

Branding capabilities and SME performance in an emerging market

Branding capabilities and SME performance

The moderating effect of brand regulations

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Abstract

Purpose – The purpose of this paper is to test the effect of brand regulations on the relationship between enterprises' branding capabilities (internal and external) and performance. It also examines the hypothesized relationship effects across manufacturing and service-based enterprises.

Design/methodology/approach – The study uses data from 384 small- and medium-sized enterprises (SMEs) within an emerging market setting. Moderated hierarchical regression was used to examine the theoretical interrelationships between branding capabilities and enterprise performance within the boundaries of regulations.

Findings – Results from the study suggest that both internal and external branding capabilities positively affect enterprise performance. However, the effect is confounded as brand regulations attenuate the relationship between enterprises' branding capabilities and performance. Varying outcomes across manufacturing and service-based enterprises are also assessed.

Originality/value – The study suggests that policy makers should review regulations on businesses, particularly those relating to the small business sector. Regulations that ameliorate activities of SMEs should be implemented to promote existing enterprises, and attract new ones for industrialization in emerging markets. The findings provide evidence for issues of potential research and managerial interest, with implications for both policy makers, small business owners and the academic community.

Keywords Emerging markets, Brand regulations, Branding capabilities, Small- and medium-sized enterprises (SMEs)

Paper type Research paper

Introduction

Literature has long recognized that firm capabilities (such as branding capabilities) are vital impetuses for organizational performance (Krasnikov and Jayachandran, 2008; Merrilees *et al.*, 2011; O'Cass and Sok, 2013). In spite of the burgeoning state of branding studies, however, three key deficiencies are observed in marketing literature. First, a significant gap exists regarding the amount of branding research focusing on small- and medium-sized enterprises (SMEs) in comparison with those carried out with large organizations settings (Neuvonen, 2016). Second, the branding literature exhibits a paucity of research works emanating from emerging or less-developed economies compared to those from developed economic settings (Odoom, 2016). In addition to this, management research and institutional theory recognizes that the functions of firm capabilities are likely to fluctuate with the nature of market environments (Eisenhardt and Martin, 2000; Liang *et al.*, 2007).



Yet, empirical works on the branding-performance nexus in SMEs have been relatively inattentive to the effect of such institutional conditions on the relationship between branding capabilities and firm performance (Wong and Merrilees, 2008; Berthon *et al.*, 2008; Reijonen *et al.*, 2012; Agostini *et al.*, 2015).

One institutional condition that appears to be completely neglected, particularly in small business settings, is brand regulations, and how they impact the relationship between branding capabilities and enterprise performance. Drawing from Kitching *et al.* (2013), brand regulations may refer to all forms of compliances requiring firms to have registered patents on their new products which may (or not) be manifested in performance outcomes among firms. With several product and service brands (along with their variants) springing up across the globe (Wan *et al.*, 2012), it is permissible to comprehend the regulatory frame within which these brand repertoires reside. The theoretical relevance of this is premised on the point that most competitive business environments require a set of flexible corporate and business legislation which enhance the range of possibilities and thus improve business conditions for firms (Sjögrén and Syrjä, 2015). Yet the literature on branding appears to have been silent on how brand regulations either ameliorate or attenuate the branding capabilities-performance relationship among small businesses. As a result, the small business marketing literature remains slightly leaky on this subject, until empirical corroborations of such idiosyncrasies are provided from different contexts.

The foregoing gaps represent critical limitations in literature given that: SMEs form a significant backbone of wealth-generating activities in both developed and less-developed economies (Ayyagari *et al.*, 2014); emerging markets provide natural platforms for testing and developing theories, as well as offering a thriving future for many companies (Burgess and Steenkamp, 2006); the relationship effects of organizational capabilities and firm performance are confounded by facets of the economic, legislative/regulatory and social environment (Wu, 2013). The current study is aimed at progressing literature by assessing the moderating effect of brand regulations on the relationship between SMEs' branding capabilities and enterprise performance within an emerging market setting. It has been reported that despite their chronic resource constraints, the SME sectors in some economies boast of stronger brand investments in recent times (Agostini *et al.*, 2015). As a result, they have equally become viable sources of brand marketing information and a context worth researching. It is relevant to study brand regulations in such a context because regulation is not a homogenous phenomenon and does not have a uniform effect on businesses and their brands, generating a debate as to whether they are burdens or benefits (Kitching *et al.*, 2013). Hence, its complex impact is an important policy concern for several economies (Sjögrén and Syrjä, 2015), especially small businesses in emerging markets.

