

Brand Management and Innovation in Mexican Small Business

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Abstract

The paper must have abstract not exceeding 200 words. Brand management is considered in the current literature of marketing as one of the most important business strategies and it is a relatively new topic that is increasing its adepts among researchers, scholars, and professionals in the field of marketing since brand management allows organizations more and better results as well as to increase innovation activities. However, despite the importance of brand management and innovation, there are relatively few investigations focused in the analysis and discussion of the relation between both construct. That is why it is necessary to produce more research papers that provide empirical evidence of the effects of brand management in innovation. For this reason the main goal of this empirical investigation is the analysis and discussion of the effects of brand management in the innovation of small enterprises. The results obtained show that the brand management of products or services of small enterprises have positive, significant effects in the innovation activities carried out by small enterprises.

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1 Introduction

Nowadays, the consumption of goods and services in society is increasing in both developed and developing countries, in which the demand of products and

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services has increased exponentially despite the distance of the production line of the countries (Hakim, 2011). Thus, the rise of the manufacture of products and services at a world level has multiplied the effects of the creation of more industrial residues or waste, as well as the demand of higher quantities resources which has caused negative and positive effects in the results of the different environmental initiatives from both developed and developing countries, which is the case of Mexico (World Commission on Environmental and Development, 1987; Harding, 2006; Hart, 2007).

In this regard, the ethics of capitalism and the marketing initiatives are modifying the manufacturing activities of products and services in enterprises, so they become more responsible with the environment through innovation activities that act more accordingly to the environment (Hakim, 2011). A clear example of this is eco-innovation, which refers to the design of new products or services that, besides using a smaller amount of resources, they seldom damage the environment, which have a positive impact in consumers. Therefore, brand management plays an important role in organizations, especially in small business, and it usually has a positive and significant effect in both the behavior of consumers and the innovation activities (Hakim, 2011).

Moreover, the constant changes in the market where small business participate exert a lot of pressure on them to develop and obtain the necessary skills for the attainment of competitive advantages, including innovation (Brexendorf *et al.*, 2015). Thus, the small business that have adopted and increased their innovation capacity for new products or services, or have modified or improved their existing products or services in the enterprise, along with an efficient and effective brand management of those products or services, have obtained higher competitive advantages as well as ensured them a future growth of the organization (Steenkamp *et al.*, 1999; Keller & Lehmann, 2006).

Similarly, the adoption of the strategy of brand management demands that small business make different changes inside the organization such as the costs of innovation, the adoption of risks in the development of new products or services, and the possibility of reducing significantly the life cycle of the products or services created which will allow small business to obtain a higher return of their investment (Sorescu & Spanjol, 2008; Hoffman *et al.*, 2010). Thus, if small business adopt and implement the innovation activities efficiently and effectively, they will have to improve first their brand management activities their products or services in a significant way (Srinivasan *et al.*, 2009).

However, in the current literature in the field of marketing there is a clear division of the investigations carried out between brand management and innovation despite the importance of the relation of these two constructs (Brexendorf *et al.*, 2015). That is why it is important that researchers and academics focus their investigations in the analysis of the existing relationship between brand management and innovation. Therefore, even when there are a few theoretical and empirical papers regarding brand management and its effects in innovation activities, there are rather scarce investigations about these two

constructs. That is why the main contribution of this this empirical research is the analysis and discussion of brand management in the innovation of small business in a developing country, which it is the case of Mexico, as it recommended by Aaker (1997), Calder and Calder (2010), Hultink (2010), Kapferer (2014) and Brexendorf *et al.* (2015).

2 Preliminary Notes

Brand management and innovation are two constructs, which are closely related since both the brand management of products or services of small business and the innovation play an essential role in the creation of positive reviews from consumers (Page & Herr, 2002). Therefore, a strong brand management of products or services of small business is not only well sustained by the innovation activities, that they have but also because brand management is considered as an important resource of innovation (Brexendorf *et al.*, 2015). Thus, brand management does not only have positive and significant effects in innovation activities but it also adds credibility, legitimacy, visibility as well as providing communication support to the new or improved products or services created by enterprises (Aaker, 1997).

