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The role of the marketing strategy process in the innovativeness-performance relationship of SMEs

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Abstract

Purpose – The purpose of this paper is to examine the mediating role of the marketing strategy process in the relationship between innovativeness and organizational performance in SMEs.
Design/methodology/approach – The partial least squares-structural equation modeling technique was used to analyze data from Brazilian SMEs that belong to the software sector. Innovativeness was considered as a cultural aspect of the firm, which is related to being open to new ideas. The marketing strategy process was analyzed considering its two dimensions, i.e., formulation and implementation of marketing strategies. Organizational performance included variables of market, financial and innovation performance.
Findings – The results show that innovativeness positively influences organizational performance through the marketing strategy process. Specifically, the formulation of marketing strategies mediates the relationship between innovativeness and organizational performance. Implementation by itself does not mediate this relationship. When considering the path formulation→implementation as mediator, the influence is positive, i.e., formulation positively influences the implementation of marketing strategies and this path mediates the relationship between innovativeness and organizational performance. Therefore, the mediating role is stronger when considering the formulation-implementation path than when taking into account the activities of the formulation and implementation of marketing strategies separately.
Originality/value – This study contributes to the literature by discussing how innovativeness influences SMEs' performance through subsequent stages of the marketing strategy process. This is one of the first studies to consider activities in the marketing strategy process as a mediator in the innovativeness-performance relationship and explore its sequence.

Keywords Organizational performance, SMEs, Innovativeness, Marketing strategy process
Paper type Research paper

1. Introduction

Since the initial discussions regarding the marketing strategy process and its impact on firm performance in the 1990s (Menon *et al.*, 1999; Noble and Mokwa, 1999), debates regarding the marketing strategy process have evolved into a multifaceted conceptualization (Menon *et al.*, 1999). Little empirical research has been done to explore the formulation and implementation activities as a sequence of activities within this process. According to Menon *et al.* (1999), formulation and implementation involve simultaneous and interrelated activities in the marketing strategy process and these activities have different effects on a firm's performance. Therefore, it is not possible to separate formulation and implementation activities (Menon *et al.*, 1999). However, it is reasonable to say that formulation is more related to the design of marketing strategies and implementation to the execution (El-Ansary, 2006). At the broadest level, strategy formulation "refers to the activities that a business engages in for determining strategy content," and strategy implementation "refers to the actions initiated within the organization and in its relationships with external constituencies to realize the strategy" (Varadarajan and Jayachandran, 1999, p. 121).

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Recent studies in the field of strategic marketing have considered the difference between these activities and concluded that formulation impacts implementation, and, in turn, implementation impacts performance (Morgan *et al.*, 2003; Morgan *et al.*, 2012). Nevertheless, studies that consider either one or the other (formulation and implementation) fail to demonstrate the effectiveness of marketing in organizations (Piercy, 1998; Sashittal and Jassawalla, 2001). In an attempt to address this gap, the objective of this paper is to examine how both dimensions of the marketing strategy process, i.e., formulation and implementation, mediate the relationship between innovativeness and organizational performance in SMEs.

Innovativeness and the marketing strategy process seem to be closely related. A strategic marketing decision-making process comprises strategic marketing decisions, process, methods and internal and external contextual factors (Jocumsen, 2004). Innovativeness, in turn, is considered "openness to new ideas as an aspect of a firm's culture" (Hurley and Hult, 1998, p. 44). To Vila and Kuster (2007, pp. 21-22), the innovativeness of a firm is at its highest when "new products are created, new strategies are implemented, new ideas are followed and new markets are reached." Thus, innovativeness appears to be aligned with the marketing strategy process as the creation of new products, the implementation of new strategies and so forth stem from marketing strategy making (Menon *et al.*, 1999). Furthermore, both are oriented to encourage and develop innovative solutions that are represented by creative marketing strategies and new possibilities to generate competitive advantage for firms (Dibrell *et al.*, 2014). These solutions can improve firm performance as a result (Kyrgidou and Spyropoulou, 2013; Chung *et al.*, 2012; Atuahene-Gima and Murray, 2004). Moreover, the marketing function is particularly relevant in revealing the level of a firm's innovative activities and their impacts on firm performance (Alpay *et al.*, 2012). As argued by Sorensen and Stuart (2000), innovation advantages are created in firms in which routines, organizational structure and incentive programs are emphasized. These factors are the core of the marketing strategy process (Menon *et al.*, 1999). Despite these connections, research on innovativeness and the marketing strategy process have been developed in separated ways.

Innovativeness has been investigated as an important driver of organizational performance (Rhee *et al.*, 2010; Kyrgidou and Spyropoulou, 2013; Dibrell *et al.*, 2014). On the other hand, previous studies have shown that marketing strategy process activities have a positive impact on organizational performance (Menon *et al.*, 1999; Thorpe and Morgan, 2007; Chung *et al.*, 2012). However, studies that investigate the joint effect of innovativeness and the marketing strategy process on organizational performance remain somewhat limited. Specifically, the mediating role of marketing strategy process activities, i.e., formulation and implementation, in the innovativeness-performance relationship has largely been ignored by previous studies (see e.g. Lee *et al.*, 2006; Yoo and Frankwick, 2012; Kim *et al.*, 2015). In this regard, the present study complements and contributes to the marketing strategy literature in several ways.