From a theoretical angle, emerging markets provide notable socioeconomic, cultural and institutional departures different from those of western countries (Burgess and Steenkamp, 2013). It is also noted in literature that existing models and theories emanating from western contexts may not be applicable in all settings (Dawar and Chattopadhyay, 2002) requiring corroborations and, where necessary, the development of new theories, models, and methodologies pertinent to the unique contexts of emerging markets (Burgess and Steenkamp, 2013). Accordingly, the definition of SMEs employed in this study follows the classification by UNIDO for developing countries. Turnovers of such SMEs are typically not more than US\$5 million equivalent, with total assets, excluding land and building, not exceeding the equivalent of \$1 million in value. SMEs in Ghana (our current study setting) contribute about 70 percent to the nation's gross domestic product, account for about 92 percent of businesses in the country (Abor and Quartey, 2010), and invest substantially in brand marketing programs (Odoom, 2016). Understanding the nuances of their branding capabilities and performance *vis-à-vis* brand regulations therefore provide modest illumination to the small business management literature.

The study contributes, from a branding perspective, to the debate on the impact (burden or benefit) of regulations on small business performance (Fletcher, 2001; Kitching, 2006; Sjögrén and Syrjä, 2015). Extant literature recognizes that regulations are either targeted at certain business types or expected to vary in their impact across firms (Kitching *et al.*, 2013). We hypothesize that branding capabilities will positively impact the performance of SMEs within an emerging market setting (Hsiao and Chen, 2013). However, the normative isomorphic pressures exerted by regulatory institutions on the success of marketing practices in organizations (Liang *et al.*, 2007; Hillebrand *et al.*, 2011) begs us to theorize a negative moderating effect of brand regulations on the branding capabilities-performance relationship. The study further examines the effects of the hypothesized relationships across manufacturing and service-based enterprises.

Theoretical development and hypotheses

Institutional theory duly recognizes that regulatory bodies or institutions exert three types of isomorphic pressures on organizations (DiMaggio and Powell, 1983). Among these pressures, normative isomorphism spells out the following of professional standards and practices established by training methods, professional networks and education among firms. Brand regulations, indicated earlier as a form of institutional compliance, follows a similar pattern and tend to exert some pressure on firms' branding capabilities. The regulation of business operating components, such as property rights, licensing, ISO certifications and brand system standards (Zhu *et al.*, 2013), accordingly give legitimacy regarding what is acceptable for churning out brand repertoires in firms. The overarching effects of such brand regulations on small businesses are yet to be decisively determined in marketing literature, albeit they could be both burdens and benefits for enterprises (Kitching *et al.*, 2013).

Conceptualizing branding capabilities

Although the definition of branding capability is not firmly rooted in literature, a number of conceptualizations on what it constitutes have been put across by scholars. O'Cass and Ngo (2011) conceptualize branding capability as a firm's capacity to marshal a bundle of interrelated organizational routines to perform activities such as communication, and marketing programs in delivering a consistent brand meaning with customers. Ni and Wan (2008) suggest that firms' branding capabilities can be understood along two dimensions: internal related (comprising asset-related and knowledge-related capabilities) and external driven (comprising of market factors and institutional factors). Additionally, Altshuler and Tarnovskaya (2010) also put across their perspective of branding capabilities to embrace three facets. They include a firm's ability to design high-performance products at competitive prices, the ability to carry out fruitful, beneficial collaborations with stakeholders, and the ability to communicate the component brand at low cost. Furthermore, Merrilees *et al.* (2011) describe branding capability to comprise four approaches: identifying brand meaning; using branding as an operational tool; communicating consistent brand meaning and; getting staff to support the brand.

From the various conceptualizations, a broader theorization may suggest that firms do not only select brand elements/identities but also incorporate marketing mix programs and communications, as well as leverage on secondary associations when implementing branding efforts (Keller, 2013). These branding efforts are developed through learning and configuration mechanisms, which continually shape firms' competencies and can be sources of sustainable competitive advantage because they are not easy to replicate, imitate or learn. Therefore, branding capabilities are not only generated internally within firms but also attainable from external parties. The latter form of branding capabilities is particularly important for firms in emerging economies, where institutional, social and market changes take place more rapidly (Ni and Wan, 2008) amidst lingering shortage of resources, unbridled competition and inadequate infrastructure (Sheth, 2011).