Similarly, previously published papers in the marketing literature mentioned that the type of brand strategy adopted and implemented by enterprises could have some kind of influence in the success of innovation (Rao *et al.*, 2004; Rubera & Droge, 2013). In this way, the strategy of brand management of products or services of small firms demands a bigger effort from the manager and staff of the organization to reduce the negative effects that brand management might have in innovation activities (Brexendorf *et al.*, 2015). For example, when there is an intensive development of technology, small firms usually perceive a high level of risk in innovation activities (Chandy & Tellis, 1998). That is why the strategy of brand management can create a new identity for the new or improved products or services, or to find a new market section of consumers (Rubera & Droge, 2013).

Moreover, the strategy of brand management adopted by enterprises, especially when the organization has an excellent brand reputation of their technological innovations, will allow consumers to have more chances to obtain or buy the new or improved products or services even when the name of the brand is shared (Brown & Dacin, 1997). Likewise, Rao *et al.* (2004) concluded in their research that the strategy of brand management of products or services of enterprises, specifically small ones, which usually becomes the corporate brand, might be the most effective and efficient way to increase the innovation activities, as well as the brand strategy with higher financial advantages.

On the other hand, it is possible to find in the current literature of marketing and innovation, two clearly defined standpoints from different researchers and academics regarding the orientation of researches about brand management and innovation. One of them establishes that brand management of products or

services of small business must focus on providing evidence that the effects of brand management in innovation activities are environmentally friendly since some researchers compared the annual demand of resources of the world population. These researchers calculated that the annual demand of resources in 1961 could be renewed around 70%, whereas in 1980 the growth of the demand on resources was the same to the percentage of resources that could be renewed (50%), and in 1990 from all the demand of resources only 20% of them could be renewed (Hamilton, 2004).

Thus, a larger amount of resources is needed to produce more products and services for a bigger amount of consumers, which are generally taken from communities nearby the production districts and even part of them are transported from areas or countries far away from the production centers. Then, these products are distributed to several sales points for consumers all over the world (Hanh, 2008). Therefore, in order to reduce significantly the resources used that can be renewed, enterprises have to make important changes in their production systems. This is when brand management and innovation will be essential, because through innovation it will be possible to design more environmentally friendly products or services that can be reused and create a higher brand value (Anderson *et al.*, 2004; Wessels, 2006).

Additionally, the nature of innovation is iterative, fast and competitive. Consequently, innovation has become not only in one of the survival resources of enterprises but also a competitive advantage in an economic system in which enterprises, especially small ones, aim to attain a continuous growth of the benefits as part of their main goals (Hakim, 2011). Therefore, the innovation carried out by small business will have to focus in the distinction of their products or services, and not just in being friendly with the natural resources and the environment, but also that they have a component of technological advancement (Harvey, 2010). This will facilitate the brand management of the products or services, because consumers will prefer to get such products or services instead of the ones from their main competitors.

The second standpoint establishes that researchers and academics must focus their investigations, in analyzing the existing effects between brand management and innovation of organizations in general, including small business, since brand management plays an essential role in the development of innovation in both short and long terms, which practically affects both the initial introduction of innovations of products or services and their adoption from consumers (Brexendorf *et al.*, 2015). Consequently, new products or services (or products or services that have been improved), are usually introduced in the market as a simple extension of the brand precisely because they represent a competitive advantage, when compared with the products or services offered by their main competitors (Brexendorf *et al.*, 2015).

In this regard, consumers have different expectations about new or improved products or services, which are usually based on the knowledge and perception that they have (Aaker, 1996; Keller, 2012). Consequently, some early-published

investigations in the field of marketing provided theoretical and empirical evidence of how a positive expectation from consumers provides an excellent evaluation of the brand for both new products and/or services as well as those that were improved. This creates for small business not only a higher rate of profit or benefits but also better results (Aaker & Keller, 1990; Keller & Aaker, 1992; Smith & Park, 1992; Erdem & Swait, 1998).

Similarly, a strong brand management often produces several marketing advantages, which facilitate the development of new products or services as well as their modification or improvement (Hoeffler & Keller, 2003). More specifically, a strong brand management of new products or services of small business implies an efficiency and effectiveness of the marketing activities and programs carried out by small business, which facilitates the development of innovation activities (Brexendorf *et al.*, 2015). Therefore, a strong brand management allows enterprises, especially small ones, to have a better level of cooperation in the market where they participate as well as a better support and communication of marketing activities. All this provides promotes that consumes have information of the brand of the products or services (Broniarczyk & Alba, 1994).

