





BRAND MANAGEMENT, COMPETITIVENESS AND BUSINESS PERFORMANCE IN MEXICAN SMALL SERVICE BUSINESSES



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ABSTRACT

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Brand management is considered in the current marketing literature as one of the most important business strategies, not only by researchers and academics but also by professionals in the field of marketing, which can allow the growth in the level of competitiveness of small service enterprises, as well as have a significant increase in their level of business performance. Moreover, brand management has usually focused on big transnational enterprises and there are relatively few investigations that have focused on small firms. There are even less research papers that have made emphasis in small service businesses. Therefore, with a sample of 150 small service businesses, the aim of this empirical research is the analysis and discussion of brand management at the level of competitiveness and business performance in small service businesses in a country with an emerging economy, which is the case of Mexico. The results obtained show that brand management has positive, significant effects in the level of competitiveness and the level of business performance.

Contribution/ Originality: This paper focuses on the analysis and discussion of the relationship between brand management, competitiveness and business performance, from the perspective of small businesses in Mexico, and is one of the few published studies that analyze these three constructs.

1. INTRODUCTION

Some of the few theoretical and empirical research papers that are published in the current marketing literature that have analyzed and discussed the importance of brand management in small firms, have concluded that a strong brand management is one of the main factors that allow enterprises, mostly small and medium-size service companies, not only attain more and better competitive advantages but also have a significant increase in their level of competitiveness and business performance. This will facilitate that small firms, especially service organizations, survive in the market in which they participate for a long period of time (Zablah *et al.*, 2010; Santos-Vijande *et al.*, 2013) as well as achieving a scale economy.

Similarly, a strong brand management requires the development of systematic and structured management processes (Merrilees *et al.*, 2011). However, the investigations that have analyzed how the development of internal management can increase significantly the market value, the level of competitiveness and business performance are

rather scarce (Lee *et al.*, 2008). There are even fewer research papers that have focused in small service firms in developing countries. For this reason, Madhavaram and Hunt (2008) concluded it is necessary that, firstly, companies have a clear understanding of the meaning of brand management, which can be defined as the “ability that enterprises have to develop a strong brand management as well as an effective portfolio of brands”.

Likewise, it is possible to find in the current marketing literature some investigations that relate brand management with business performance, but there are very few papers that have analyzed the effects of brand management in the level of competitiveness of enterprises, which incorporates a highly valued organizational capacity (Grant, 1995). In this regard, brand management comprises not only one of the essential elements for the development of the marketing strategy of enterprises, especially small service firms, but also a key factor so small companies can increase significantly their level of competitiveness (Aaker, 2007) and business performance (Lee *et al.*, 2008).

Correspondingly, the brand of small service firms, which usually offer services with the same brand name of the office, needs an efficient and effective brand management to be different from their main rivals in a highly competitive business environment (Bao *et al.*, 2011; Manzur *et al.*, 2011), since the market of services represents around 40% of the economic activity in developing countries (Nielsen, 2014). Whereas Europe has had a significant increase in brands from small service firms (Jin and Gu Suh, 2005) most of the developing countries with a trend of a high percentage of small service firms have decreased their market participation significantly, as well as their growth in an average of 10% (Nielsen, 2014).

Yuen Shan Au-Yeung and Lu (2009) tried to find a logical explanation to this problem and they concluded that the small growth of brand management in small service firms of developing countries, was basically because of the attitudes of clients when using this type of services as most of them prefer to obtain services from international brands. However, recent investigations establish that the brand management of small service firms in countries with an emerging economy, as it is the case of Mexico, have recorded an important growth (Sarkar *et al.*, 2016) but there are not enough research papers so that is why more researchers have to focus in the analysis and discussion of the effects of brand management in the level of competitiveness and business performance (Santos-Vijande *et al.*, 2013; Sarkar *et al.*, 2016; Diallo and Seck, 2017) especially in countries with an emerging economy and this is precisely the main contribution of this empirical research.

