

# The Impact Marketing and Operational Capabilities on the Financial Performance of Small and Medium Companies in Industrial Town of Guilan

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## Abstract

In this research the goal is surveying the impact of marketing and operational capabilities on financial performance of small and medium establishments of Guilan province. This research is applicable *in terms of target* and it is *descriptive-survey* in terms of data collection method. Data have been collected by questionnaires and have been applied for analysis by Lisrel and SPSS softwares. Companies, managers and senior experts are statistical society of the research. For this purpose 300 questionnaires were distributed and analyzed. Cronbach's alpha is 0.915 which shows adequate reliability of the questionnaire. The results indicate that marketing capability, operational capability, micro-environment capability are effective for the financial performance of small and medium companies, that the effect of these capabilities on financial performance are as follows in order: marketing capability, operational capability, macro and micro environment capability and also the impact of marketing capability on small and medium establishments operational capability is 0.73.

**Key words:** marketing capability, operational capability, micro environment capability, macro environment capability, SMEs

## INTRODUCTION

Financial sector has entered in a new intellectual area during recent decades. In this study the researcher surveys the factors affecting financial performance. Revision of small and medium establishments' SME's financial performance will provides awareness of the past trend and also provides the area for a company's future financial performance. With more improvement of business environment and creation of severe competitive environment at the twenty-first century, it became a hard process to maintain company staying alive. Therefore companies are trying to increase their global market share through organization unperceivable assets (marketing capability) to improve their organizational performance at

the business environment. The present study is a scientific and applicable research which emphasizes on the facts of current activities of an executive establishment according to the financial performance and from the view of quality, it has special emphasis in order to grow and making better a process or an activity and improving the performance of this institution at real situations. This study considers the features of financial ratios which are surveyed using financial balances.

## PROBLEM STATEMENT

Small and medium establishments SMEs are the heart of modern world economy. With the beginning of industrial wave and developing countries, competition to create large-scale industry, mass and same production, have formed and reached to its peak at the first three quarters of the twentieth century. However, big industries are at the attention of economic policy for having advantages caused by effects of large scale, the production range, experience and the effects of organizing, but the advantage of small and medium-sized establishments have turned this industries into the first choice in the production of most

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goods due to the effect of transportation, market size, effectiveness of choice and control (Shengce Et al. 2015).

Reviewing the financial performance of SMEs will provide awareness of past trend and also areas for company's future financial performance. Companies constantly measure their performance procedures using different techniques and in particular with the use of financial ratios. They obtain the necessary information for decision-making in the future. With the development of industry, technology development and the extent of companies one of their most fundamental problems is improving financial performance which disregarding it will causes reduced profitability and finally activities downturn in performance and improvement of company's efficiency.

Nowadays, development of products is not only limited to increasing revenue by selling a variety of goods and services, but it can be considered as an important role of growth strategy and economic development. In general, it can be said that as product growth are individually effective on the growth of a company, it has positive impact on economic growth generally (Vorhies Et al. 2009). Therefore there is no way in economic development except focusing on production-oriented strategy with marketing and operational modern methods, micro and macro environmental factors in different areas. Financial fluctuations during different periods has affected by different factors. Micro (SMEs) and micro-environmental factors such as governmental policies in terms of innovation and product quality, implementation way and the continuation of those policies in one side and factors relating to the condition and behavior of manufacturers on the other side are effective (Zare Ahmadabadi & Shakeri, 2011).

Global competition intensification, high increase of uncertainty and demand for different products and services cause small and medium industries seek to create a distinct competitive advantage compared with competitors with emphasis on use of special marketing and operational techniques for products, services and manufacturing processes. Actually, such industries have found the importance of marketing role in better meet customers' needs in comparison with competitors and also their profitability for their survival. Marketing and operational roles at have been blocked due to some restrictions such as poor cash flow, lack of experts, size of business, technical and strategic problems related to customers (Morgan et al, 2009). Despite such restrictions SMEs successfully have been able to use marketing and operational capabilities for their sales incensement (Marios Et al. 2012).

In our country, small and medium-sized firms in Guilan will also require to reinforce marketing and operational

capabilities to improve their financial performance. So the main question of this study is:

What effect do marketing and operational capabilities have on Guilan province SMEs financial performance?