In this regard, brand management facilitates the implementation and development of innovation activities in small business, provides support to the communication of the organizations with consumers, and increases the visibility of innovations in products, processes and management systems carried out by small business (Aaker, 1997). Similarly, brand management has another group of important advantages such as, for example, reduce the negative effects in the flaws or defects that new or improved products or services might have (Brady *et al.*, 2008). However, some investigations show that flaws or defects of innovations can be more harmful if the previewed innovations of products or services, do not receive a strong support of mouth advertising regarding the opinion that is created among consumers after such failures take place (Liao & Cheng, 2014).

Likewise, the innovations of products or services carried out by small business will require from consumers to adopt a new behavior, or eliminate a prior behavior that they had regarding such products or services, which can be possible through an efficient brand management (Brexendorf *et al.*, 2015). For this reason, the new innovations normally produce uncertainty and risk among consumers, in making decisions about adopting or not the new or improved products or services (Hoeffler, 2003). However, some investigations (e.g. Steenkamp & Gielens, 2003; Gielens & Steenkamp, 2007; Claudy *et al.*, 2014), concluded that an efficient brand management increases the probability that consumers obtain new or improved products or services, which can reduce the risk of decision making about the adoption of new products.

Thus, one of the main functions of brand management of products or services of small business, in practically the transformation of the experience that consumers have with the current products or services that are in the market (Keller & Lehmann, 2006). As a result of this, brand management transforms the perception of the performance of products or services created by small business

and facilitate the adoption of new or improved products or services, among consumers by evaluating their quality in a similar way (Dawar & Parker, 1994). In this regard, Page and Herr (2002) concluded in their corresponding paper, that a strong and efficient brand management creates a high level of influence in the perception of the quality of the products or services, when there is a conflict between the design of new or improved products or services, and for the process of decision making regarding their adoption from consumers.

Within this set of ideas, some researchers, academics and professionals in the field of marketing, who have analyzed the adoption and reluctance of the new or improved products or services created by small business, have provided theoretical and empirical evidence that consumers normally incorporate intrinsic considerations, when taking decisions about the adoption or rejection of the innovations that go beyond the intrinsic performance of products or services (Bearden & Shimp, 1982; Gatignon & Robertson, 1985). Therefore, the perception of consumers about the brand image as well as the brand management of the products or services created by small business, will be key for these consumers to take the final decision of the adoption of the attainment of new or improved products or services (Claudy *et al.*, 2014).

In this regard, Bearden and Shimp (1982) had already considered that the adoption of innovation in products or services has a positive, significant relation with the reputation and quality of such innovations, which are characteristics that correspond basically to brand management. This allows a significant decrease of risks implied with the adoption of new or improved products or services offered by small business. Similarly, in a more recent investigation, Prins and Verhoef (2007) found that brand advertising along with an efficient brand management product or services offered by organizations, including small ones, can reduce significantly the adoption time of the new or improved products or services.

The results obtained by Prins and Verhoef (2007) suggest that the brand management of products or services offered by small business have a strong influence in the adoption of new or improved products or services, as well as the behavior that consumers have regarding these innovations. Therefore, consumers who are very loyal to the brand of products or services created by small business will adopt the innovations more quickly than those consumers who have a negative image and perception of the brand. Thus, considering the information presented above, it is possible to establish the following research hypothesis

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

In order to answer the research hypothesis established in this paper, it was considered relevant to use the business directory of the 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 (survey) to retrieve information regarding both brand management and innovation was designed to be answered

specifically by managers and/or owners of small business. 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 took place between February and April of 2017.

Similarly, a scale developed by Baumgarth (2010) was used for the measurement of brand management. The researcher considered 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. All the items of the four factors were measured through a Likert-type scale of five positions from “1 = completely disagree” to “5 = completely agree” as limits.

Likewise, managers were asked to indicate if the organization had carried out innovation activities in the last two years (1=Yes, 2=No), in order to measure the innovation activities of small enterprises. To measure the importance of the innovations, managers were asked to evaluate the innovation in products, processes and management systems through seven items in a Likert-type scale of five positions from “1 = not important at all” to “5 = very important” as limits, which were adapted from Zahra and Covin (1993), Kalantaridis and Pheby (1999), Frishammar and Hörte (2005), as well as Madrid-Guijarro *et al.* (2009).