2. LITERATURE REVIEW

In the last two decades, there has been an important line of investigation in the marketing literature, and more specifically in the brand literature, which focuses in the adoption of a rational perspective of brand management. That is why the brand management of services created by small firms is emerging as a dynamic process with multiple variables (consumers and enterprises), in the formation of brand management of enterprises (Santos-Vijande *et al.*, 2013). For this reason, Louro and Cunha (2001) considered that it is necessary to make transcendental changes in the traditional structure of brand management that takes place in small firms, including service companies, so they can improve significantly the results obtained.

Accordingly, Merz *et al.* (2009) considered that the literature of brand management has increased significantly since the beginning of the new century. In it, the brand is regarded as a social and dynamic process in which the main partners of firms participate actively, which establishes a relation of the brand with the level of competitiveness and the business performance (Santos-Vijande *et al.*, 2013). Consequently, the concept of brand management implies not only aspects of the physical distribution that helps to identify and differentiate the services of small firms, but also to identify the main intangible strategic resources that are basic in the development of social relations as well as better results (Santos-Vijande *et al.*, 2013).

In this regard, the evolution of brand management can also be applied in small service firms in which the experience that clients have with the organization and the employees that deliver the services is an essential part

(Dall'Olmo and Chernatony, 2000; Brodie *et al.*, 2009). Therefore, if small service firms adopt the new perspective of brand management, then they will have more possibilities to compete in a business environment characterized by the commercialization of similar products, a fast imitation of innovations and a high level of competitiveness (Santos-Vijande *et al.*, 2013). Thus, the processes of brand management of the services of small firms have to be more efficient and effective, not only to improve the activities to build the brand but also to achieve a higher level of business performance (Prevel Katsanis, 1999; Aaker and Joachimsthaler, 2000).

Similarly, the perception that consumers have regarding the brand management of services from small firms is closely linked to the quality of the service, the attitude of employees of enterprises and the very organizational culture, especially in small service firms of countries with an emerging economy (Diallo and Seck, 2017). Therefore, the presence of an important growth in the brand management of the services of small firms in countries with an emerging economy (Santos-Vijande *et al.*, 2013) along with the growth of opportunities that this type of business have to improve their results (Diallo, 2012) including their level of competitiveness and business performance, create the need to focus the researches in these three aspects to create more evidence of the existing relation among them (Diallo and Seck, 2017).

Additionally, global service enterprises established in emerging countries offer generally services with a homogeneous and heterogeneous quality (Guesalaga *et al.*, 2016) and consumers have some type of favorable attitude towards obtaining the services from this type of enterprises. That is why small firms, which generally belong to an owner of the same area or community, have to improve the conditions and quality of their services in order to promote a higher attitude so the brand of their services is preferred and, with this, improve their level of competitiveness. Therefore, it is possible to state that the quality of the services of enterprises of any size comprises a global opinion, which is entirely linked with all the activities implied in offering a service, especially from small firms (Parasuraman *et al.*, 1988).

Moreover, the quality of service is usually labeled by researchers and academics as a multidimensional construct (Carman, 1990) but there are also other researchers that consider that it should be defined rather as a concept of one dimension, precisely because there are too many possibilities that consumers create or have only one abstraction of quality that such services have (Babakus and Boller, 1992). As a result, the brand management of services from small firms of countries with an emerging economy, as it is the case of Mexico, is essential because it affects the purchasing intentions and behavior of consumers, which can create a significant decrease of complaints from consumers (Yavas *et al.*, 1997) as well as an increase in the level of competitiveness of enterprises.

Accordingly, the results obtained in other investigations establish that enterprises, specifically small service firms, which have adopted and implemented an adequate brand management, have obtained a higher level of competitiveness (Lee *et al.*, 2008). However, there are relatively few empirical researches that are published in the current marketing literature that have analyzed and discussed brand management and the level of competitiveness. Still, some recent papers establish that it is possible to establish that an efficient brand management from small service firms can imply positive and significant effects in their level of competitiveness (Santos-Vijande *et al.*, 2013; Diallo and Seck, 2017). Thus, considering the information presented above, it is possible to establish the first research hypothesis of this empirical paper.

