sustainable competitive advantage (Teece *et al.*, 1997), rather, competitive gains are yielded when firms' redeploy, reconfigure, rejuvenate, and renew its resources and capabilities in responding to the changing environmental conditions.

Teece and Pisano (1994, p. 541) put forward dynamic capabilities theory as the "subset of the competences/capabilities which allow the firm to create new products and processes and respond to changing market circumstance." Consequently, competitive advantages depend largely on distinct processes, shaped by the firm's resources, capabilities and the evolutionary paths followed. Dynamic capabilities necessitate the firm's capacity to milk the economic benefits from extant resources and capabilities to develop new capabilities.

In accordance with the dynamic capability perspective, firms' resource stocks need to be differentiated from firms' integrative capabilities. Resource stocks refer to resources that are firm specific and can yield economic gains and competitive advantages. Integrative capabilities refer to firm's capacity to configure and reconfigure a

firm's resource stock and deploy and redeploy it to grasp and exploit dynamic market opportunities. It requires scanning of external environment and sensing business opportunities, recognizing the potential and limitations of internal resource stock and alignment of those resources with existing opportunities. This concept is in accordance with the essence of the dynamic capability perspective put forward by Teece *et al.*, (1997) and Teece (2007).

Firm innovation is therefore, determined by both resource stocks and integrative capabilities. Resource stocks do not automatically transform into innovation or innovative practices. Instead, they are dependent on the presence and magnitude of the firm's integrative capabilities. This stands quite true in case of entrepreneurial firms where creative leveraging of firm resources is more critical than merely possessing certain resource stocks. In order to understand innovation further from an entrepreneurial perspective, it is essential to view Schumpeterian perspective as follows.

Dynamic Capabilities theory is deep rooted and grounded in Schumpeterian perspective. Schumpeter (1934) in his famous work "Economic theory of development" emphasized on innovation as the key for creating new demand for goods and services. To Schumpeter (1934), an entrepreneur was a person who destroyed existing economic order by introducing new products and services, by creating new forms of organization, or by exploiting new raw materials. In the context of SMEs, innovation refers to seeking novel ways of doing business, looking for introduction of differentiated products in order to grasp the marketing and economic benefits such as higher profits, market share and sustainable competitive advantage (Schumpeter, 1934). Thus entrepreneurs, through

exploiting innovations, destroyed the structure of existing markets and caused established firms with older products or services to decline. An important aspect of Schumpeter's theory was that innovations create new demand and entrepreneurs bring these innovations which in turn lead towards higher productivity and performance.

In the light of dynamic capability and Schumpeterian perspective, it is appropriate to say that in this fast paced age of globalization and hyper competition, innovation is the way forward for the entrepreneurs who want their businesses not only to survive but also to exhibit sustained growth.

In addition to Innovation, Organizational learning capability is also regarded as a dynamic capability of the firm in order to sense, create and seize market opportunities by acquiring, sharing and utilizing the knowledge existing in the eco system of an organization (Teece, 2007).

The entrepreneurial literature has revealed that creation and discovery of opportunities originate from the cognitive and creative capabilities individuals. However, the same can be said about organizations that effectively utilize the capabilities of their individuals/employees. However, the ability of creating and sensing opportunities is not evenly distributed among individuals and organizations. The ability to discover and exploit opportunities depends both on the individuals' capacities and knowledge as well as the knowledge and learning capability of the organization to for which the individuals work.

Teece (2010) highlighted the significance of learning by stating that the organizations that are fast learners are better placed to introduce and run successful business models. Organizational learning involves scanning and monitoring internal and external developments and sensing and responding to stakeholders' needs, both explicit and implicit. Teece (2007) argued that a few individuals in the organization may possess the required cognitive and creative capabilities, however the more appropriate approach is to embed explorative, interpretative, and exploitative processes inside the organization itself. He warned that the organizations would be vulnerable if the explorative and exploitative learning functions are left to only the cognitive abilities of a few individuals.

Organizational processes must be designed to acquire new technical information, be aware of developments in exogenous environment, examine customer wants, keep an eye on competitor activity, and explore and exploit new products and processes opportunities. Information however, must be filtered, and shared among those who have the capacity to make use of it. If organizations fail to involve in such activities, they would not be able to gather timely and valuable knowledge about market and technological developments. As a result, they would most likely lose the opportunities visible to others. As observed in Teece *et al.* (1997), more decentralized organizations are less likely to be blind sighted by market and technological developments.

He further added that gathering information is not enough; more important is to update the information frequently because information decays quickly. Once gathered, information should be disseminated among all concerned hierarchy levels. Bill Hewlett

and David Packard developed ‘management by walking about’ (Packard, 1995) as a mechanism to prevent top management at Hewlett Packard from becoming isolated from what was happening at lower levels in the organization, as well as outside the organization as well.

Within the dynamic capabilities framework, the ‘environmental’ context recognized for organizational learning and analysis purposes does not refer to the industry, but to business ‘ecosystem’ such as cluster organizations, institutions, and individuals that impact the organization and their customers and suppliers. The relevant ‘environment’ thus comprises of facilitators, suppliers, regulatory authorities, quality control bodies, the judiciary, and educational and research institutions.

Aforementioned discussion concludes that according to dynamic capabilities perspective, Innovation and Organizational learning Capability are recognized as dynamic capabilities that integrate with firm resources to enhance firms’ competitiveness and performance. The following section discusses the Theory of the growth of the firm as an underlying theory for firm performance.

2.10.3. Theory of the Growth of the Firm

In the literature, firm performance has been frequently measured in terms of rise or decline in financial and non financial indicators of firm performance. In other words, rise or decline refers to positive or negative growth. Growth is a multi-dimensional,

heterogeneous, and complex phenomenon. For more than five decades, there has been sustained and continually increasing interest in entrepreneurial business growth from practitioners, and academics. Theory of the Growth of the Firm (Penrose, 1959), which defines growth as both an “internal process of development” as well as an “increase in amount”. Internal process of development refers to firm’s development in the domains like research and development, new product development and employee development and growth. However, major emphasis is placed on the latter “increase in amount”, which favors the dominant use of outcome-based indicators such as market share, return on investment and operational profitability. According to Penrose (1959) a firm is a bundle of unique tangible and intangible resources, when optimally integrated result in higher efficiency and effectiveness and ultimately lead to higher growth performance.

In recent decades, her classic book entitled “The Theory of the Growth of the Firm” became a must cite and a fundamental reference with respect to scholastic writings on resource based view, capabilities based view and knowledge based view of the firm. The applicability of the theory is extended to both the large as well as the small firms.

Penrose put a huge emphasis on the phenomenon of disequilibrium. She focused on the abilities of the firms to generate value in such a manner that it disturbs the equilibrium or in other words it creates disequilibrium and disrupts the level playing field as far as competitors are concerned. Thus, she called for value creation which would serve as a platform for sustainable competitive advantage. Penrose’s viewpoint concerning functions, objectives and growth of firms is quite sophisticated and

complicate to comprehend. It requires a thorough and thoughtful effort to understand her views regarding firm growth. Her views are far away from the manner in which a manager usually thinks regarding the explicit goal of achieving optimal growth.

In this regard, Penrose has made an invaluable contribution to managerial practice. She has changed the way the managers/decision makers used to think about the growth of their firms. She paid keen attention towards long run success of firms by employing innovations and pursuing disequilibrium and consequently creating value for the firm and its stakeholders.

Referring to the firm, Penrose opined that it is a collective set of resources that are physical and intangible, human and non human, controlled and coordinated through managerial and authoritative systems, in order to produce products that are offered for sale in the markets and yield profits in return.

She elaborated that the interface of human resources within the firm and the dealings between human resources and non human resources resulted in giving birth to intra firm knowledge creation. She considered division of labor, job specialization, group tasks, and learning as noteworthy source of knowledge creation. Thus, she highlighted the significance of learning capability and knowledge creation within the firm.

All aforementioned resources in general and knowledge creation in specific contribute greatly in increasing firm productivity as it would take lesser time to complete

the given tasks as result of accumulated learning and knowledge sharing. According to Penrose (1959) knowledge creation within the firm adds value to existing firm resources, thus, engenders excess resources. Those excess resources can be profitably employed at no additional or marginal cost. This scenario presents a lucrative incentive to managers to give central attention to organizational learning, which would enable the organization to pursue innovation and expansion.

Therefore, firm growth can be deemed as an endogenous upshot of recurrent intra-firm learning and knowledge generation. This conceptualization of endogenous growth by means of excess resources generated from organizational learning and knowledge creation makes the contribution of Penrose quite unique and distinguished.

Furthermore, Penrose (1959) stressed that to cope with uncertain, ever changing and challenging dynamic environments firms' survival relies on their ability to develop a specialized niche, 'a productive base' or 'technological base' (p. 109), or 'relatively impregnable bases' (p. 137).

In the viewpoint of Penrose, increased productivity or efficiency in producing diversified products cannot assist the firms in withstanding the challenges posed by dynamic and ever threatening environments in the long run. The firms can only survive, yield profits and grow if they are able to develop one or more impregnable bases which can support the firms in adapting and extending their operations in highly competitive, challenging and uncertain environments.

The strength of long lasting and time honored firms is based on their strong position with reference to possessing and exploiting unique resources, modern technologies and profitable markets. Penrose posited that established firms rarely confine them to small assortment of products, rather they focus on economics of diversification, exploit economies of production and growth and avail the benefits of monopolistic market positions well defined market niches. The firms which possess these characteristics face less competitive threats to the market positions they capture as they have in-depth defenses in their specialized operational domains which shield them from environmental intimidation and enable them to cope with any of the emerging challenges in way that is far superior to the competing firms.

In this way strong firms create disequilibrium which makes them disparate from the competitors. Thus, strong firms reap the fruits of creating disequilibria, but for that to happen, they must know the optimal exploitation of the unique resources they possess and must establish the impregnable bases. By using the term 'impregnable bases' Penrose (1959) referred to 'isolating mechanisms', monopolistic restrictions and barriers to imitation.

The isolating mechanisms or monopolistic restrictions permit the large firms to develop and sustain a dominant position in the market with reference to competing firms. Penrose argued that despite of enjoying dominance over their business rivals, large firms cannot always exploit all available productive openings in a growing economy. This situation creates 'interstices' which attract small firms to avail those growth opportunities

because of their flexible nature. Thus, Penrose favored small firms over large firms because of their abilities to take advantages of the growth opportunities faster than the large firms whose large size sometimes becomes a barrier for them.

Criticizing the large firms with reference to their potential to avail growth opportunities in the long run, Penrose further added that large firms' strength relies on non self-perpetuating conditions, large firms may collude and suffer from self-annihilation, by excessive financial control, by toiling to cope with the contradictions and controversies in a system in which competition is regarded as the god and the devil concurrently, where firms may be deemed to grow efficiently with respect to their size, but result in giving birth to an industrial structure which obstructs its very own continual growth.

Hence, Penrose argued that the large firms may collude, may grow in terms of their size, and may try to evade or prevent competition by creating disequilibria, isolating mechanisms or monopolistic restrictions. They may employ predatory competitive strategies to lessen the number and strength of their business rivalry. However, despite of all this they can fall prey to their own size which would make the firms less fluid and more rigid; resultantly, the firms may suffer from self destruction which would inhibit their chances to embrace continued growth.

On the other hand, the inability of large firms to pursue sustained growth would present the opportunities for small firms to make a space for them to perform their business operations and reap the reward of growth through their flexible organizational

structure. In this regard, Penrose explicitly gave more privilege to small firms which are more fluid and efficient as opposed to large firms which attempt to create monopoly and hinder the competition.

To sum up, in the light of aforementioned discussion, this study employs the theory of the growth of the firm by Penrose (1959) as an underlying theory for understanding SMEs performance. As mentioned earlier, Penrose stressed on the need of organizational learning and knowledge resources to create excess resources which could lead to improved firm productivity and performance. She also focused on creating value through innovations which would help the firms to grow. In addition, Penrose focused on creating impregnable bases which are hard to imitate for competitors. Finally, she elaborated how small firms are more suited to achieve continued growth performance as compared to large firms.

To conclude this chapter, summary of the chapter is presented in the following section.

2.11. Summary of the Chapter

The chapter begins with the review of literature on SMEs Performance. Significance of SMEs and the problems encountered by SMEs have been discussed. Furthermore, measurement of firm performance has been discussed in the light of literature. Discussion on SMEs performance is followed by literature review on

Innovation including definitions, and importance of Innovation with reference to firm performance. In addition the types and degree of innovation have been discussed.

In the subsequent section a detailed review on SMEs Branding is presented. Then the issues related to organizational learning capability with reference to literature has been highlighted and elaborated. In the end, the underlying theories that guide this study are discussed.

The next chapter elaborates the discussion with reference to development of Conceptual Framework, formulation of Hypotheses and Research Methodology for the present study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter begins with the presentation of research framework in section 3.2 and development of hypotheses in section 3.3. The chapter continues further with the description about the research methodology used in carrying out this study. Section 3.4 entails discussion about research design. Along with the description of research design, this section elaborates purpose of research, time frame of study, research method used in the study and unit of analysis. Next, to this section is the discussion about sampling method in section 3.5. In section 3.6, issues related to data collection have been discussed. This section also includes the description regarding questionnaire administration. In section 3.7, there is detailed explanation about design of questionnaire, measurement of variables, reliability and validity of the instrument and proposed pilot study. Section 3.8 overviews the data analysis techniques. Summary of the chapter is given in section 3.9.

3.2 Research Framework

A research framework has been developed after an extensive literature review as discussed in the previous chapters. The linkages shown in the framework in figure 3.1 are grounded in the literature. Innovation enables the firms to keep pace with what is happening in the competitive environment and to offer customers new and improved

products and services which can satisfy their wants better than the competing firms. Schumpeter (1934) asserted the salience of innovation in his theory of economic development. His theory is considered as a landmark contribution with respect to relationship between innovation and firm performance in case of large as well as small and medium sized firms. Innovation is considered as a firm's dynamic capability that can result in constructive destruction by breaking and destructing the status quo and leading the way towards creating and constructing new products and processes.

Dynamic capabilities perspective (Teece, 2007) which is considered as an extension of resource based view, purports that Innovation is a distinct capability that can foster higher firm performance. Similarly organizational learning capability has been regarded as dynamic capability that utilizes inter-firm and intra firm knowledge to exploit market opportunities in order to leverage firm performance.

In addition to innovation, branding is considered as a platform on which organization would stand and deliver. According to Resource based view, brands are rare, valuable and inimitable resources that can enable a firm to achieve superior performance and gain sustainable competitive advantage (Barney, 1991; Abimbola, 2001).

Branding orientation is an essential step towards higher firm performance. It is an identity driven strategic decision that yields greater rewards for organizations (Urde, 1999). Branding orientation can prove catalytic in achieving and sustaining business growth in SMEs (Hirvonen & Laukkanen, 2012).

According to Walmsley and Young (1998) and Coshall (2000) SMEs have to develop and maintain their brand identity in order to distinguish themselves from the competing firms. They need to position their unique image in the minds of their potential and existing customers. In order to position themselves better than their competitors the firms must design and use unique symbols and slogans (McDaniel & Gates, 2001). Moreover, well designed and value expressive brand logos can enhance customer commitment and result in boosting firm performance as they communicate the functional benefits of brands to the customers (Park, Eisingerich, Pol & Park, 2012).

In addition to symbols, slogans and logos, firms' corporate brand associations also play a significant part in furthering its performance by building its reput and image in the mind of potential and extant customers. Aaker (1996) considered organizational brand associations as a source of competitive advantage. Brown and Dacin (1997) and Berens, Riel and Bruggen (2005) found in their study that corporate brand associations can contribute to the success of firms by generating positive responses of customers towards the brands/products of firms with strong corporate associations.

Significance of branding in relation to firm performance is more evident in case of large firms, but SMEs branding which was once considered as an oxymoron, is now an area of great interest for the academicians in the field of entrepreneurial research. Berthon *et al.* (2008) reported that application of branding practices can create differentiation in business performance of SMEs. In his study performed in Australia, he segregated high performing SMEs from low performing SMEs on the basis of their brand

management practices. He concluded that the firms which have a greater focus on branding practices and pursue brand management in an integrated and holistic manner; perform better than those who have a lesser focus and attention on branding practices. Furthermore, Hirvonen and Laukkanen (2011) found a positive relationship between branding and SMEs performance in their study conducted in Finland.

It is also claimed in the literature that in order to avail the benefits of innovation and branding practices the role of organizational learning capability is instrumental (Weerawardena *et al.*, 2006). Thus, it is appropriate to examine the role of organizational learning capability as a moderator in order to address the existing inconsistencies in the relationship between innovation, branding and SMEs performance. Based on the theories and literature discussed earlier, a research framework has been proposed for the study as given in Figure 3.1.

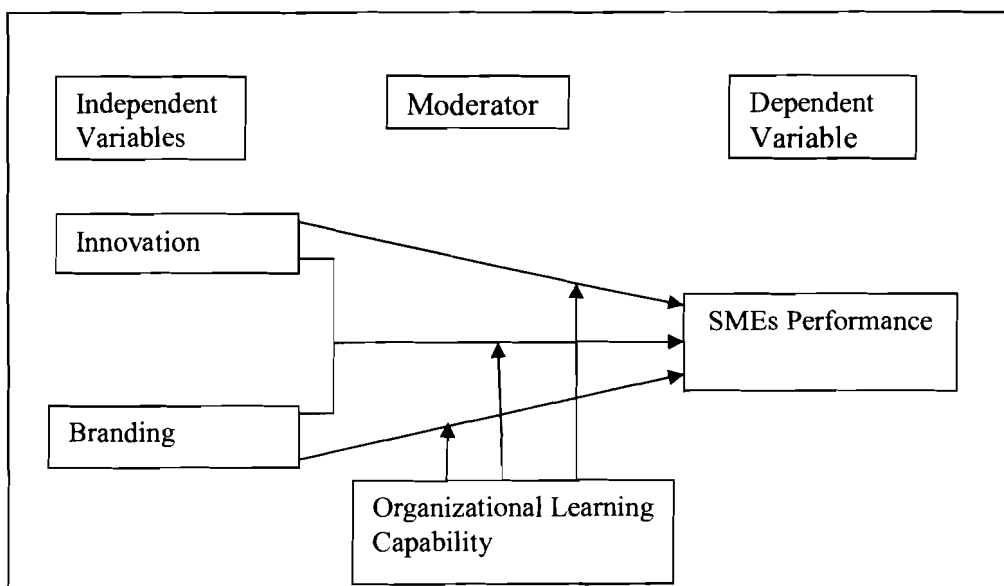


Figure 3.1
Research Framework

3.3 Development of Hypotheses

The literature suggests that the role of innovation is catalytic in enhancing firm performance as innovation can provide leverage to firms' competitive standing. Innovation can help firms in leapfrogging over their competitive rivals. Past studies indicate that innovation plays a significant part in boosting the performance of SMEs (Wright *et al.*, 2005; Mansury & Love, 2008; Jimenez-Jimenez & Valle, 2011).

Literature reveals that more innovative firms are able to perform better than less innovative firms (Schulz & Jobe, 2001; Calantone *et al.*, 2002; Hall & Bagchi-sen, 2002; Thornhill, 2006; Weerawardena *et al.*, 2006), thus; these studies indicate a positive relationship between innovation and firm performance. But on the other hand, a few studies refute the existence of positive relationship between innovation and firm performance (Roper & Love, 2002; Darroch, 2005; Wright *et al.*, 2005).

Although there is a divide among results of previous studies with respect to direction of relationship between innovation and performance, yet, the majority of the studies (Damanpour & Evan, 1984; Damanpour, Szabat & Evan, 1989; Caves & Ghemawat, 1992; Wheelwright & Clark, 1992; Brown & Eisenhard, 1995; Bierly & Chakrabarti, 1996; DeCarolis & Deeds, 1999; Hansen *et al.*, 1999; Roberts, 1999; Schulz & Jobe, 2001; Li & Atuahene-Gima, 2001, 2002; Guo *et al.*, 2005; Garcia-Morales *et al.*, 2008; Garcia-Morales *et al.*, 2012) found that there is a positive relationship between innovation and performance.

Hence, the study hypothesizes the following:

H1: There is a positive relationship between Innovation and SMEs Performance.

The subsequent discussion relates to development of hypothesis with reference to the relationship between Branding and SMEs performance as discussed in the literature. Branding in SMEs became an area of serious consideration ever since Abimbola (2001) coined the term SME Branding. She viewed branding as a source of competitive advantage that can lead SMEs towards superior performance. She also proposed branding dimensions most relevant to SMEs in her conceptual study. Wong and Merrilees (2005) conducted a case research and presented a branding ladder which demonstrates that at the bottom of the ladder are SMEs having a minimalist orientation towards branding, whereas, at the top are those who embrace integrated branding. Thus the study signified that attention to branding can result in higher SMEs performance. Rode and Vallaster (2005) focused on the importance of corporate branding for SMEs. Empirical evidence from nine studies revealed that the low performing SMEs did not practically incorporate corporate branding in their businesses.