## DEFINITION OF WORD AND RESEARCH TERMS

### Marketing capabilities

Marketing capabilities is defined as, the combination process of perceivable and imperceivable organization resource in order to understanding the complex needs of clients and access to goods, names and brands which are different from competitors. Organizations combine individual skills and knowledge of their staffs with organizations perceivable sources in order to development of marketing capabilities. The organizations which use more resources to understand the needs of their customers can get more functionality out of the market. Such capabilities are used by the organization for the first time. Therefore, it will be very difficult to pursue and copy by other organizations. Therefore marketing capabilities are considered as an important resource to increase competitive advantage for organizations (Rousta Et al. 2009).

### Operational capabilities

Operational capabilities are combination of a series of complex actions which create more efficiency through using product capabilities, technology and circulation of materials on output. Manufacturing strategy studies and production have clarified the role of operational capability on organizational performance. These studies have shown that organization can achieve competitive advantage through use of efficient flow of materials, the exact use of assets and acquisition high knowledge. High-performance capabilities can increase efficiency capability on delivery process, reducing operating costs and achieve competitive advantage (Solberg & Durrieu, 2008).

### Financial performance

Performance measurement can be divided into two categories of accounting and economics according to the concepts of accounting and economic criteria. Company's performance will be assessed according to the accounting data in accounting standards while in economic criteria, company's performance will be assessed according to the power gained by existing assets, potential investment, output volume and the amount of capital cost (Vorhies, 1993).

### The ability of micro environment

No organization and corporation work in vacuum. All organizations and corporations are inside an area which

are interacting with the other environmental components such as a dynamic and organic systems, they mutually affect each other. Organizations take raw materials, human resource, capital, knowledge, facilities and equipment from environment, they produce goods or services and again offering to the environment and all these trades are in the form of laws and regulations that the environment continues its life based on that.

While system or economic unit want to continue this process, they must adhere to these regulations and respect them otherwise environment will maintain just organizations or systems that can adapt to the environmental conditions based on the principle of appropriate selection.

### The ability of the macro environment

Factors contributing in the macro environment capabilities include:

1. Economic systems which are included three types of economic system: capitalist, socialist and mixed.
2. Development stages of markets which their results are achieved by countries Income reviewing.
3. Cultural factors which can influence and impact on environment of each financial markets.

## RESEARCH METHODOLOGY

The aim of this study is to analyze data and information collected for verifying hypotheses on an experimental basis which in this research questionnaire is used as data collection tool. The statistical sample is a part of the population which are randomly selected. Statistical society researches are 966 Guilan's SMEs. By using Morgan table 300 cases are selected to determine the sample and questionnaires are distributed between senior managers and experts of mentioned companies.

The following figure shows the conceptual model.

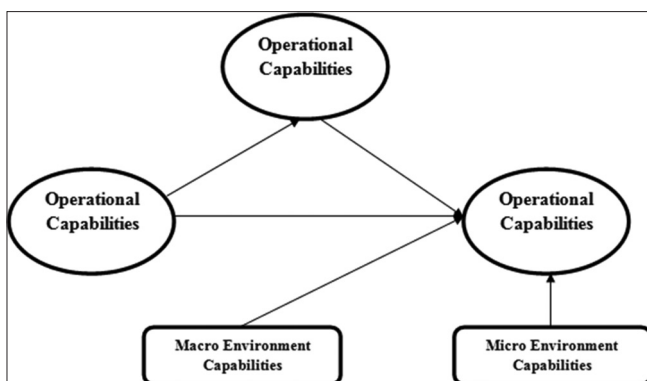


Figure 1: The conceptual model of research

### The validity and reliability of the questionnaires

To survey validity of questionnaire content validity method is used. In this case, the questionnaires were given to a number of experts, professors and advisors and they were surveyed about questions and hypothesis evaluation that they all confirmed questionnaires.

### Reliability of the questionnaire

Cronbach's alpha is used to examine the reliability.

Cronbach's alpha coefficient was calculated 0.915. So questionnaire is assessed as desirable.

### Data analysis

- Inferential statistics
  - Data normality test
- H0: The data distribution is normal  
H1: The data distribution is not normal

According to Kolmogorov-Smirnov test significant quantity is obtained larger than (0.05) error level in all cases.

### Confirmatory factor analysis

To measure variables questionnaires are used in this study. To investigate the research hypothesis based on the scale, used scale accuracy must be approved first. Therefore, confirmatory factor analysis is used to measure hidden variables relationships with their measurement types.

The next step is to evaluate the excellence of fit model. One of the basic indicators to account the free parameters in calculating the fit indices is Khi- two normal index which is calculated by simple division of khi-two on model freedom degree. If this amount is between 1 and 5 so it is desirable. (Shoumakher and Lomax, 1988 , 88) normal Chi-Square is 1.85 in this research.

$$\chi^2 / df = \frac{1017.95}{550} = 1.85$$

Also RMSEA index is used as the main fit index in most confirmatory factor analysis and structural equation models. If this index is lower than 0.05 then it is desirable. In saturated model of this research, RMSEA index is 0.034 which shows model is desirable.

