

# Marketing first? The role of marketing capability in SME growth

Role of marketing capability

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## Abstract

**Purpose** – This paper aims to examine the growth rates of small- and medium-sized enterprises (SMEs) over a three-year period, the relationship between firm size and firm growth in the context of SMEs, and the effect of marketing capability (MC) on firm growth and how it relates to firm size. The theoretical framework is based on the resource-based view and dynamic capabilities.

**Design/methodology/approach** – Data were gathered from Finnish SMEs ( $n = 214$ ) and analyzed with Latent growth curve modeling (structural equation modeling). Respondents were chief executive officers or company owners.

**Findings** – Results show that firm size is unrelated to the rate of change, and MC has a significant effect on both the intercept and slope parameters. Smaller SMEs have less MC than larger SMEs.

**Practical implications** – While the overall human resources level of the SME is not linked to the rate of growth, MC is. This is an important point for small business growth studies, for it shows what type of personnel is called for during rapid growth. SMEs could advance significantly and rapidly if they invest in versatile human capital, especially in the marketing area.

**Originality/value** – Majority of the MC research involves larger corporations. This study brings new insights from SME perspective. In addition, this study suggests that it is imperative to consider different types of growth separately. This study contributes to this need by demonstrating the connection between employee growth rate and MC in SMEs.

**Keywords** SME, Firm growth, Marketing capability

**Paper type** Research paper

## 1. Introduction

Small- and medium-sized enterprises (SMEs) have a major role in society based on their contribution to value creation and employment. The OECD (2017) calculates that SMEs within the OECD area contributed around 45% of total employment and 33% of GDP, which indicates how the growth of SMEs creates new jobs and well-being in the region. Growth is also important to the survival of small firms (Coad *et al.*, 2013; Rauch and Rijskik, 2013). Together these factors make SME growth a core topic in entrepreneurship research. Growth can be defined as increase in a firm's size over a set timespan (Chandler, 1962; Nason and Wiklund, 2018; Dobbs and Hamilton, 2007). In this study, we focus particularly on the rate of



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growth in terms of employee growth, and the role of firm size and marketing capability (MC) in the growth process.

The theoretical frameworks most often applied in firm growth research are resource-based approaches (Nason and Wiklund, 2018). The majority of growth research is based on the theories of Penrose (1959) and the resource-based view (RBV) of Barney (1991) and Wernerfelt (1984), who all see a firm's resources as a means to succeed in a competitive environment. The RBV focuses on valuable, rare, inimitable and non-substitutable (VRIN) resources, whereas Penrose (1959) directs attention to the versatility of the resources (Nason and Wiklund, 2018). In essence, the RBV offers an efficiency-based explanation of sustained superior organizational performance (Barney and Clark, 2007), building upon the idea that the resources and competencies inherent in the organization determine its success (Otola *et al.*, 2013). However, due to its focus on long-term competitive advantage, the RBV often proves unrealistic in rapidly changing markets (Eisenhardt and Martin, 2000). An approach more attuned to change is the dynamic capabilities view (DCV), which considers the processes of opportunity sensing and seizing, as well as the processes of strategic renewal (Augier and Teece, 2009). Teece *et al.* (1997) define dynamic capabilities as the "ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments" (p. 516), but dynamic capabilities have also been described as merely higher-level routines (Zollo and Winter, 2002; Adner and Helfat, 2003). There is broad agreement among researchers that dynamic capabilities are internal capabilities used for changing core capabilities through the operation of internal and external resources (Nagano, 2020). Dynamic capabilities not only increase a firm's opportunities to survive but also provide organizations with the potential for growth (Helfat *et al.*, 2007; Kuuluvainen, 2012).

In this study, we base our understanding of firm growth on both the RBV and dynamic capability views. The rate of change and innovation has increased in recent years, and this change of pace makes it all the more important for growth-oriented SMEs to be able to build their capabilities quickly. Digitalization has transformed the value-creation logic of firms and made some resources such as digital technology, innovation management and employee skills even more important than before (Eller *et al.*, 2020; Estensoro *et al.*, 2021). This also necessitates increasing the human capital within the firm. Accordingly, in this study, we use the number of employees in the measurement of SME growth. To develop routines that produce superior performance, as well as to sense and grasp opportunities in globalizing markets, human resources are needed; accumulated employee knowledge and skills constitute key elements of capabilities. This is especially vital in SMEs, which are usually considered to be more resource constrained than larger firms (Anderson and Eshima, 2013). In addition, focusing on employee growth is important from the perspective of inclusive growth. SMEs have great potential as drivers of inclusive growth through job creation, which creates prosperity for the whole region (Koirala, 2019). As turnover rate is the most used indicator in the growth studies (Sorama and Joensuu-Salo, 2022), this research adds to knowledge by using employee growth as a dependent variable instead of turnover growth, and thus contributes to both growth and MC research.