Specifically, this study corroborates and complements previous studies by reinforcing the interrelated nature of formulation and implementation in the marketing strategy process by exploring the isolated and the combined mediating effect of each of these two dimensions on the innovativeness-performance relationship (El-Ansary, 2006; Sashittal and Jassawalla, 2001; Morgan *et al.*, 2003). This perspective is relevant when it comes to understanding the importance of "using" the innovativeness context to formulate and implement marketing strategies. Vila and Kuster (2007) state that innovativeness is a form of firm differentiation when facing competitive environments and represents an opportunity for value creation. The marketing strategy process is also considered a source of value creation as it favors creative marketing strategies that, in turn, improve organizational performance (Menon *et al.*, 1999). Therefore, exploring the connections between the dimensions of the marketing strategy process and

innovativeness to improve performance contributes to the literature on the field through the following aspects. First, it helps to explain the sequence of activities of the marketing strategy process as a mechanism through which innovativeness influences firm performance. As stated by Alpay *et al.* (2012), although previous studies have highlighted the importance of innovativeness to improve performance, the mechanisms through which this occurs remain unclear. Innovativeness encourages a drive for new solutions in marketing strategy making and the result of this "encouragement" is creative marketing strategies that, in turn, enhance firm performance (Menon *et al.*, 1999). Second, it helps to explain the effectiveness of the marketing strategy process (taken as a sequence of formulation and implementation) in improving performance. Despite the interest of both managers and researchers in marketing strategy implementation, more studies are required to understand how well marketing strategy performs after it is implemented (Lehmann and Reibstein, 2006). As noted by Lehmann and Reibstein (2006), marketing's limited ability to demonstrate its impact on the firm's performance has led firms to reduce marketing investments without understanding the negative impact that this reduction has on performance.

The proposed relationships are discussed in the SME context, whose particularities in terms of firm innovativeness and marketing strategy making give us an interesting context to analyze. Overall, SMEs are relatively limited in resources but, in spite of this characteristic, they seek long-term success with their core assets, such as innovative technology (Rhee *et al.*, 2010). Furthermore, SMEs are structurally and culturally able to respond more quickly to their customers' needs than larger firms and they pursue competencies such as knowledge and intuitive marketing decision making (Didonet *et al.*, 2012; Gilmore *et al.*, 2001). Specifically, this study focuses on SMEs in the software sector. In general, these firms are dynamic, flexible and creative (Hakala, 2013; Britto and Stallivieri, 2010). These characteristics are important drivers when it comes to understanding the behavior of SMEs in terms of their strategies and performance.

2. Literature background

The activities of marketing strategy process can be grouped into two dimensions: the formulation of marketing strategies and the implementation of marketing strategies. Situational analysis, comprehensiveness, cross-functional integration, communication quality and consensus commitment are considered formulation activities of the marketing strategy. In turn, the implementation of marketing strategies is related to resource commitment to the formulated strategy, especially in relation to marketing assets and capabilities (El-Ansary, 2006).

Concerning the dimensions of marketing strategy formulation, situational analysis, also known as SWOT analysis, is considered an established method for supporting the strategy formulation process (Bernroider, 2002) and establishes a connection between internal and external factors, thereby stimulating the creation of new strategies (Dyson, 2004). Karami (2007) defends the use of SWOT analysis in the strategy formulation process of SMEs because the technique is simple and does not require expensive corporate information systems. Comprehensiveness is understood as the use of different marketing strategy development (MSD) styles (White *et al.*, 2003). According to White *et al.* (2003), as firms use more MSD styles, their capability to implement strategy improves, increasing the chances of the firm achieving better performance levels. Comprehensiveness is a part of strategy formulation and involves the processes of generating and comparing multiple alternatives before making a strategic decision (Fredrickson, 1984; Menon *et al.*, 1999; Hutzschenreuter and Kleindienst, 2006). Regarding cross-functional integration, Webster (1992) supports the integration of various departments as part of the marketing strategy formulation process. The integration of departments, such as production and marketing, was identified as essential to the development of strategies (Swamidass *et al.*, 2001). Simkin (2002) highlights

the importance of available information, storage and access in developing marketing strategies. Communication related to processes, supply chains and the target audience is essential for gathering information and making changes in marketing decision making. Jarrat and Fayed (2001) have identified information and communication management as skills required for the formulation of marketing strategies. Developing marketing strategies involves gathering, analyzing and communicating environmental information that supports decision making (Dishman and Calof, 2008). Consensus as a part of the strategy formulation process was defended by Dess (1987), and has proved its impact on organizational performance. Priem (1990) and Emwanu and Snaddon (2012) also pointed out consensus commitment as an important step in the strategy formulation process.

With regard to the implementation of marketing strategies, it is related to the resource commitment to the formulated strategy, especially in relation to marketing assets and capabilities (El-Ansary, 2006). The focus on clear core capabilities helps employees to implement strategies and prevents competitors from copying the company's strategies, thus generating a competitive advantage (Hrebiniak, 2006). This advantage may arise from the emphasis on dimensions of the marketing mix, when the company uses its resources and capabilities related to price, product, place, promotion, sales and market research to implement its marketing strategies (Morgan, 2012). The organization may also find difficulties operating its own marketing strategy if there are strategy conflicts with the prevailing power structure. The lack of senior management support and insufficient resources are the main problems linked to the implementation of marketing strategies (Hrebiniak 2006; Simkin, 2002).