Internal vs external branding capabilities

Internal branding capabilities refer to intra-firm branding efforts which enable enterprises to develop unique product and service competencies (Gassmann and Keupp, 2007). Such internally generated capabilities can foster SMEs' ability to identify and respond to market cues better, faster and cheaper than rivals (Garcia *et al.*, 2012). According to Galbraith *et al.* (2008), branding resources such as licenses, trademarks and patents afford enterprises with legal strategic rents through property rights which make them difficult for competitors to duplicate. Although such resources are generally costly to SMEs (Lichtenthaler, 2010), they enable enterprises to obtain performance benefits and other competitive advantages when leveraged with internal branding capabilities (O'Cass and Sok, 2013). However, Wong and Merrilees (2007) suggest that such internal resources and capabilities alone may not be able to fully trigger performance. This is because the performance value is better enhanced via the inclusion of external capabilities (Ethiraj *et al.*, 2005). As a result, scholars recommend the need to explore other sources outside of the enterprise which may present added returns for performance, particularly for small firms (Khan and Ede, 2009).

External branding capabilities are often generated by developing ties with suppliers, customers and other organizations via collaborations, joint ventures, alliances (Zeng *et al.*, 2010), as well as partners in international value chains (Gassmann and Keupp, 2007). Generally, these occur in several SMEs, given that such firms are recognized as resource-constrained entities which do not operate in a vacuum. To this end, Partanen and Servais (2012) suggest that enterprises can gain access to essential external resources and capabilities through their network relationships. From the view of O'Cass and Sok (2013), the role of such networks is to enable enterprises overcome their resource scarcity and improve growth and performance via larger connected groups (Zeng *et al.*, 2010). The external branding capabilities obtained from such collaborations are important for triggering brand value components that are beneficial for all the parties (Altshuler and Tarnovskaya, 2010). In essence, internal and external branding capabilities are vital avenues that could underpin SMEs' competences for efficiently developing new products and achieving superior performance (Soh, 2003).

Branding capabilities and enterprise performance

A number of studies have examined and provided evidence of the impacts of capabilities on firm performance and competitiveness. When a firm deeply etches its capabilities within its organizational structure, these capabilities become difficult to imitate and transfer, thereby offering sustainable competitive advantages (Day, 1994). Evidence within the marketing literature has shown that such capabilities are important drivers of firm performance (Krasnikov and Jayachandran, 2008; Morgan *et al.*, 2009). Given the uncertain nature of technological change and fierce competition in the marketplace, it is important that firms do not only become innovative, but also strengthen their branding capabilities. Branding protects, for instance, innovations from imitation by competitors as well as enables firms to easily control risk and to respond more quickly and efficiently to changes in the marketplace (Lei *et al.*, 2013). Evidence from Hsiao and Chen (2013) highlights enhanced performance generated via branding capabilities that result in brand awareness, perceived product quality, better relationships with customers and ultimately, brand choice (Narteh *et al.*, 2012). Following from the discourses on the capabilities-performance nexus, the first two hypotheses are theorized as follows:

- H1. External branding capabilities have a positive and significant relationship with enterprise performance.
- H2. Internal branding capabilities have a positive and significant relationship with enterprise performance.

The moderating role of brand regulations

Although firms may shape their own capability trajectories (Cook *et al.*, 2006), the environment within which they operate, may also influence their brand repertoires and processes. The environment may, in that regard, determine the prices of raw material inputs, demand for firm's products/services, competitive pressures from rival firms, as well as legislations which bear pressures on firms' products, processes and routines (Green *et al.*, 1994). Despite being fundamental constitutive element of business legislations, brand regulations are typically imposed on firms (Rugman and Verbeke, 1998). Generally, sound regulatory environments are renowned for ameliorating business performance by creating market opportunities and improving efficiency and competitiveness of firms via stable boundaries of acceptable behavior (Steenkamp and Geyskens, 2006). Evidence from literature on this, for example, points to how some regulations have driven manufacturing firms to consider unorthodox but innovative approaches as part of their business models (Chen *et al.*, 2006; Esmaeilian *et al.*, 2016).

