



**EFFECTS OF BRANDING ON PERFORMANCE OF
SMALL TO MEDIUM-SIZED ENTERPRISES (SMES)
IN KLANG VALLEY**

BY

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ABSTRACT

This study is undertaken to determine the effects of branding on performance of SMEs in Klang Valley, Malaysia. Quantitative research methodology is adopted to identify branding factors affecting SME performance. Data is collected from 175 SMEs, indicating a high usable response rate of 86.63%. Five factors emerge from the factor analysis. They are Branding Practice, Branding Management, Branding Strategy, Branding Media & Technology, and Branding Association. Subsequently, multiple regression technique is used to test the hypotheses. The results of multiple regression support the hypotheses on the relationship between branding factors and performance. Branding factors comprising Branding Practice, Branding Strategy and Branding Association have significant relationship with Company Performance. This is rather expected which firmly supports branding literature and the Resource-based View (RBV) theory that states firms possessing valuable, rare, imperfectly imitable, and non-substitutable resources have capability to achieve superior performance. On the other hand, Branding Management and Branding Media & Technology are tested negative with no significant relationship with performance. This could be explained that SMEs have limited resources and therefore, do not adopt Branding Management as much as the large organizations. Similarly, SMEs do not readily adopt Branding Media & Technology due to high cost of acquiring and maintaining media and technologies. This study therefore contributes to the body of knowledge in strategic management and marketing for SMEs in Klang Valley. Branding could enhance their performance and help them contribute towards achieving higher Malaysian GDP target in the future. With the introduction of much anticipated Trans-Pacific Partnership Agreement (TPPA) and its implementation in the next two years, SMEs in Klang Valley will face greater opportunities and challenges. Branding could be the answer to equip the SMEs, that would allow them to uniquely differentiate their products and services. Further research on the subject is highly recommended to identify other possible branding factors, or to acquire deeper insights that could further contribute to the increase of SME performance.

الملخص

نهجت هذه الدراسة إلى تحديد آثار التمييز السلعي على أداء المشاريع الصغيرة والمتوسطة في كلانج فالي، ماليزيا. تم تبني منهجية البحث الكمي لتحديد العوامل المؤثرة على أداء المشاريع الصغيرة والمتوسطة. تم جمع المادة من 175 مشروع صغير ومتوسط، دلالة على نسبة رد عالية قابلة للاستخدام 86.63%. ظهرت خمسة عوامل من تحليل العوامل. وهي ممارسة التمييز السلعي، وإدارة التمييز السلعي، واستراتيجية التمييز السلعي، وتقنية وإعلام التمييز السلعي، وربط التمييز السلعي الذهني. ومن ثم، تم استخدام طريقة التحليل الانحداري لاختبار الفرضيات. دعمت نتائج التحليل الانحداري الفرضيات في العلاقة بين عوامل التمييز السلعي والأداء. عوامل التمييز السلعي المتمثلة في ممارسة التمييز السلعي، واستراتيجية التمييز السلعي، وربط التمييز السلعي الذهني لديها علاقة مهمة مع أداء الشركة. إن هذا الأمر متوقع وهو يدعم بقوة الدراسات السابقة في التمييز السلعي ونظرية النظرة المستندة إلى الموارد التي تقرر أن الشركات التي تمتلك موارد قيمة، ونادرة، ولا يمكن تقليدها بمثالية، وغير قابلة للاستبدال لديها القدرة على تحقيق أداء فائق. من ناحية أخرى، فإن إدارة التمييز السلعي وتقنية وإعلام التمييز السلعي ظهرت نتيجتها سلبية في الاختبار حيث أن علاقتها بالأداء غير مهمة. يمكن شرح هذا أن المشاريع الصغيرة والمتوسطة لديها موارد محدودة ولذلك لا تتبنى إدارة التمييز السلعي كما هو في المنظمات الكبيرة. وعلى نحو مماثل، فإن المشاريع الصغيرة والمتوسطة لا تتبنى بسهولة تقنية وإعلام التمييز السلعي نظرا للكلفة العالية للحصول والحفاظ على التقنيات والإعلام. لذلك تساهم هذه الدراسة في مجموع المعلومات في الإدارة الاستراتيجية والتسويق للمشاريع الصغيرة والمتوسطة في كلانج فالي. يمكن للتمييز السلعي أن يعزز أدائهم ويساعدهم في المساهمة بإتجاه تحقيق هدف أعلى من الناتج المحلي الإجمالي المالي في المستقبل. ومع دخول إتفاقية الشراكة العابرة للمحيط الهادئ (تي تي بي ايه) المرتقبة بشدة وتطبيقها في السنتين القادمتين، فإن المشاريع الصغيرة والمتوسطة في كلانج فالي ستحصل على فرص وتحديات أكبر. يمكن أن يكون التمييز السلعي هو

الجواب لتزويد المشاريع الصغيرة والمتوسطة، والذي سيسمح لهم أن يميزوا بشكل فريد بين منتجاتهم وخدماتهم. يوصى بشكل عالي القيام بأبحاث إضافية لتحديد عوامل تمييز سلعي أخرى محتملة، أو للحصول على نظرات أعمق والتي يمكن أن تساهم في زيادة أداء المشاريع الصغيرة والمتوسطة.