H1: The higher level of brand management, the higher level of competitiveness

On the other hand, the quality of services also increases the level of satisfaction of consumers of small enterprises from countries with an emerging economy because the value of services, their appeal, accessibility, effectiveness, staff and (mostly) their brand management have significant effects in the level of consumer satisfaction (Greenland *et al.*, 2006). Furthermore, the quality of services also has positive and significant effects in the purchasing attitudes of consumers (Richardson *et al.*, 1994) since, according to Bao *et al.* (2011) a high perception of

Das (2014) they believe in the brand of such services which creates a significant increase in the business performance of small companies.

Similarly, it is becoming more common in most countries with an emerging economy the substantial growth of brands of services that are increasingly sophisticated (Kumar, 2007) which can alter the purchasing attitude of consumers as well as the level of business performance of organizations (Diallo and Seck, 2017). For this reason, Bao *et al.* (2011) concluded that the perceived quality of services is closely correlated with the purchasing intention of the brand of services from consumers. Das (2014) found in their research that the perceived quality of services have a positive and significant influence in the purchasing attitudes of the brand of services of small firms from consumers of India.

Moreover, the brand management of small service firms in most markets of emerging countries have to compete with the brands of big enterprises of international services, but they can also benefit from this situation if the brand management of their services establishes the country of origin as strategy (Cheng *et al.*, 2007). In other words, they promote a favorable attitude towards consumers so they obtain the services of small national firms. Likewise, a more recent research analyzed the quality of the service of brands from small service firms in developing countries and those with emerging economies. The investigation found that a good brand management of services along with a quality of services does not only improve the attitude of consumers, but it also has a higher impact in the business performance (Diallo and Seck, 2017).

In this regard, the business performance that small service firms can obtain includes the results of the purchase of services from consumers (such as satisfaction, loyalty or perception of added value), as well as indicators related to the market and financing (such as sales, market exchange and profit margins) (Santos-Vijande *et al.*, 2013). Therefore, it is possible to establish that the essential aim of brand management of small service firms, should not be only the attainment of direct, positive and highly significant effects in the business performance and the activities linked to consumers, but also in the creation of a strong brand of services (Santos-Vijande *et al.*, 2013).

Finally, it is possible to find some published empirical investigations in the current marketing literature which establish that the brand management, especially in small service firms from developing countries and with emerging economy, create positive and significant effects in the level of business performance (Lee *et al.*, 2008). This empirical evidence could possibly suggest that small service firms with an effective and efficient brand management of their services, will have more probabilities of attaining a highly positive and significant increase in their level of business performance (Santos-Vijande *et al.*, 2013; Diallo and Seck, 2017). Thus, considering the information presented above, it is possible to establish the second research hypothesis of this empirical paper.

H2: The higher level of brand management, the higher level of business performance

3. METHODOLOGY

In order to answer adequately to both research hypotheses established in this empirical investigation, it was considered relevant to use the business directory of the Sistema de Información Empresarial Mexicano (System of Mexican Business Information) from Aguascalientes State (Mexico) which had 1,427 registered enterprises, each one containing from 5 to 250 workers on January 30, 2017. Moreover, an instrument of data collection (i.e. a survey) to retrieve information regarding both brand management, competitiveness and business performance, was designed to be answered specifically by managers and/or owners of small enterprises. It was carried out as a personal interview with a sample of 300 small enterprises selected through a random sampling with a maximum error of $\pm 5\%$ and a level of reliability of 95%, which represents slightly over 21% of all the enterprises registered in the business directory. The interviews took place between February and April of 2017.