However, contrary accounts to this have also emerged in literature (Kitching, 2006). The European Commission report on trade, for instance, revealed that majority of European business firms were facing difficulties to export their services due to heavy brand regulatory barriers (European Commission, 2001). According to Institute of Directors (2011), the conventional view of business groups is that regulations are often a burden, cost or constraint on businesses. As marketing expenses, brand regulations on patent registration and maintenance of brand elements such as name and design, packaging, trademarks and logos, for instance, tend to slam overheads on some firms (Sandner and Block, 2011). Interestingly, SMEs are deemed to suffer disproportionately from the complications of such brand regulations (Fletcher, 2001; Kitching *et al.*, 2013). Moreover, Wu (2013) hints that firms operating in economies with weak regulatory environments do not only encounter high transaction costs but also face high uncertainty for the recourse of their marketing routines and processes. In spite of the existence of legal codes in most emerging markets, inconsistent and unpredictable brand regulations typically result in unethical behaviors such as false advertising, cheating and counterfeiting (Sheng *et al.*, 2011; Sheth and Sinha, 2015).

From the preceding discussions, regulations appear to be dynamic forces. They generate contradictory (enabling as well as mitigating) performance effects from firms' capabilities and processes across various domains (Kitching *et al.*, 2013). Yet, according to Sjögrén and Syrjä (2015), fairly little is known about how small firms make strategic choices that drive performance outcomes in a highly regulated environment. Additionally, the inconclusive arguments in literature indicate that the presumed effect and the real effect of regulations on businesses are yet to be established across various business and economic contexts. Nevertheless, following the lead of Wu (2013) as well as Sheng *et al.* (2011), it is anticipated that the effect of brand regulations on the capability-performance relationship of small businesses in emerging market contexts are more likely be negative rather than positive (Kitching, 2006). On the basis of this, the third and fourth hypotheses for the study are stated as follows, and subsequently depicted in Figure 1 as the conceptual model:

H3. Regulations have a negative and significant relationship with enterprise performance.

H4. The relationships in *H1* and *H2* will be moderated with the introduction of brand regulations.

Methodology

Data setting and collection

Following from Odoom (2016), a commercial database of registered SMEs was obtained from the National Board for Small Scale Industries and Association of Ghana Industries,

from which the participating enterprises were contacted for the data. Calls were made to 756 contact persons of the enterprises earlier to seek their consent to partake in the study after which the survey instruments were mailed by post to the SMEs. We attached self-addressed envelopes to facilitate the returning of the filled questionnaire. After two months, most of the questionnaire were returned. In all, 384 valid responses out of 756 contacted SMEs became usable for carrying out the empirical research analysis (response rate = 50.7 percent).

Prior to the data collection, an adequate assessment of the psychometric properties of the scale items was carried out by testing for face and content validity (Bagozzi and Yi, 1988) using academic faculty involving marketing lecturers and PhD students as well as branding experts. To minimize initial concerns of common method bias, information provided by the SMEs came from three categories of personnel in each enterprise (Podsakoff *et al.*, 2012). In most of the cases, the CEOs completed the sections on enterprise information and brand regulations; marketing officers completed the section on branding capabilities while finance officers completed the performance measures. Such perceptual response approaches have been shown to be reliable and proven to produce results consistent with objective and absolute measures (Agostini *et al.*, 2015).

Variables and measures

To test the hypotheses in the study, a quantitative survey approach with the use of questionnaire was employed on the empirical data to enable actual measures to be calculated from the responses obtained from the enterprises. Variables in the questionnaire included background information on the enterprises (sector, number of employees, assets base and average annual turnover), as well as measures on branding capabilities, firm performance and brand regulations. Apart from the background information, all other variables were assessed via seven-point Likert-type scales anchored from “1 = not at all” to “7 = to a very large extent” with “4 = moderately.” All directional constructs (independent variables, moderating variable and dependent variable) were operationalized with reflective measures.

By way of operationalizing the independent variables, we drew from the work of Merrilees *et al.* (2011) for measures on internal branding capabilities. The scale captures the extent to which the enterprises are better able to identify a simple brand meaning, use branding as an operational tool, able to communicate a consistent brand meaning, and their ability to get staff to support the brand. Measures for external branding capabilities were derived from previous literature (Ni and Wan, 2008; O’Cass and Ngo, 2011). They consisted of four items capturing how the enterprises mobilize resources from external associations, their strong connections with suppliers, ability to keep in touch with stakeholders to meet brand needs, as well as their ability to obtain additional skills from partner enterprises.