Furthermore, a Second-Order Confirmatory Factor Analysis (SOCFA) was carried out to evaluate the reliability and validity of the scales of brand management and innovation by using the method of maximum likelihood with the software EQS 6.2 (Bentler, 2005; Brown, 2006; Byrne, 2006). Furthermore, the reliability was evaluated with Cronbach's alpha as well as the Composite Reliability Index (CRI) proposed by 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 ($S-BX^2 = 1,177.126$; $df = 270$; $p = 0.000$; $NFI = 0.899$; $NNFI = 0.904$; $CFI = 0.940$; $RMSEA = 0.079$). Likewise, the values of Cronbach's alpha and the CRI are higher than 0.7, which indicates the presence of reliability on both scales (Nunally & Bernstein, 1994; Hair *et al.*, 2010).

Additionally, the results obtained from the SOFCA 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 & Yi, 1988), and the Extracted Variance Index (EVI) of each pair of constructs of the theoretical model of brand management and innovation has a value above 0.5 (Fornell & Larcker, 1981). These values indicate that the theoretical model has a good adjustment of data and provide evidence of the presence of convergent validity.

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	0.965***	1.000 ^a	0.978	0.979	0.903
	VM2	0.969***	78.290			
	VM3	0.961***	45.916			
	VM4	0.943***	36.492			
	VM5	0.911***	29.425			
Norms (F2)	NM1	0.882***	1.000 ^a	0.928	0.929	0.686
	NM2	0.856***	33.092			
	NM3	0.867***	23.343			
	NM4	0.835***	20.288			
	NM5	0.776***	19.127			
	NM6	0.745***	17.485			
Artifacts (F3)	AM1	0.966***	1.000 ^a	0.984	0.985	0.944
	AM2	0.974***	74.661			
	AM3	0.979***	51.725			
	AM4	0.968***	44.160			
Behaviors (F4)	CM1	0.953***	1.000 ^a	0.942	0.943	0.807
	CM2	0.930***	37.303			
	CM3	0.891***	29.848			
	CM4	0.812***	22.336			
Brand Management	F1	0.734***	7.061	0.829	0.830	0.555
	F2	0.921***	11.421			
	F3	0.603***	5.636			
	F4	0.685***	6.019			
Product Innovation (F5)	PI1	0.933***	1.000 ^a	0.951	0.952	0.909
	PI2	0.973***	25.242			
Process Innovation (F6)	PR1	0.954***	1.000 ^a	0.964	0.965	0.932
	PR2	0.976***	43.859			
Management System Innovation (F7)	MI1	0.978***	1.000 ^a	0.984	0.985	0.957
	MI2	0.987***	92.543			
	MI3	0.970***	69.134			
Innovation	F5	0.871***	12.498	0.857	0.858	0.669
	F6	0.823***	13.833			
	F7	0.756***	21.575			

$S-BX^2$ (df = 270) = 1,177.126; $p < 0.000$; NFI = 0.899; NNFI = 0.904; CFI = 0.940; RMSEA = 0.079

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

*** = $p < 0.01$

Moreover, the discriminant validity of the theoretical model of brand management and innovation was measured by two tests. The first one is the *reliability interval test* proposed by 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*, proposed by 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 shows in detail these results.

Table 2: Discriminant validity of the theoretical model

Variables	Brand Management	Innovation
Brand Management	0.555	0.265
Innovation	0.369 – 0.661	0.669

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.

3 Main Results

In order to answer the research hypothesis established in this empirical research, a second-order structural equations modeling was applied with software EQS 6.2 (Bentler, 2005; Byrne, 2006; Brown, 2006), in which the nomological validity of the theoretical model of brand management and innovation 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 & 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
H ₁ : The higher level of brand management, higher level of innovation.	Brand M. → Innovation	0.465***	4.526

$$S-BX^2 (df = 261) = 1,056.722; p < 0.000; NFI = 0.909; NNFI = 0.913; CFI = 0.930; RMSEA = 0.079$$

*** = $P < 0.01$

Table 3 shows the results obtained in the implementation of the second-order structural equations modeling. Regarding the research hypothesis H_1 ($\beta = 0.465$, $p < 0.01$), the results indicate that brand management has positive, significant effects in innovation. With this, it is possible to establish that the brand management adopted and implemented by small business will have positive, significant effects in the different innovation activities. Therefore, it can be concluded that the brand management of products or services of small business, have a positive effect in the innovation of products, processes and management systems.