This study concentrates on one specific capability – MC – and examines its effect on SME growth rates. MC in the context of SMEs is viewed as a quasi-dynamic capability, with both operational and dynamic aspects. The impact of MC on performance has been demonstrated (Krasnikov and Jayachandran, 2008), but the relationship between MC and SME growth rate is an under-researched area. O'Cass and Sok (2014) argue that to achieve growth in competitive markets, an SME must be able to market its products and services; hence, MC is a crucial determinant of growth. We contribute to SME growth

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research by showing how MC and firm size are related, and how MC explains the growth rates of SMEs. In addition, we explore the relationship between firm size and SME growth rates, using the number of employees as a measure of size. Prior research has examined the antecedent factors and consequences of growth; however, it is more difficult to understand the growth patterns and manners in firm growth (McKelvie and Wiklund, 2010; Leitch *et al.*, 2010). In this study, we explore the growth rates and slopes of SMEs over a three-year period on the individual firm level and explore how the initial firm size affects the growth rate.

## 2. Theoretical framework

### 2.1 Firm growth

Growth is an important factor for ensuring survival among small firms (Coad *et al.*, 2013; Rauch and Rijskik, 2013). However, the majority of the developed growth theories have emerged from the context of large firm growth (Davidsson *et al.*, 2010). Hence, it is important to understand what constitutes growth for a small firm, that is, what factors affect the antecedents of growth, the growth processes and the consequences of growth in small businesses. Prior research has widely explored growth strategies, growth intentions and the antecedents of growth, but the growth process itself has received less attention (Achtenhagen *et al.*, 2010). Firm growth has usually been addressed through stages theory or organizational life cycle models – however, today the emphasis is more on the multidimensional concept of firm states instead of linear growth stages (Ingley *et al.*, 2017).

One of the early researchers in the area of firm growth was Penrose (1959), whose ideas on resources and capabilities had a major impact on the theories of firm growth. Nason and Wiklund (2018) show through a meta-analysis that the insights of Penrose are still valid; versatile resources have a stronger effect on firm growth than resources that are non-versatile.

In addition to a firm's resources and capabilities, several other factors affect firm growth. Wiklund *et al.* (2009) identified factors on three levels explaining firm growth. These were variables relating to the agent level (attitudes and human capital), firm level (resources) and setting level (industry). On the agent level, an entrepreneur's educational background and experience (Bosma *et al.*, 2004; Barringer *et al.*, 2005) are relevant determinants of firm growth in addition to growth aspiration (Delmar and Wiklund, 2008) or motivation, which is important, especially in SMEs (McKelvie and Wiklund, 2010; Baum and Locke, 2004; Wiklund and Shepherd, 2003). On the firm level, firm size (Bentzen *et al.*, 2012), firm age (Federico and Capelleras, 2015), management capabilities (Penrose, 1959) and strategic orientations of a firm such as innovation orientation (Stenholm *et al.*, 2016) are linked with firm growth. Dwyer and Kotey (2016) summarized the markers of high growth firms and found that psychological factors (e.g. risk-taking), strategic orientation (e.g. customer, market and export orientation) and organizational characteristics (e.g. management structure and human capital) are linked with high firm growth. However, new ideas of firm growth have emerged; for example, Cyron and Zoellick (2018) argue that firm growth is affected by resource scarcity in post-growth economies of the digital era and that intelligent management of this scarcity is important. Especially in this new era, individual digital capabilities are relevant in relation to SME growth and innovation performance (Scuotto *et al.*, 2021). In addition, Serrasqueiro *et al.* (2021) identify both endogenous factors such as resources, firm size and age and exogenous factors such as the macro-economic environment, GDP and interest rate, as possible determinants of SME growth.

Delmar *et al.* (2003) proposed seven types of growth:

- (1) absolute growth in employment and sales;
- (2) growth in sales but negative growth in employment;
- (3) growth through acquisition;
- (4) super relative growth;
- (5) positive growth on average but negative growth in terms of absolute sales;
- (6) growth in employment but negative growth in absolute sales; and
- (7) high growth.

For small firms, the phenomenon of growth is heterogeneous (Wright and Stigliani, 2013). Achtenhagen *et al.* (2010) identified several indicators of firm growth: increase in sales, increase in the number of employees, increase in assets, increase in profit, increase in the firm's value and internal development. However, the most used ones in prior research are an increase in sales (turnover) and an increase in employee numbers (Delmar *et al.*, 2003; Achtenhagen *et al.*, 2010). In this study, we explore firm growth over three years using the number of employees as an indicator.

Prior research has identified the effect of firm size on firm growth (Daunfeldt and Elert, 2013; Bentzen *et al.*, 2012; Hamilton, 2010), but there is no consensus on whether small firms grow faster than the larger ones or if firm size is unrelated to the rate of growth (Reid and Xu, 2012). Some prior studies identify a positive relationship between firm size and growth, while others conclude a negative relationship (Serrasqueiro *et al.*, 2021).

More research exploring the effect of firm size among SMEs in particular would be required, and the current research contributes by offering new knowledge on the effect of firm size on growth in the context of SMEs. It is clear that smaller SMEs tend to have fewer resources and, owing to having fewer employees, it is logical to expect them to be able to devote less time to developing their capabilities. Therefore, we expect that the smaller SMEs have fewer resources and capabilities than larger SMEs, which can affect the growth rate of the firm. We therefore propose the following hypothesis:

*H1.* The size of a firm size relates to its growth rate.