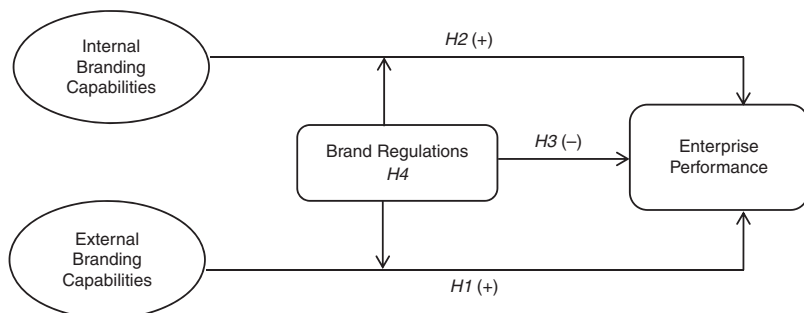


Figure 1.
Conceptual model
and hypotheses

Regarding the moderator variable (brand regulations), we adapted the measures from past research (Sandner and Block, 2011; Sjögrén and Syrjä, 2015). The scale assessed the cost involved for enterprises to meet minimum brand regulation requirements, the strictness in obtaining licensing requirements before product/service enter the market, level of scrutiny enterprises go through before launch of new product/service, and the impact of meeting the minimum legal requirement. For the dependent variable (enterprise performance), we drew on the works of Soh (2003) and Reijonen *et al.* (2012) for the measures. The scale captured four items addressing the extent of increment of profit margin, market share, sales volume, and new product success during the past three years.

Control variables

We considered the inclusion of some firm characteristics as controls to ensure results are not unjustifiably influenced by these factors. Literature suggests that the fitness of a firm's strategy (such as branding) is dependent on the business' competitive setting which is typically a composite of both organizational and environmental contingencies (Ni and Wan, 2008). Accordingly, the current study followed the lead of past research and controlled for firm size, which was measured through the number of employees in the enterprises, assets base and turnover (Abor and Quartey, 2010). It also introduced firm age as a control variable, measured in terms of the number of years an enterprise has been operating in business (Hirvonen *et al.*, 2013). Additionally, ownership type was also controlled for and was measured in terms of sole proprietorship and multiple ownerships (Odoom, 2016).

Results and analysis

Profile of the enterprises

All the statistical data analyses were carried out using IBM SPSS Statistics 24 and IBM AMOS version 23 for Microsoft Windows. The results from the distribution of firm characteristics reveal that the sampled enterprises were adequately represented. From the usable data, a profiling of the enterprises revealed that about 70.3 percent of the sampled enterprises were owned by sole proprietors while 29.7 percent had multiple owners. Most of the surveyed enterprises (approximately 95.1 percent) have been in business for over five years with only 4.9 percent of them having been in operation for up to five years. The enterprises were either small-sized (47.0 percent) or medium-sized (53.0 percent), categorized based on their number of employees, assets base and turnover.

Reliability and validity

Since the scale measures were adapted for the current study, they were validated via a confirmatory factor analysis (CFA) using AMOS version 23. For internal consistency purposes, Cronbach's α values for the four constructs ranged between 0.76 and 0.88. The factor loadings ranging from 0.60 to 0.94, all above the 0.50 acceptable level, indicated that the theoretical constructs exhibit acceptable psychometric reliability in the study (Nunnally *et al.*, 1967). Model fitness was evaluated using the normed χ^2 index (χ^2/df), goodness of fit index (GFI), and the comparative fit index (CFI). This was followed by the Tucker-Lewis index (TLI), normed fit index (NFI) and the root mean square error of approximation index (RMSEA) as suggested by Anderson and Gerbing (1988). Using these series of fit indices, the CFA resulted in $\chi^2/\text{df} = 2.08$, GFI = 0.94, CFI = 0.96, TLI = 0.95, NFI = 0.93, and RMSEA = 0.05. These results confirm the unidimensionality of each construct in the research model (see Table AI for results of the CFA).

Following from Fornell and Larcker (1981), convergent validity was assessed by first calculating the average variances extracted (AVE). First, the items that loaded on each of the constructs were further computed to create composite measures (Ping, 1995).

Second, it was observed that composite reliabilities of the four scales also ranged from 0.76 to 0.87, which are all higher than the minimum threshold of 0.7 (Hair *et al.*, 2010). Moreover, all coefficients from the latent constructs to their corresponding manifest indicators were statistically significant (i.e. $t > 2.0$, $p < 0.001$). Additionally, discriminant validity was established by comparing the shared AVE values between pairs of constructs with their squared phi correlations. In all cases, the AVE values were greater than the shared squared phi correlations associated with each pair of constructs, supporting the discriminant validity of the constructs (Fornell and Larcker, 1981). Table I displays the results of the discriminant validity (an indication that the constructs are distinct from one another) by presenting the descriptive statistics and inter-construct correlations with shared AVE.