Both formulation and implementation activities of the marketing strategy process can serve as the mechanism through which innovativeness influences performance (Rhee *et al.*, 2010; Menon *et al.*, 1999; Chung *et al.*, 2012). According to Menon *et al.* (1999), innovativeness encourages the search for new solutions in marketing strategy making. Wang and Ahmed (2004) complement this statement by defining innovativeness as a capability of firms to introduce new products to the market, or open up new markets. If innovativeness creates a favorable climate to combine strategic orientations with innovative behavior and process (Wang and Ahmed, 2004; Menon *et al.*, 1999), and if the strategic marketing decision-making process comprises decisions that will result in creative marketing strategies (Jocumsen, 2004; Menon *et al.*, 1999) then innovativeness and marketing strategy process are closely related. These relationships are shown in Figure 1 that represents the model tested in this study.

Figure 1 shows innovativeness as an independent variable and organizational performance as a dependent variable. The marketing strategy process is a mediating variable, grouped into two dimensions, i.e., formulation and implementation.

In the context of this study, there is an evidence that innovativeness enhances organizational performance (Hult *et al.*, 2004; Cho and Pucik, 2005) and a growing number of studies have been conducted to determine what drives it (Rhee *et al.*, 2010). It is also assumed that the marketing strategy process is enhanced by innovativeness (Menon *et al.*, 1999).

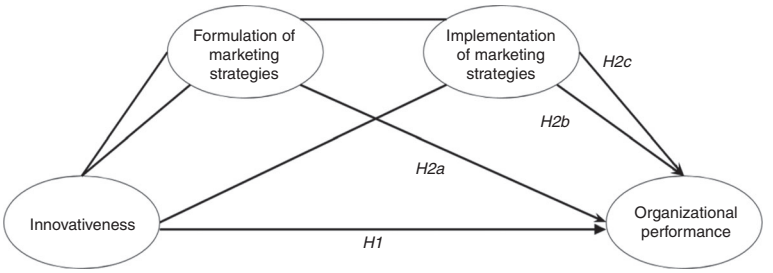

Figure 1.
Test model

Furthermore, effective marketing strategy activities have a positive impact on organizational performance (Sashittal and Jassawalla, 2001; Thorpe and Morgan, 2007; Chung *et al.*, 2012). Thus, it can be assumed that the effective development of marketing strategy activities is enhanced by innovativeness, and this process (innovativeness-marketing strategy) enhances organizational performance. Specifically, it can be said that innovativeness affects the formulation and the implementation of marketing strategies separately and sequentially, i.e., through the formulation→implementation path. Garcia and Calantone (2002, p. 113) stressed that innovativeness is "the capacity of a new innovation to influence the firm's existing marketing resources." The formulation of marketing strategy is related to the design of marketing strategies (El-Ansary, 2006). To formulate strategies, resources and capabilities are needed (Menon *et al.*, 1999). Therefore, if innovativeness is the capacity to influence the firm's marketing resources it will automatically affect the marketing strategy formulation.

Moreover, the implementation of marketing strategies refers to the actions initiated within organizations and in its relationships with external constituencies to achieve the strategy outcomes (El-Ansary, 2006). Innovativeness, in turn, reflects an organizational climate that facilitates innovative outcomes (Ruvio *et al.*, 2014). Therefore, it can be considered that innovativeness will also encourage creativity, openness, and so forth, to execute the strategy implementation. Finally, as formulation and implementation are interrelated, innovativeness could affect both in a sequence.

2.1 Hypotheses development

Innovativeness is a critical determinant of business performance (Rhee *et al.*, 2010) and is defined as "the notion of being open to new ideas as an aspect of corporate culture" (Hurley and Hult, 1998, p. 4). Several authors have studied the association between innovativeness and performance in several contexts and business levels (see e.g. Hult *et al.*, 2004; Cho and Pucik, 2005). The general idea is that if firms have the ability to innovate, they will develop competitive advantage and will obtain outcomes from it (Hurley and Hult, 1998). Innovativeness is also likely to be a tool that emphasizes an organization's willingness to change (Calantone *et al.*, 2002).

In general, studies have attested the direct and positive effect of innovativeness on organizational performance in the specific context of SMEs. For example, Rhee *et al.* (2010) confirmed the direct effect of innovativeness on organizational performance in SMEs in South Korea. Hilmi *et al.* (2011) studied the impact of innovativeness on performance in Malaysian SMEs and found that innovativeness positively affects performance. The results of Dibrell *et al.* (2014) also suggest that innovativeness positively influences firm performance in American SMEs. Furthermore, Keskin (2006) noted that innovativeness positively influences firm performance in Turkish SMEs. Thus, it is hypothesized that:

H1. Innovativeness has a direct and positive influence on the organizational performance of SMEs.

Menon *et al.* (1999, p. 21) defined the marketing strategy process as a "complex set of activities, processes and routines involved in the design and execution of marketing plans." To these authors, innovativeness is one of the three constructs that precede the marketing strategy process. According to Menon *et al.* (1999), innovativeness can be explained and put into practice through a firm's marketing process, i.e., the way a firm formulates and implements its marketing strategy can be influenced by the openness of the firm to new ideas and a climate that encourages and develops innovative solutions. Creative marketing strategies are a result of this process, which improve firm performance (Menon *et al.*, 1999; Dibrell *et al.*, 2014).