Abimbola and Vallaster (2007) in their conceptual paper discussed the salience of branding, organizational identity and reputation for creating a strong and well established firm in the context of SMEs. Abimbola and Kocak (2007) conducted a qualitative investigation to assert the significance of branding as a valuable resource for the firm. Berthon *et al.* (2008) segregated the high and low performing SMEs on the basis of differences among them with respect to integration of branding practices in their

businesses. Koh *et al.* (2009) found contradictory results in his study in USA revealing that branding (reputation and recognition) had no effect on firms' financial performance. However, it was asserted by Spence and Essoussi (2010) that branding yields fruitful results for firms.

Hirvonen and Laukkanen (2011) revealed the salience of pursuing and embracing branding ideology comprising of brand orientation, brand identity and internal branding by exploring a positive linkage between SMEs performance and Branding. They conducted a study on 255 SMEs in Finland and found that firms which are more committed towards branding performed better in terms of their annual turnover and growth performance. Thus, it can be inferred that branding is very useful in improving performance of SMEs. Keeping in consideration the aforementioned discussion, it is therefore hypothesized that:

H2: There is a positive relationship between branding and SMEs Performance.

As the empirical results of the studies examining the relationship between innovation and SMEs performance are inconsistent, the relationship between branding and performance also show varying results and lack of consistency, it is appropriate to add a moderating variable in order to resolve the inconsistency existing that exists in the relationship between innovation, branding and SMEs performance.

It is suggested in the literature that Organizational Learning Capability of a firm can enable an organization to optimally exploit the benefits of its innovation (Ireland *et al.*, 2001; Weerawardena *et al.*, 2006; Bueno *et al.*, 2010) and branding practices (Weerawardena *et al.*, 2006; Prieto & Revilla, 2006; O’cass & Weerawardena, 2010).

However, to the best of our knowledge there are very limited empirical studies if any that have explored the moderating effect of organizational learning capability on innovation-performance and branding-performance relationship in the context of SMEs.

Organizational learning capability takes in to consideration the knowledge that exists within the firm as well as outside the firm. The capability of a firm to integrate the internal and external knowledge in their innovation and branding practices can largely determine the performance of SMEs. Keeping in view the aforementioned discussion the following hypotheses are thus posited.

H3: The relationship between Innovation and SMEs performance is moderated by Organizational Learning Capability.

H4: The relationship between Branding and SMEs performance is moderated by Organizational Learning Capability.

H5: The relationship between Innovation, Branding and SMEs performance is moderated by Organizational Learning Capability.

3.4 Research Design

This study employs quantitative research design. Research design refers to the framework that acts as a guideline for the researcher as it helps in determining the method for conducting research. It guides the researcher in selecting the appropriate sampling technique, instrument for data collection, administration of instrument and analysis of gathered data.

To formulate the research design for this study, an extensive literature has been reviewed. Review of literature has revealed the gaps and deficiencies in the past studies. Literature review has also provided useful insights regarding the methodologies, research instruments, measurement of variables and data analysis techniques employed in studies performed in SMEs.

3.4.1 Purpose of Research

This study aimed to examine the relationship between Innovation, Branding and SMEs Performance. Thus, this study included Innovation and SMEs branding as independent variables; whereas, SMEs performance was taken as dependent variable. The study also included Organizational Learning Capability (OLC) as a moderating variable. The aim was to examine the moderating effect of OLC on the relationship between independent and dependent variables.

This study is descriptive as it described the issues of innovation and branding in small and medium enterprise firms. As it intended to examine the relationship between variables, it can also be termed as a correlational study.

3.4.2 Time Frame of Study

In order to carry a study with respect to time frame, there are two available alternatives namely longitudinal study and cross sectional study. In case of longitudinal study, data is gathered over a long period of time (Cooper & Schindler, 2006). Whereas, the cross sectional study refers to conducting a study and presenting the issues at once in a specific point in time (Bryman & Bell, 2003).

The review of literature reveals that most of studies in the field of SMEs are cross sectional with respect to time frame. A few examples of such studies include Keskin (2006), Weerawardena *et al.* (2006), and Berthon *et al.* (2008). This study is cross sectional in nature. It took a total duration of around five months from 17th October, 2012 to 12th March, 2013 to collect the data. On average, five to seven SMEs were visited per day during the weekdays (Monday to Friday) and questionnaires were handed over to the respondents (Owners/Managers).

Table 3.1 presents a detailed weekly schedule of data collection that indicates the number of questionnaires distributed and collected per week over the duration of five months as aforementioned.

Table 3.1
Data Collection Schedule

Year	Month	Week	Number of Questionnaires Distributed	Number of Questionnaires Received
2012	October	3 rd Week	15	--
		4 th Week	24	--
2012	November	1 st Week	32	18
		2 nd Week	25	22
		3 rd Week	28	19
		4 th Week	26	15
2012	December	1 st Week	27	21
		2 nd Week	25	17
		3 rd Week	29	20
		4 th Week	31	24
2013	January	1 st Week	25	18
		2 nd Week	30	22
		3 rd Week	28	16
		4 th Week	33	27
2013	February	1 st Week	26	19
		2 nd Week	29	24
		3 rd Week	--	28
		4 th Week	--	32
2013	March	1 st Week	--	10
		2 nd Week	--	05
		Total	433	357

3.4.3 Research Method

There are various research methods that can be employed to conduct a given study. Case study method is proposed by past researchers in order to have an in depth insight of a particular phenomenon (Bryman & Bell, 2003). However, it is largely criticized due to its limited generalizability to various contexts as only a few cases can be studied in depth with reference to certain issue under study (Sekaran & Bougie, 2010). Another, alternative is to conduct personal interviews to collect the data. The advantage of personal interview is that it results in higher response rate. But it is quite expensive to conduct personal interviews, consumes a lot of time, and there is interviewer bias which

can affect the responses of the respondents (Bryman & Bell, 2003; Sekaran & Bougie, 2010). According to Zikmund (1994) survey method seeks to elaborate a phenomenon and looks for the causes of any specific activity. As discussed by Neuman (1997) survey method is quite useful as it facilitates the researcher to gather data from a large number of respondents in order to measure multiple variables and testify many hypotheses.

This study has employed survey method as survey method is very popular and is quite frequently employed for conducting quantitative research in the field of business and management (Hair, Bush & Ortinau, 2003; Cooper & Schindler, 2006). The advantages of survey method include access to large number of respondents, less costly to administer, and is free from interviewer bias (Bryman & Bell, 2003; Sekaran & Bougie, 2010). Thus, it was quite appropriate to employ survey method for conducting the present study.

3.4.4 Unit of Analysis

According to Neuman (1997) unit of analysis is what is being studied for measurement of variables. Unit of analysis can be individual, group or organization (McDougall & Oviatt, 2000), depending upon the nature and context of study. For this study, SMEs are taken as unit of analysis. SMEs Owners/Managers represent their respective firms. Therefore, Owners/managers of respondent firms were contacted in order to gather data regarding innovation and branding practices, organizational learning capability and firm performance.

3.5. Sampling Method

Sampling process initiates by identifying the target population which comprises of the entire group of individuals or organizations that come under the scope of study being conducted by the researcher (Sekaran & Bougie, 2010). SMEs in sports industry Sialkot (Pakistan) make the population for this study. The list of the firms has been obtained from the databases of Sports industry Sialkot and Sialkot chamber of commerce and industry. According to the list generated from the sources mentioned above, the population size is 3516.

For selecting a sampling technique for an appropriate sample size, heterogeneity of sample, number of variables used in the study and intended statistical tool to be used for data analysis must be kept in mind (Hussey & Hussey, 1997; Neuman, 1997). Keeping in view the above mentioned considerations, a sample size of 346 was deemed to be appropriate using a formula proposed by Mendenhall, Reinmuth and Beaver (1993).

As the present study was focused on manufacturing activity of SMEs in sports industry of Pakistan, this study employed systematic random sampling to select the sample. According to SMEDA, sports goods can be mainly segregated in two strata on the basis of exporting activity namely: Inflatable Balls Manufacturing (football, Volley ball, beach ball etc.) and Other Sports and Outdoor goods manufacturing (Cricket, Hockey, Athletics etc.). However, such stratification is not possible on the basis of manufacturing activity as each SME produces a wide range of sports goods in order to

diversify its risk as well as to exploit the market opportunities. Thus, SMEs cannot be segregated or stratified on the basis of type of sports goods manufactured. Therefore, this study employed systematic random sampling to select the sample. The entire list of SMEs was entered in SPSS and then a random number list was generated which was finally used for administering the questionnaires. The details about sampling procedure are given as follows.

As mentioned before, this study focused on SMEs in sports industry of Pakistan. According to databases of sports industry Sialkot and chamber of commerce and industry Sialkot, 4,265 firms were operating in sports industry of Pakistan in year 2012. However, only 3516 firms qualified as SMEs as per definition given by SMEDA, which considers only those firms as SMEs who employ 10-99 employees and have invested capital/productive assets not exceeding Pakistan Rupees (PKR) 40 million. Therefore population size of this study was 3516. In order to find out the required sample size with respect to given population size, the well established formula proposed by Mendenhall *et al.* (1993) was used. Formula is given as follows.

$$n = \frac{NZ^2_{\alpha/2} pq}{(N - 1)e^2 + Z^2_{\alpha/2} pq}$$

Where n represents sample size, N represents population size (3516), $Z^2_{\alpha/2}$ refers to the critical value of a two-tailed Z test at 95% confidence interval { (1.96)² or 3.8416}, pq corresponds to the component of sample proportion variance (assuming maximum variance, p=0.5 and q=0.5), e refers to margin of error (0.05) at 95% confidence interval.

Using the above mentioned formula, the required sample size for this study was 346 firms. Previous studies conducted in SMEs in sports industry, Sialkot, Pakistan revealed a higher response rate for surveys where the questionnaires were personally distributed to the target firms.

A survey conducted by Abdi *et al.* (2008) yielded a response rate of 89% as they received back 89 questionnaires out of 100 they handed over to the respondent firms. Similarly, Akhtar *et al.* (2011) personally distributed 170 questionnaires and received 144, yielding a response rate of 85%.

In order to achieve the higher response rate in this study, survey was conducted by personally distributing the questionnaires to respondent firms. As aforementioned, the satisfactory sample size for this study based on formula proposed by Mendenhall *et al.* (1993) was 346 firms. According to Bryman and Bell (2003) it is recommended to have a larger sample size than the required sample size calculated in order to overcome the problem of sample attrition. Based on the response rate in previous studies (Abdi *et al.*, 2008; Akhtar *et al.*, 2011) expected response rate was estimated to be 80%.

Following the suggestion proposed by Bryman and Bell (2003) in order to tackle with the problem of sample attrition, working sample size of 433 ($346/0.80$) was calculated for this study. In this regard, in first step, the complete list of 3516 firms was inserted in SPSS in order to generate a systematic sample of 433 firms using random number table in SPSS.

3.6. Data Collection and Questionnaire Administration

This study used survey as a primary method for gathering data because survey method is considered highly reliable (Babbie, 1990). In this study, self-administered questionnaires were used which were personally distributed to the respondents. According to Bryman and Bell (2003) self-administered questionnaires are useful as they cover wider geographical area, offer convenience to respondents, keep identity of respondents undisclosed, and contain well structured questions.

According to Sekaran & Bougie (2010) although there is lower response rate and higher probability of respondent bias in self administered questionnaires based surveys, yet the categorization of variables, wording of questions and appearance of questionnaires can help in reducing bias and increasing the response rate. Moreover, self administered questionnaires permit respondents to take time and give thoughtful responses as they are in no hurry to respond at a specific point in time (Reagan, 2003).

In administering the questionnaires, numerous measures were taken to enhance the rate of response. It is quite important to obtain a higher rate of response; because lower response can possibly lead to findings that may be biased and difficult to generalize (Babbie, 1990; Wiersma, 1993). Rate of response refers to the percentage of respondents who return the questionnaires, whereas the quality of responses determines the completeness and usefulness of data.

Numerous procedures were adopted prior to delivering the questionnaires in order to raise the level of interest among the respondents (Jobber, 1986; Jobber & O'Reilly, 1996). Questionnaire looked quite attractive, precise and professional. Complex wording and lengthy sentences were avoided. It is highly relevant and in accordance with the scope and objectives of the study.

A stipulated time of 15 days was given to respondents. In case of non response after the given time period expired, follow up was conducted by sending the reminder letters and making phone calls as it is suggested that follow up can increase the response rate (Hopkins & Gullickson, 1992). In this study, only two follow up reminder letters were sent because it is also suggested that repeated follow up results in decrease of response rate (Wiersma, 1993).

All of the targeted 433 firms were personally approached and questionnaires were distributed. Respondents were asked to return the questionnaires in 15 days. A close liaison with those firms was maintained through telephone in order to voice out any ambiguities and resultantly increase the response rate. As mentioned before, it took a total duration of around five months from 17th October, 2012 to 12th March, 2013 to collect the data. On average, five to seven SMEs were visited per day during the weekdays (Monday to Friday) and questionnaires were handed over to the respondents.

Before approaching the SMEs prior appointment was taken through either telephone or email. Postage prepaid, self-addressed envelopes were also handed over to respondents along with the questionnaires. They were requested to return the completed questionnaires by mail within a stipulated time of fifteen days.

Majority of the respondents (220) responded in due time; whereas, others (137) responded after receiving reminder letters which were issued after the stipulated time period of 15 days expired. However, some of the respondents (76) did not respond even after receiving reminder letters.

Finally, 357 questionnaires were received through mail. However, only 352 questionnaires were useable as 05 questionnaires were found incomplete. Hence, the survey yielded a response rate of 81.29% from total number of questionnaires (433) distributed.

3.7. Questionnaire Design

The questionnaire has been developed to measure the variables used in the study. The sequence of constructs in the questionnaire is as follows. Firstly, the questions relate to Innovation. Subsequent section relates to questions measuring Branding construct. Third section measures the organizational learning capability construct. Lastly, there are questions measuring the SMEs Performance construct. In addition, the questionnaire instrument also consists of questions that relate to firm's demographics. The details about measurement of each construct are discussed as follows.

3.7.1. Innovation: Operationalization

Innovation refers to adoption of new ideas and processes within the firm. The newness can be embedded in multiple areas of firm's operations. It can be integrated in

product development. Firm's production processes can be modernized or new technologies can be introduced. Innovations can also be brought in managerial and marketing processes. Thus the scope of innovation is quite broad.

There is no denial to the significance of innovation in large as well as small firms. Innovation enables firms to be more competitive and achieve higher performance (de Jong & Vermuelen, 2006; Gopalakrishnan & Damanpour, 1997; Hui & Qing-xi, 2006; Weber & Weber, 2007). In the recent past, researchers have shown tremendous interest in studying innovation in SMEs. Studies performed by Yap *et al.* (2005), Allocca and Kessler (2006), Weerawardena *et al.* (2006), Oke *et al.* (2007), Dibrell *et al.* (2008) and Ar and Baki (2011) can be quoted as few examples in this regard. In their studies the researchers have focused on different determinants of innovation. However, majority of the studies have emphasized on product and process innovation in SMEs. Prajogo *et al.* (2004), Wang and Ahmed (2004), Avermaete *et al.* (2004), Leiponen (2005), Freel (2005), Tang (2006) and Ar and Baki, 2011 are some examples in this regard.

As discussed earlier, the scope of innovation is much broader than merely the product and process dimensions. The above mentioned researchers showed interest mainly in the technological aspects of product and process innovation. Australian Manufacturing Council (1995) suggested that along with technological dimensions, the researchers should also focus on non-technological dimensions of innovation.

In this regard, while conducting research in SMEs in UK, North and Smallbone (2000) suggested five types of innovations namely product or service innovations, market development innovations, marketing innovations, process technology innovations and administrative innovations. However, some studies argued that it is also quite important to understand the degree of innovation (Tushman & Nadler, 1986; Marvel & Lumpkin 2007). They suggested that the intensity of innovation should be analyzed that whether the innovation refers to gradual changes or minor improvements (incremental innovation) or major changes such as replacement of older technologies and other processes at once (radical innovation).

In addition to technological and non-technological dimensions and degree of innovation measures, a few studies have also discussed an interesting dimension of innovation namely 'referent' innovation. Referent refers to how new an innovation is seen or perceived by a firm's stakeholders such as firm itself or employees of the company (Davila *et al.*, 2006), customers (Wang & Ahmed, 2004) or market (Lee & Tsai, 2005). It is quite fundamental that the stakeholders of the firm must perceive the firm's innovation as new in order to realize the benefits of that innovation otherwise the innovative effort would be quite futile.

Weerawardena (2003) developed organizational innovation scale to measure innovation in large manufacturing firms in Queensland, Australia. In the scale, he incorporated both the types of innovations as well as degree of innovation. He suggested four types of innovation which were product innovations, production process innovations,

managerial innovations and marketing innovations. Degree of innovations referred to incremental and radical innovations as discussed above. Weerawardena *et al.* (2006) used this scale to measure the innovations in a large sample of SMEs in Australia. Thus, this scale is applicable to both large as well as small scale firms.

Hence, the questions from Weerawardena (2003) and Wang and Ahmad (2004) are adapted and modified for this study in order to incorporate types, degree and referent dimensions of innovation. The questions measuring innovation are given in the table 3.2. Each question comprise of a statement followed by two contrasting opinions such as limited versus extensive, traditional versus innovative and incremental versus radical, given on either end of a 7-point numeric scale.

Table 3.2

Questions on Innovation

Product innovations

Product innovations introduced by our firm during the last three years have been...

Our new products and services are often perceived by our customers as...

Product improvements have been mainly...

Process innovations

Process innovations introduced by our firm during the last three years have been...

Our production processes are often perceived by our customers as

Process improvements have been mainly...

Marketing innovations

Marketing innovations introduced by our firm during the last three years have been...

Our marketing methods are often perceived by our customers as

Marketing innovations have been mainly...

Managerial innovations

Managerial innovations introduced by our firm during the last three years have been...

Our managerial practices are often perceived by our employees as

Managerial innovations have been mainly...

Source: Adapted and modified from Weerawardena, 2003; Wang & Ahmad, 2004

3.7.2. Branding: Operationalization

Branding in SMEs context refers to branding processes and practices exercised by small and medium enterprise firms. The notion of branding in SMEs is still quite new as compared to its established position in context of large corporate firms. The literature on SMEs Branding is quite scarce. There are very limited quantitative studies that have attempted to explore the relationship between branding practices and performance of SMEs.

Witt & Rode (2005) studied the corporate brand building practices in 311 German startup firms. They studied the corporate branding practices in heterogeneous firms relating to 09 industries. They developed a questionnaire to measure dimensions namely corporate culture (29 items), corporate design (17 items), corporate behavior (11 items), and corporate communication (18 items). In their study, main focus was on startup firms rather than small firms. The questionnaire developed for this study mainly focuses on the aspect of corporate branding and looks more appropriate for large corporate firms.

Berthon *et al.* (2008) compared brand management practices (BMP) between large and small firms in Australia. They also compared high and low performing SMEs with respect to differences in BMP. Berthon *et al.* (2008) developed 37 items for 10 dimensions discussed in brand report card by Keller (2000). Keller discussed those dimensions in the context of large businesses. Therefore, the relationship between

branding practices and SMEs performance remains to be explored using a measurement instrument appropriate for branding practices in SMEs.

Therefore, for this study the questions have been developed from the dimensions proposed by Abimbola (2001) and Hirvonen and Laukkanen (2011). Abimbola (2001) suggested 05 branding processes that can enable SMEs to be more competitive and resultantly demonstrate superior performance. She proposed the dimensions namely corporate branding, marketing program, brand awareness, targeting specific audience and secondary brand associations. Hirvonen and Laukkanen (2011) conducted a study in SMEs in Finland to explore the relationship between branding and firm performance. They developed the items to measure firm's orientation towards branding, brand identity and the extent to which branding practices have been introduced to the employees of the firm. To measure this construct, each question item consists of a statement to be measured on a 7-point Likert type scale. The questions measuring the branding construct are given below as can be seen in table 3.3.

Table 3.3

Questions on Branding

Own/Corporate Branding

Our firm's focus on developing own/corporate brands has been quite extensive.