Table-1. Internal consistency and convergent validity of the theoretical model

Variable	Indicator	Factorial Loading	Robust t-Value	Cronbach's Alpha	CRI	EVI
Value (F1)	VM1	0.925***	1.000 ^a	0.970	0.971	0.869
	VM2	0.937***	39.047			
	VM3	0.950***	22.915			
	VM4	0.937***	23.802			
	VM5	0.911***	20.209			
Norms (F2)	NM1	0.910***	1.000 ^a	0.938	0.939	0.711
	NM2	0.881***	27.331			
	NM3	0.861***	18.145			
	NM4	0.847***	15.151			
	NM5	0.784***	14.529			
	NM6	0.768***	15.203			
Artifacts (F3)	AM1	0.986***	1.000 ^a	0.983	0.984	0.938
	AM2	0.985***	59.347			
	AM3	0.965***	34.654			
	AM4	0.937***	24.652			
Behaviors (F4)	CM1	0.951***	1.000 ^a	0.940	0.941	0.801
	CM2	0.915***	25.861			
	CM3	0.897***	20.860			
	CM4	0.811***	13.912			
Brand Management	F1	0.860***	19.024	0.932	0.933	0.778
	F2	0.836***	19.061			
	F3	0.882***	19.983			
	F4	0.946***	20.876			
Financial Performance (F5)	FP1	0.976***	1.000 ^a	0.952	0.953	0.772
	FP2	0.970***	41.317			
	FP3	0.874***	27.766			
	FP4	0.835***	23.767			
	FP5	0.837***	22.774			
	FP6	0.759***	13.105			
Cost Reduction (F6)	CR1	0.903***	1.000 ^a	0.951	0.952	0.763
	CR2	0.931***	21.843			
	CR3	0.850***	18.288			
	CR4	0.866***	16.284			
	CR5	0.859***	17.732			
	CR6	0.808***	15.701			
Technology Use (F7)	TU1	0.920***	1.000 ^a	0.975	0.976	0.873
	TU2	0.941***	33.170			
	TU3	0.940***	29.115			
	TU4	0.932***	23.384			
	TU5	0.937***	28.507			
	TU6	0.937***	28.764			
Competitiveness	F5	0.855***	16.684	0.956	0.957	0.881
	F6	0.970***	19.788			
	F7	0.986***	20.561			
Business Performance	BP1	0.837***	1.000 ^a	0.871	0.872	0.696
	BP2	0.916***	12.577			
	BP3	0.740***	10.277			

$S-BX^2$ (df = 709) = 1,678.278; $p < 0.000$; NFI = 0.812; NNFI = 0.869; CFI = 0.881; RMSEA = 0.079

^a = Constrained parameters to such value in the identification process

*** = $p < 0.01$

Accordingly, a scale developed by Baumgarth (2010) was used for the measurement of brand management in the services of small firms. The researcher proposed that brand management can be measured through four factors:

Value, which was measured through a five-item scale; *Norms*, which were measured through a six-item scale; *Artifacts*, which were measured through a four-item scale; and *Behaviors*, which were measured through a four-item scale. In a similar way, three factors or dimensions were used for the measurement of competitiveness: *Financial Performance*, which was measured through a six-item scale; *Costs Reduction*, which was measured through a six-item scale; and *Use of Technology*, which was measured through a six-item scale. All scales were adapted from Buckley *et al.* (1988) and Cho *et al.* (2008).

Furthermore, the business performance was measured through a three-item scale (1: return of investment; 2: profit compared with the rivals; and 3: market participation compared with the rivals), which was adapted from Justin Tan and Litsschert (1994). All the items of the scales of brand management, competitiveness and business performance used were measured through a Likert-type scale of five positions from “1 = completely disagree” to “5 = completely agree” as limits.

Likewise, a second-order Confirmatory Factor Analysis (CFA) was carried out to evaluate the reliability and validity of the three scales by using the method of maximum likelihood with the software EQS 6.2 (Bentler, 2005; Brown, 2006; Byrne, 2006). Thus, the reliability was measured with Cronbach's alpha as well as the Composite Reliability Index (CRI) (Bagozzi and Yi, 1988). The results obtained are shown in Table 1 and show that the theoretical model analyzed has a good adjustment of data ($S-BX^2 = 1,678.278$; $df = 709$; $p = 0.000$; $NFI = 0.812$; $NNFI = 0.869$; $CFI = 0.881$; $RMSEA = 0.079$). Likewise, the values of Cronbach's alpha and the CRI are higher than 0.7, which indicates the reliability on the scales of brand management, competitiveness and business performance (Nunally and Bernstein, 1994; Hair *et al.*, 2010).

Moreover, the results obtained from the second-order FCA indicate that all the items of the factors related are significant ($p < 0.01$). The value of all the standardized factorial loads is higher than 0.6 (Bagozzi and Yi, 1988), and the Extracted Variance Index (EVI) of each pair of constructs of the theoretical model has a value over 0.5 (Fornell and Larcker, 1981). These values indicate that the theoretical model has a good adjustment of data and provide evidence of the presence of convergent validity.