In the SME context, it is assumed that innovativeness influences small firm performance through changing internal processes, which includes the marketing function (Alpay *et al.*, 2012).

Furthermore, it has been shown that the way SMEs formulate and implement marketing strategies can improve organizational performance (Thorpe and Morgan, 2007; Chung *et al.*, 2012).

Two perspectives can be derived from the above statements: marketing strategy process is an internal process that, in turn, can be affected/changed by innovativeness and organizational performance can be influenced by the way SMEs formulate and implement their marketing strategies. Thus, it is reasonable to suppose that marketing strategy process is the mechanism through which innovativeness influences performance. Hence, it is hypothesized that:

H2. The marketing strategy process positively mediates the relationship between innovativeness and organizational performance in SMEs.

Discussing the entrepreneurial role of the small firm in the marketing strategy formulation, Bettiol *et al.* (2012) suggest that innovation is intrinsically related to this marketing process activity. The formulation of marketing strategies includes situational analysis (Dyson, 2004), comprehensiveness (Hutzschenreuter and Kleindienst, 2006), communication quality (Jarrat and Fayed, 2001; Dishman and Calof, 2008), cross-functional integration (Swamidass *et al.*, 2001) and consensus commitment (Emwanu and Snaddon, 2012).

During the formulation of marketing strategies, firms need to establish connections between internal and external factors to stimulate the creation of new strategies (Dyson, 2004). These connections can be encouraged by innovativeness (Denison and Mishra, 1995). Cross-functional integration is also favored by innovativeness, which actually stimulates the involvement of different teams and people during the decision-making process (Ruekert and Walker, 1987). Moreover, Menon *et al.* (1999) suggest that innovativeness positively influences the quality of communication during the formulation of marketing strategy. This is because functional teams are more favorable to sharing, interchanging and communicating openly when there is a climate that encourages openness to new ideas (Menon *et al.*, 1999). Furthermore, innovativeness promotes higher levels of consensus commitment to the strategy that has been formulated. This is because plans are openly developed and all members of the team have the opportunity to participate in the process (Menon *et al.*, 1999). The consensus regarding the strategy also has a positive influence on performance. According to González-Benito *et al.* (2012), the strategy team members act to implement strategies rapidly when they are committed to them. This, in turn, has a positive effect on market results and increases the firm's profit (González-Benito *et al.*, 2012).

Therefore, considering that innovativeness positively influences SME organizational performance; and innovativeness favors the activities of the formulation of marketing strategies, it is hypothesized that:

H2a. The formulation of marketing strategies positively mediates the relationship between innovativeness and organizational performance in SMEs.

Marketing strategy is formulated and, consequently, implemented. The implementation of marketing strategy involves deciding on how the formulated strategy can best be realized by selecting marketing tactics and deploying resources to make it happen (Cespedes, 1991). Specifically, the implementation of marketing strategy involves resource commitment to the strategy and emphasis on marketing assets and capabilities (Menon *et al.*, 1999).

As in the case of the formulation activities of marketing strategies, the implementation activities also need to be embedded in innovativeness (Menon *et al.*, 1999; O'Dwyer *et al.*, 2009). In particular, innovativeness reduces fragmentation and competition for resources in the firm, so that all efforts are focused on implementing the chosen strategy (Menon *et al.*, 1999). The emphasis on marketing assets and capabilities is also favored by innovativeness (Weerawardena, 2003). Overall, in the small firm context, a certain level of innovativeness is a prerequisite for the successful implementation of marketing strategies (Eggers *et al.*, 2012).

Moreover, the implementation of strategies is crucial to the development of business performance (Crittenden and Crittenden, 2008). As noted by Sashittal and Jassawalla (2001), organizational growth is one of the most valued outcomes of implementing marketing in SMEs.

Based on these statements, it is hypothesized that:

H2b. The implementation of marketing strategies positively mediates the relationship between innovativeness and organizational performance in SMEs.

According to Varadarajan (2010), an organization's success does not only depend on its planning ability, but also on its ability to implement and execute its marketing strategy decisions. Noble and Mokwa (1999) understand implementation as a critical link between the formulation of marketing strategies and the achievement of superior organizational performance. This means that marketing strategies need to be formulated and then implemented to achieve better performance. Looking at marketing strategy from the implementation perspective helps to explain the inconsistent findings in the relationship between strategic marketing formulation and performance. Thus, the inclusion of implementation as a mediating variable would allow researchers to investigate strategic marketing planning in a more comprehensive nomological framework (White *et al.*, 2003). Furthermore, the interaction between formulation and implementation activities affects the strategic outcomes in SMEs (Sashittal and Jassawalla, 2001). In addition, as mentioned above, both formulation and implementation of marketing strategies are favored by innovativeness because of their propensity to be better deployed in an innovative context (Bettiol *et al.*, 2012).

Taking into account the above statements and assuming that the marketing strategy process, i.e., the sequence of formulation and implementation activities, can be a mechanism through which innovativeness influences performance, it can be hypothesized that:

H2c. The path formulation→implementation of marketing strategies positively mediates the relationship between innovativeness and organizational performance in SMEs.