In case of own brands, our firm sells its products using company/corporate brand name Brand Planning has been a critical element of our business strategy

Marketing Program

Branding is the central focus of all of our marketing activities

Our firm designs quite creative and unique marketing (communication, media, packaging, selling) programs that can be distinguished from competitors' marketing programs.

Our firm designs a uniform marketing program for all products.

Brand Awareness

Our firm focuses on selecting brand name/s that are easy to speak, remember and recall.

Our brand represents the values of our firm.

Our firm's brand elements (logo, symbol, slogan, and trademark) are very unique and easily recognizable.

Table 3.3(continued)

Targeting Specific Audience

Our firm frequently uses word of mouth and networking (customers, suppliers and distributors) for communication and promotion of our products.

Our firm frequently uses in-house/company trade publications, company website and other low cost promotional tools such as trade shows and exhibitions and event sponsorships.

Our firm strives for the integration of our marketing activities.

Secondary Associations

Our firm frequently looks for unique brand associations such as (High Product Quality, Performance Awards, ISO Certifications) to promote and enhance the repute of our business.

Our firm frequently associates its products with other firms (corporate clients, suppliers and distributors) to enhance firm's reputation (E.g: We sell to Nike, Adidas, Puma, Reebok, etc).

Our firm frequently associates its products with renowned spokes persons, sports celebrities (famous players) and sports events (world cup, euro cup, etc) to enhance firm's reputation.

Source: Adapted and modified from the dimensions proposed by Abimbola (2001) and Hirvonen & Laukkanen (2011)

3.7.3. Organizational Learning Capability: Operationalization

Organizational learning capability refers to the ability of an organization to optimally utilize the available knowledge resources from within as well as outside the firm. Organizational learning capability refers to a set of tangible and intangible resources that a firm employs in order to increase its competitiveness and to elevate its performance (Teece *et al.*, 1997). The value of organizational learning is very important irrespective of the size and scale of organization.

The concept of organizational learning has frequently been studied in the context of small firms. Alegre & Chiva (2008), Chiva *et al.* (2007) and Weerawardena *et al.* (2006) can be quoted as a few examples. Past studies have examined a variety of dimensions of organizational learning. Rothwell (1989) studied the inter-firm networking and relational aspects of learning. Cohen & Levinthal (1990) developed a scale to measure the absorptive capacity of firms. This scale is more appropriate where a study seeks to examine the capacity of a firm to absorb technological aspects of learning.

Weerawardena (2003) developed an 8-item market focused learning capability scale based on the dimensions proposed by Day (1994). Pedler *et al.* (1997) proposed Interaction with external environment, Communication among Employees and Employees' involvement in decision making as important dimensions of organizational learning. Isaksen *et al.* (1999) developed a situational outlook questionnaire intended to measure the firm's climate in order to bring change and innovation.

Based majorly on the work of Pedler *et al.* (1997) and Isaksen *et al.* (1999), Chiva *et al.* (2007) developed an Organizational Learning Capability Scale. In addition, Chiva *et al.* (2007) also incorporated the work of Amabile *et al.* (1996), Goh and Richards (1997), Hult and Ferrell (1997) and Templeton, Lewis and Snyder (2002). They proposed five dimensions: Experimentation, Risk taking, Interaction with external environment, Dialogue and Participative decision making.

Chiva *et al.* (2007) used their instrument to measure Organizational Learning Capability of SMEs in Spanish ceramic industry. Thus, this study has adapted and modified questions from the instrument developed by Chiva *et al.* (2007).

Each question consists of a statement to be measured on a 7-point Likert type scale where 1 represents total disagreement and 7 represents total agreement with the given statement. Items measuring Organizational Learning Capability are given in the table 3.4 as follows.

Table 3.4

Questions on Organizational Learning Capability

Experimentation

Our firm assesses the innovative ideas of our employees

Our firm provides time and resources for employees to generate, share/exchange and experiment with innovative ideas/solutions

In Our firm, Employees are recognized and rewarded for their creativity and innovative ideas

Risk Taking

Our firm adopts a bold and aggressive approach when there is external uncertainty

Employees in our firm are encouraged to take risks

Mistakes and losses regarding risk taking efforts of employees are tolerated in our firm

Interaction with External Environment

It is part of the work of all staff to collect, bring back and report information about what is going on outside the firm

There are systems and procedures for receiving, collating and sharing information from outside the firm

Employees are encouraged to interact with the suppliers, customers, competitors, marketing research firms, technological institutes, universities and governmental bodies

Our firm frequently collects information about changes in external environment (suppliers, customers, competitors).

Our firm extensively integrates external environment information to bring innovations

Dialogue

There is free and open communication among all levels within our firm

Managers facilitate and encourage employees to communicate

All sections of our firm (employees, departments, working groups) work together cooperatively and are connected with each other

Participative Decision Making

Managers in our firm frequently involve employees in major decisions

Employees feel involved and actively give their opinions and suggestions regarding important decisions taken by the firm

Policies of our firm are significantly influenced by the opinions and views of our employees

Source: Adapted and modified from Chiva *et al.* (2007)

3.7.4. SMEs Performance: Operationalization

Penrose (1959) defined performance as an indicator of how effectively a firm fulfils its objectives (financial and nonfinancial). Performance is defined in the same manner in this study to describe the performance of SMEs by using measures like profitability and growth with respect to financial as well as non financial aspects.

Measurement of performance in the context of SMEs is of prime significance not only for the individual entrepreneurs but also for the developing economies that depend

largely on the performance of SMEs. Thus, a thorough conceptualization of SMEs performance and its measurement are issues of substantial importance (Chandler & Hanks, 1993; Murphy *et al.*, 1996).

The researchers have debated over the issue of selection of measures of performance. Contrasting opinions exist among researchers regarding the issue of selection of objective versus subjective measures of performance. In case of small firms, it is mighty difficult to obtain data pertaining to objective performance. Small firms are not bound for the disclosure of their financial strength and they also avoid disclosing any financial information (Dess & Robinson, 1984, Sapienza, Smith & Gannon, 1988). This is one of the reasons why secondary data sources lack detailed objective information about SMEs. In addition, questions regarding sensitive objective information also lead to reduction in response rates as the respondents become apprehensive (Dillman *et al.*, 1993).

In this regard, Dess and Robinson (1984) and Gupta and Govindarajan (1984) advised the use of subjective measures of performance as alternatives to objective measures. Their suggestion was later on supported by Covin and Slevin (1990) and Naman and Slevin (1993). Dess and Robinson (1984) suggested that the respondents should be asked to rate the performance of their firm relative to their close competitors. Gupta and Govindarajan (1984) presented an alternative view that the respondents should be asked to express their level of satisfaction related to the multiple dimensions of firm performance.

Gupta and Govindarajan (1984) proposed 12 dimensions of performance namely sale growth rate, market share, operating profits, profit to sales ratio, cash flow from operations, return on investment, new product development, market development, R&D activities, cost reduction programs, personnel development, and political/public affairs on a 5-point Likert type scale ranging from “not at all satisfactory” to “outstanding”. The proposed dimensions include both financial as well as non financial dimensions of performance.

The use of scale developed by Gupta and Govindarajan (1984) is quite evident in studies measuring performance in SMEs (Murphy & Callaway, 2004). Hence, this study adapts the widely recognized and frequently employed dimensions proposed by Gupta and Govindarajan (1984).

All of the measures selected to measure performance are perceptual. 08 performance dimensions most appropriate for this study have been adapted keeping in view the suggestions of Murphy *et al.* (1996) and also giving due consideration to purpose and scope of the study as well as the context of small businesses. Murphy *et al.* (1996) recommended the use of multiple dimensions to measure performance; however, he reported that no study has used more than eight dimensions to measure performance. Dimensions selected for this study include both financial as well as non financial dimensions. All items are measured on a 7-point scale ranging from “not at all satisfactory” to “outstanding” in order to ensure consistency with other questions in

the instrument. The dimensions of SMEs performance are given in table 3.5 as can be seen as follows.

Table 3.5

Dimensions of SMEs performance

Sales Growth Rate
Market Share
Operating Profits
Return on Investment
New product Development
Market Development
Research & Development Activity
Employee Growth & Development

Source: Adapted from Gupta & Govindarajan (1984)

3.7.5. Measurement Scales

It is quite important to choose the appropriate measurement scale as it can have an effect on reliability of the measure. It is stated that higher number of scale enhances the reliability of the measure (Cooper & Schindler, 2006). In this regard 7-point scale is considered more appropriate than 5-point scale. However, Dawes (2007) reported that 5-point or 7-point Likert scales are equally good and comparable when data has to be used for regression analysis, confirmatory factor analysis or structural equation modeling.

Babie (1990) recommends that Likert scale is easy to develop, more reliable and has higher adaptability and applicability. Use of Likert type scales is very common in research in SMEs. Covin and Slevin (1989) developed highly cited Entrepreneurial Orientation (EO) scale using a 7-point Likert type scale. Weerawardena *et al.* (2006) used a 7-point Likert type scale to measure types and degree of innovation in SMEs. Similarly

Chiva *et al.* (2007) used a 7-point Likert type scale to measure organizational learning capability construct.

Thus, this study employs 7-point Likert type numeric scales for all the questions in order to keep consistency in measurement; where 1 refers to complete disagreement to the opinion on the left of the numeric scale and 7 corresponds to complete agreement to the opinion on the right of the numeric scale, whereas 4 refers to neutrality or indifference.

3.7.6. Reliability and Validity of the Instrument

Reliability and validity of the instrument used for data collection is considered fundamental. The findings of the study can only be considered reliable if the study used a valid instrument. Reliability means that the repetitive studies would produce similar findings and results.

This study used Cronbach alpha as an indicator of reliability of research instrument. Cronbach is used quite frequently as a technique of measuring the internal consistency of items (Onwuegbuzie & Daniel, 2002). Cronbach's alpha value of 0.6 is considered acceptable. If the value of alpha is closer to one, it shows higher reliability of instrument and indicates higher inter-item consistency.

Validity of the instrument refers to what the instrument actually measures. If the instrument actually measures what it intends to measure, then it is said to be a valid instrument. Majority of the questions are obtained, adapted and modified from the past studies. However, in case of dimensions lacking measurement scales, measures are designed and scales are developed for this study. As the questions are taken from past studies, it indicates face validity. Face validity means that the questions appear to measure the concept they are developed to measure (Sekaran & Bougie, 2010).

Furthermore, the instrument should also ensure content validity. It should ensure that measures are suitable and representative of the concept to be measured (Babbie, 1990; Sekaran & Bougie, 2010). The instrument was sent to panel of experts (lecturers in the relevant academic field and industry representatives) in order to get feedback regarding content validity. Moreover, this study employed exploratory factor analysis to measure the construct validity. Factor analysis confirmed the underlying dimensions on each construct relevant to the scope of the study. Cronbach alpha was used to measure the reliability of latent constructs.

3.7.7. Pilot Study

Before proceeding to pilot study, several measures were taken in designing the questionnaires. The following procedures have been adopted to develop measurement of constructs and dimensions.

- a. A thorough literature review was conducted in order to gain a comprehensive understanding of each construct used in the study.
- b. Initially a questionnaire was developed in English language which was subsequently translated in to Urdu language using back and forth method of translation (English to Urdu and then Urdu to English). Urdu instrument was given to language experts in order to make any necessary modifications and identify the errors. However, Urdu instruments for not required for the survey as all the respondent firms had the experience of dealing with international customers. Thus, they preferred to fill in their responses using the questionnaires in English language.
- c. Questionnaires were given to the lecturers of relevant academic area, as well as to some SMEs in sports industry of Pakistan (potential respondents) in order to have an insight about relevance, evaluation of content and any ambiguity that may lead to non-response.
- d. The suggested corrections were incorporated in to the questionnaires that were used for pilot study. The results of pilot study determined the final modifications to be incorporated in the questionnaire instrument.

A pilot study was conducted on 51 SMEs as the developed instrument was subject to validity and reliability test. In order to remove any ambiguities, and to improve the quality of questionnaire, a pilot study is quite necessary (Neuman, 1997). Pilot study is very useful in detecting any design and instrumentation deficiencies. In this regard questionnaires were sent to 51 SMEs in sports industry of Pakistan. The total sample size

of fifty one satisfied the recommended pilot test range from twenty-five to seventy-five (Babbie, 1990; Converse & Presser, 1986; Robins, 1999).

Pilot study helped in identifying misunderstood items, ambiguous terms and useless items. Reliability of the instrument was measured using Cronbach alpha. Furthermore, exploratory factor analysis was conducted to ensure validity of the instrument. On the basis of results of pilot study, the survey instrument was also redrafted and modified, unclear terms were rephrased, and ambiguous questions were made more simplified and comprehensible.

3.8. Data Analysis Techniques

The study employed a number of techniques for data analysis and procedures for hypothesis testing. Firstly, data screening and data cleaning was done in order to deal with any missing values, removing the influential outliers and making the data normal. Then the data was analyzed by employing descriptive statistics such as frequency distributions and percentages regarding firms' demographics.

In order to verify the goodness of the measure (research instrument), reliability and validity tests were conducted. Cronbach alpha was calculated to estimate the internal consistency of items measuring a construct. Higher values of reliability coefficient Cronbach's alpha pertaining to the constructs used in the study point to greater degree of the reliability of the instrument.

Factor analysis was performed to measure the construct validity of the instrument. Basically, the aim of factor analysis is “*to identify small number of themes, dimensions, components or factors underlying a relatively large set of variables*” (Meyers, Gamst & Guarino, 2006, p. 465). As a single item represents a part of a construct, a combination of items is needed to explicate the whole construct.

In addition, factor analysis assists in data reduction by retaining only the quality items (having higher loadings) that explain the construct. As factor analysis deals with correlated items, it makes it quite clear that which items combine together to make one latent factor; and how many latent factors make up a latent construct/variable. Hence, factor analysis permits merely the most reasonable and viable items to represent the construct, thus, demonstrate good construct validity.

The minimum required sample size to perform factor analysis was recommended by Hair *et al.* (1998) and Coakes (2005) who suggested at least five observations apiece for every variable to run factor analysis. However, Tabachnick and Fidell (2001) recommended a sample size of 300 as appropriate for conducting factor analysis. Therefore, Sample size of 352 was large enough to run the factor analysis.

Firstly, exploratory factor analysis was performed for each construct to assess the construct validity and identify the latent factors. Secondly, factor analysis was run for determining the unidimensionality of the independent constructs and validate whether the respondents considered the constructs as unique and distinct from others.

Factor analysis comprises of two steps, which include extraction and rotation. Principal component method was used for extraction of factors with eigenvalue greater than 1. The orthogonal varimax rotation was employed to maximize the separation of factors (Hair, Black, Babin, Anderson, & Tatham, 2005).

Past researchers have discussed the criterion for significant loading for selecting the most relevant items to comprise the latent construct. According to Kim and Mueller (1978) a loading of ± 0.30 , explains only 10% of variance making it the minimum level of significance, ± 0.4 loading is better, a loading of ± 0.50 is more significant as it explains 25% of the variance.

Comrey and Lee (1992) considered 0.71 as excellent, 0.63 a quite good, 0.45 as mediocre and 0.32 as poor. Igbaria, Iivari and Maragahh (1995) laid down the criteria for the identification and interpretation of factors as each item must have a loading of 0.50 or higher on one factor and 0.35 or lower on the other factor. This study followed the criteria suggested by Igbaria *et al.* (1995) and Hair *et al.* (2010). Hence, the loadings below 0.50 were suppressed and the corresponding items were deleted from the further analysis.

In addition, in order to determine the factorability of the constructs, the Bartlett's test of sphericity must be significant and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy should be higher than 0.50 (Hair *et al.*, 1998). Field (2000) recommended that KMO value ranging from 0.5 to 0.7 is mediocre, 0.7 to 0.8 is good and

0.8 to 0.9 is excellent. Furthermore, the reliability of latent factors was also measured using Cronbach alpha. Cronbach alpha is the measure of internal consistency. It presumes that the items form a uni-dimensionality set and possess equal reliabilities (Nunnally, 1978). Cronbach's alpha value of 0.60 is considered acceptable. Higher value of Cronbach alpha demonstrates good reliability and internal consistency among items of same construct.

After verifying the construct validity, multiple regression analysis was performed. The aim of conducting multiple regression analysis was to find out the predictive power of the independent variables (Innovation and Branding) towards the dependent variable (SME Performance). In addition, multiple regression analysis was also employed due to its ability to perform rigorous and simultaneous assessment of the independent variables.

Hair *et al.* (2010) emphasized on the significance of sample size. He stated that sample size directly impacts the power of the multiple regressions. However, there exists no hard and fast rule for determining the observations per independent variable ratio. In order to achieve valid and reliable results it has been suggested to have at least 15-20 observations per independent variable (Hair *et al.*, 1998, 2010). The coefficient of determination, R^2 , refers to the measure of the goodness of the model by indicating the variance of the criterion variable explained by the predictor variables (Hair *et al.*, 2010).

As the present study employs two independent variables, desirably the required number of observations is between 30-40 observations. On the other hand, a further

detailed suggestion was forwarded by Green (1991) who recommended that the desired power level, number of independent variables and anticipated effect size should be considered. He proposed the formula for calculating the required sample size as $N \geq 50 + 8m$ (where m refers to number of independent variables). Hence, the minimum sample size needed in order to perform multiple regression analysis for present study is 66 as per recommendation forwarded by Green (1991). Keeping in view the above mentioned proposed sample size; a sample of 352 obtained in the present study is highly appropriate and sufficient for conducting multiple regression analysis.

Before scrutinizing the results, the requisite assumptions to perform multiple regressions analysis were met. Normality, linearity, homoscedasticity, multicollinearity and autocorrelation were examined. Normality means that most of the data resides within the normal distribution and does not deviate considerably from the mean. Normality of the data can be judged as through histogram, normal P-P plot and normal Q-Q plot. Linearity refers to the condition that the data lays equally across the fit or linearity line and within the range of ± 3 standard deviations. Homoscedasticity points to the situation where there is no clear relationship between predicted values and standardized residuals or in other words, the variance of dependent variables is distributed evenly throughout the data. Scatter plot is commonly used for observing linearity and homoskedasticity of the data. Multicollinearity occurs if there is strong correlation between independent variables. Autocorrelation means that errors of variance are independent or in other words, there are no dependences between errors of variance. Durbin-Watson test indicates the occurrence or absence of autocorrelation in the data.

Organizational Learning Capability is the moderating variable in this study. It was hypothesized that organizational learning capability moderates the relationship between independent variables (Innovation and Branding) and dependent variable (SMEs Performance). Hierarchical Regression Analysis technique was employed to test the moderation effect. This study examined the moderating effect of organizational learning capability on the hypothesized relationships following the method proposed by Frazier, Tix and Barron (2004). Before proceeding to get the interaction terms to measure the moderating effect, all the variables meant to be used were standardized. This means that the mean of each variable was subtracted from all the values of that variable and subsequently all the values of the variable were divided by its standard deviations.

As suggested by Baron and Kenny (1986), the regression analyses were performed in several blocks. The first block included only the control variables (Firm size and age of business) regressed with the dependent variable. Control variables were included as it was argued by past researchers that young and inexperienced SMEs lack the critical resources and market knowledge that is possessed by large firms in order to foster innovation (Koc & Ceylan, 2007). Similarly, it was argued that noteworthy differences may exist in branding practices of SMEs based on their size and age of business (Hirvonen *et al.*, 2013). In the second block, the independent variables were included to examine their predictive power on the dependent variable. The third block included the moderator variable while the fourth block included the interaction terms. This implies that the fourth block included all the variables and the interaction terms. To conclude, the summary of this chapter is presented in the subsequent section.

3.9. Summary of the Chapter

This chapter elaborates the research methodology employed in this study. This is a correlational study that uses self administered questionnaires based survey method for data collection. Population for this study comprised of manufacturing SMEs in sports industry of Pakistan. Using a formula proposed by Mendenhall *et al.* (1993) a minimum sample size of 346 was required. Systematic random sampling method was used to select the sample.

Personally delivered questionnaires were used as a primary instrument for data collection. The instrument was tested for validity and reliability for this study. The data was analyzed by employing descriptive and inferential statistics.

The subsequent chapter entails the discussion about data analysis and findings of the study.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter intends to explain the findings and discussion of this study. There are several sections in this chapter. Introductory section 4.1 is followed by Section 4.2 which elaborates data screening procedures. Section 4.3 presents the background of the respondents, which include the demographics of the respondent firms such as age of business, number of employees, capital invested in to the business, scope of business and the status of business. The information is presented in tabular form and pie charts. In order to verify the validity of the instrument, exploratory factor analysis is performed and is elaborated under Section 4.4. The reliability of the latent constructs has been measured under section 4.5. As a result of differences in the grouping of the dimensions discovered under this study, hypotheses have been stated and presented under section 4.6. Testing of the hypotheses using Multiple Regression Analysis and Hierarchical regression is covered under section 4.7. Section 4.8 summarizes the findings and concludes the chapter.