Similarly, the discriminant validity of the theoretical model of brand management, competitiveness and business performance was measured through two tests, which are shown in Table 2. The first one is the *reliability interval test* (Anderson and Gerbing, 1988) which establishes that with an interval of 95% of reliability, none of the individual latent elements of the matrix of correlation must have a value of 1. Secondly, the *extracted variance test* (Fornell and Larcker, 1981) establishes that the extracted variance between each pair of constructs is lower than their corresponding EVI. Therefore, based on the results obtained from both tests, it can be concluded that both tests provide enough evidence of the presence of discriminant validity.

Table-2. Discriminant validity of the theoretical model

Variables	Brand Management	Competitiveness	Business Performance
Brand Management	0.778	0.371	0.679
Competitiveness	0.455 – 0.763	0.881	0.065
Business Performance	0.680 – 0.968	0.081 – 0.429	0.696

The diagonal represents the Extracted Variance Index (EVI), whereas above the diagonal the variance is presented (squared correlation). Below diagonal, the estimated correlation of factors is presented with 95% confidence interval.

4. RESULTS

In order to answer both hypotheses established in this research, a second-order structural equations modeling was applied with software EQS 6.2 (Bentler, 2005; Brown, 2006; Byrne, 2006) in which the nomological validity of the theoretical model of brand management, competitiveness and business performance was examined through the Chi-square test, which compared the results obtained between the theoretical model and the measurement model. Such results indicate that the differences between both models are not significant which can offer an explanation of

the relations observed between the latent constructs (Anderson and Gerbing, 1988; Hatcher, 1994). Table 3 shows the results in a more detailed way the implementation of the second-order structural equations modeling.

Table-3. Results of the structural equation model of second order

Hypothesis	Structural Relationship	Standardized Coefficient	Robust t-Value
H1: The higher level of brand management, higher level of competitiveness.	Brand M. → Competitiveness	0.303***	6.363
H2: The higher level of brand management, higher level of business performance.	Brand M. → Firm Performance	0.356***	8.422
<i>S-BX²</i> (df = 693) = 1,577.693; p < 0.000; NFI = 0.824; NNFI = 0.878; CFI = 0.892; RMSEA = 0.079			

*** = P < 0.01

Table 3 shows the results the test of the research hypothesis **H₁** ($\beta = 0.303$, $p < 0.01$), which indicate that the brand management of small service firms has positive, significant effects in the level of competitiveness. Accordingly, the results regarding the research hypothesis **H₂** ($\beta = 0.356$, $p < 0.01$), indicate that the brand management of small services firms also has positive, significant effects in the business performance. Therefore, it is possible to establish that the different activities of brand management adopted and implemented by small service firms will have positive, significant effects in the level of competitiveness as well as the level of business performance.

5. CONCLUSIONS AND DISCUSSION

The results obtained in this empirical research allow us to conclude in three main aspects. Firstly, the different activities of brand management carried out by small service firms established in developing countries with an emerging economy, as it is the case of Mexico, do not have to be considered just as another business strategy of the organization, but rather as part of the daily activities that they have to carry out both inside and outside the organization. Therefore, it is possible to conclude that the brand management of services of small firms will allow them to obtain not only a significant growth in their level of business performance but also a better market position.

Secondly, considering that small service firms are established in developing countries with an emerging economy, they are competing directly with big transnational enterprises. This is why it is fundamental that they adopt and implement all the activities related with the brand management of the services so they can obtain a higher level of competitiveness. Therefore, it is possible to conclude that the brand management of the services produced by small firms, will allow them to participate in a highly globalized and competitive market, as well as improve significantly their level of competitiveness which implies that their services can be preferred by their clients and consumers instead of the services offered by their main competitors, and even instead of the services offered by big transnational enterprises.

Thirdly, considering that a high percentage of small service firms, if not all of them, have as their main goal to attain a significant growth in their level of business performance. So, in order to achieve it, they will have to modify or change their current business strategies, and even incorporate new ones such as brand management and adapt it to the organizational structure. Therefore, it is possible to conclude that brand management is considered by different researchers and academics from the current literature of marketing, as one of the business strategies that does not only produce a significant increase in the level of business performance in small service firms, but also a higher level of ranking of the services created by small enterprises.