3. Methodology

3.1 Sampling and data collection

To understand the mediating role of the marketing strategy process in the relationship between innovativeness and organizational performance, a sample of 105 SMEs from the software sector in Brazil was analyzed. This sector was chosen for several reasons. First, the software sector enjoys a strong industry growth rate, increasing investments in research and development activities and has seen a rise in the number of innovative companies in the last decade (Associação Brasileira das Empresas de Software, 2014; Arora and Gambardella, 2005). The Brazilian software sector has also had better innovative performance compared with other economic activities in the country (Britto and Stallivieri, 2010). Overall, the software sector is known for its dynamic and uncertain behavior as well as numerous cross-border strategic technology collaborations between firms (Hakala, 2013; Lew and Sinkovics, 2013). Thus, these companies are likely to place emphasis on both innovativeness and marketing strategy making abilities.

The data were obtained through an online survey with the SME owners or marketing managers that were contacted through enterprise associations, LinkedIn and MBA programs. A total of 1,103 questionnaires were forwarded by e-mail, of which 160 completed surveys were returned. After eliminating missing values and outliers, 105 questionnaires were used, representing a 9.5 percent response rate. This response rate is equivalent to other studies in the management field (Cycyota and Harrison, 2006; Wong and Merrilees, 2015).

3.2 Research variables and measurement assessment

The marketing strategy process variables were adapted from Menon *et al.* (1999) and grouped into two dimensions, i.e., formulation and implementation activities, in accordance

with Morgan *et al.* (2012) and El-Ansary (2006). Following these authors, situational analysis, comprehensiveness, cross-functional integration, communication quality and consensus commitment were grouped to measure the formulation of marketing strategies. Resource commitment to strategy and emphasis on marketing assets and capabilities were used to access marketing strategy implementation.

Innovativeness was measured using Hurley and Hult's (1998) scale. The degree of innovativeness was determined by measuring variables such as tolerance of ideas that do not work, acceptance of innovations in the firm, the proactiveness of managers in seeking new ideas and the risk acceptance level of the employees.

Innovation results (number of new products, product quality, new product success), market results (market share, sales growth) and financial results (ROI, profit) were considered to measure organizational performance (Grissemann *et al.*, 2013; Vorhies and Morgan, 2005; Ngo and O'Cass, 2012).

All variables were measured using a ten-point scale ranging from "completely disagree" to "completely agree." Table I shows the construct definitions, their loadings and the results for Cronbach's α.

The data were checked for normality using the Kolmogorov-Smirnov and Shapiro-Wilk tests. The results revealed that the data are non-normally distributed. Taking this result into account and considering the relatively small sample size, partial last squares (PLS) path modeling was chosen for the data analysis using SMART PLS 2.0 software. The PLS approach to structural equation modeling is often utilized and is appropriate for explorative models with relatively small samples (Hair *et al.*, 2014). Moreover, PLS was chosen because of its robustness for deviations from multivariate normal distribution (Chin *et al.*, 2003). Furthermore, recent studies in the software sector have used the same technique which also supported this choice (Hakala, 2013; Lew and Sinkovics, 2013).

This study employed self-report measures for both endogenous and exogenous variables from the same source in a single survey, which calls for a test of common method bias (Lowry and Gaskin, 2014). To do so, Harman's single-factor test was applied. The result generated more than a single factor. Furthermore, the first factor explained 39 percent of the variance which suggests that common method bias is not a problem in this study (Podsakoff *et al.*, 2003).

The internal consistency and convergent and discriminant validity of the measurement model were assessed. Table II shows the results for average variance extracted (AVE) and composite reliability (CR) of the constructs.

The results shown in Table II are above the recommended threshold values of 0.70 for CR and 0.50 for AVE (Bagozzi and Yi, 2012). Additionally, discriminant validity was examined using the square root of the AVE and cross-loadings as recommended by Fornell and Larcker (1981). As shown in Table II, the AVE square root values were greater than the correlation with other latent variables, which suggest discriminant validity in the model (Fornell and Larcker, 1981).

In order to test hypothesis *H1* and provide support for the explanation of the results of Hypotheses *H2a*, *H2b* and *H2c*, the significance of the path coefficient estimates in the model was examined (see Figure 1). To confirm the significance of a relationship, the *t*-value of the variables must be greater than 1.96. A bootstrap nonparametric procedure to test coefficients for their significance was used (Tenenhaus *et al.*, 2005).

The Preacher and Hayes' (2008) procedure was used to test hypotheses *H2a-H2c* because other commonly used approaches to test mediating effects (e.g. Sobel test) have limitations. They lack statistical power when applied to small sample sizes, and rely on distributional assumptions that usually do not hold for the indirect effect (Hair *et al.*, 2014). Preacher and Hayes (2008) pointed out several advantages in this regard. These advantages include the possibility of determining to what extent specific variables mediate the direct effect of an