4.2 Data Screening

In order to verify that the data was clean and there were no errors in the coding process, various procedures were carried out. The data was thoroughly screened to

identify any errors in coding process. Data for all items was screened and frequency tests were performed to check the extreme minimum and maximum values. None of the values exceeded the specified range (1 to 7). Thus it was verified that there were no coding errors.

4.2.1 Missing Data

Hair, Black, Babin and Anderson (2010) stated that if there is more than 50% of the missing data for a given respondent, the case should be deleted. As discussed before, 05 out of 357 questionnaires were having more than 50% of missing data. Thus, all of those 05 observations were excluded from further analysis. Hence, there were 352 complete responses with no missing values as mentioned in table 4.1.

Table 4.1
Missing Values

Total Questionnaires Received	357
Cases with missing values exceeding 50%	05
Valid Responses for further analysis	352

4.2.2 Test of non-response bias

Malhotra, Hall, Shaw and Oppenheim (2006) stressed that the differences between early and late respondents can seriously affect the results of a given study. As discussed in the previous chapter, the survey for data collection was initiated on October 17, 2012 and concluded on March 12, 2013. Questionnaires were personally delivered to the respondents. However, the respondents were asked to return the questionnaires through mail within 15 days. The purpose was to provide them enough time to respond to questionnaire items. There were 220 early respondents who responded within the stipulated time of 15 days, whereas

132 respondents were categorized as late respondents who took more than 15 days to respond. They responded after receiving the reminder letters and phone calls. According to Churchill and Brown (2004) late respondents can be categorized as non respondents because they would not have responded without frequent reminders and follow-up.

In order to find out any significant differences between early and late respondents, independent sample T-test was used to test non-response bias. T-test was performed for all the variables used in the study. Results of the T-test are given as under in table 4.2.

Table 4.2
Test of Non-Response Bias

Variable	T-value	Significance
Innovation	2.230	0.130
Branding	6.972	0.101
Organizational Learning Capability	5.572	0.586
SMEs Performance	3.665	0.352

Results of the t-test showed no significant differences as it can be seen in table 4.2, there are no significant differences in responses between early and late respondents with respect to Innovation, Branding, Organizational learning capability and SMEs Performance. Therefore, the results do not indicate significant non-response bias between early and late respondents.

4.2.3 Dealing with Outliers

Detection of influential outliers is quite essential before proceeding to advanced data analysis procedures. There are three criteria that determine if any case (observation) is having an undue influence on the model. The criteria include Mahalanobis distance, Cook's distance, and Leverage's hat value. Hair *et al.* (2010) described outlier as an

observation which stands out from rest of the data because it has unusually high or low values for one variable or several variables.

Mahalanobis distance (d^2) was used to identify the outlying cases. According to Tabachnick and Fidell (2007) degree of freedom equals the number of variables used in the study. Given the number of variables (4) representing the degree of freedom in the X^2 table at $P>0.001$, the chi-square value was found as 18.46. Hence, any case having mahalanobis distance exceeding 18.46 was detected as outlier. It can be seen in table 4.3 that four cases were detected as outliers.

However, before deleting any of those cases, the corresponding values for Cook's distance and Leverage's hat value were examined to determine that how many of the detected outliers are significantly influential outliers. According to Cook and Weisberg (1982) if the value of Cook's distance for any case is greater than 1.0, it is a cause of concern and the case would be considered as an influential outlier. In case of leverage method for detecting outliers, leverage's hat value for any observation exceeding 0.50 considers that observation as an influential outlier (Iglewicz & Hoaglin, 1993; Hair, Anderson, Tatham & Black, 1998).

A look at table 4.3 verifies that none of the detected outliers was an influential outlier as all the values for Cook's distance and Leverage's hat value were considerably lower than threshold values of 1.0 and 0.50 respectively.

According to Cohen, Cohen, West and Aiken (2003) if the number of outliers is less than 2% of total observations (352 in this study) and do not have extreme values, they are best to be left alone. As exhibited in table 4.3, the number of detected outliers is

less than 7 (2% of 352) and there are no extreme value for Cook's and Leverage distances Therefore all cases were retained for further analysis as per recommendations of Cohen *et al.* (2003). Table 4.3 is presented as follows.

Table 4.3
Detection of Influential Outliers

Number	Observation Cases	Mahalanobis d-Square	Cook's distance	Leverage's hat value
1	15	27.35554	0.06908	0.07794
2	69	23.40092	0.00037	0.06667
3	225	22.92215	0.00089	0.06531
4	73	21.84823	0.00913	0.06225

4.2.4 Assessment of Linearity

Presence of linear relationship between variables is an important prerequisite in order to conduct multivariate analysis. It is one of the fundamental assumptions for conducting multiple regression analysis. Therefore it was pertinent to ensure that there exists a linear relationship between variables used in the study.

For the purpose of assessment of linear relationship between variables, scatter plots were conducted on all the variables. Shape of the scatter plots and slope of the linearity line verified the linearity between variables, as exhibited in figure 4.1 given below.

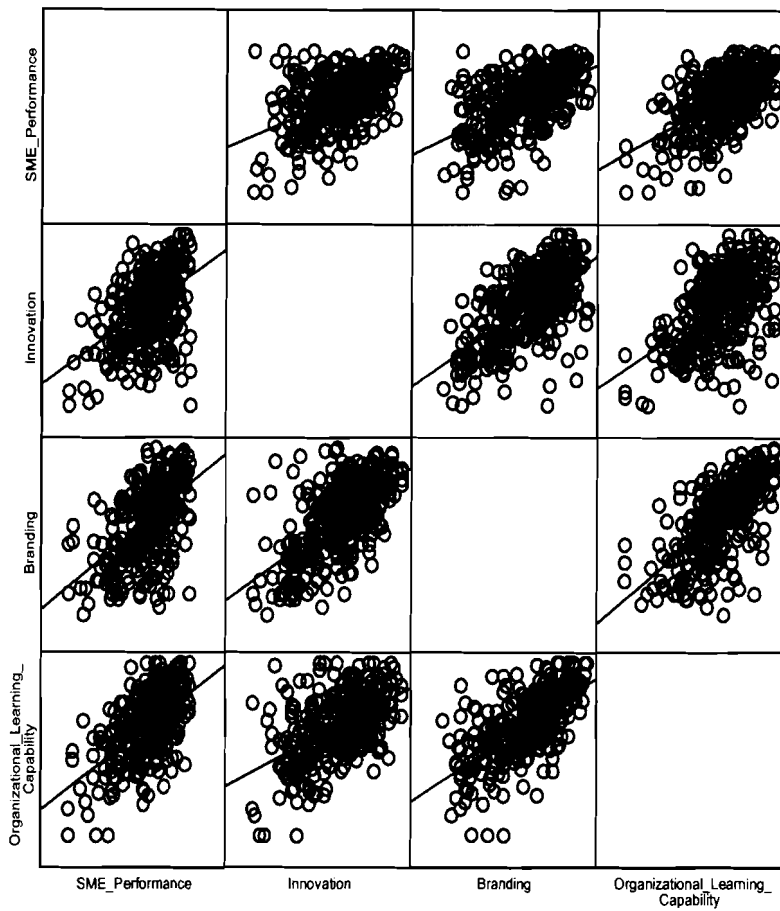


Figure 4.1
Scatter plots of variables

4.2.5 Assessment of Normality

Assessment of normality is quite imperative as it is one of the elementary prerequisites of multivariate analysis (Hair *et al.*, 2010). It is a critical step to ensure that powerful and effective inferences can be drawn from the data.

To assess normality, Skewness and Kurtosis values for all variables were examined. The acceptable threshold statistical values (Z) for Skewness and Kurtosis are

<3 and <8 respectively (Kline, 2005; Hair, Black, Babin, Anderson & Tatham, 2006). The initial tests of normality revealed the indications of non-normality as few cases had Z-values exceeding the threshold values.

Therefore, the data was transformed through quadratic transformation as per recommendations of Tabachnick and Fidell (2007) who emphasized that transformation of data improves results and normality should be accessed after transformation. As a result of transformation, the Skewness and Kurtosis values for all the variables followed the acceptable range of < 3 and < 8 respectively. As can be seen in table 4.4, Skewness values range from -0.451 to -0.679.

Similarly, Kurtosis values range from 0.923 to -0.410 revealing that the variables are not excessively peaked. Thus the values presented in table 4.4 verify that the data comes from normal distribution. Assessment of normality is further discussed in multiple regression analysis where histogram, normal p-p plot and scatter plots are presented as indicators of normality.

Table 4.4
Skewness and Kurtosis

Variables	Mean	Std. Deviation	Skewness	Kurtosis
Innovation	4.525	1.250	-0.451	-0.410
Branding	4.528	1.231	-0.497	-0.363
Organizational Learning Capability	4.928	1.065	-0.679	0.923
SMEs Performance	4.629	1.223	-0.489	-0.017

4.2.6 Assessment of Multicollinearity

Before proceeding to further analysis of data using advanced multivariate analysis techniques, it was essential to examine the issue of multicollinearity among the variables. Multicollinearity is a serious problem which refers to the higher degree of inter-correlations among independent variables. In case of occurrence of multicollinearity, calculation of impact of each variable becomes difficult which causes over estimation of independent variables.

One of the most often used tests of multicollinearity is the inspection of matrix bi-variate correlation (Berry & Fledman, 1985). If the value of correlation coefficient exceeds 0.90 and independent variables, it indicates the occurrence of multicollinearity (Hair *et al.*, 2006, 2010). Table 4.5 illustrates the inter-correlations among major variables used in the study. From the results, it is verified that there is no issue of muticollarity as the values of correlation coefficient ranged from 0.519 to 0.651 and were well below the upper threshold value of 0.90.

Table 4.5
Assessment of Multicollinearity

	Innovation	Branding	Organizational Learning Capability	SMEs Performance
Innovation	1.000			
Branding	0.615**	1.000		
Organizational Learning Capability	0.519**	0.651**	1.000	
SMEs Performance	0.483**	0.553**	0.582**	1.000

**p<0.01

Assessment of multicollinearity is further discussed in multiple regression analysis where tolerance values and variance inflation matrix (VIF) values are accessed to investigate the occurrence of multicollinearity.

4.3 Demographic profile of the respondents

Demographic characteristics of the respondents are presented in this section. A look at profile of respondents exhibits that they have diverse characteristics in terms of age, size, scope and status of business. In terms of firms' age, majority of firms (73.6 %) were 1-20 years old; whereas, 26.4% of firms were doing business for more than 20 years. Further breakup of firms' age is given below in figure 4.2.

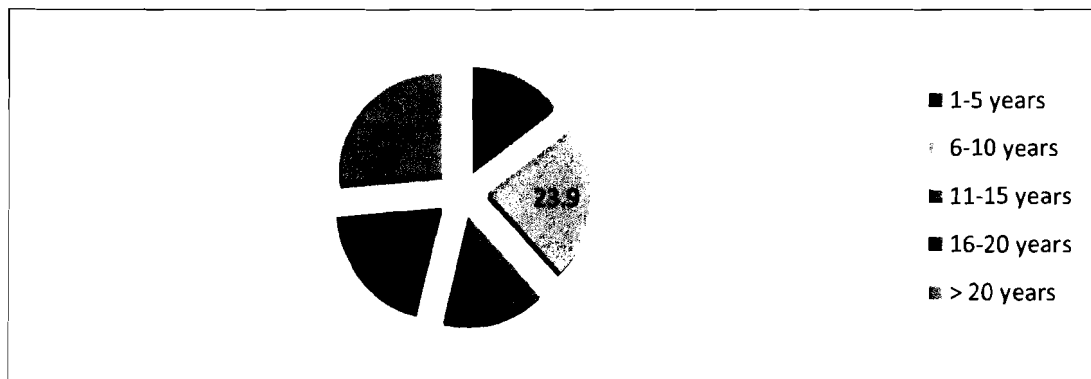


Figure 4.2
Age of Business

With respect to firm size, 36.6% of the firms had up to 10 permanent employees representing the small firms; whereas, 63.4% of firms employing 11-99 employees represented the medium sized firms as can be seen in figure 4.3.

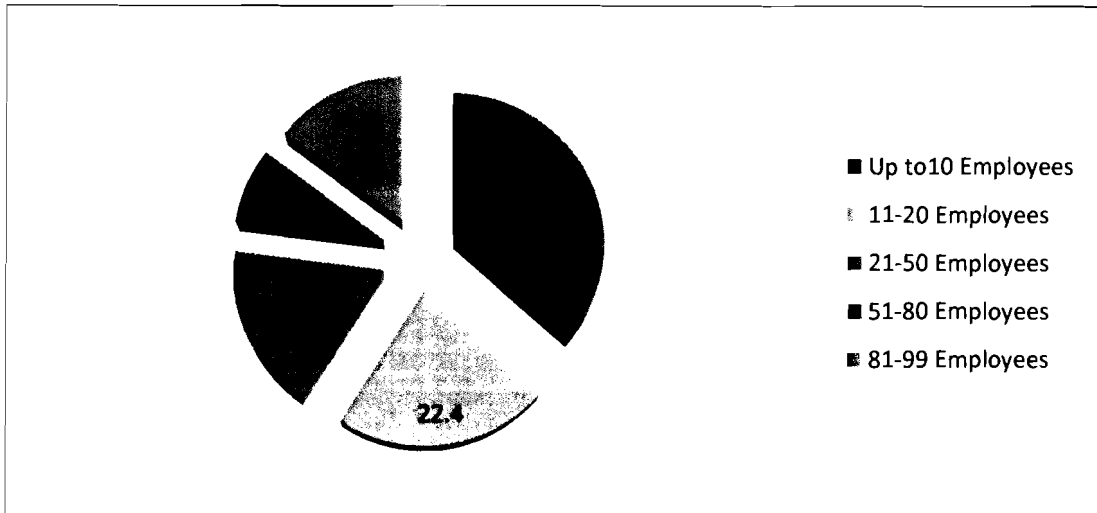


Figure 4.3
Number of Employees

Invested amount of capital into the business ranged from less than two million Pakistan Rupees to 40 million Pakistan Rupees. A large number of respondents (47.2%) refused to disclose the information about capital investment in the business as they considered it as confidential information. Breakup of invested capital is presented in figure 4.4.

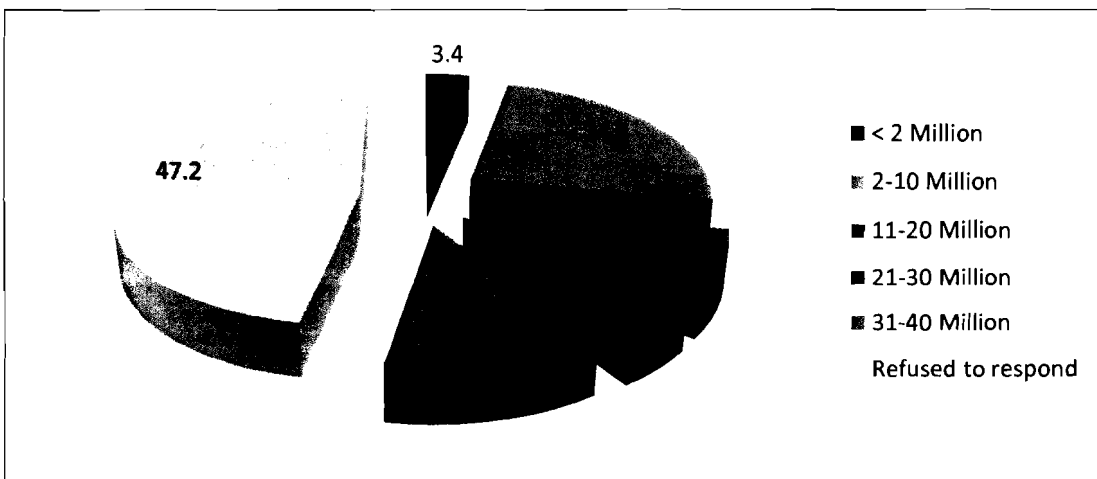


Figure 4.4
Capital Invested in the business (Pakistan Rupees)

In terms of status of business, 23.6% of the firms stated that their business is growing well; whereas, 34.9% of the firms mentioned that their business has been declining in recent past (last three years) as demonstrated in figure 4.5.

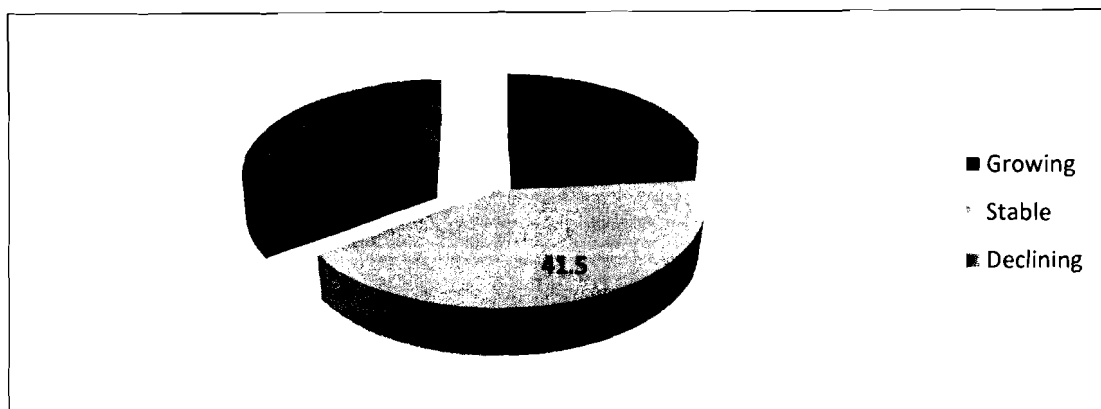


Figure 4.5
Status of Business

With respect to scope of business, majority of firms (70%) are involved in exporting their goods to other countries; whereas, 30% of the firms have focused solely on dealing in local market as presented in figure 4.6.

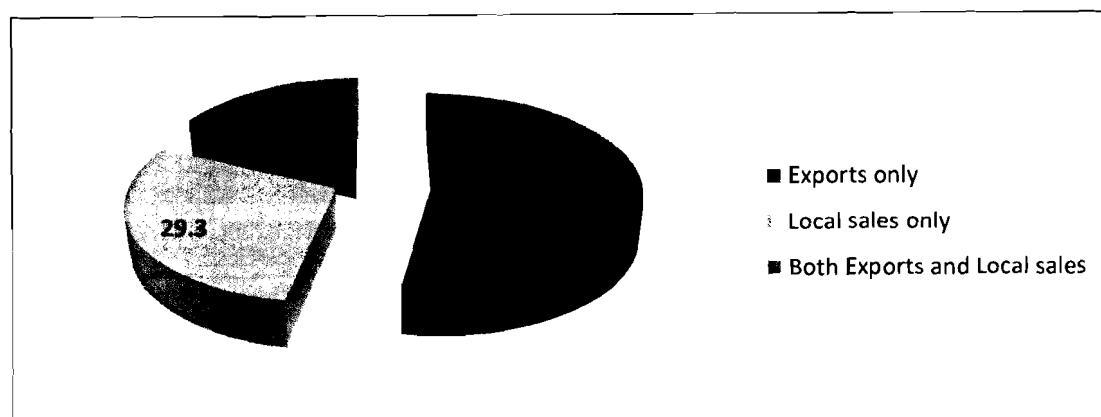


Figure 4.6
Scope of Business

All of the above mentioned information demonstrating the profile of the respondents is comprehensively summed up in table 4.6 as given below.

Table 4.6
Profile of Respondents

Characteristics	Frequency	Percent (%)	Cumulative (%)
Age of Business			
1-5 years	51	14.5	14.5
6-10 years	84	23.9	38.4
11-15 years	54	15.3	53.7
15-20 years	70	19.9	73.6
> 20 years	93	26.4	100
Number of Employees			
Up to 10 Employees	129	36.6	36.6
11-20 Employees	79	22.4	59.1
21-50 Employees	63	17.9	77
51-80 Employees	29	8.2	85.2
81-99 Employees	52	14.8	100
Capital Invested (Pakistan Rupees)			
< 2 Million	12	3.4	3.4
2-10 Million	86	24.4	27.7
11-20 Million	27	7.7	35.4
21-30 Million	18	5.1	40.5
31-40 Million	43	12.2	52.7
Refused to respond	166	47.2	100
Status of Business			
Growing	83	23.6	23.6
Stable	146	41.5	65.1
Declining	123	34.9	100
Scope of Business			
Exports only	186	52.8	52.8
Local sales only	103	29.3	82.1
Both Exports and Local sales	63	17.9	100

4.4 Goodness of Measure

Before proceeding to the further tests, it was necessary to test the validity and reliability of the constructs. Factor analysis was performed to measure the construct validity of the instrument. Basically, the aim of factor analysis is “*to identify small number of themes, dimensions, components or factors underlying a relatively large set of variables*” (Meyers, Gamst & Guarino, 2006, p. 465). As a single item represents a part of a construct, a combination of items is needed to explicate the whole construct. The details regarding the procedures employed for conducting factor analysis are given in chapter 3. Following are the results pertaining to factor analysis of variables used in the study.