APPROVAL PAGE

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DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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*This dissertation is dedicated to my wife, Zawyah
and my children, Eezwan, Edwin, Eezam and Edzrin
for their love, respect and patience.*

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LIST OF ABBREVIATIONS

Abbreviation	Description
μ	Mean of a population
AMA	American Marketing Association
AMOS	Analysis of moment structures
ANOVA	Analysis of variance
BA	Branding association
BI	Branding investment
BM	Branding management
BMP	Brand management practices
BMT	Branding media & technology
BP	Branding practice
BS	Branding strategy
Df	Degrees of freedom
D-W	<i>Durbin-Watson (test statistic)</i>
e.g.	For example
etc.	And so forth
F	F-ratio
FMM	Federation of Malaysian Manufacturers
GDP	Gross domestic product
i.e.	That is
IIUM	International Islamic University Malaysia
KL	Kuala Lumpur
KMO	Kaiser-Meyer-Olkin
MIM	Malaysian Institute of Management
MITI	Ministry of International Trade and Industry
MNC	Multi-national companies
R ²	Coefficient of determination

RBV	Resource-based view theory
RM	Ringgit Malaysia (Malaysian currency)
RMS	Relative market share
ROA	Return on assets
ROI	Return on investment
ROS	Return on sales
SEM	Structured equation modelling
Sig.	Significance
SMEs	Small to medium-sized enterprises
SPSS	Statistical package for social sciences
SSM	<i>Suruhanjaya Syarikat</i> Malaysia
T	T-test value
TPPA	Trans-Pacific Partnership Agreement
VIF	Variance inflation factor
α	“Alpha” represents Cronbach’s Alpha in a reliability test of measures
β	“Beta” represents a standardized coefficient in a hypothesis test

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF STUDY

Brand is considered as one of the most valuable assets of any large or small organization in the business world (Sexton, 2008; De Kluyver, 2010; Temporal, 2010). It is intangible and yet has so much power to influence market and consumers' buying decision. The power to influence the consumers lies in the brand's ability to create unique differentiation (Kapferer, 2012; Abimbola, 2001; Ahmad and Baharun, 2010) on the products and services offered. Brand represents promises by a business firm on its products and services every time consumers purchase and consume them (Keller, 2003; Aaker, 1996). Rightfully, good brand experience could attract new consumers and retain existing consumers, thus ensuring market growth and sustainable business performance.

In a similar context, branding is the most important marketing function that essentially acts as a process of creating a powerful and effective brand (Kapferer, 2012). It also represents a core marketing practice to create, innovate and nurture market-based assets (Abimbola, 2001). This primarily involves establishing brand's unique differentiation on consumers' minds in order to attract and retain them. It complements business strategy that encourages growth in market performance and ability to compete in the fast-changing business environment. This is supported by Abimbola (2001) who states that branding serves as a competitive strategy for demand stimulation and creation. In the future, however, brand ultimately would be the only unique differentiator (Blackett, 2009), considering all other differentiation characteristics of the products and services would have been imitated and compromised. The ability to create unique differentiation

would ensure long-term business success in achieving customers' satisfaction; thereby attracting new customers and retaining the existing ones. That translates to consistent sales growth and sustainability of business performance.

Brands and branding are known to act as a competitive strategy for large organizations primarily due to readiness of the organizations to undertake high capital investment and allocate large resources in brand development and building (Baisya, 2013; Kapferer, 2012; Abimbola, 2001). It is only recently that researchers and marketing experts pointed that branding is relevant to small and medium-sized enterprises (SMEs) (Napoli, Ewing & Berthon, 2005; Ahonen, 2008). It is a common knowledge and understanding that SMEs are made of growing small and medium-sized enterprises with limited resources and budgets (Ahmad & Baharun, 2010; Abimbola, 2001; Hafeez, Shariff & Lazim, 2012) unlike the large organizations such as the multi-national corporations (MNCs) and public-listed companies. Yet, the SMEs must compete in equally competitive environment and dynamic market trends with fierce innovative activities, intense competition, and fast-forward technological advances. For SMEs, branding could provide the answer for creating and nurturing sustainable competitive advantage. It is something that SMEs can successfully build upon and strive for challenges and opportunities, as a platform for innovative practices within the organization to enhance reputation and trust of consumers. It, therefore, makes sense for SMEs to pursue branding initiatives and activities.