Construct	Dimension	Variables	Item loadings[a]	Source
Organizational performance ($\alpha = 0.91$)		1. Achieve profit goals	0.76	Ngo and O'Cass (2012), Grissemann *et al.* (2013)
		2. Achieve market share goals	0.80	
		3. Return on investments (ROI)	0.82	
		4. Higher growth compared to competitors	0.82	
		5. Number of new products/services developed	0.73	
		6. Product and service quality	0.80	
		7. Success in developing new products and services	0.82	
Formulation of marketing strategies ($\alpha = 0.96$)	Situational analysis	1. The decision makers considered organizational strengths	0.86	Menon *et al.* (1999)
		2. The decision markers considered organizational weaknesses	0.80	
		3. The decision makers considered organizational opportunities	0.83	
		4. The decision makers considered organizational threats	0.80	
	Comprehensiveness	1. Many alternative courses of action were explicitly considered before we chose this strategy	0.95	Menon *et al.* (1999)
		2. Alternative strategies were adequately analyzed before they were dropped	0.94	
		3. The chosen strategy was flexible and allowed for various contingencies	0.92	
	Cross-functional integration	1. The marketing unit responsible for this strategy was well integrated with the main business	0.83	Menon *et al.* (1999)
		2. The members of the strategy team had the necessary skills and motivation to carry it out	0.92	
		3. The strategy team was well organized	0.92	
		4. There was smooth coordination of the activities of group members during the strategy process	0.93	
	Communication quality	1. The players involved had continuous interaction during the strategy process	0.90	Menon *et al.* (1999)
		2. The strategy's objectives and goals were communicated clearly to the involved and concerned parties	0.91	
		3. Team members openly communicated during the strategy process	0.93	
		4. There were extensively formal and informal communications during the process	0.89	
	Consensus commitment	1. All involved parties worked hard to make sure that the strategy was implemented successfully	0.92	Menon *et al.* (1999)
		2. Consensus was evident during the strategy process	0.94	
		3. The entire company "bought the idea" of the implemented strategy	0.93	
Implementation of marketing strategies ($\alpha = 0.86$)	Emphasis on marketing assets and capabilities	1. New products	*	Menon *et al.* (1999)
		2. Broad range of products	*	
		3. Extensive customer service capabilities	*	
		4. Building brand image	0.65	
		5. Developing and refining existing products	*	
		6. Premium quality products and services	*	
		7. Strong influence over channels of distribution	0.82	
		8. Promotion, advertising expenditures above industry average	0.75	
		9. Products in higher priced market segments	0.76	
		10. Innovation in marketing techniques	*	
	Resource commitment	1. The number of people working on the project was considered sufficient	0.83	Menon *et al.* (1999)

Table I.
Construct definitions and measures

(*continued*)

Construct	Dimension	Variables	Item loadings[a]	Source
		2. Everyone was committed to make it possible to achieve the expected results	*	
		3. Adequate resources were allocated for the implementation of the strategy	0.90	
		4. The amount of time that managers worked on the project was considered sufficient	0.88	
Innovativeness ($\alpha = 0.76$)		1. Innovation, based on research results, is readily accepted	0.77	Hurley and Hult (1998)
		2. Management actively seeks innovative ideas	0.86	
		3. People are criticized for new ideas that do not work	0.70	
		4. Innovation is perceived as too risky	0.67	

Notes: [a]Standardized loadings. *Items excluded from analysis due to multicollinearity

Table I.

	AVE	CR	1	2	3	4
1. Innovativeness	0.57	0.84	*0.75*			
2. Formulation of marketing strategies	0.60	0.96	0.28	*0.77*		
3. Implementation of marketing strategies	0.51	0.89	0.08	0.54	*0.71*	
4. Organizational performance	0.62	0.92	0.04	0.34	0.36	*0.78*

Notes: CR, composite reliability. Italic numbers on the diagonal show the squared root of AVE

Table II. Convergent and discriminant validity

independent variable on the dependent variable, and reducing "the likelihood of parameter bias due to omitted variables" (Preacher and Hayes, 2008, p. 881).

The SPSS macro outlined by Hayes (2013) was used to run the Preacher and Hayes' (2008) procedure. Both formulation and implementation of marketing strategies were simultaneously included in a multiple mediator model instead of estimating two separate single mediator models. Multiple mediator models using this proposal are a current subject of analysis in marketing strategy research (e.g. Rodríguez-Pinto *et al.*, 2011; Ozkaya *et al.*, 2015).

The recommended 5,000 bootstrap samples for bias corrected bootstrap confidence intervals and a level of confidence of 95 percent were considered to run the model (Hair *et al.*, 2014). Confidence intervals were used to confirm/reject hypotheses. Thus, if a confidence interval for an estimated coefficient does not include zero, a significant effect is assumed (Hair *et al.*, 2014).

4. Results and discussion

Table III shows the results of all direct effects for the hypothesized model and the specific result for the effect of innovativeness on the SMEs organizational performance (*H1*).

The result in Table III reveals that innovativeness does not influence firm performance directly. The negative coefficient ($\beta = -0.07$) and *t*-value of 0.91 lead to the rejection of *H1*. This result corroborates the findings of Kmieciak *et al.* (2012), which revealed that innovativeness is not related to the profitability growth of SMEs. When considering that innovativeness favors firms engaging in and supporting new ideas, processes or products (Hurley and Hult, 1998), the findings of this study are acceptable. Being engaged in these perspectives does not imply that the firm will immediately have better performance as a result. As stated by Neely *et al.* (2001, p. 118), "even if a firm is highly innovative, it has to exploit its innovation in terms of outcomes – e.g., use them to reduce costs and/or to offer products or services to its customers. This is a condition to gain better business performance."