The results of exploratory factor analysis for items representing Innovation are presented in table 4.7. The value of 0.904 for Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy signifies excellent factorability of the construct. In addition, the results of Bartlett’s test are highly significant which indicate adequate correlation among the analyzed items. The values of communalities among the items are also quite high, ranging from 0.459 to 0.714.

Extraction and rotation process produced two components with acceptable loadings and eigenvalues greater than 1. The two factor rotated solution explained total variance of 60.37%. Cronbach’s coefficient alpha for the latent factors is 0.818 and 0.839

respectively which demonstrates higher internal consistency. The summary of the table is produced as follows.

Table 4.7
Results of Factor Analysis for Innovation

Description of Items		Component	
		1	2
PDI1	Product innovations introduced by our firm during the last three years have been limited/intensive.	0.648	
PDI2.	Our new products and services are often perceived by our customers as not at all innovative/highly innovative.	0.726	
PDI3	Product improvements have been mainly incremental/radical	0.643	
PRI1	Process innovations introduced by our firm during the last three years have been limited/intensive	0.780	
PRI2	Our production processes are often perceived by our customers as quite obsolete/highly innovative.	0.773	
MKI1	Marketing innovations introduced by our firm during the last three years have been limited/extensive		0.650
MKI2	Our marketing methods are often perceived by our customers as very traditional/very innovative		0.788
MKI3	Marketing innovations have been mainly incremental/radical		0.834
MNI2	Our managerial practices are often perceived by our employees as very traditional/very innovative		0.693
MNI3	Managerial innovations have been mainly incremental/radical		0.645
Eigenvalue		4.98	1.04
Percentage Variance		49.89	10.48
	Cronbach alpha	0.818	0.839
	Kaiser Meyer Olkin Measure of Sampling Adequacy	0.904	
	Bartlett's Test of Sphericity	Approx. Chi-Square 1493.851	
		DF 45	
		Sig. 0.000	

Extraction Method: Principal Component Analysis
 Rotation Method: Varimax with Kaiser Normalization
 PDI- Product Innovation
 PRI- Process Innovation
 MKI- Marketing Innovation
 MNI- Managerial Innovation

The results of exploratory factor analysis for items measuring branding are given in table 4.8. The value of 0.886 for Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy signifies good factorability of the construct. In addition, the results of Bartlett's test are highly significant which indicate adequate correlation among the

analyzed items. The values of communalities among the items are also quite high, ranging from 0.439 to 0.734.

Extraction and rotation process produced two components with acceptable loadings and eigenvalues greater than 1. The two factor rotated solution explained total variance of 56.84%. Cronbach's coefficient alpha for the latent factors is 0.859 and 0.769 respectively which demonstrates good reliability. The summary of the table is produced as follows.

Table 4.8
Results of Factor Analysis for Branding

Description of Items		Component	
		1	2
SMB1	Our firm's focus on developing own/corporate brands has been quite extensive.	0.611	
SMB2	In case of own brands, our firm sells its products using company/corporate brand name.	0.721	
SMB3	Brand Planning has been a critical element of our business strategy	0.782	
SMB4	Branding is the central focus of all of our marketing activities.	0.785	
SMB7	Our firm focuses on selecting brand name/s that is easy to speak, remember and recall.	0.632	
SMB8	Our brand represents the values of our firm	0.742	
SMB9	Our firm's brand elements (logo, symbol, slogan, and trademark) are very unique and easily recognizable.	0.674	
SMB11	Our firm frequently uses in-house/company trade publications, company website and other low cost promotional tools such as trade shows and exhibitions and event sponsorships.		0.569
SMB13	Our firm frequently looks for unique brand associations such as (High Product Quality, Performance Awards, ISO Certifications) to promote and enhance the repute of our business.		0.756
SMB14	Our firm frequently associates its products with other firms (corporate clients, suppliers and distributors) to enhance firm's reputation		0.847
SMB15	Our firm frequently associates its products with renowned spokes persons, sports celebrities (famous players) and sports events (world cup, euro cup, etc) to enhance firm's reputation.		0.744
Eigenvalue		4.87	1.38
Percentage Variance		44.27	12.56

Table 4.8 (continued)

Cronbach alpha		0.859	0.769
Kaiser Meyer Olkin Measure of Sampling Adequacy	0.886		
Bartlett's Test of Sphericity	Approx. Chi-Square	1486.539	
	DF	55	
	Sig.	0.000	

Extraction Method: Principal Component Analysis
 Rotation Method: Varimax with Kaiser Normalization
 SMB- Branding in SMEs

The results of exploratory factor analysis for items structuring Organizational Learning Capability branding are exhibited in table 4.9. The value of 0.912 for Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy signifies good factorability of the construct. In addition, the results of Bartlett's test are highly significant which indicate adequate correlation among the analyzed items. The values of communalities among the items are also fairly high, ranging up to 0.795. Extraction and rotation process produced three components with acceptable loadings and eigenvalues greater than 1. The three factor rotated solution explained total variance of 64.71%. Cronbach's coefficient alpha for the latent factors is 0.824, 0.818 and 0.859 respectively which demonstrates higher level of reliability. The summary of table 4.9 is exhibited as under.

Table 4.9

Results of Factor Analysis for Organizational Learning Capability

Description of Items		Component		
		1	2	3
EXP1	Our firm assesses the innovative ideas of our employees			0.819
EXP2	Our firm provides time and resources for employees to generate, share/exchange and experiment with innovative ideas/solutions			0.816
EXP3	In Our firm, Employees are recognized and rewarded for their creativity and innovative ideas			0.751
RT3	Mistakes and losses regarding risk taking efforts are tolerated in our firm		0.576	

Table 4.9 (continued)

IEE1	It is part of the work of all staff to collect, bring back and report information about what is going on outside the firm	0.723		
IEE2	There are systems and procedures for receiving, collating and sharing information from outside the firm	0.749		
IEE3	Employees are encouraged to interact with the suppliers, customers, competitors, marketing research firms, technological institutes and universities and government departments.	0.742		
IEE4	Our firm frequently collects information about changes in external environment (suppliers, customers, competitors).	0.717		
IEE5	Our firm extensively integrates external environment information to bring innovations	0.726		
DL2	Managers facilitate and encourage employees to communicate		0.779	
PDM1	Managers in our firm frequently involve employees in major decisions		0.761	
PDM2	Employees feel involved and actively give their opinions and suggestions regarding important decisions taken by the firm		0.735	
PDM3	Policies of our firm are significantly influenced by the opinions and views of our employees		0.627	
Eigenvalue		6.075	1.273	1.065
Percentage Variance		46.73	9.79	8.19
	Cronbach alpha	0.824	0.818	0.859
	Kaiser Meyer Olkin Measure of Sampling Adequacy	0.912		
	Bartlett's Test of Sphericity			
	Approx. Chi-Square	2143.037		
	DF	78		
	Sig.	0.000		

Extraction Method: Principal Component Analysis
 Rotation Method: Varimax with Kaiser Normalization
 EXP- Experimentation
 RT- Risk Taking
 IEE- Interaction with External Environment
 DL- Dialogue
 PDM- Participative Decision Making

The results of exploratory factor analysis for items measuring SMEs Performance are given in table 4.10. The value of 0.872 for Kaiser-Meyer-Olkin (KMO) measure of

sampling adequacy signifies good factorability of the construct. In addition, the results of Bartlett's test are highly significant which indicate sufficient correlation among the analyzed items. The values of communalities among the items are substantially good, ranging from 0.427 to 0.624. Extraction process produced only one component with acceptable loadings and eigenvalues greater than 1, thus signifying the unidimensionality of the construct. The extracted solution explained total variance of 52.573%. Cronbach's coefficient alpha for the latent factors is 0.870 which demonstrates good reliability. The summary of the table is produced as follows.

Table 4.10
Results of Factor Analysis for SMEs Performance

Description of Items		Component
		1
P1	Sales Growth Rate	.784
P2	Market Share	.683
P3	Operating Profits	.735
P4	Return on Investment	.790
P5	New Product Development	.653
P6	Market Development	.732
P7	Research & Development Activity	.703
P8	Employee Growth and Development	.709
Eigenvalue		4.206
Percentage Variance		52.573
Cronbach alpha		0.870
Kaiser Meyer Olkin Measure of Sampling Adequacy		0.872
Bartlett's Test of Sphericity		
Approx. Chi-Square		1201.809
DF		28
Sig.		0.000

Extraction Method: Principal Component Analysis
P- Performance

After analyzing the construct validity of all the variables used in the study individually, factor analysis was run to validate whether the respondents perceived the two independent variables to be distinct. The results illustrate a two factor solution with

eigenvalues greater than 1.0, explaining the total variance of 47.48%. KMO measure of sampling adequacy was 0.921 suggesting excellent factorability of the constructs; whereas, the Bartlett's Test of Sphericity was also quite significant (Chi square=3276.447, $p < 0.01$) signifying high inter-correlations. The values of communalities among the items were reasonably good, ranging up to 0.590.

Table 4.11 demonstrates result of the factor analysis performed simultaneously for both of the independent variables. These results authenticate that each of the independent constructs is unidimensional and factorially distinctive and that all of the items used to structure a specific construct loaded on a single factor.

Table 4.11
Results of Factor Analysis for Independent Variables

Description of Items		Component	
		1	2
PDI1	Product innovations introduced by our firm during the last three years have been limited/intensive.		0.601
PDI2.	Our new products and services are often perceived by our customers as not at all innovative/highly innovative.		0.720
PDI3	Product improvements have been mainly incremental/radical		0.721
PRI1	Process innovations introduced by our firm during the last three years have been limited/intensive		0.755
PRI2	Our production processes are often perceived by our customers as quite obsolete/highly innovative.		0.696
MKI1	Marketing innovations introduced by our firm during the last three years have been limited/extensive		0.547
MKI2	Our marketing methods are often perceived by our customers as very traditional/very innovative		0.663
MKI3	Marketing innovations have been mainly incremental/radical		0.572
MNI2	Our managerial practices are often perceived by our employees as very traditional/very innovative		0.666
MNI3	Managerial innovations have been mainly incremental/radical		0.649
SMB1	Our firm's focus on developing own/corporate brands has been quite extensive.	0.593	
SMB2	In case of own brands, our firm sells its products using company/corporate brand name.	0.605	
SMB3	Brand Planning has been a critical element of our business strategy	0.746	
SMB4	Branding is the central focus of our marketing activities.	0.688	

Table 4.11 (continued)

SMB7	Our firm focuses on selecting brand name/s that is easy to speak, remember and recall.	0.564	
SMB8	Our brand represents the values of our firm	0.679	
SMB9	Our firm's brand elements (logo, symbol, slogan, and trademark) are very unique and easily recognizable.	0.584	
SMB11	Our firm frequently uses in-house/company trade publications, company website and other low cost promotional tools such as trade shows and exhibitions and event sponsorships.	0.584	
SMB13	Our firm frequently looks for unique brand associations such as (High Product Quality, Performance Awards, ISO Certifications) to promote and enhance the repute of our business.	0.678	
SMB14	Our firm frequently associates its products with other firms (corporate clients, suppliers and distributors) to enhance firm's reputation	0.598	
SMB15	Our firm frequently associates its products with renowned spokes persons, sports celebrities (famous players) and sports events (world cup, euro cup, etc) to enhance firm's reputation.	0.546	
Eigenvalue		8.01	1.96
Percentage Variance		38.14	9.33

Kaiser Meyer Olkin Measure of Sampling Adequacy		0.921
Bartlett's Test of Sphericity		
Approx. Chi-Square	3276.447	
DF	210	
Sig.	0.000	

Extraction Method: Principal Component Analysis
 Rotation Method: Varimax with Kaiser Normalization

After validating the constructs using exploratory factor analysis, and accessing the reliability of latent factors, it was required to access the reliability of latent variables after deleting the items as suggested by the results of factor analysis. 02 items (PRI3 and MNI1) were deleted from Innovation Construct. 04 items (SMB5, SMB6, SMB10 and SMB12) were deleted from Branding Construct. Similarly, 04 items (RT1, RT2, DL1 and DL3) were removed from Organizational Learning Capability Construct as their factor loading values were below the cutoff value of 0.50 as suggested by Igbaria *et al.*(1995) and Hair *et al.* (2010).

Table 4.12 illustrates the reliability of latent variables after deleting the aforementioned items from initial constructs. Cronbach alpha was used to measure the reliability for all major latent variables. Results demonstrate excellent internal consistency among items of latent variables as the value of Cronbach alpha ranges from 0.856 to 0.902.

Table 4.12
Reliability Coefficients for Latent Variables

Variable	Number of Items	Cronbach alpha
Innovation	10	0.885
Branding	11	0.870
Organizational Learning Capability	13	0.902
SMEs Performance	08	0.870

To conclude, the results of factor analysis reduced a few of the dimensions and necessitated to rename the dimensions resulted after factor analysis as shown below.

Table 4.13
Summary of dimensions before and after factor analysis

Construct	Dimensions developed before factor analysis	Dimensions discovered after factor analysis
Innovation	Product Innovation	Technological Innovation
	Process Innovation	
	Marketing Innovation	Non-Technological Innovation
Branding	Managerial Innovation	
	Own/Corporate Branding	Branding Orientation
	Marketing Program	Corporate Brand Associations
	Brand Awareness	
	Targeting Specific Audience	
Organizational Learning Capability	Secondary Brand Associations	
	Experimentation	Experimentation
	Interaction with External Environment	Interaction with External Environment
	Risk Taking Dialogue	Participative decision making
SMEs Performance	Participative Decision Making	
	SMEs Performance	SMEs Performance

After discovering the dimensions through factor analysis as illustrated in the table 4.13, the hypotheses have been restated to incorporate those dimensions in addition to main hypotheses aforementioned in chapter 3.

4.5 Restatement of Hypotheses

Proceeding with the results of factor analysis, the hypotheses were restated as follows.

H1: There exists a positive relationship between Innovation and SMEs Performance.

H1a: There exists a positive relationship between Technological Innovation and SMEs Performance.

H1b: There exists a positive relationship between Non-Technological Innovation and SMEs Performance.

H2: There exists a positive relationship between Branding and SMEs Performance.

H2a: There exists a positive relationship between Branding Orientation and SMEs Performance.

H2b: There exists a positive relationship between Corporate Brand Associations and SMEs Performance.

H3: Organizational Learning Capability moderates the relationship between Innovation and SMEs Performance.

H3a: Experimentation moderates the relationship between Innovation and SMEs Performance.

H3b: Interaction with External Environment moderates the relationship between Innovation and SMEs Performance.

H3c: Participative decision making moderates the relationship between Innovation and SMEs Performance.

H4: Organizational Learning Capability moderates the relationship between Branding and SMEs Performance

H4a: Experimentation moderates the relationship between Branding and SMEs Performance.

H4b: Interaction with External Environment moderates the relationship between Branding and SMEs Performance.

H4c: Participative decision making moderates the relationship between Branding and SMEs Performance.

H5: Organizational Learning Capability moderates the relationship between Innovation, Branding and SMEs Performance

H5a: Experimentation moderates the relationship between Innovation, Branding and SMEs Performance.

H5b: Interaction with External Environment moderates the relationship between Innovation, Branding and SMEs Performance.

H5c: Participative decision making moderates the relationship between Innovation, Branding and SMEs Performance.

4.6 Descriptive analysis of major variables

Descriptives of major variables were also calculated in order to measure the overall mean and standard deviation for each variable. For measurement of all the items, 7 point scale was used. For Innovation, 1 referred to “limited innovation”, “not at all innovative” and “incremental innovation”; whereas, 7 referred to “intensive”, “highly innovative” and “radical innovation”. In case of Branding and Organizational Learning Capability 1 represented “total disagreement” and 7 represented “total agreement”. For SMEs Performance Scale, 1 represented “not at all satisfactory”; whereas, 7 represented “Outstanding”.

For innovation, value of mean was 4.52. It demonstrates that in the past three years the extent of innovation in the respondent firms ranged from moderate to higher level. It shows that the firm did not pursue innovation aggressively. Similarly, in case of branding, the mean value of 4.53 illustrates firms’ orientation to embrace branding practices. The value represents medium to high level of branding measures undertaken by the respondent firms in last three years. For Organizational Learning Capability, the mean value of 4.93 points to a relatively higher level of learning activities the respondent firms have been engaged in last three years.

In case of SMEs Performance, the mean value of 4.63 indicates that firms have exhibited somewhat satisfactory performance in past three years with respect to given dimensions such as sales growth rate, market share, return on

investment, operational profit, new product development, market development and research and development activity. Aforementioned results are presented in table 4.14 as follows.

Table 4.14
Descriptives for major variables

Variable	Mean	Standard Deviation
Innovation	4.52	1.25
Branding	4.53	1.23
Organizational Learning Capability	4.93	1.06
SMEs Performance	4.63	1.22

4.7 Test of Hypotheses

In order to test the hypotheses, multiple regression analysis and hierarchical regression analysis were conducted. Multiple regression analysis measures the predictive power of independent variables towards the dependent variables. It also indicates whether there exists a significant positive relationship or a negative relationship between the variables being analyzed.

Hierarchical regression analysis was performed to measure the effect of moderator on the relationship between predictor and criterion variables. Before proceeding to hierarchical regression analysis, multiple regression analysis was performed to determine the effect of predictor variables on criterion variable in order to analyze the power of predictor variables. In addition, normality of data, homoscedasticity

and multicollinearity issues were investigated through p-p normal plots, scatter plots, Durbin Watson test and tolerance and variance inflation factor (VIF) values.

4.7.1 Multiple Regression Analysis

Multiple regression analysis was conducted prior to proceeding to Hierarchical Regression Analysis. The aim of conducting multiple regression analysis was to find out the predictive power of the independent variables (Innovation and Branding) towards the dependent variable (SMEs Performance). In addition, multiple regression analysis was also employed due to its ability to perform rigorous and simultaneous assessment of the independent variables. The details about the procedures followed in order to conduct multiple regression analysis have been elaborated in chapter 3. Following are the procedures that ensure whether the data meets the prerequisites for advanced multivariate analysis.

Assumption of normality was verified through histogram, normal P-P plot and normal Q-Q of regression standardized residual presented in Appendix D. A look at histogram given in Appendix D demonstrates satisfactory normal distribution where bell shaped curve signifies that the data comes from normal distribution.

Normal probability plot is given in Appendix D, which depicts normal distribution as data points lay on the straight line. Hence, it indicates that the data does not deviate from the normal distribution.

In addition to normal P-P plot of regression standardized residuals depicting normality of data, normal Q-Q plot of regression standardized residual also verifies that the data comes from normal distribution as shown in Appendix D. It can be seen in normal Q-Q plot that data points lie adjacent to the line of the slope thus confirming the normality of the data.

After verifying normality of the data, scatter plot diagram was examined in order to verify the linearity and homoscedasticity of the data. Scatter plot diagram is illustrated in Appendix D. On the basis of scatter plot, linearity of the data was ensured as the scatter dots lay almost equally within the desired range of ± 3 on either side of the fit line. Also, the scatter plot exhibits that there is no clear relationship between predicted values and standardized residual; verifies that variance of dependent variable is same for entire data, statistically termed as homoscedasticity.

In order to investigate multicollinearity, tolerance and variance inflation factor (VIF) values were examined. The values of 0.622 and 1.607 for tolerance and VIF respectively were well acceptable. The acceptable threshold level refers to tolerance value greater than 0.10 and VIF value less than 10 (Myers, 1990). Hence, the results for tolerance and VIF signified that multicollinearity between independent variables did not exist.

In order to ensure that autocorrelation does not exist or errors of variance are independent, Durbin-Watson value was observed. It was found to be 1.981. A desirable

value for Durbin-Watson lies between the ranges of 1.5 to 2.5. A value of less than 1 or greater than 3 is beyond acceptability (Durbin & Watson, 1951). Therefore, the value of 1.981 ensured that the errors of variance are independent. Hence, there was no problem of autocorrelation in the data. In sum, all the assumptions of performing multiple regression analysis were satisfied.