SMEs in Malaysia represent large number of business organizations and yet there is still lack of research attention received by SMEs in Malaysia (Ahmad & Baharun, 2010; Tock & Baharun, 2013). There has been very few studies carried out regarding SME branding in Malaysia. Most studies were focused on issues and challenges of SMEs,

whereas branding for SMEs has been neglected, with exception of few articles by Tock & Baharun (2013) and Ahmad & Baharun (2010). In the global arena, Ahonen (2008) also states that branding was seldom studied in the SMEs. Considering the potential growth and bright future of SMEs in Malaysia, branding should be the main concept that should receive more attention.

According to Sexton (2008) brand represents an intangible and most valuable asset of any organization that can lead to long-term revenue, profits and cash flows. Clifton (2009) and Baisya (2013) highlight that brand is the most important and sustainable asset of any organization, suggesting that branding is a source of competitive advantage for organization of any size (Holt, 2003). This indicates that branding might play a role in the creation of competitive advantage for SMEs in Klang Valley, Malaysia and hence improving their performance. Pertusa-Ortega, Molina-Azorin & Claver-Cortes (2010) suggest that branding fits the attribute of resource-based view (RBV) theory which is intangible and valuable.

With the use of branding, organizations can differentiate their products and services against the competition (Kapferer, 2012; Abimbola, 2001) that could lead to creation of sustainable competitive advantage for the SMEs. For example, the adoption of branding practices such as putting a logo on its products could assist the consumers greatly in making selection. The customers can distinguish and differentiate clearly the products and based on positive brand experience, they would have tendency to become loyal to the chosen brand (Aaker, 1996; Clifton, 2009).

Branding could create a psychological perception on the customers' minds on the value of the products and services (Keller, 1998; Barwise, 2009). This would lead to creation of demand (Abimbola, 2001) and consequently, it could generate sales for the

organization. Therefore, effective branding could potentially impact organization's financial performance and create customers' satisfaction and brand loyalty (Clifton, 2009). Eventually, this would help to support and sustain the business of the organizations (Kapferer, 2012).

Branding or brand represents the "personality" of an organization that offers certain promises to customers. It could portray supremacy of organization's products and services to the customers' minds especially focusing on quality, reliability, and durability. Customers are known to make buying decisions based on the personality of the organization so long as the promises are constantly met. This reinforces customer's loyalty to the brand (Kapferer, 2012).

It is therefore, not surprising that renowned world's brands like Apple, BMW, Coke, IBM, Nike, and Toyota are focusing on building and supporting their brands to establish strong reputation and image in their respective industries (Abimbola, 2001; Barwise, 2009). They have the knowledge and skills required to blend the concepts of brand's differentiation, brand's perceived value and brand's promises. As a result, their brands are recognized as world's leading brands. Thus, garnering high premium on the prices of their products and services while maintaining strong sales. They can substantially achieve high performance by exploiting the full potential of their brands. This makes branding so important that these firms could not operate their businesses without using their respective brands.

For this study, it is proposed that branding factors comprise Branding Practice, Branding Management, Branding Strategy, Branding Investment, Branding Association, and Branding Media & Technology which have not been previously researched in the local SME context. In addition, many studies conducted internationally only focused on

brand management (Ahonen, 2008). For large corporations, these factors could facilitate the creation of competitive advantage (Holt, 2003; Abimbola, 2001) that directly influences the company's competitive strategy (Porter, 1985). Thus, effective implementation of these branding factors could result in the creation of competitive advantage for the SMEs, which in turn could increase their performance. This would be consistent with the study by Salehi & Arbatani (2013) that branding is positively linked to performance of SMEs in Iran. The motivation for this study is therefore, to determine the effects of branding on the performance of SMEs in Klang Valley, Malaysia.

Should branding be proven relevant to SMEs, it would facilitate the SMEs to emulate the steps of the world's brand leaders to become successful in their respective businesses in a globally competitive environment. This study is considered timely because SMEs in Malaysia are expected to contribute significantly to the Malaysian Gross Domestic Product (GDP) from 32% in 2009 to over 50% in 2020 (Chelliah, Sulaiman & Yusof, 2010). This also justifies the need for more research to be conducted on SME branding since there is still little done as highlighted by Ahmad & Baharun (2010) despite the notion that brand building is becoming the most important issue in strategic marketing and main driver for shareholder's value and returns (West, Ford, & Ibrahim, 2006).