Moderated hierarchical regression

To examine the theoretical interdependencies among branding capabilities and enterprise performance under the moderating context of brand regulations, the full data were analyzed using moderated hierarchical regression modeling (see Table II). This multi-stage hierarchical regression approach helps minimize concerns of endogeneity due to the use of continuous scales on the four constructs (Hamilton and Nickerson, 2003). First, the effects of control variables (ownership type, age and size of enterprise) on performance were tested in M1. It was observed from the R^2 value that the control variables account for only 10 percent of the

Table I.
Inter-construct
correlations and
descriptive statistics

Brand-building efforts	Mean	SD	1	2	3	4
External capabilities	4.77	1.49	(0.58)			
Internal capabilities	4.67	1.28	0.19**	(0.54)		
Regulations	3.45	1.52	0.41**	0.21**	(0.44)	
Performance	4.65	1.65	0.35**	0.56**	0.30**	(0.64)

Notes: AVE values are in brackets. **Correlation is significant at the 0.01 level (two-tailed)

Table II.
Moderated
hierarchical regression

Variables	(M1)	(M2)	(M3)	(M4)	(M5)	(M6)
<i>Controls</i>						
Ownership type	-0.20**	-0.07	-0.05	-0.05	-0.10	-0.11
Age	0.58**	0.26*	0.24*	0.23*	0.27	0.22
Size	0.57**	0.24*	0.23*	0.23*	0.44*	0.06
<i>Direct effects</i>						
External branding capabilities		0.27***	0.29***	0.29***	0.30***	0.28***
Internal branding capabilities		0.51***	0.52***	0.51***	0.47***	0.56***
Brand regulations (BR)			-0.25**	-0.23**	-0.23*	-0.32**
<i>Moderating effects</i>						
BR × external branding capabilities				-0.20**	-0.11*	-0.22**
BR × internal branding capabilities				-0.41***	-0.15*	-0.34***
<i>Fit indicators</i>						
R^2	0.100	0.393	0.403	0.410	0.345	0.461
Adj. R^2	0.090	0.382	0.392	0.396	0.306	0.443
ΔR^2	0.100	0.293	0.010	0.007		
F-change	10.52***	91.15***	6.35**	2.20		
Observations (n)	384	384	384	384	144	240

Notes: Dependent variable = performance. All Tolerance above 0.1; all VIF less than 1.3. * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

variance in performance. Second, the main effects of the independent variables were added to the initial model in M2. At this stage, a significant increase of 0.293 was found from the R^2 value, resulting in a 39.3 percent variance in performance across all the enterprises. Next, the effect of the moderator variable was added in M3, where it was observed that a change of 0.010 in the R^2 value resulted in a 40.3 percent variance in the model across all enterprises.

From the third model, the estimated standardized coefficients revealed that external branding capabilities ($\beta = 0.29, p < 0.001$) had positive and significant relationship with enterprise performance. Therefore *H1* which predicts a positive and significant relationship between external branding capabilities and enterprise performance was supported. Similarly, the estimated standardized coefficients for internal branding capabilities ($\beta = 0.52, p < 0.001$) also indicated a positive and significant relationship on enterprise performance, supporting *H2*. The *H3* predicts that a negative and significant relationship exists between regulations and firm performance. Results from the standardized estimated coefficients ($\beta = -0.25, p < 0.05$) in M3 indicate that this hypothesis was also supported.

Subsequently, the moderating effect of regulations on the relationship between branding capabilities and enterprise performance was also tested in M4 following the interactive (multiplication) term procedure by Aiken and West (1991). Both branding capabilities as well as regulations were first mean-centered, before multiplication, to reduce the potential threat of multicollinearity (Ping, 1995). The results show significant and negative relationships for both interaction effects on performance in M4. This suggests that brand regulations negatively moderates the relationship between enterprises' internal branding capabilities and performance as well as the relationship between enterprises' external branding capabilities and performance. Although not hypothesized, further test of sub-group variations was conducted to determine the extent of (in) variance of all the hypothesized relationships across business operating sectors. Results from the standardized estimated coefficients in M5 (services) and M6 (manufacturing) reveal that although negative moderation effects were exhibited across both sectors, they were of significantly greater magnitudes in manufacturing enterprises than in service-based enterprises.