### Test research hypotheses

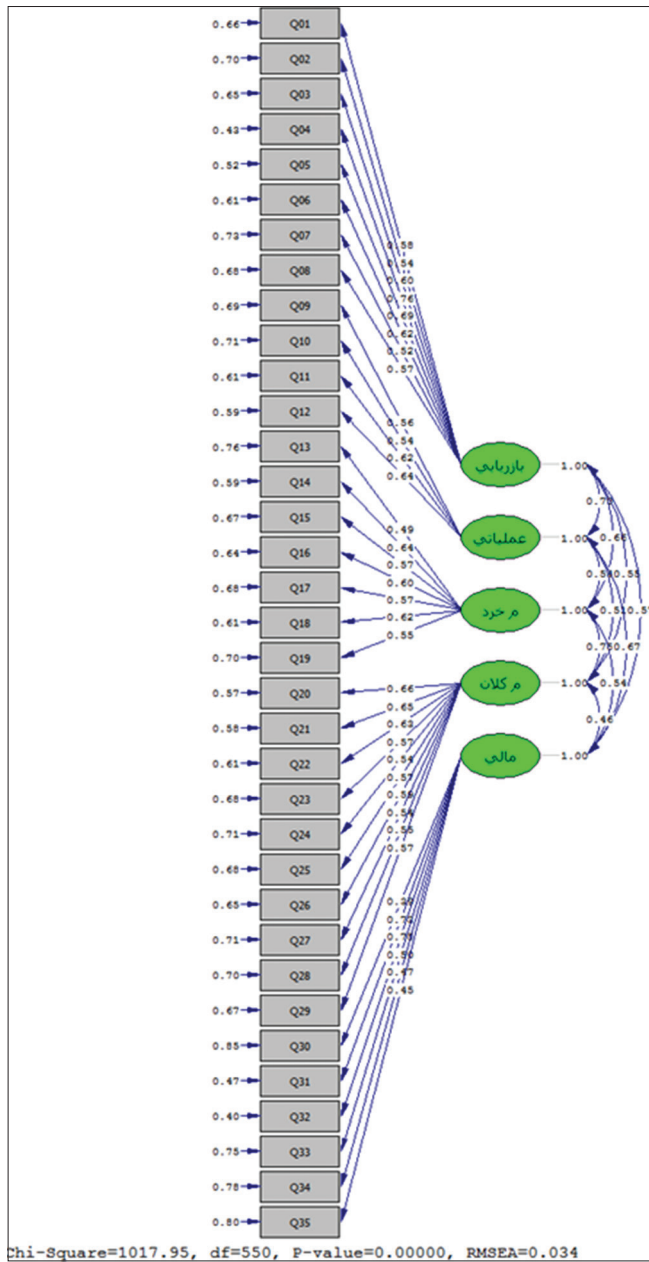
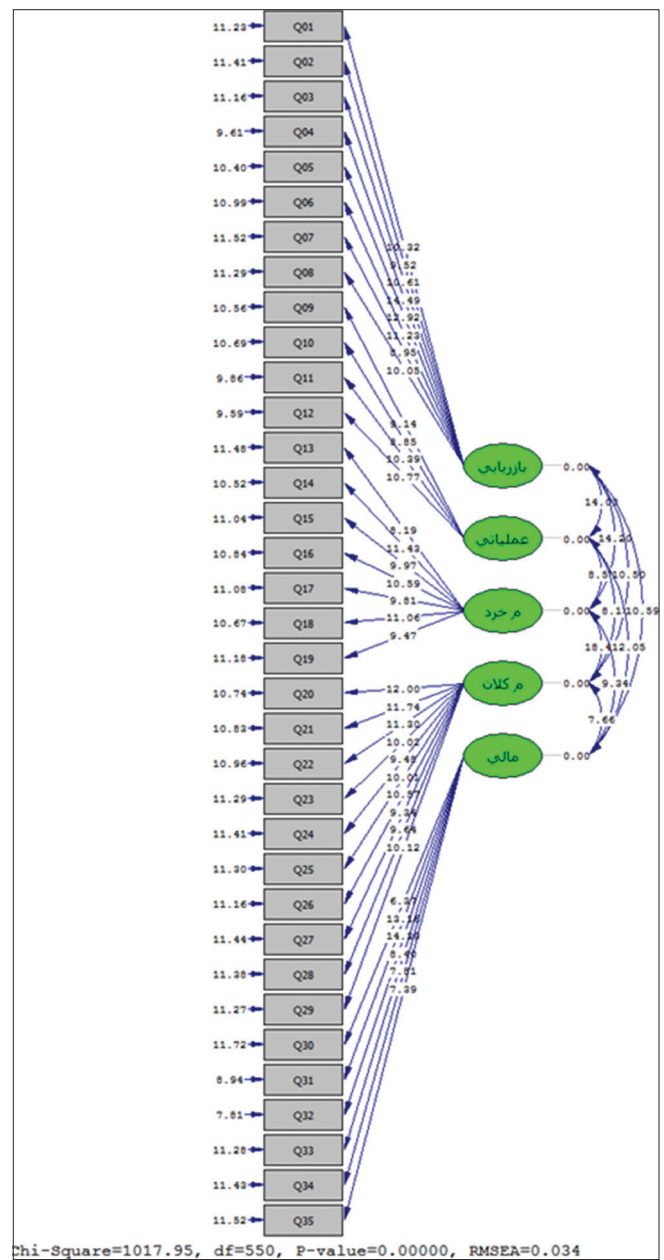
#### First hypothesis