Therefore, to test the effect of innovativeness on performance, the mechanisms through which innovativeness influences performance need to explored (Alpay *et al.*, 2012).

The null direct influence of innovativeness on performance contradicts previous studies on the positive influence of innovativeness on SME performance (Dibrell *et al.*, 2014; Rhee *et al.*, 2010; Hilmi *et al.*, 2011). In this respect, the characteristics of the software sector could shed light on the understanding of this lack of influence. Innovations may enable SME growth in the software sector, but it does not necessary mean that it increases profit (Hakala, 2013). Therefore, this result suggests that performance expectation based on creativity and innovation, which are both important characteristics of this sector and are also the consequence of innovativeness (Hakala, 2013; Britto and Stallivieri, 2010), is not enough to ensure a better overall performance.

The results of the mediating role of the marketing strategy process in the relationship between innovativeness and SME performance are shown in Table IV.

According to the results in Table IV, the formulation of marketing strategies mediates the relationship between innovativeness and organizational performance with an effect of 0.16 and a 95 percent bias corrected confidence interval of 0.18-0.48. This finding supports *H2a*. The positive influence of innovativeness on formulation attested in the PLS path modeling ($\beta = 0.53$ and t-value $= 7.38$) could reinforce this result (see Table III). Likewise, the results of the PLS path modeling (see Table III) indicate that formulation positively impacts SME performance ($\beta = 0.37$ and t-value $= 2.57$), which also reinforces the findings. This result reiterates El-Ansary's (2006) argument that marketing strategy formulation can be classified as a mediating variable between innovativeness and performance. An innovative SME is more likely to formulate a marketing strategy that can enhance its adaptation process to change. This is because innovativeness favors different marketing strategy formulation activities. For example, a climate of innovativeness stimulates the

Path	Coefficient	t-value	SD
H1. Innovativeness → Organizational performance	−0.07[a]	0.91[a]	0.08
Innovativeness → Formulation of marketing strategies[b]	0.53	7.38	0.07
Innovativeness → Implementation of marketing strategies[b]	−0.15	1.99	0.07
Formulation of marketing strategies → Organizational performance[b]	0.37	2.57	0.14
Implementation of marketing strategies → Organizational performance[b]	0.35	2.70	0.12
Formulation → Implementation	0.82	13.51	0.06

Notes: [a]These results reject the *H1*. [b]These paths contribute to reinforce the acceptance of *H2*

Table III.
Direct path coefficients

	Bootstraping		BC 95% CI		
	Effect	SE	Lower	Upper	Status of hypotheses
Indirect effects					
H2a. Formulation	0.16	0.07	0.18	0.48	Accepted
H2b. Implementation	−0.01	0.02	−0.07	0.04	Rejected
H2c. Formulation→Implementation	0.16	0.06	0.05	0.31	Accepted
Total	0.32	0.07	0.18	0.48	
Contrasts					
Formulation vs implementation	0.17	0.08	0.01	0.34	
Formulation vs formulation and implementation	0.00	0.12	−0.26	0.24	
Formulation and implementation vs implementation	0.17	0.08	0.05	0.37	

Notes: BC, bias corrected; CI, confidence interval

Table IV.
Results for the mediating role of marketing strategy process

cross-functional integration that is represented by the involvement of different teams and people during the decision-making process (Ruekert and Walker, 1987). Innovativeness also positively influences the quality of communication during the formulation of marketing strategy (Menon *et al.*, 1999). Moreover, innovativeness promotes higher levels of consensus commitment to the formulated strategy that, in turn, can improve firm performance (González-Benito *et al.*, 2012). Furthermore, this result also reinforces the assumption that innovation is intrinsically related to the marketing process, specifically in terms of its influence on the formulation of marketing strategies in SMEs (Bettiol *et al.*, 2012).

However, the sole mediation of the implementation of marketing strategies in the innovativeness-performance relationship is null. The negative effect of this mediation (−0.01) and a confidence interval of −0.07-0.04 leads to the rejection of *H2b*. This result could reflect the "partial" findings regarding the negative effect of innovativeness on the implementation of marketing strategies in the PLS path modeling as shown in Table III ($\beta = -0.15$ and t-value = 1.99), indicating that the more innovativeness there is in SMEs, the less implementation there will be of marketing strategies. This result contradicts previous studies claiming the importance of innovativeness to marketing strategy implementation (Cespedes, 1991; Eggers *et al.*, 2012). In fact, it is assumed that the effective implementation of marketing strategy in SMEs requires innovativeness (Parry *et al.* 2012; Eggers *et al.*, 2012). Contrary to this assumption, the current findings revealed that only the implementation activities of marketing strategies do not mediate the influence of innovativeness on SME performance.

However, this finding suggests that is not possible to implement a marketing strategy from innovativeness directly and, in turn, improve performance. Innovativeness only will generate better performance if firms are able to develop new ideas, evaluate the environment and reach a consensus regarding the product/service to be developed. The rejection of the path innovativeness→implementation (*H2b*) also reinforces the need for formulation and implementation to be considered as a sequence of activities (Sashittal and Jassawalla, 2001). Thus, although innovativeness is important to generate new ideas, the desired outcomes only can be achieved if the new ideas are formulated and subsequently implemented.