4 Discussion

The results obtained in this empirical research have some implications that are necessary to clarify. The first one is that the brand management of products or services created by small business requires from managers and/or owners to have the intellectual copyrights of their commercial brands. If they do not register their brands then all the efforts to administer adequately the brand of their products or services may water down, because other enterprises and even their main competitors may copy or imitate their products or services with a similar brand name. This could create lower levels of business performance for small business, as well as jeopardize their survival in the market where they participate.

A second implication obtained from these results is that brand management of products or services does not have to be considered only as a business strategy inside small business, but rather as a series of daily activities that are part of the working actions that must be carried out by all the staff of the enterprises. Moreover, managers, who are normally the owners of the company, have to involve all the functional departments or areas of the organization in the management activities, so all employees and workers develop their working activities around the brand management, as this will allow them to obtain a higher level of innovation of their products or services.

A third implication of the results obtained is that managers of small business will have to design and implement all the necessary training programs so their workers and employees, and even executives, have the necessary knowledge, skills and tools demanded by brand management as well as innovation. 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 innovation, not only to obtain better business results but also to survive and continue in the market

in which they are currently participating.

A fourth implication of the results obtained is that managers and/or owners of small business will have to create an adequate organizational environment, so all the activities related to brand management and innovation of products or services of small business can be implemented and developed, as well as possible in order to eliminate gradually the reluctance that some employees or workers may have. Instead of this, the idea is to create a working environment of collaboration with a proactive attitude towards the activities needed for the brand management and innovation, otherwise it will be too complicated for small business to have an efficient and effective brand management as well as to develop new products or services, or carry out modifications or improvements to the existing products or services.

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 and medium size enterprises 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). Further researches will need to apply the same questionnaire to other small companies in other states of the country, and even other countries of the region in order to verify if the results obtained are similar.

A third limitation are the scales used to measure brand management and innovation as it used only a scale of 4 dimensions with 19 items to measure brand management, and a scale of 3 dimensions with 7 items to measure innovation. Following investigations might ponder the use of a different scale for the measurement of brand management and innovation to confirm if the results obtained have or not significant differences. A fourth limitation is that only qualitative variables were considered to measure brand management and innovation, so in future investigations it will be necessary to use hard data or quantitative variables to prove the results obtained.

A fifth limitation is that the instrument applied only considered managers and/or owners of small business. This created the assumption that these executives have a deep understanding about brand management activities and the innovation carried out in their enterprises. Future research papers will need to apply the same questionnaire to employees or consumers, in order to confirm if the results obtained have or not significant differences. Finally, the last limitation is that several small business 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 and innovation.

5 Conclusions

The results obtained in this empirical research allow us to conclude in three main aspects. Firstly, the brand management of products or services offered by small business is an essential business strategy, so this type of organizations can obtain better business results. Consequently, it is possible to conclude that the brand management of products and services from small business should not be considered only as another business strategy of the organization, but rather as part of the daily activities that small business have to carry out, otherwise the managers of small companies will have serious problems in order to obtain the benefits that provide the intellectual copyright of the brand of their products or services.

Secondly, it is possible to conclude that managers and/or owners of small business, who administer adequately the brand of their products or services, will have to register the commercial brand or brands of the organization. This action will enable the market launch of the same brand in other markets where they decide to participate, as well as to obtain the different benefits produced by the intellectual copyright of their brands. Thus, the brand of the products or services of small business can have a higher ranking among consumers, which will allow both clients and consumers to prefer buying the products or services of the brand of their enterprises instead of the ones of their main competitors.

Thirdly, it is possible to conclude that a good brand management of products or services created by small business requires from executives to adopt and implement innovation activities, not only of the products or services manufactured by the organization, but also the processes and management systems since the current trend of the market is that consumers need every time newer and better products or services. Therefore, an efficient and effective brand management of products or services will allow organizations, specifically small ones, to have higher probabilities of attaining more and better competitive and sustainable advantages, as well as to increase significantly their innovation activities for their products, processes and management systems.

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