Marketing capability has effects on financial performance of SMEs.

Power of relationship between marketing capability variable and financial performance variable is evaluated 0.63 which is reasonable.

**Table 1: Test normality of data**

	Marketing capability	Macro environment capability	Micro environment capability	Operational capability	Financial performance
N	300	300	300	300	300
Average	4.037	3.795	3.879	3.873	3.855
Standard deviation	0.521	0.567	0.510	0.552	0.532
Kolmogorov-Smirnov	3.547	2.155	2.774	2.895	2.290
Meaningful level	0.125	0.085	0.159	0.053	0.058

**Figure 2: Standard operating load factor analysis confirm the scale of research****Figure 3: statistic value t (significant) factor analysis confirm the scale of research**

The test statistic is also 6.02 which is more than t the critical value at error level of 5% that means 1.96 and it shows observed correlation is significant. Therefore

with confidence of 95% marketing capability affects financial performance of SMEs.



### Second hypothesis

Operational capability has effects on financial performance of SMEs.

Power of relationship between operational capability variable and financial performance variable is evaluated 0.50 which is reasonable. The test statistic is also 3.31 which is more than t the critical value at error level of 5% that means 1.96 and it shows observed correlation is significant. Therefore with confidence of 95% operational capability affect financial performance of SMEs.

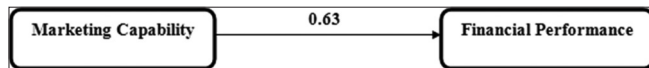


Figure 4: factor loadings marketing capabilities impact on financial performance

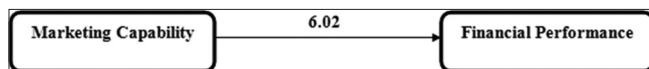


Figure 5: statistic t-value marketing capabilities on financial performance

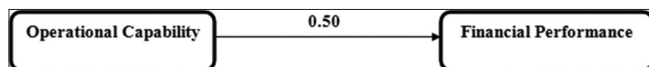


Figure 6: factor loadings operational capabilities impact on financial performance

### Third hypothesis

Micro-environmental capability has effects on financial performance of SMEs.

The power of relationship between micro-environment capability variable and financial performance variable is calculated equal to 0.33 which is reasonable. The test statistic is also calculated 2.52 which is more than the critical value at error level of 5% that means 1.96 and it shows observed correlation is significant. Therefore, micro-environment capability affects financial performance of SMEs with confidence of 95%.

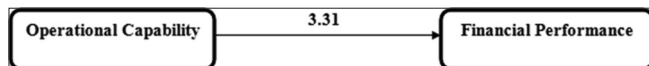


Figure 7: statistic t-value operational capabilities on financial performance

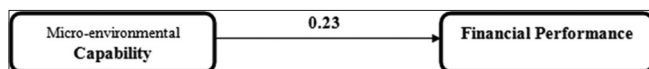


Figure 8: factor loadings micro-environmental capabilities impact on financial performance

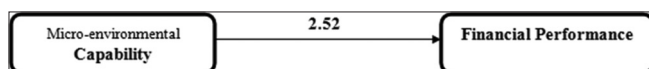


Figure 9: statistic t-value micro-environmental capabilities on financial performance

### Fourth hypothesis

Macro-environmental capability has effects on financial performance of SMEs.