Multiple regression analysis were conducted in order to test the main hypotheses H1 and H2, and their corresponding sub-hypotheses (H1a, H1b) and (H2a, H2b) respectively. Multiple regression analysis signifies the predictive power of independent variables towards the dependent variables. The coefficient of determination R^2 value indicates model fit. In the light of suggestions proposed by Cohen (1988), R^2 value of 0.02 indicates poor model fit or weak contribution of the model, R^2 value of 0.13 is considered as a moderate level of model fit, whereas R^2 value of 0.26 and above indicates substantial contribution of the model or in other words it indicates good model fit.

Table 4.15 presents the significance of relationship between predictor and criterion variables in order to test H1 and H2. Results suggest that both of the predictor variables have a significant positive impact on criterion variable. The coefficient of determination R^2 value of 0.333 indicated good model fit. Significant F value of 0.000 indicates that the model is significant at $p < 0.05$. Durbin-Watson's value of 1.775 indicates that there is no occurrence of autocorrelation as the value lies in the acceptable range of 1.5 to 2.5 as suggested by Durbin and Watson (1951).

For the impact of innovation on SMEs Performance; standardized coefficient beta value of 0.205 at $p < 0.001$ indicates a positive significant impact of Innovation on SMEs performance. Similarly for the relationship between Branding and SMEs performance, standardized coefficient beta value of 0.425 at $p < 0.001$ indicates the existence of very strong and positively significant relationship. Table 4.15 is presented as follows.

Table 4.15
Impact of Innovation and Branding on SMEs Performance

Variables	Standardized Coefficients	T Value	P Value
	Beta		
Innovation	.205	3.611	.000
Branding	.425	7.493	.000
R Square			0.333
Adjusted R Square			0.329
F Value			86.929
F Value Sig			0.000
Durbin-Watson			1.775

***: $p < 0.01$; **: $p < 0.05$; *: $p < 0.10$

The strength and nature of relationship between dimensions of predictor variables and criterion variable was assessed in order to test sub-hypothesis H1a, H1b, H2a and H2b. The coefficient of determination R^2 value of 0.336 indicated good model fit. Significant F value of 0.000 indicates that the model is significant at $p < 0.05$. Durbin-Watson's value of 1.750 indicates that there is no occurrence of autocorrelation as the value lies in the acceptable range of 1.5 to 2.5 as suggested by Durbin and Watson

(1951). Results presented in table 4.16 suggest that the dimensions of innovation (technological innovation) and branding (branding orientation and corporate brand associations) had a significant positive relationship with criterion variable (SMEs Performance). However, the relationship between non-technological innovation and SMEs performance was found to be insignificant at $p < 0.05$. Table 4.16 is presented as follows.

Table 4.16
Relationship between Dimensions of Predictor and Criterion variables

Variables	Standardized Coefficients	T Value	P Value
	Beta		
Technological Innovation	.127	2.150	.032
Non-Technological Innovation	.124	1.907	.057
Branding Orientation	.250	4.469	.000
Corporate Brand Associations	.241	4.778	.000
R Square			0.333
Adjusted R Square			0.329
F Value			86.929
F Value Sig			0.000
Durbin-Watson			1.775

***: $p < 0.01$; **: $p < 0.05$; *: $p < 0.10$

In sum, it is evident from table 4.15 and table 4.16 that there exists a significant positive relationship between Innovation and SMEs performance. Similarly, there exists a positively significant relationship between technological innovation and SMEs

performance. Likewise, there exists a positive and significant relationship between Branding and SMEs Performance as well as between dimensions of branding (branding orientation and corporate brand associations) and SMEs Performance. The subsequent section discusses the procedure employed for conducting moderated hierarchical regression analysis in order to test the hypotheses H3, H4 and H5 along with the respective sub-hypotheses.

4.7.2 Moderated Hierarchical Regression Analysis

After performing multiple regression analysis, Moderated hierarchical regression analysis was conducted to examine the moderating effects of Organizational Learning Capability and its dimensions on the relationship between predictors (Innovation and Branding) and criterion (SMEs Performance) variables.

Moderated hierarchical regression analysis is among preferred and most frequently used method to detect the moderating effects (Cohen & Cohen, 1983; Aiken & West, 1991; Russel & Bobko, 1992; Cohen *et al.*, 2003; Fairchild & McQuillin, 2010). The hierarchical regression results were reported according to the analysis stage. This study followed the method of Frazier, Tix, and Barron (2004). Before proceeding to get the interaction terms to measure the moderating effect, all the variables meant to be used were standardized. This means that the mean of each variable was subtracted from all the values of that variable and subsequently all the values of the variable were divided by its standard deviations.

As suggested by Baron and Kenny (1986), the regression analyses were performed in several blocks. In the first block, control variables namely firm size and age of business were regressed. Control variables were included as it was argued by past researchers that young and inexperienced SMEs lack the critical resources and market knowledge that is possessed by large firms in order to foster innovation (Koc & Ceylan, 2007). Similarly, it was argued that noteworthy differences may exist in branding practices of SMEs based on their size and age of business (Hirvonen *et al.*, 2013). In second block, only the independent variables were included to examine their predictive power against the dependent variable. The third block includes the moderator variable while the fourth block includes the interaction terms. This implies that the fourth block includes all the variables and the interaction terms. Whenever, there was a significant interaction effect on the multiplication of the independent and the moderator variables, a post-hoc graph was generated to explain the impact of the moderators. The decision to accept/reject the hypothesis was based on significance of effect of interaction terms as well as the interpretation of post-hoc line graphs.

According to the analysis of hierarchical multiple regressions, the results were reported in the following manner.

4.7.2.1 The Moderating Effect of the Organizational Learning Capability on the Relationship between Innovation, Branding and SMEs Performance.

According to the regression results depicted in Table 4.17 the analysis was processed through the following four models.

Model 1: In this model the control variables namely age of business and firm size were introduced to the model. R^2 value of 0.075 indicated a weaker model. A look at model 2 further illustrated the relationship between independent and dependent variables remained significant after controlling for firm size and age of business. In other words, independent variables affect dependent variables in hypothesized way regardless of firm size and age of business as illustrated in Table 4.17.

Model 2: In this model the predictors namely, Innovation and Branding were introduced to the model. This model was found to be significant at $p < 0.001$ with an R^2 of 0.338 and significant F change at the 0.000 level of significance as illustrated in Table 4.17. More specifically, Innovation ($\beta = 0.238$, $p < 0.001$) and Branding ($\beta = 0.387$, $p < 0.001$) had positive significant effect on SMEs Performance in Pakistan.

Model 3: In this model the moderating variable namely Organizational Learning Capability was introduced. This model was proven to be significant at $p < 0.001$ with value of R^2 increased to 0.406. In this model, it was found that Innovation ($\beta = 0.161$, $p < 0.01$) and Branding ($\beta = 0.224$, $p < 0.001$) and moderating variable, Organizational Learning Capability ($\beta = 0.350$, $p < 0.001$) had positive significant effect on SMEs Performance in Pakistan.

Model 4: In this model, the interaction terms between the independent variables and moderating variable were examined to test the moderating effect. This model was proven to be significant at $p < 0.05$ with value of R^2 increased to 0.417. Table 4.17 is

presented as follows.

Table 4.17

Hierarchical Regression Results using Organizational Learning Capability as a Moderator in the Relationship between Innovation, Branding and SMEs Performance

Independent Variable	Std Beta Step 1	Std Beta Step 2	Std Beta Step 3	Std Beta Step 4
Control Variables				
Age of Business	0.035	-0.017	0.006	0.009
Firm Size	0.263	0.058	0.007	0.013
Model Variables				
Innovation		0.238***	0.161**	0.163**
Branding		0.387***	0.224***	0.212***
Moderating Variable				
Organizational Learning Capability			0.351***	0.311***
Interaction Terms				
Organizational Learning Capability*Innovation				-0.121*
Organizational Learning Capability*Branding				0.011
R ²	0.075	0.340	0.406	0.417
Adj R ²	0.070	0.332	0.397	0.405
R ² Change	0.075	0.265	0.066	0.011
Sig. F Change	0.000	0.000	0.000	0.040
Durbin Watson	1.773	1.773	1.773	1.773

*p<0.05, **p<0.01, ***p<0.001

The interaction terms between Organizational Learning Capability and independent variables (Innovation and Branding) were examined. Results revealed that, interaction effect between organization learning capability and branding was found to be insignificant. However, the interaction effect between Organizational Learning Capability and Innovation was found to be significant at the 0.05 level of significance ($\beta = -0.121$, $p < 0.05$), therefore, a graph was constructed to explain the moderating effect. The graph illustrated in figure 4.7 elaborates that relationship between Innovation and SMEs Performance would be stronger when organizational learning capability level is lower. It implies that organizational learning capability negatively moderates the relationship between Innovation and SMEs performance. Hence the results did not support the hypotheses H3, H4 and H5.

Figure 4.7 is presented as follows.

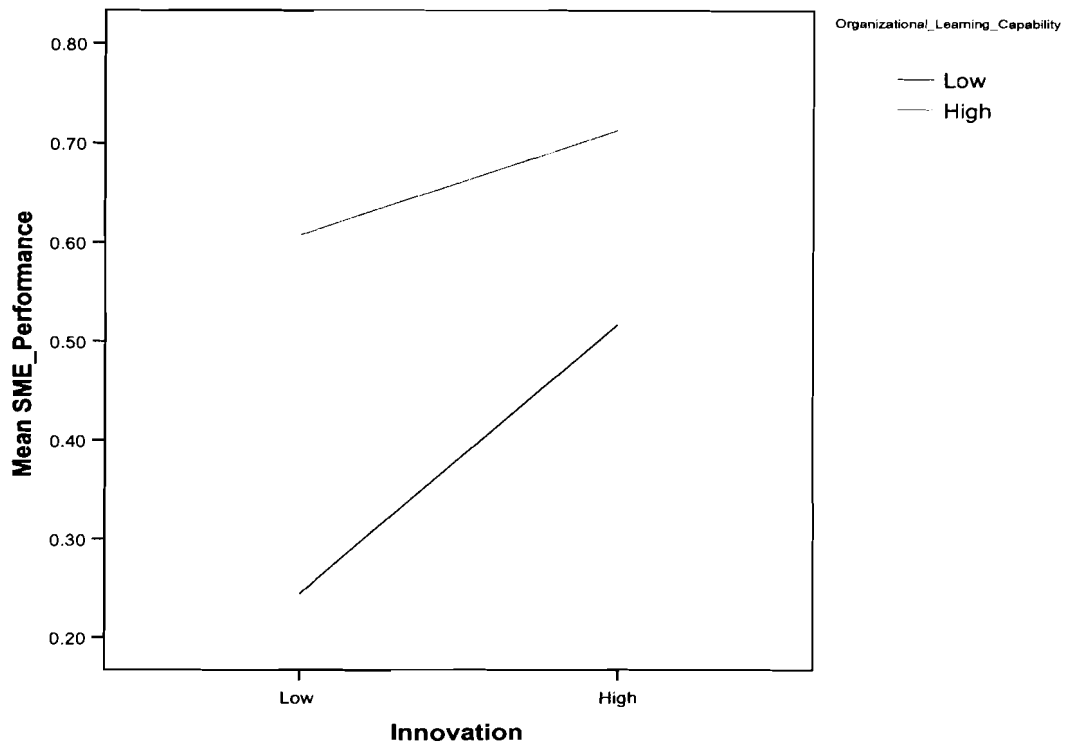


Figure 4.7
Moderating effect of Organizational Learning Capability on the Relationship between Innovation and SMEs Performance

The following section proceeds with the results of moderating effect of Experimentation on Innovation, Branding and SMEs Performance.

4.7.2.2 The Moderating Effect of the Experimentation on the Relationship between Innovation, Branding and SMEs Performance

According to the results depicted in Table 4.18, the analysis was processed through the following four models.

Model 1: In this model the control variables namely age of business and firm size were introduced to the model. R^2 value of 0.075 indicated a weaker model. A look at model 2 further illustrated the relationship between independent and dependent variables remained significant after controlling for firm size and age of business. In other words, independent variables affect dependent variables in hypothesized way regardless of firm size and age of business as illustrated in Table 4.18.

Model 2: In this model the predictors namely, Innovation and Branding were introduced to the model. This model was found to be significant at $p < 0.001$ with an R^2 of 0.340 and significant F change at the 0.000 level of significance as illustrated in Table 4.18. More specifically, Innovation ($\beta = 0.238$, $p < 0.001$) and Branding ($\beta = 0.387$, $p < 0.001$) had positive significant effect on SMEs Performance in Pakistan.

Model 3: In this model the moderating variable namely Experimentation was introduced. This model was proven to be significant at $p < 0.001$ with value of R^2 increased to 0.365. In this model, it was found that Innovation ($\beta = 0.185$, $p < 0.01$) and Branding ($\beta = 0.336$, $p < 0.001$) and moderating variable, Experimentation ($\beta = 0.189$, $p < 0.001$) had positive significant effect on SMEs Performance in Pakistan.

Model 4: In this model, the interaction terms between the independent variables and moderating variable were examined to test the moderating effect. This model was proven to be insignificant at $p < 0.05$ (Sig. F Change = 0.088). The interaction terms between Experimentation and independent variables (Innovation and Branding) were

examined. Results revealed that the interaction effect between Experimentation and Innovation, as well as Experimentation and Branding were found to be insignificant at the 0.05 level of significance. Therefore, H3a, H4a and H5a, were not supported. Table 4.18 is given as follows.

Table 4.18
Hierarchical Regression Results using Experimentation as a Moderator in the Relationship between Innovation, Branding and SMEs Performance

Independent Variable	Std Beta Step 1	Std Beta Step 2	Std Beta Step 3	Std Beta Step 4
Control Variables				
Age of Business	0.035	-0.017	-0.003	0.000
Firm Size	0.263	0.058	0.034	0.032
Model Variables				
Innovation		0.238***	0.185**	0.167**
Branding		0.387***	0.336***	0.338***
Moderating Variable				
Experimentation			0.189***	0.175***
Interaction Terms				
Experimentation*Innovation				0.001
Experimentation*Branding				-0.099
R ²	0.075	0.340	0.365	0.374
Adj R ²	0.070	0.332	0.356	0.361
R ² Change	0.075	0.265	0.025	0.009
Sig. F Change	0.000	0.000	0.000	0.088
Durbin Watson	1.814	1.814	1.814	1.814

*p<0.05, **p<0.01, ***p<0.001

The following section entails the results of moderating effect of Interaction with External Environment on Innovation, Branding and SMEs Performance.

4.7.2.3 The Moderating Effect of the Interaction with External Environment on the Relationship between Innovation, Branding and SMEs Performance

According to the regression results exhibited in Table 4.19 the analysis was performed through the following four models.

Model 1: In this model the control variables namely age of business and firm size were introduced to the model. R^2 value of 0.075 indicated a weaker model. A look at model 2 further illustrated the relationship between independent and dependent variables remained significant after controlling for firm size and age of business. In other words, independent variables affect dependent variables in hypothesized way regardless of firm size and age of business as illustrated in Table 4.19.

Model 2: In this model the predictors namely, Innovation and Branding were introduced in to the model. This model was found to be significant at $p < 0.001$ with an R^2 of 0.340 and significant F change at the 0.000 level of significance as illustrated in Table 4.19. More specifically, Innovation ($\beta = 0.238$, $p < 0.001$) and Branding ($\beta = 0.387$, $p < 0.001$) had positive significant effect on SMEs Performance in Pakistan.

Model 3: In this model the moderating variable namely Interaction with External Environment was introduced. This model was proven to be significant at $p < 0.001$ with value of R^2 increased to 0.366. In this model, it was found that Innovation ($\beta = 0.222$, $p < 0.001$) and Branding ($\beta = 0.263$, $p < 0.001$) and moderating variable, Interaction with External Environment ($\beta = 0.220$, $p < 0.001$) had positive significant effect on SMEs Performance in Pakistan.

Model 4: In this model, the interaction terms between the independent variables and moderating variable were examined to test the moderating effect. This model was proven to be significant at $p < 0.05$ with value of R^2 increased to 0.383. Table 4.19 is

given as follows.

Table 4.19

Hierarchical Regression Results using Interaction with External Environment as a Moderator in the Relationship between Innovation, Branding and SMEs Performance

Independent Variable	Std Beta Step 1	Std Beta Step 2	Std Beta Step 3	Std Beta Step 4
Control Variables				
Age of Business	0.035	-0.017	-0.014	-0.007
Firm Size	0.263	0.058	0.026	0.044
Model Variables				
Innovation		0.238***	0.222***	0.251***
Branding		0.387***	0.263***	0.227***
Moderating Variable				
Interaction with External Environment			0.220***	0.186**
Interaction Terms				
Interaction with External Environment *Innovation				-0.171**
Interaction with External Environment *Branding				0.088
R ²	0.075	0.340	0.366	0.383
Adj R ²	0.070	0.332	0.357	0.371
R ² Change	0.075	0.265	0.026	0.017
Sig. F Change	0.000	0.000	0.000	0.009
Durbin Watson	1.770	1.770	1.770	1.770

*p<0.05, **p<0.01, ***p<0.001

The interaction terms between moderating variable (interaction with external environment) and independent variables (Innovation and Branding) were examined. Results revealed that, interaction effect between interaction with external environment and branding was found to be insignificant. However, the interaction effect between interaction with external environment and innovation was found to be significant at the 0.05 level of significance ($\beta = -0.171$, $p < 0.05$), therefore, a graph was constructed to explain the moderating effect. The graph illustrated in figure 4.8 elaborates that relationship between Innovation and SMEs Performance would be stronger when interaction with external environment is lower. It implies that interaction with external environment negatively moderates the relationship between Innovation and SMEs performance. Hence the results did not support the hypotheses H3b, H4b and H5b.

Figure 4.8 is illustrated as follows.

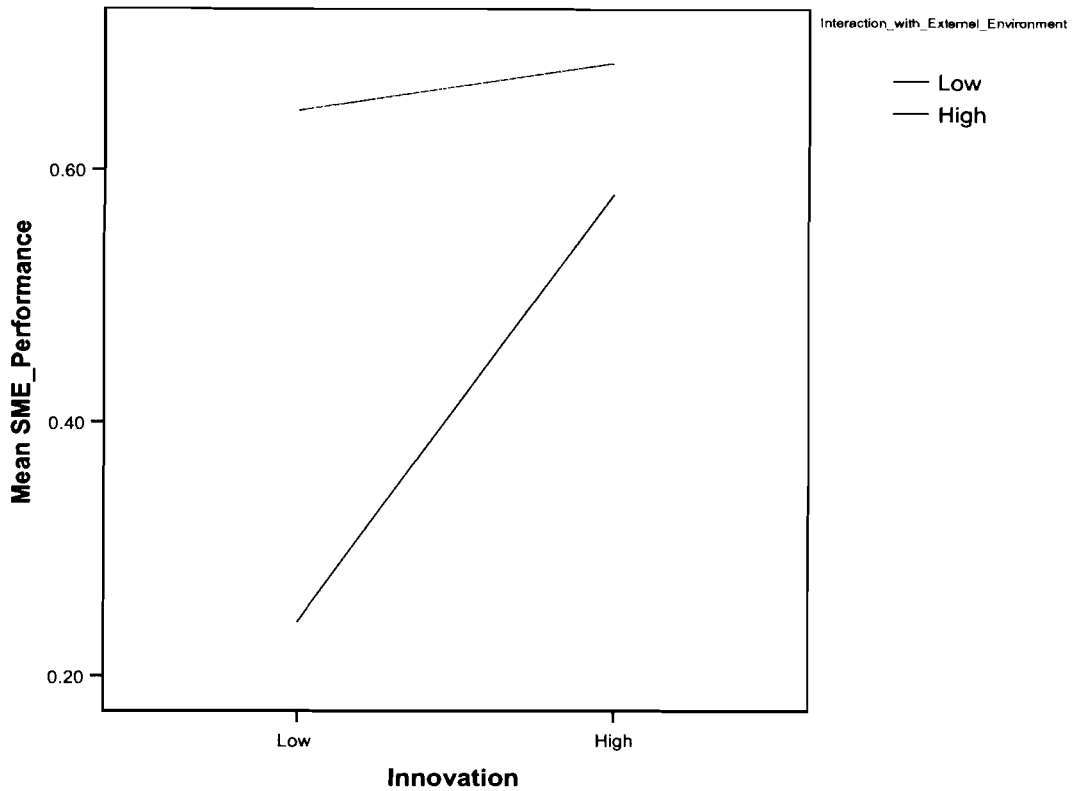


Figure 4.8
Moderating Effect of Interaction with External Environment on the Relationship between Innovation and SMEs Performance

The following section entails the results of moderating effect of participative decision making on Innovation, Branding and SMEs Performance.