Discussion and conclusions

This study examines and empirically tests whether the relationship between enterprises' branding capabilities and performance is moderated by the brand regulations within their operating environment. Results on research data from 384 SMEs in an emerging market suggest that both internal and external facets of branding capabilities positively affect enterprise performance. However, the impact is attenuated as brand regulations within the operating market negatively moderate the relationship between enterprises' branding capabilities and performance. The findings and conclusions extend past research works which have examined the role of regulations and compliances on organizational capabilities and firm performance (Krasnikov and Jayachandran, 2008; Morgan *et al.*, 2009; Kitching *et al.*, 2013). With literature recognizing that emerging markets exhibit departures from the general conventions of theories, models and frameworks emanating from western contexts (Burgess and Steenkamp, 2013), the current results provide palpable evidence for corroborating past research (Wu, 2013).

Literature notes that, despite the recognized roles played by SMEs in emerging economies, their development is largely constrained by a number of factors, among which are legislations, regulations and rules that hamper the growth of enterprises (Abor and Quartey, 2010). The current study results show congruence with past studies on such assertions (Kitching, 2006; Kitching *et al.*, 2013). The gravity of such findings is that despite having limited resource capacities, SMEs in such contexts typically face the

same fixed costs as their large firm counterparts while complying with brand regulations. Although regulations improve business performance in some settings, it appears brand regulations are a burden in the current study context. In such an instance, despite the structural efforts put in place to improve their performance, the prospects of these enterprises developing into large firms remain almost impossible (Abor and Quartey, 2010).

Additionally, findings from the study also suggest that branding capabilities of manufacturing enterprises appear to be negatively affected to a greater extent with brand regulations than in the case of service-based enterprises. In line with Choi *et al.* (2009), regulations may only reduce information asymmetry and also alter industry structure by reducing the power of expert knowledge of service firms. For manufacturing firms, however, a stricter mechanism of control may be produced by regulations, which eventually affect not just routines and processes but also the brand repertoires of these enterprises (Zhu *et al.*, 2013; Esmailian *et al.*, 2016). Specific areas such as product names and packaging, logos and trademarks, ISO certifications and general brand patents appear to be the hardest hit (Sandner and Block, 2011). In sum, the current findings add to the general debate on whether regulations are either benefits or burdens for firms across various economies (Kitching *et al.*, 2013).

Implications for theory and practice

Findings from the study make five key contributions to the literature on branding as well as small business management and marketing planning. First of all, the interdependencies among the constructs examined in this study lend support to the dynamic capability as well as the institutional theories. From the findings, empirical evidence has been provided to corroborate the theorization that firms' abilities to efficiently exploit, integrate, build and reconfigure their internal and external firm-specific capabilities enable them to obtain enhanced performance rents (Teece *et al.*, 1997). Second, an empirical substantiation has been provided to the hypothetical stance of the institutional theory that the environments within which firms operate exert isomorphic pressures on organizations (DiMaggio and Powell, 1983). The effects of these pressures cause either conformities or resistances (Oliver, 1991), resulting in various confounds (burdens and/or benefits) on marketing capabilities and firm performance.

Furthermore, the study progresses existing literature by extending and testing fundamental assumptions about organizational capabilities and firm performance, within small business settings and from a branding perspective. Evidence from current literature exhibits a dearth of branding studies in SMEs compared to those conducted with large organizations. We make a modest addition to existing literature by reinforcing, from SME settings, the relationship that exists between branding capabilities and firm performance across manufacturing and service sectors. Fourth, the study extends current understanding on the role of brand regulations on the relationship between firms' branding capabilities and performance. Previous works have hinted that the relationship effects of marketing efforts and processes of firms are confounded by moderators such as business regulations and legislations (Wu, 2013). In relation to branding capabilities within the context of small businesses, however, this has yet been tested. With SMEs contributing toward wealth-generation across several economies (Ayyagari *et al.*, 2014), as well as the huge investments on branding made in these sectors, such an empirical examination of the effects of brand regulations on enterprises' capabilities-performance relationships is very opportune for research.