The power of relationship between macro-environmental capability variable and financial performance variable is evaluated 0.34 which is reasonable. The test statistic is also 2.01 which is more than t the critical value at error level of 5% that means 1.96 and it shows observed correlation is significant. Therefore, with confidence of 95% macro-environmental capability affects financial performance of SMEs.

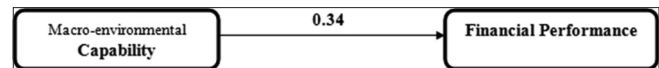


Figure 10: factor loadings macro-environmental capabilities impact on financial performance

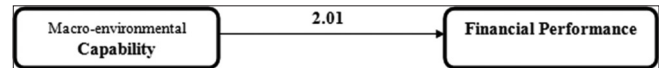


Figure 11: statistic t-value macro-environmental capabilities on financial performance

### Fifth hypothesis

Marketing capability has effects on operational capability of SMEs.

The power of relationship between marketing capability variable and operational performance variable is evaluated 0.73 which is reasonable.

The test statistic is also 7.84 which is more than t the critical value at error level of 5% that means 1.96 and it shows that observed correlation is significant. Therefore with - confidence of 95% marketing capability affects operational performance of SMEs.

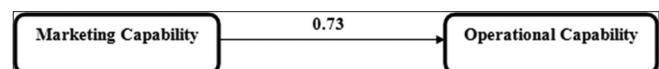


Figure 12: factor loadings marketing capabilities impact on operational capability

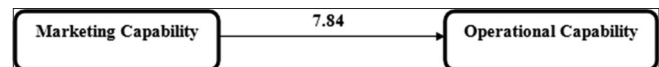


Figure 13: statistic t-value marketing capabilities on operational capability

### Excellence of Fitness Model

Structural model above has been saturated in three phases. Fitness indicators show favorable values. Chi-Square normal is also calculated as 1.79 which is at the acceptable range of 1 to 5. Therefore, structural model enjoys an appropriate fitness.

$$\frac{\chi^2}{df} = \frac{917.25}{513} = 1.79$$

Since the fit index of RMSEA is 0.036 and it is lower than 0.05, other excellence of fitness are also at acceptable range.

**Table 2: Indices main hypothesis of goodness of fit of the structural model**

Fitness index	SRMR	RMSEA	GFI	AGFI	NFI	NNFI	IFI
Acceptable values	<0.05	<0.1	>0.9	>0.9	>0.9	>0.9	0.1
Calculated values	0.039	0.036	0.94	0.96	0.96	0.96	0.94

## RECOMMENDATIONS BASED ON THE RESULTS:

### Marketing capability

In this research marketing capabilities are measured by customer service, strong brand of images or distinct reputation, proper distribution network, sales promotion activities, advertising, implementation of marketing programs, communication with clients and good public relations which result in increasing financial performance of companies. Therefore it is suggested to have more attention at the theoretical foundations of marketing and creating infrastructure based on concepts with an emphasis on customer satisfaction.

### Operational capability

Operational capabilities which include supply management to estimate customer requirements, reducing production costs, high quality and efficient organizational activities, efficient and effective delivery of goods and services are linked to corporate financial performance and they can affect financial performance of companies. Thus, it is suggested that to improve financial performance, it should be trying to increase operational capability of organization by monitoring supply of products, increasing its quality, meet the customer's requirements and understanding the interests and needs of customers. Furthermore, for reduction of production costs, organizing jobs and positions, increasing staff skills by training and practical workshops, outsourcing some tasks can be suggested and also information technology can be used widely and specialized.

### Micro-environmental capability

Micro environment factors including: personnel, production volume, required capital, sufficient information and

knowledge, facilities and equipment of organization is associated with the corporate financial performance and it can be effective. This means that all have positive significant correlation with financial performance. Thus, it is suggested that companies try to improve financial performance by having appropriate and qualified personnel, training them as well as turning them to expert personnel and also by increasing high quality products, being up to date and absorption of significant funds for investment.

### Compiler of the macro-environment capability

Macro-environment factors in this study which include: starting a business, receiving building licenses, accessing electrical energy, property registration, getting credit, investor protection, paying tax, cross-border trade, being executive and binding of contracts and ability to pay debts.

Improving business environment requirement create competitive environment. Therefore, improving business environment indicators has special importance. Since the capabilities of macro-environment are not things to be changed by companies, they should be careful to prevent any disorder in the work.

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