4.7.2.4 The Moderating Effect of the Participative decision making on the Relationship between Innovation, Branding and SMEs Performance.

According to the hierarchical regression results presented in Table 4.20 the analysis was conducted through the following four models.

Model 1: In this model the control variables namely age of business and firm size were introduced to the model. R^2 value of 0.075 indicated a weaker model. A look at model 2 further illustrated the relationship between independent and dependent variables remained significant after controlling for firm size and age of business. In other words, independent variables affect dependent variables in hypothesized way regardless of firm size and age of business as illustrated in Table 4.20.

Model 2: In this model the predictors namely, Innovation and Branding were introduced to the model. This model was found to be significant at $p < 0.001$ with an R^2 of 0.340 and significant F change at the 0.000 level of significance as illustrated in Table 4.20. More specifically, Innovation ($\beta = 0.238$, $p < 0.001$) and Branding ($\beta = 0.387$, $p < 0.001$) had positive significant effect on SMEs Performance in Pakistan.

Model 3: In this model the moderating variable namely participative decision making was introduced. This model was proven to be insignificant at $p < 0.001$ with value of R^2 increased to 0.412. In this model, it was found that Innovation ($\beta = 0.167$, $p < 0.01$) and Branding ($\beta = 0.298$, $p < 0.001$) and moderating variable, Participative decision making ($\beta = 0.305$, $p < 0.001$) had positive significant effect on SMEs Performance in Pakistan.

Model 4: In this model, the interaction terms between the independent variables and moderating variable were examined to test the moderating effect. This model was proven to be insignificant at $p < 0.05$ (Sig. F Change = 0.060). The interaction terms

between participative decision making and independent variables (Innovation and Branding) were examined. Results revealed that the interaction effect between participative decision making and Innovation, as well as participative decision making and Branding were found to be insignificant at the 0.05 level of significance. Therefore, H3c, H4c and H5c, were not supported. Table 4.20 is given as follows.

Table 4.20
Hierarchical Regression Results using Participative decision making as a Moderator in the Relationship between Innovation, Branding and SMEs Performance

Independent Variable	Std Beta Step 1	Std Beta Step 2	Std Beta Step 3	Std Beta Step 4
Control Variables				
Age of Business	0.035	-0.017	0.010	0.011
Firm Size	0.263	0.058	0.028	0.029
Model Variables				
Innovation		0.238***	0.167**	0.166**
Branding		0.387***	0.298***	0.297***
Moderating Variable				
Participative Decision Making			0.305***	0.262**
Interaction Terms				
Participative Decision Making *Innovation				-0.102
Participative Decision Making *Branding				-0.007
R ²	0.075	0.340	0.409	0.419
Adj R ²	0.070	0.332	0.401	0.407
R ² Change	0.075	0.265	0.069	0.010
Sig. F Change	0.000	0.000	0.000	0.060
Durbin Watson	1.726	1.726	1.726	1.726

*p<0.05, **p<0.01, ***p<0.001

To conclude the findings of Hierarchical Regression Analysis, a summary of results is presented in Table 4.21 as follows.

Table 4.21

Summary of Results of Multiple Regression and Hierarchical Regression Analysis

Hypothesis	Description	Decision
H1	There exists a positive relationship between Innovation and SMEs Performance.	Supported
H1a	There exists a positive relationship between Technological Innovation and SMEs Performance.	Supported
H1b	There exists a positive relationship between Non-Technological Innovation and SMEs Performance.	Not Supported
H2	There exists a positive relationship between Branding and SMEs Performance.	Supported
H2a	There exists a positive relationship between Branding Orientation and SMEs Performance.	Supported
H2b	There exists a positive relationship between Corporate Brand Associations and SMEs Performance	Supported
H3	Organizational Learning Capability moderates the relationship between Innovation and SMEs Performance.	Not Supported
H3a	Experimentation moderates the relationship between Innovation and SMEs Performance.	Not Supported
H3b	Interaction with External Environment moderates the relationship between Innovation and SMEs Performance.	Not Supported
H3c	Participative decision making moderates the relationship between Innovation and SMEs Performance.	Not Supported
H4	Organizational Learning Capability moderates the relationship between Branding and SMEs Performance	Not Supported
H4a	Experimentation moderates the relationship between Branding and SMEs Performance.	Not Supported
H4b	Interaction with External Environment moderates the relationship between Branding and SMEs Performance.	Not Supported
H4c	Participative decision making moderates the relationship between Branding and SMEs Performance.	Not Supported
H5	Organizational Learning Capability moderates the relationship between Innovation, Branding and SMEs Performance	Not Supported
H5a	Experimentation moderates the relationship between Innovation, Branding and SMEs Performance.	Not Supported
H5b	Interaction with External Environment moderates the relationship between Innovation, Branding and SMEs Performance.	Not Supported
H5c	Participative decision making moderates the relationship between Innovation, Branding and SMEs Performance.	Not Supported

To sum up the entire chapter, a summary of the chapter is given in the subsequent section.

4.8 Summary of the Chapter

In this section, the findings of this study are summarized. The chapter began with elaboration of sampling procedure followed by discussion of data screening techniques. Data was cleaned and it was found that there was no significant bias between early and late respondents. The profile of the respondents was quite diversified in terms of age of business, number of employees, capital investment, scope and status of business. In order to verify the validity and reliability of the instrument, exploratory factor analysis was performed which was followed by assessing Cronbach alpha values of latent variables. As a few items were deleted as a result of factor analysis, the hypotheses were stated by incorporating latent dimensions.

Factor analysis was followed by descriptive analysis in order to find out values of mean and standard deviation of major variables. Then, hypotheses were tested using multiple regression analysis in order to see if any significant relationship exists among predictors and criterion variable. Finally, moderated hierarchical regression analysis was conducted to determine the effect of moderators on the relationship between independent variables and dependent variable.

Overall, the results of this study were attention-grabbing as they revealed several stimulating relationships between the variables. Further discussion and conclusion in the subsequent chapter will shed more light on the results and their theoretical and managerial implications. In addition to discussion of results and their implications, the

recommendations have been proposed for future researchers who may urge to examine the role of innovation, branding and organizational learning capability in the context of SMEs in developing as well as developed countries.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter is confined to summarize the study, discuss the findings and highlight the contributions of the study to the existing literature. It also pinpoints the future course of direction that might help the policy makers of SMEs of Pakistan and other developing countries to set up an attractive environment for innovation, branding and organizational learning. This chapter, further, entails the limitations of the study and suggests future research avenues based on the encountered limitations. Finally, this chapter brings down the curtain tracing the concluding remarks of study.

5.2 Overview of the Study

SMEs Performance was the core concern of this study. Developing countries like Pakistan largely rely on the performance of SMEs for the uplift and performance of their economy. In Pakistan, SMEs represent about 99% of total business establishments. They are mostly dealing in wholesale and retailing and restaurant and hotel (53%), Social and Personnel services (22%) and manufacturing (20%). These SMEs are accounting for 30% of annual gross domestic product (GDP) of the country, employment of 80% of non agricultural labor force, 25% of total exports and 35% of value added manufacturing. It was identified that Performance of SMEs in Pakistan remained quite dismal in the past decade. Poor performance was mainly attributed to the issues of inability to innovate, lack of technology readiness and competitiveness and lack of orientation to pursue

marketing programs that could help the firms in creating and sustaining competitive advantage.

The Scope of the present study was limited to SMEs in Sports industry of Pakistan which is concentrated in Sialkot region and is the largest SMEs setup in Pakistan. 3516 SMEs are manufacturing sports goods in Sialkot. This industry has been among the major foreign exchange earners for Pakistan. But recently the performance of sports industry has been declining. In past four years industry sales have experienced a significant drop of more than \$50 million in local and foreign market. One of the major causes of this decline is reliance on older technologies and lack of attention towards innovative measures in addition to inability to market brands of global repute.

Pakistani sports industry is losing its market share rapidly to China, India and Thailand who are aggressively employing innovative measures in their products, processes and marketing practices and are far more successful in launching their own brands in foreign markets. This scenario demanded that the state of innovation and branding and their impact on firm performance must be investigated in context of SMEs in sports industry of Pakistan.

The primary aim of this study was to examine the moderating effect of Organizational Learning Capability on the relationship between Innovation, Branding and SMEs Performance. Basically, this study was greatly motivated by the inconclusive findings in the recent relevant literature concerning the relationship between innovation, branding and SMEs performance. This study was also inspired by the striking remarks given by the contemporary researchers (Najib & Kiminami, 2011; Hirvonen &

Laukkanen, 2011; Malik *et al.*, 2011; Rosenbusch *et al.*, 2011). Najib and Kiminami (2011) argued that the theoretical models formulated in developed countries cannot be truly applied and replicated in developing countries. He felt a dire need that Innovation-Performance relationship must be studied in the context of developing countries. Rosenbusch *et al.* (2011) highlighted that innovation-performance linkage needs to be moderated. They further hinted that knowledge and learning capability of firms may moderate the innovation-performance relationship.

Hirvonen and Laukkanen (2011) challenged the assumption that only large corporations can be benefitted from branding and asked for further academic research on SMEs Branding in order to find out the nature and strength of relationship between branding and SMEs performance.

Malik *et al.* (2011) emphasized on the significance of organizational learning in context of SMEs in Pakistan. Moreover, Tanvir *et al.* (2012) and Mansoor (2011) highlighted that issues related to Innovation and Branding need to be investigated in context of sports industry of Pakistan. Weerawardena *et al.* (2006) revealed in his study that Organizational learning capability can influence innovation and branding performance.

Therefore, the present study was conducted to fill the existing gaps in literature (as discussed in the introductory chapter), and to incorporate the proposals forwarded by the past studies. Hence, the Moderating effect of Organizational learning Capability on the linkage between Innovation, Branding and SMEs Performance was studied.

Based on the problem statement of this study and the comprehensive review of the relevant literature reported in Chapter 1 and Chapter 2, the present study aimed to achieve the following objectives:

1. To examine the positive relationship between Innovation and SMEs performance.
2. To examine the positive relationship between Branding and SMEs performance.
3. To examine the moderating effect of organizational learning capability on the relationship between Innovation and SMEs Performance.
4. To examine the moderating effect of organizational learning capability on the relationship between Branding and SMEs Performance.
5. To examine the moderating effect of organizational learning capability on the relationship between Innovation, Branding and SMEs Performance.

In order to achieve the aforementioned objectives of this study, a comprehensive review of the literature was conducted and reported throughout this study especially in Chapter 2. The review of past relevant literature, related to innovation revealed that majority of the studies that investigated innovation-performance linkage, has been conducted in developed countries. Moreover, the past researchers have focused mainly on technological innovations only, and ignored the importance of non-technological innovations. This study has incorporated the non technological dimensions of innovation such as marketing and managerial innovations and examined their relationship with SMEs performance. In case of branding, a vast majority of researchers have overlooked the role of branding in the context of SMEs. There is acute shortage of quantitative studies that have tried to explore the relationship between branding and

SMEs performance. The past studies have examined the impact of innovation and branding on SMEs performance separately. There are very limited studies if any that have examined the combined and integrated effect of both innovation and branding on SMEs Performance. Furthermore, the past studies have exhibited inconsistent and inconclusive findings with respect to relationship between innovation and SMEs performance. In the same manner, the past literature demonstrated that the linkage between branding and SMEs performance is quite inconsistent.

To resolve the inconsistent findings, the moderating role of organizational learning capability was studied. This significant role of organizational learning capability that can influence the innovation, branding and SMEs performance relationship has not been explored before. In context of developing countries, there is very limited research if any that integrates innovation, branding and organizational learning perspective in one study. In the present study it is discussed that how varying levels of organizational learning capability can influence the relationship innovation, branding and SMEs performance.

In the light of the objectives of the study and the discussions provided, in Chapters 1, Chapter 2 comprises of literature review to extract the relevant variables to be used for this study, the framework was formulated in Chapter 3. As it has been argued in Chapter 2, this framework is theoretically grounded in the Theory of the Growth of firm and Resource Based View (RBV). In addition, the framework of the study is grounded in Dynamic Capability Perspective which is regarded as the extension of RBV.

The present study used primary data collected using structured questionnaires distributed in person to the owners/managers of SMEs in Sports industry of Pakistan. After screening the data, this study performed the hypotheses testing procedures employing correlation and hierarchical regression analysis using SPSS software package version 19.0. Correlation analysis was conducted to examine the relationship between the innovation, branding and SMEs Performance. Moderated hierarchical regression analysis was used to examine the moderating effect of organizational learning capability and its dimensions on the aforementioned relationships. The findings of the analysis were reported in Chapter 4 and are further discussed in the following sub-sections. This study concluded with theoretical contributions, policy implications, limitations of the study and suggestions for future research.

5.3 Discussion

The following sub-sections discuss the findings of the study in the same order as the objectives of the study.

5.3.1 Positive Relationship between Innovation and SMEs Performance

The findings of the study revealed a significant positive relationship between Innovation and SMEs performance. This finding is in line with the findings of past studies by Damanpour and Evan (1984), Damanpour *et al.* (1989), Caves and Ghemawat (1992), Deshpande *et al.* (1993), Brown and Eisenhard (1995), Bierly and Chakrabarti (1996), Hansen *et al.* (1999), Roberts (1999), Schulz and Jobe (2001), Garcia-Morales

et al. (2008) and Garcia-Morales *et al.* (2012) who found positive relationship between innovation and firm performance.

However, the results contradict with the findings of some empirical studies reveal that there is no influence of innovation on firm performance (Hage & Aiken, 1967; Armour & Teece, 1978; Kimberly & Evanisko, 1981; Birley & Westhead, 1990; Heunks, 1998; Darroch, 2005) or reported that innovation negatively affects firm performance (McGee *et al.*, 1995; Vermeulen, de Jong & O'Shaughnessy, 2005).

In sum, it can be inferred from the results of the study that in order to achieve growth and excel, SMEs must embrace innovation. It demands for newer ways of doing things in all aspects of business. As the competition gets more intensified and demands of customers become sophisticated, only those businesses would succeed who would keep pace with the latest developments happening in their industry and must keep themselves updated with those innovations. Furthermore, they must come up with their own innovations in order to leapfrog and outshine their competitors.

5.3.1.1 Positive Relationship between Technological Innovation and SMEs Performance

In case of relationship between Technological Innovation and SMEs Performance, the results indicated that there is quite significant positive relationship between technological innovation and SMEs performance. This finding is consistent with the results of past studies performed by Wheelwright & Clark (1992), Roper (1995), North

and Smallbone (2000), Salavou (2002) and Lisboa, Skarmeas & Lages (2011) who found a positive link between technological innovation and firms' performance.

With reference to this study, technological innovation comprised of product and process innovations. Thus, the findings suggest that product and process innovations significantly enhance performance of SMEs. The findings of the study demands that SMEs should invest in new product developments and business process up gradations if they desire to gain an edge over their business rivals. By emphasizing on product innovations and new product developments SMEs can send the signals to their potential customers that they are technologically advanced and superior to their rivals. Similarly process innovations and up gradations help the firms in enhancing the quality of the products manufactured. Focus on technological innovation not only helps in attracting more customers but it also helps in motivating the employees of the firm. As, the employees relate their personal growth and development with business growth, so they get more committed towards their work when they witness the new developments and innovations taking place in the firm. In sum, SMEs proactively pursuing product and process innovations are far better in performance as compared to those which are lagging behind their competitors.

5.3.1.2 Positive Relationship between Non-Technological Innovation and SMEs Performance

The results indicated that a positive yet insignificant relationship exists between Non-Technological Innovation and SMEs Performance. This finding contradicts with the results of previous studies conducted in England by North and Smallbone (2000) and

Weerawardena (2003) who performed a study in Australia. The results of their studies revealed that non technological innovation substantially contributes in enhancing the performance and competitiveness of SMEs. In this study, marketing and managerial innovations constituted non technological innovation. A plausible explanation for insignificant results is that unlike technological innovations whose output becomes evident in short period of time, non technological innovations need more time to penetrate and diffuse across various levels of the firm. Thus the results may not look significant. However, as the findings indicated the positive linkage between non technological innovations and SMEs performance; thus the importance of non technological innovations must not be completely ignored or overlooked.

5.3.2 Positive Relationship between Branding and SMEs Performance

The findings of the study have pointed to the existence of positive and highly significant relationship between branding and SMEs performance. This finding is consistent with the previous studies conducted by Berthon *et al.* (2008), and Hirvonen and Laukkanen (2011) who found positive relationship between branding and SMEs performance in Australia and Finland respectively. This study contradicts with the findings of the study performed by Koh *et al.* (2009) found no significant relationship between branding and firms' performance. This finding also refutes the claims of those researchers who purported that branding is mainly a large firm affair and lacks SMEs perspective (Krake, 2005). Hence, it is professed on the basis of findings of the study that branding holds a significant position in SMEs and must be considered as an integral element of firm performance. Branding bestows the firms a unique image and identity that is differentiated and distinguished from rest of the competitors. Those SMEs which

embrace branding practices in their businesses can grow faster and perform better than those which are engaged in manufacturing and trading commodity type products without any distinction and differentiation.

5.3.2.1 Positive Relationship between Branding Orientation and SMEs Performance

For the relationship between Branding Orientation and SMEs Performance, results revealed the existence of a highly strong and positively significant relationship. This finding is in line with the results of empirical results in various contexts such as studies performed by Bridson and Evans (2004), Napoli (2006), Wong and Merrilees (2007, 2008) Persson (2007, 2009), Baumgarth (2009, 2010), Gromark and Melin (2011) and Hirvonen and Laukkanen (2011, 2012) who revealed a positive linkage between brand orientation and firm performance.

Hence, it can be inferred from the results of the study that pursuing an orientation towards branding which includes firm's efforts to develop and nurture their brands through specific marketing programs enables SMEs to achieve superior performance. Branding orientation is instrumental in establishing the mindset of any firm to develop out of the box thinking.

It points towards firm's vision regarding development of corporate identity, introducing own brands, promoting a culture of branding across the hierarchies of the firm. The firms which lack branding orientation are more laid back and conservative in their approach. In sum, branding orientation may lead to transformation of the firm in such a way that it becomes more proactive and competitive. Resultantly, branding orientation can play a catalytic role enhancing firms' performance. It holds true for all

firms especially SMEs as the past studies (Berthon *et al.*, 2008; Hirvonen *et al.*, 2013) emphasized on the strong linkage between orientation towards branding and SMEs performance.

5.3.2.2 Relationship between Corporate Brand Associations and SMEs Performance

In case of Corporate Brand Associations, a positively significant relationship was revealed between Corporate Brand Associations and SMEs Performance. This finding is consistent with the results of empirical studies conducted by Brown and Dacin (1997) and Berens, Riel and Bruggen (2005) who found in their study that corporate brand associations can contribute to the success of firms by generating positive responses of customers towards the brands/products of firms with strong corporate associations. This finding also gains support from Aaker (1996) who considered brand associations and organizational associations as a source of competitive advantage.

Therefore, the study purports that corporate brand associations such as performance awards, linking the firms with renowned supply chain partners (corporate clients, suppliers, distributors) and associating the firm with famous celebrities enhance firm's performance as these corporate brand associations assist in building and uplifting firm's corporate reputation which increases customer trust and confidence in the firm and its products. Corporate brand associations have a synergic effect on business performance of SMEs. Due to their size and scope of business, it becomes a hard task for SMEs to build their reputation in the market; in this scenario, the SMEs which can develop strong corporate brand associations can gain a conspicuous advantage over their rivals. Strong corporate brand associations provide a platform for building, sustaining and enhancing

corporate image, identity and reputation which can serve as invaluable assets for superior SMEs performance.

5.3.3. The Moderating Effect of the Organizational Learning Capability on the Relationship between Innovation, Branding and SMEs Performance

The interaction terms between the independent variables (Innovation and Branding) and moderating variable (Organizational learning capability) were examined to test the moderating effects. Results revealed that, while the interaction effect between Organizational Learning Capability and Innovation was found to be significant, the interaction effect between Branding and Organizational Learning Capability was not significant. The line graph illustrated in figure 4.7 elaborates that positive relationship between Innovation and SMEs Performance would be stronger when organizational learning capability level is lower. Thus, it can be said that higher level of organizational learning capability does not result in a stronger relationship between Innovation and SMEs Performance.

It explains about the nature of SMEs, being small and medium sized organizations if they pursue learning capabilities aggressively, it may not benefit them a great deal as they may spend resources on capabilities which may not yield profitable innovations as cost versus benefit ratio is much higher for investments in activities (learning) which do not yield immediate results. The effect of learning on innovation-performance relationship is largely context dependent. The environment which surrounds the innovating firm can significantly influence the result or an outcome which innovation

yields for that particular firm (Thornhill, 2006; Droge, Calantone & Harmancioglu, 2008; Anokhin & Schulze, 2009).