1.2 PROBLEM STATEMENT

Branding for SMEs has been completely overlooked by most researchers (Napoli et al., 2005; Ahonen, 2008), despite recognition in the marketing literature that branding is the most valuable asset of an organization of any size (Keller, 2000; West et al., 2006; Kapferer, 2012). To-date, there are very limited studies made on SME branding

(Abimbola, 2001; Napoli et al., 2005; Ahonen, 2008), not only globally but also in Malaysia (Ahmad & Baharun, 2010). Further, finding from Berthon, Ewing & Napoli (2008) suggests that branding (or brand) knowledge derived from large organizations may not be applicable to small organizations, which then justifies the need to carry-out separate and exclusive study on branding for SMEs.

In most developed and developing countries including Malaysia, SMEs in general are associated with limited resources and constrained budgets to undertake business activities including branding (Keller, 2000; Matear, Gray & Garrett, 2004; Ahmad & Baharun, 2010). Therefore, due to these constraints, the SMEs are not readily keen to invest on brand building, development, and implementation. This could be valid reasons why SMEs in Malaysia have traditionally ignored branding activities as they view little rationale or justifications to implement such costly activities in their organizations. This mindset could however change if there is new research's finding that shows positive relationship between branding and performance for SMEs. Or, at the very least, this study could open-up some options for them to implement branding in a manner that is cost-effective and profitable.

In Asian countries including Malaysia, many SMEs are known to ignore branding management activities (Roll, 2006; Ahmad & Baharun, 2010) despite support and efforts provided by the government in the forms of grants and business loans. In Malaysia, there are limited grants offered by the Ministry of International Trade and Industry (MITI) through the SME Corp, a central coordinating agency for the government. Thus, it would be critical for relevant authorities to increase efforts in promoting branding to SMEs, to encourage them exploit the benefits of owning brands, or at minimum, leverage on

established brand owners by associating with them through agency, partnership, or collaboration in any forms.

In the advent of Asean Economic Community (AEC) in 2015 and the TPPA (Trans-Pacific Partnership Agreement) which has been officially executed on 4th February 2016 in Auckland, New Zealand and will be enforced in about two years, there will be greater challenges and opportunities faced by SMEs in Malaysia. Stiff and fierce competition will come not only from local competitors but also from member countries. Branding would be a possible way to strengthen Malaysian SMEs to distinguish their products and services not only in Malaysia but also across the Asean and Pacific region. Their competitiveness and ability to take advantage of the opportunities may depend on it.

This study intends to contribute to branding knowledge for SMEs that would encourage them to appreciate the importance of branding in achieving superior performance. Consequently, they could adopt the knowledge appropriately to enable them to compete with small and large organizations in both local and global marketplaces. Without the knowledge that branding is relevant, the SMEs may continue to treat branding as something they could possibly ignore. This study also aims to answer to the other problems associated with SME branding i.e. to trigger more similar research to be carried out, and to influence the government to allocate additional grants or financial assistance. In short, this study merits further and immediate consideration because the outcome of this study would enrich knowledge on SME branding thereby reinforcing its importance and significance in business and academic worlds. In addition, the outcome could influence policies and activities of relevant authorities and parties.

1.3 OBJECTIVES OF STUDY

The main objectives of this study are as follows:

- i. To identify branding factors that affect performance of SMEs. This study will reveal the factors that affect the performance of SMEs in Klang Valley,
- ii. To examine the effects of branding on performance of SMEs in Klang Valley. This analysis will identify the branding factors that have significant impact on performance of SMEs. Additional analysis will examine the correlation and interaction among the branding factors.

1.4 SCOPE OF STUDY

This study is confined to research activities on the effects of branding on performance of SMEs in Klang Valley (Malaysia). Data was gathered from SMEs in Klang Valley only that complied with the characteristics as defined by the SME Corp, Malaysia. The SMEs are valid companies registered with the Registrar of Companies (ROC) but not necessarily registered with SME Corp (formerly SMIDEC), Federation of Malaysian Manufacturers (FMM) or any other authorities or institutions which are involved with SME programmes in Malaysia.

During the course of data gathering, additional data had been collected but they are not used nor reported in this study.

1.5 SIGNIFICANCE OF STUDY

The study attempts to investigate the effects of branding on the performance of SMEs in Klang Valley, Malaysia. It seeks to determine whether branding has positive impact on SME performance. This is critically important because it involves large number of small and medium companies in Klang Valley. According to the latest available census report