Finally, another major contribution of this paper lies in the presentation of empirical results from an emerging market setting on the subject matter under study. Generally, literature recognizes possible inapplicability of western models and theorizations in

non-western contexts, owing to the variability in infrastructure, market heterogeneity, and rampant competition among firms within such settings. These characteristics present business operating dynamics which are unique from that of developed economies, where firm activities and outcomes are almost nuanced (Dawar and Chattopadhyay, 2002; Sheth, 2011). The current study provides palpable evidence which may (or not) be consistent with studies conducted in other contexts with similar or different economic and market conditions. Findings from Wu (2013) provided empirical evidence relating marketing capabilities and institutional factors with firm performance on a large number of emerging markets, generalizing the findings to a broader context. In response to his calls for further studies to examine the moderating role of regulatory contexts on marketing activities and processes in specific countries, we provide empirical evidence, with SMEs focus, from a branding perspective. Our country-based findings offer relevant support for the need to examine effects of context-specific regulations when explaining firm capabilities-performance relationships (Burgess and Steenkamp, 2006).

The findings also offer some implications for both policy makers and small business owners. Governments in many emerging economies seek investors to augment their existing business markets, with the hope of engendering economic boosts. However, these investors may not be allured to such settings where regulations are found to negatively impact firm capabilities and performance. Based on the current study findings, it is suggested that policy makers should revise regulatory compliances on businesses, particularly SMEs, in ways that ameliorate their operations. Despite the chronic resource constraints, these SMEs are generally expected to comply with the same operating regulations as with their large organization counterparts. In the light of the attenuating effects of brand regulations, this may, however, cripple a lot of small businesses who may not be able to realize optimum performance benefits from their marketing processes and routines such as branding. Governments in such markets should review their regulatory policies if current ones appear unfavorable for enterprise performance and growth. Regulations that stabilize or enhance business activities should be implemented to promote commercial efforts of existing SMEs as well as attract new ones to help industrialize economies of emerging markets. Small business owners are equally urged to not only take advantage of their internal branding capabilities, but also leverage external sources for enhancing their brand performance amidst environmental pressures.

Limitations and future research avenues

The current research has some limitations, signifying curious avenues for future research. First, the hypotheses formulated for branding capabilities and performance within the boundaries of regulations, were tested using SMEs from a single country. The nature of brand regulations in other settings may present similar or differential outcomes on the subject matter. Therefore, it will be relevant to carry out further investigations across other settings for theory development. In addition to this, the research design used in this study is cross-sectional, which may suggest static relationships between the variables used, at a single point in time. It should also be pointed out that the construct effects tested in the study are that of relationships and not causalities. Again, one of our constructs had an AVE value below 0.50, representing a statistical limitation. Given that capabilities evolve over time, a longitudinal study may be required to address the full effect of the experiences of branding capabilities on performance over a longer period. Moreover, there is the need for studies to examine the effects of regulations on capability-performance relationships among more/less compliant firms and enterprises. As one of the preliminary studies to examine brand regulations, further organizational capabilities could also be examined within the boundaries of other forms of regulations in different contexts.

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Appendix

Constructs and measurement items	CFA loadings	t-value
<i>Internal branding capabilities</i> ($\alpha = 0.82$; $CR = 0.82$)		
Able to get staff to support the brand	1.00 ^a	15.45
Better able to identify a simple brand meaning	0.67	11.48
Use branding as an operational tool	0.60	9.81
Better able to communicate a consistent brand meaning	0.94	12.53
<i>External branding capabilities</i> ($\alpha = 0.88$; $CR = 0.84$)		
Obtain additional skills from partner enterprises	1.00 ^a	16.36
Mobilize resources from external associations	0.75	12.96
Strong connection with suppliers	0.84	14.16
Keep in touch with stakeholders' to meet brand needs	0.73	12.60
<i>Enterprise performance</i> ($\alpha = 0.88$; $CR = 0.87$)		
New product success	1.00 ^a	17.42
Increase in sales volume	0.81	14.45
Improved market share	0.86	15.28
Growing profit margin	0.83	14.69
<i>Brand regulations</i> ($\alpha = 0.76$; $CR = 0.76$)		
Meeting minimum legal requirements is the only impact of regulations on our business	1.00 ^a	13.21
Not costly for business to meet minimum brand regulation requirements	0.67	10.36
Licensing requirements before product/service enter the market are not strict	0.68	10.62
Firm goes through scrutiny before launch of new product/service	0.65	10.12
Notes: CFA model fit indices: $\chi^2 = 218.76$; $df = 105$; $GFI = 0.94$; $CFI = 0.96$; $TLI = 0.95$; $NFI = 0.93$; $RMSEA = 0.05$. CR, composite reliability. ^a Fixed factor loading. All t-value estimates significant with $p < 0.001$		

Table AI.
CFA and measurement model

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