In fact, when considering the path of formulation→implementation as mediator, the influence is positive, i.e., this path mediates the relationship between innovativeness and performance. The effect of 0.16 and a confidence interval of 0.05-0.31 offer support to accept *H2c*. This result indicates that the interaction between formulation and implementation activities enhances performance as previous stated by Sashittal and Jassawalla (2001). Furthermore, the findings reinforce the assumption that both formulation and implementation activities of marketing strategies are favored by innovativeness (Menon *et al.*, 1999; Bettiol *et al.*, 2012). Moreover, this finding reinforces the need to consider the entire process rather than isolated activities to achieve better organizational performance in an innovative context (Thompson and Strickland, 2003).

The results in Table IV also show the comparisons of mediators (see Figure 1), i.e., how strong the influence of each mediating variable taken alone in comparison with both mediating variables taken as a path is (formulation→implementation). This represents the pairwise contrasts among mediating variables in the relationship between innovativeness and organizational performance. In the first case, i.e., formulation vs implementation, the specific indirect effect of innovativeness on organizational performance through formulation is larger than the specific indirect effect through implementation. The effect of 0.17 and a confidence interval of 0.01-0.34 confirm the previous result of *H2b*. Moreover, when the specific indirect effect of innovativeness through formulation is contrasted with the specific indirect effect through the path formulation→implementation, the result shows a non-significant influence (−0.26-0.24) and a null effect (0.00). This means that the mediation between innovativeness and performance through formulation is smaller than the mediation through the path formulation→implementation.

Overall, the current research findings strengthen the importance of the full marketing strategy process in the relationship between innovativeness and SME performance (Sashittal and Jassawalla, 2001; Eggers *et al.*, 2012; Bettiol *et al.*, 2012), i.e., formulation of marketing strategies influences implementation and this relationship mediates the impact of innovativeness on SME firm performance. The strong influence of formulation in implementation is confirmed in the results of the PLS path modeling by the positive coefficient of 0.82 and a *t*-value of 13.51.

5. Conclusions and research implications

The results of this study revealed that the formulation of marketing strategies influences implementation and this relationship mediates the impact of innovativeness on SME firm performance. Furthermore, the current findings revealed that innovativeness does not influence organizational performance directly, which suggests that merely having innovativeness is not enough to achieve better performance. Thus, the sequence of activities of the marketing strategy process can be a mechanism through which this happens.

These results contribute to the literature regarding innovativeness and its relationship with performance by shedding light on how this relationship occurs (Alpay *et al.*, 2012; Hjalager, 2010). Specifically, the indirect effect of innovativeness on performance occurs through the improvement of different marketing strategy formulation activities, such as continuous situational analysis, cross-functional integration, quality of communication and consensus commitment to the strategy (Menon *et al.*, 1999). Innovativeness also positively influences performance by improving formulation that, in turn, will positively affect implementation in order to enhance performance. It is important to note that, although previous researchers have identified the positive impact of innovativeness on the implementation of marketing strategies, i.e., resource commitment and emphasis on marketing assets and capabilities (Menon *et al.*, 1999; Eggers *et al.*, 2012), the current research findings revealed that the direct effect of innovativeness on implementation is null. This reinforces the statement that openness to new ideas and their consequent development (which is the foundation of innovativeness) are not ready to be implemented directly. Ideas need to be processed, i.e., formulated, and then implemented to aid better performance.

The current research findings also contribute to the discussions regarding the effectiveness of the marketing strategy process. As claimed in previous studies, more research is required to understand how well marketing strategy performs once implemented (Thorpe and Morgan, 2007; Lehmann and Reibstein, 2006).

6. Managerial implications, limitations and research directions

This study contributes to SME managers in the software sector by reinforcing the need to develop the full marketing strategy process as a way of improving performance in an innovative context. This implies not only implementing changes in the firm's marketing concepts or strategies, but also maintaining a sustainable marketing strategy formulation that supports new and improved products for the market (Radas and Bozic, 2009).

The current research findings also contribute to the managers by highlighting the importance of maintaining an innovative culture as a way to facilitate the formulation and implementation of marketing strategies. Innovativeness creates a favorable climate to search and test new and improved marketing strategies. The result of these strategies, in turn, can be more assertive in terms of generating better performance. With a domestic market orientation (Arora and Gambardella, 2005) and difficulties in implementing more effective strategies to internationalize their activities (Britto and Stallivieri, 2010), the performance expectations of SMEs may be based on creativity and innovation, which are not enough to support better overall performance. As noted by Hakala (2013, p. 113), "while

more innovations may enable growth, they may not all become profitable." Thus, emphasizing the marketing strategy process as an important mechanism in the innovativeness-performance relationship becomes central to building profitable growth.

The contributions of this research also display its limitations and highlight potential areas for future research. For example, the impact of innovativeness on each activity of formulation and implementation was not considered and could be the subject of future studies. This might aid a better understanding of which marketing efforts organizations should manage to improve performance (Toaldo *et al.*, 2013; Morgan, 2012). Furthermore, studies that focus on the understanding of how SMEs develop and manage marketing planning in order to make the innovation part of the market are also needed. In particular, a better understanding of which resources and capabilities are used by SMEs, and how they connect them to manage marketing planning to achieve successful innovation is needed.

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