Additionally, the results obtained in this empirical research have some implications that are necessary to mention. The first one is that small service firms of developing countries with an emerging economy, as it is the case of Mexico, do not usually register the commercial brand of the services they provide. That is why managers and/or owners of small service firms will have to register firstly the commercial brand of their services. This will

allow them not only the commercial use of the intellectual copyright of the brand of their services, but they will also improve the efficiency and effectiveness of the brand management of the services which will create a significant increase in their level of competitiveness and business performance.

A second implication obtained from these results is that small service firms must not consider the brand management of their services just as another business strategy of the organization. It should be considered rather as a series of everyday activities that become an inherent part of the enterprise. It is only in this way that small service firms will create an organizational culture that understands the brand management of services created by small firms, as part of their working activities in order to have a higher level of competitiveness and business performance. If small service businesses do not do it, they will only carry out brand management activities when they face market or sales problems, which could be too late for some enterprises and close.

A third implication of the results obtained is that managers and/or owners of small service firms, is that they have to involve all the functional departments or areas of the organization in the brand management activities of their services. This will allow them not only to make brand management more efficient and effective, but it will also increase the probability of obtaining a significant rise in their level of competitiveness and business performance. In this regard, managers and/or owners of small service firms will have to be the first ones in adopting and implementing brand management activities of services produced by the organization, which is part of their daily management activities since this business strategy will allow enterprises to improve their market position, as well as attaining a significant increase in their level of competitiveness and business performance.

A fourth implication of the results obtained is that managers and/or owners of small service firms, will have to design and implement all the necessary training programs so workers and the owners themselves have the necessary knowledge, skills and tools demanded by brand management activities of services created by small firms. If managers do not have the resources to design their own training programs then they will have to take advantage of the different training programs offered by business associations, national and international organizations, or any of the three levels of government branches regarding brand management and intellectual copyright, not only to increase their level of business performance significantly, but also to improve their level of competitiveness in the market in which they are currently participating.

Finally, the last implication of the results obtained is that managers and/or owners of small service firms, will have to create an adequate organizational environment inside the company to facilitate both, the implementation and development of all the activities that brand management requires for the services produced and at the same time, as much as small businesses can, eliminate gradually the reluctance to the change that some employees or workers may have. Instead of this, the idea is to create a positive and proactive attitude towards the activities of brand management. Otherwise, if managers and/or owners of small service firms do not create an environment to promote brand management, the increase in the levels of competitiveness and business performance will be at risk as well as the very survival of the enterprise.

Similarly, this empirical research also has some limitations that are necessary to establish at this point. The first one is about the sample used as only small service firms that had between 5 and 250 workers were considered. That is why future investigations will have to consider small enterprises with less than five workers in order to confirm the results obtained. The second limitation is that the questionnaire applied to collect the data only considered small enterprises in the state of Aguascalientes (Mexico), but even when the small service firms of the country normally have the same problems and have the same organizational structure, further researches will need to apply the same questionnaire to other small service firms in other states in order to verify the results obtained.

A third limitation is the scale used for the measurement of brand management, the level of competitiveness and business performance, as it used only a scale of four dimensions or factors and 19 items to measure brand management, a scale of three dimensions with 18 items to measure competitiveness and three items to measure business performance. Following investigations might ponder the use of different scales for the measurement of

these three constructs to confirm the results obtained. A fourth limitation is that only qualitative variables were considered to measure the three constructs so in future investigations it will be necessary to use quantitative scales or hard data to prove the results obtained.

A fifth limitation is that the instrument applied to collect data only considered managers and/or owners of small service firms. This created the assumption that these executives have a deep understanding about brand management activities, competitiveness and business performance carried out in their organizations. Future research papers will need to apply the same questionnaire to employees and workers in order to confirm if the results obtained are similar. Finally, the last limitation is that several small service firms considered that the information requested was confidential, so the information obtained does not necessarily reflect the reality that this type of enterprises have regarding brand management, competitiveness and business performance.

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