It is argued in the literature that for many real world organizations learning is useful to a certain point. Beyond that point, learning does not result in improving performance, rather maintains the status quo or may prove detrimental for organization as they keep on investing their resources on learning but there are no substantial incremental gains. Lounama and March (1987) referred to “dilemma of learning” when they pointed to a phenomenon where the firms initially benefit from gradual and incremental learning as a result there are some modifications in existing routines; however; beyond a certain point the same process of learning results only in random drifts rather than performance innovations. Thus a lower to moderate level of organizational learning is deemed more appropriate for resource constrained SMEs in the context of a developing country like Pakistan for a stronger innovation-performance relationship.

5.3.3.1 The Moderating Effect of the Experimentation on the Relationship between Innovation, Branding and SMEs Performance

The interaction terms between Experimentation and independent variables (Innovation and Branding) were examined to test the moderating effect. Results revealed that, the interaction effect between experimentation and innovation, and the interaction effect between experimentation and branding were found to be insignificant.

In other words, it can be said that experimentation does not moderate the relationship between innovation, branding and SMEs performance. Although success of

Branding in SMEs is influenced by experimentation or trial and error as suggested by Rosenbusch *et al.* (2011) and Centeno *et al.* (2013); however, greater extent of experimentation is not beneficial for a stronger relationship between Innovation, Branding and SMEs Performance.

As Branding is directly linked with building the reputation and image of the firm. Thus, it is quite logical not to experiment too much with reference to branding activities especially in case of SMEs where branding activities are still in the phase of development (Hirvonen *et al.*, 2013). Hence, it is better to adopt a cautious and measured approach towards experimentation in order to strengthen the positive relationship between branding and SMEs performance.

5.3.3.2 The Moderating Effect of the Interaction with External Environment on the Relationship between Innovation, Branding and SMEs Performance

The interaction terms between Interaction with External Environment and independent variables (Innovation and Branding) were examined to test the moderating effects. Results revealed that the interaction effect between Interaction with External Environment and Innovation was found to be significant. As the results indicated that Interaction with External Environment moderates the relationship between Innovation and SMEs Performance, a graph was constructed to explain the moderating effect. The graph illustrated in figure 4.8 elaborates that positive relationship between Innovation and SMEs Performance would be stronger when level of Interaction with External Environment is lower. Therefore, empirical findings of the present study contrast with the literature which claims that greater interactions with external partners are more

beneficial for small firms in order to strengthen the innovation-performance relationship as emphasized by Zahra and Bogner (2000), Yli-Renko *et al.* (2001) and Lasagni (2012).

Although, this scenario indicates the importance of interacting with the external environment (customers, competitors, suppliers, government departments, educational institutions, and research laboratories); however, it demands lower level of interaction as compared to a higher level of interaction. A plausible explanation is that's SMEs need to be focused to their targets keeping in view the given resources at hand, where a lower level of interaction can facilitate them to bring new products and develop new processes; at the same time, a higher level of interaction with various actors in external environment can confuse them and lead them astray from their desired targets.

According to Rosenbusch *et al.* (2011) SMEs possess distinct capabilities to generate value through innovations. They found that internally developed innovations augment the SMEs performance significantly; whereas innovations developed through external support and interactions with external environment that comprises of supply chain partners and other stake holders does not impact SMEs' performance significantly.

Moreover, when SMEs interact with external actors and stake holders they are dictated and controlled by those external collaborators who decide about the volume of resources that SMEs ought to invest, and the gains they would receive as a result of such interaction and collaboration. Consequently, SMEs may employ substantial resources in learning and interacting with supply chain members, stakeholders, facilitating

governmental bodies and research institutes present in business environment, whereas the gains or outcomes may turn out to be much lesser than desired.

Thus for SMEs, the lower level of organizational learning capability acquired through external interactions is preferred over greater extent of external interaction in order to facilitate innovation-performance relationship.

5.3.3.3 The Moderating Effect of Participative Decision Making on the Relationship between Innovation, Branding and SMEs Performance

The interaction terms between Participative Decision Making and independent variables (Innovation and Branding) were examined to test the moderating effect. Results revealed that the interaction effect between participative decision making and Innovation as well as the interaction effect between participative decision making and branding were found to be insignificant.

Therefore, the findings of the present study contradict with the findings of the studies which stressed on the salience of greater extent of social interaction, collective and participative decision in augmenting innovation-performance relationship in SMEs. As, Nakata and Sivakumar (1996) argued that although individualized decisions foster new product innovations at developmental or invention stages, yet, they can be quite damaging for the execution and realization of innovation after the preliminary developmental stages are accomplished and the new innovation is ready for introduction in the market. For successful commercialization of firms' innovation, the employees

working in different departments and at various levels of organizational hierarchy must socially interact and participate in decision making process in order to clearly comprehend the goals and objectives of the firms associated with new products and services. Otherwise, there would be lack of coherence and coordination among the behavior of employees working in different departments and at different levels of organizational hierarchy. In the attempt to successfully commercialize their innovations, employees of firms need to interact with each other.

Thus, past researchers have posited that teamwork is required with reference to the specific challenges, barriers, and additional efforts which innovations imply (Lechler, 2001; Ensley, Pearson & Amason, 2002; Hoegl, Praveen & Gemuenden, 2003; Edmondson & Nembhard, 2009). As SMEs generally resource constrained, the innovation challenges become paramount. Consequently, SMEs are suggested to focus more on collective and participative decision making.

However, the findings of this study are consistent with the findings of the studies which emphasized that lesser extent of social interaction and participative decision making is more advantageous for SMEs in order to introduce successful innovations. Individualized decision making has been regarded as more beneficial by a few previous studies. It is argued that individualized decisions foster creativity, freedom, and autonomy which are pre-requisites of successful innovation and branding processes (Jones & Davis, 2000; Ramamoorthy, Flood, Slattery & Sardessai, 2005). At the initial or

developmental stages of innovation, SMEs benefit tremendously from highly individualistic founders, managers and employees.

Moreover, individualism is mainly associated with shaping entrepreneurial orientation towards innovativeness (Lee & Peterson, 2001; Mueller & Thomas, 2001) a significant contributor that leads the success of SMEs (Rauch, Wiklund, Lumpkin & Frese, 2009). Besides, individualized decision making can foster and expedite new product development through product championing (Howell *et al.*, 2005). Individualized decisions have, thus, been linked with radical innovation activities (Herbig & Miller, 1993).

This phenomenon can be explained with the rationale that greater extent of participative decision making by facilitating open communication among all level of employees and involving them in decision making can reduce the level of control exercised by owners and top management, and greatly influence the decision making in SMEs, thus the owners and managers of the firm may be influenced to make decisions which could benefit the interests of employees but may not be advantageous for firm's overall performance. Therefore, individualized decision making seems to be more desirable where the employees are generally more concerned with their personal well being rather than the performance of the firm as is the case particularly in developing economies. Hence, the finding that participative decision making does not moderate the relationship between innovation, branding and SMEs performance is justified in the cultural context of a developing economy like Pakistan.

5.4. Contributions of the study

Throughout this study, many insights have been provided regarding the issues related to the innovation and branding in SMEs. This study is one of the pioneering studies in a developing country in tracing the effects of innovation and branding on SMEs Performance. In addition, this study attempts to expand the boundary of the current literature as it investigated the moderating effect of the organizational learning capability on the relationship innovation, branding and SMEs Performance. By integrating the innovation, branding and organizational learning perspective, the present study can claim significant relevant contributions to the literature besides forwarding pragmatic suggestions for the considerations of the policy makers as well. The gist of the contributions of this study is presented in the following sub-sections.

5.4.1 Theoretical Contribution

As it has been discussed in the significance of the study in Chapter 1, the contributions of this study are in several dimensions as narrated below.

First, from the theoretical perspective, this study explored the moderating effect of Organizational Learning Capability in the relationship between Innovation, Branding and SMEs Performance. Moreover, it contributed to the literature by examining the relationship between innovation and performance in context of a developing country. This study makes a significant addition to scarce and rare list of quantitative studies

linking performance of SMEs to branding. As aforementioned, there are number of case studies and other qualitative studies but there exists acute shortage of quantitative studies on branding in SMEs.

Second, this study highlighted the importance of Innovation (technological and non technological innovation) for higher performance of SMEs in a developing country such as Pakistan. Past Literature linking non-technological innovation with performance is very limited in number and scope. Study of branding in SMEs in general and in context of a developing country in particular is in itself a notable contribution to literature.

Third, the results of this study revealed that the joint effect of innovation and branding on performance of SMEs was evidently stronger than otherwise. Besides, integrated effect, the relationships of dimensions of innovation (technological and non-technological innovation) and branding (branding orientation and corporate brand associations) with performance were measured individually to give valuable recommendations to owners/managers of SMEs.

Thus, the present study which links innovation and branding to the performance of SMEs in sports industry of Pakistan has been an attempt to provide empirical insights in revealing the importance of technological innovations, branding orientation and corporate brand associations for SMEs in Pakistan, if they desire to be benefitted from their innovation and branding practices. Furthermore; in addition to testing the

postulated hypotheses, this study has conducted a rigorous goodness of the fit analysis to validate the model. By and large, on research methodology criterion this study rigorously validated the research instrument to ensure valid and reliable results since poorly validated measures often yield erroneous conclusions.

As the results demonstrate a strong relationship between Branding and SMEs Performance, this study strengthens the resource based view (RBV) which posits that the unique resources of a firm generate competitive advantages. The study confirms the views of (Wernerfelt, 1984, Barney, 1991; Barney *et al.*, 2001; Peteraf, 1993; Fiol, 2001, Runyan & Huddleston, 2006) who opined that brands are highly valuable, inimitable, and imperfectly mobile resources that can greatly contribute towards superior performance of firms.

This study also lends valuable support to dynamic capability perspective put forward by Teece *et al.*, (1997) and Teece (2007) who considered Innovation as an integrative capability that enables a firm to configure and reconfigure its resource stock and deploy and redeploy it to grasp and exploit dynamic market opportunities. Dynamic Capabilities perspective is deep rooted and grounded in Schumpeterian perspective. Schumpeter (1934) in his famous work “Economic theory of development” emphasized on innovation as the key for sustainable performance.

Moreover, the study strengthens the dynamic capability perspective (Teece, 2007) where innovation and learning are regarded as a dynamic capability of the firm in order

to sense, create and seize market opportunities by acquiring, sharing and utilizing the knowledge existing in the eco system of an organization. Teece (2010) highlighted the significance of learning by stating that the organizations that are fast learners are better placed to introduce and run successful business models. By investigating the moderating effects of Organizational learning capability on Innovation branding and SMEs Performance, the study extends the resource based view and dynamic capability perspective.

In addition, as it was revealed through the results that branding and innovation have an integrated effect on SMEs performance, the present study supports the Theory of growth of firm proposed by Penrose (1959) who opined that a firm is a bundle of unique tangible and intangible resources, when optimally integrated result in higher efficiency and effectiveness and ultimately lead to higher growth performance.

5.4.2 Policy and Managerial Implications

The results of this study have important contributions and policy implications for the consideration for policy-makers and SMEs owners/managers. In the light of these implications, policy makers in general and SMEs owners/mangers in particular can take measures which may prove crucially important for performance of SMEs of developing countries in general and Pakistan in specific.

This study particularly provides scholarly and practical insights on whether innovation and branding practices can be influenced by organizational learning capability in order to enhance the overall performance of SMEs. Some of these contributions and insights are indicated as follows.

Results of the study revealed that in order to achieve higher performance, SMEs need to innovate. To promote innovation, government must provide required socio-technological support to the entrepreneurs so that they can take innovative measures with more confidence. More technology parks, business incubation centers and advisory cells must be established in future in this regard as suggested by Hafeez, Shariff & bin Mad Lazim (2012).

To support the sports industry of Pakistan in particular, the policy makers have to place a greater emphasis on up gradation of existing technologies and manufacturing facilities. As the world trend has rapidly changed towards mechanization of sports good; there is a dire need that mechanization must gain momentum in sports good manufacturing in Pakistan. It is the only way forward for sports good manufacturers in Pakistan if they desire to outperform their global competitors. It holds especially true in case of manufacturing of footballs where Pakistan was once the world's leading manufacturer, but now it is lagging behind other countries such as India, China and Thailand mainly due to lack of access to hi-tech machinery and innovative manufacturing facilities.

Recently, SMEDA has taken a great initiative in order to provide the sports industry to Pakistan with a modern and state of the art sports goods manufacturing facility. SMEDA has invested 435.63 million Pakistan Rupees to establish Sports Industry Development Centre in Sialkot for mechanization and process up gradation of sports good especially soccer balls manufacturing. This centre has successfully started its trial production in October 2013, and it is expected that full range commercial production would start before 2015. It has been a timely decision to boost the quality standards of sports goods, which account for exports valued at US\$ 350 million per annum (Mehdi, 2014). Sports industry development centre would modernize the sports industry by providing common facilities, technical consultancy services, molding machinery services, thermo lamination ball manufacturing machinery and hands on training services. With the establishment of this centre, sports goods manufacturers would be motivated to employ the modern equipment and innovative production technologies for manufacturing the sports goods. In line with sports goods sector, SMEDA and other governmental bodies should provide the required support to other small and medium scale manufacturing sectors.

Furthermore, owners and managers of SMEs need to lessen the emphasis on traditional and older ways of managing and operating businesses; reliance on existing and commodity type products should also be minimized. They should embrace new technologies to improve their existing business products and processes. In addition, innovation practices should also be embraced in managerial and marketing activities in order to achieve highly sustainable competitive advantage and superior performance.

Moreover, SMEs should invest in branding activities to build a good image and reputation within local and across international market. They must develop an orientation towards branding and emphasize on corporate brand associations if they have to excel their business performance. Finally, to foster innovation and branding, SMEs need to enhance their learning capability by encouraging their employees to come up with new ideas and to carry out their tasks in novel and innovative manner, by interacting with external environment and supply chain partners. SMEs should encourage their employees to acquire more knowledge and new skills in order to be competitive in dynamic environment. This can be achieved if SMEs launch training programs and workshops to educate their employees and to create better understanding about organizational strategic orientation in the mind of their employees. SMEs should promote R&D policy and create an environment where new ideas and experiments are always encouraged. It can be done if organizations develop formalized mechanisms to encourage sharing of best practices among employees. And, SMEs should also update their internal knowledge based systems for employees' better understanding about organizational understandings (Durst & Edvardsson, 2012).

It is strongly believed that in order to get Competitive advantage through innovation and branding practices, organizations must learn how to respond to external and internal environment of the organization. The innovating culture backed by organizational learning would finally lead to sustainable innovativeness. This culture can be achieved when managers provide employees enough resources and time to learn and share knowledge and culture should be flexible to welcome new and innovative

mechanisms which finally lead to higher organizational performance. These implications are apparently related with sports sector of Pakistan but can be applicable to other sectors as well.

5.5 Limitations of the Study

The research pertaining to business and economic studies are usually encountered with many limitations for the apparent reasons and the present study is no exception to the phenomenon. The present study has encountered some specific limitations, such as:

Firstly, the scope of the study is limited as it focuses on innovation and branding practices in SMEs in sports industry of Pakistan. Secondly, the survey was performed in the city of Sialkot because sports industry is mainly concentrated there with over 3000 SMEs operating in Sialkot. Regional studies could suffer from bias, if there are differences in the characteristics of firms and owner managers among regions. However, the past literature disprove region based and location based factors being significant in the study of SMEs (Storey, Watson & Wynarczyk, 1989; Keasey & Watson, 1994).

Thirdly, the study is cross sectional in nature because of time and cost constraints. A longitudinal study helps in creating better understanding about the matter we are studying, so the same model should be tested by performing a longitudinal study in order to get in-depth analysis. It is also required to comprehensively study the model by using interviews and other reliable methods as questionnaire based survey has its own limitations.

5.6 Recommendations for Future Research

This study proposes a significant framework linking three distinct literature streams namely Innovation, Branding and Organizational Learning. This framework can be empirically tested in different countries especially the developing countries; and across different industries in order to generalize the findings. It would be very interesting to study the differences in innovation practices and branding strategies among SMEs and to analyze their impact on firms' performance.

In case of innovation, the dimensions of technological and non-technological innovation can be further investigated and their effects on firm performance can be explored. Specifically, the impact of non-technological innovation should be measured across industries and countries. The present study revealed a positive relationship between non-technological innovations and SMEs performance. However, the relationship was not significant. For better insight, this relationship should be studied over a long period of time. Moreover, the effectiveness of radical versus incremental innovation can be given due consideration in future studies. Future researchers can try to establish that which type of innovation is more suited to which type of industry.

With reference to branding, other dimensions of branding such as corporate branding, internal branding and brand identity can be studied in SMEs in developing countries in order to know their usefulness and relevance with respect to performance of SMEs. This study has identified a few corporate brand associations namely performance

awards, supply chain partners such as corporate clients, suppliers and distributors and celebrities. Future studies can measure the impact of these associations as well as explore the impact of other organizational associations such as country of origin, symbols, and colors on performance of SMEs in different countries and in various industries.

Moreover, future studies can employ other moderators such as competitive structure, absorptive capacity, organizational structure, government support or environmental dynamism to examine if they have any moderating effects on the relationship between innovation, branding and SMEs Performance. Furthermore, longitudinal studies in this regard can provide in-depth insight and make an invaluable contribution in the academic literature regarding innovation, branding and organizational learning practices in SMEs.

5.7 Concluding Remarks

This study is a pioneering attempt to examine the impact of innovation and branding on SMEs Performance in the context of moderating role of organizational learning capability. The study substantially contributes to the existing literature on innovation, branding and organizational learning capability in the context of a developing economy such as Pakistan. The study suggests that policymakers and the government of Pakistan need to revamp the innovation policy to boost the performance of SMEs.

In addition, SMEs in Pakistan require a greater focus on developing and sustaining their distinguished image and identity in local as well as foreign markets by shifting their focus to branding practices. Branding paves the way for building a strong identity and corporate reputation which can shield SMEs from competitors and can allow them to leapfrog and outperform their business rivals.

The present study also extends past research about Innovation, Branding and SMEs Performance by incorporating the role of organizational learning capability as a moderator. The findings suggested that organizational learning capability does not significantly moderate the relationship between innovation, branding and SMEs performance. The main focus of study was on sports sector of Pakistan but the study has some generalizations that it can be applied to other sectors and SMEs as well. In developing countries like Pakistan, it is quite important to investigate the role of organizational learning particularly in sectors like Textile, Leather, Ceramic, Furniture, Banking and Sports sectors which provide support to the economy of developing countries. Future studies can examine whether there are any differences across various sectors.

The main contribution of the research is in two fold. First it gives the answers of various questions according to the need expressed in literature. The study has employed moderator in order to solve the inconsistencies that exist between the relationship between innovation, branding and SMEs performance. Secondly the research is helpful in studying organizational learning. Although the role of organizational learning capability

as a moderator between innovation, branding and SMEs performance was not highly significant, it was observed that the learning capability lends support to the organization because of its relationship with innovation, and performance. Thus, learning capability needs to be promoted to convert an organization in to learning organization. Moreover SMEs must interact with important external market players (suppliers, distributors, customers, universities, research laboratories, governmental agencies) that can directly or indirectly influence business performance of SMEs through innovation. However, SMEs should also focus on developing innovations through indigenous learning and utilize internal resources as a greater level of reliance on external partners can also be detrimental (Rosenbusch *et al.*, 2011).

The crux of all of the aforementioned discussion is that in this contemporary age of fierce competition among business rivals, the bright and most promising future holds for those SMEs which would seek to augment their performance by adopting the business processes that are Innovation led and Branding oriented. Innovation and branding practices are the turn key solutions for those organizations which are in aggressive pursuit of unrivaled business performance.

Innovation orientation would continually push the decision makers to target new and existing customers with new and technologically advanced products by employing latest and state of the art technologies. Whereas, branding oriented mindset would drive and direct the decision makers to establish a distinct firm image and identity that would impart a favorable and long lasting impact on perceptual maps of existing and potential

customers. The customers would perceive and visualize the firms associated with strong brands as different and superior to rest of competitors. Once an organization succeeds in building a positive perception in the minds of potential customers, it can reap the rewards for a long period of time. Such organizations enjoy a superior position in market and are in better position to grab larger market share. They can also afford to sell their products at higher prices as the customer are willing to pay the premium prices for technologically advanced and highly differentiated products. To conclude, innovation and branding are the way forward for SMEs; they are the instrumental factors that can lead the SMEs towards achieving ongoing and unparalleled business performance.

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