### *2.2 Marketing capability in small- and medium-sized enterprises*

Definitions of marketing capabilities vary considerably (Angulo-Ruiz *et al.*, 2018). We adopt the definition of O'Cass and Sok (2014), who define MC as "bundles of interrelated routines used to engage in specified marketing-related activities." The same study argues that resources are distinct from capabilities. The former are depicted as accumulated tangible assets that can be quantified and intangible assets embedded in the firm's culture that can be protected, and the latter as bundles of interrelated routines. According to the DCV, a firm's capabilities can be divided into two broad categories, namely, operational capabilities, which maintain and leverage the present, and dynamic capabilities that can effect change in the firm's existing resources and strategy (Schilke *et al.*, 2018). Marketing capabilities appear to include some features of both, although the literature primarily treats them as operational or ordinary capabilities, as they are not inherently aimed at effecting change. Nevertheless, successful marketing calls for adaptation; dynamic marketing capabilities involve market learning, resource reconfiguration and capability enhancement (Morgan, 2012).

Day (1994) sorts marketing capabilities into three categories based on the orientation of the processes they are connected to: inside out, outside in and spanning capabilities. For market-driven organizations, market sensing, customer linking and channel bonding capabilities are deemed crucial, with market sensing, in particular, being highlighted as a distinctive capability. Augier and Teece (2009) divide dynamic capabilities into three classes: the capability to sense opportunities; the capacity to seize opportunities; and the capacity to manage threats through the combination, recombination and reconfiguring of assets inside and outside of the firm's boundaries. The (dynamic) sensing capability involves scanning and monitoring the environment and reviewing and detecting the effect of changes to it (Rashidirad and Salimian, 2020). In Morgan's (2012) framework, MC is correspondingly presented as partly dynamic.

According to O'Cass and Sok (2014), firms must possess marketing capabilities to leverage resources. Here, resources are viewed as inputs and distinguished from capabilities that enable the effective deployment of inputs (Kraaijenbrink *et al.*, 2010). Their size means SMEs have natural constraints to the capabilities and resources available to them. There is widespread acceptance of the notion that small firms have inherent weaknesses regarding marketing awareness and practice (Möller and Anttila, 1987; Murdoch *et al.*, 2001; Marcati *et al.*, 2008; Walsh and Lipinski, 2009). Marketing in SMEs is often characterized by a lack of resources, coherence and expertise (Gilmore *et al.*, 2001; Cacciolatti and Fearn, 2013), and SME entrepreneurs have been found to be skeptical about marketing practices (Massiera *et al.*, 2017) or even, as Marcati *et al.* (2008) find, to make simplistic and haphazard marketing decisions owing to the lack of marketing knowledge. Marketers within SMEs may have a strong customer orientation but not necessarily a deeper understanding of marketing (Murdoch *et al.*, 2001). A larger firm is more likely to possess both the resources to support specialized marketing staff and the strategic managerial insight to see the necessity of doing so. Jeng and Pak (2016), whose measure for marketing capabilities is advertising expenditure, also find that in small and medium firms, MC adversely affects performance, suggesting that investment in marketing reduces expenditure on innovation while failing to deliver sufficient results to compensate for the loss in innovation capability. In a similar vein, Vorhies *et al.* (2011) argue that focus on marketing exploration may divert resources from exploitation, which can adversely affect capabilities. For SMEs operating under resource constraints, more investment in one capability means less investment in another. This suggests larger firms are more able to profit from their MC. Furthermore, a larger firm has at its disposal more human resources and hence is better placed to develop successful "bundles of interrelated routines." These considerations lead us to hypothesize that larger SMEs have higher levels of MC:

*H2.* There is a positive relationship between firm size and MC.

The positive relationship between various aspects of marketing capabilities and performance has been extensively reported in the past, both directly and indirectly (Hooley *et al.*, 1999; Vorhies and Morgan, 2005; Vorhies *et al.*, 2011; O'Cass *et al.*, 2012; Tho, 2018; Ren *et al.*, 2015; Qureshi and Kratzer, 2011; Blesa and Ripolles, 2008; Sun *et al.*, 2019; Krasnikov and Jayachandran, 2008). Patel *et al.* (2021) show that MC has a positive effect on new venture survival, and Reijonen and Komppula (2010) present a qualitative study demonstrating that SMEs themselves view marketing capabilities as success factors. A few studies indicate a negative relationship between marketing capabilities and performance, but this may be due to the measures selected; for example, Ramanathan *et al.* (2016) apply a secondary measure that differs conceptually from the mainstream literature.

O’Cass and Sok (2014) establish a connection between subjectively measured growth and matching levels of resources and capabilities in SMEs. In the present study, we examine the connection between capabilities and growth rate in SMEs, measured by growth in the number of employees. Although the impact of marketing capabilities on firm performance has been extensively studied with various performance measures (Kamboj and Rahman, 2015), as far as we are aware this is the first study to specifically test the impact of MC on the growth rate of SMEs, as measured by growth in the number of employees. Morgan *et al.* (2009) show a connection between marketing capabilities and firm profit growth. Foroudi *et al.* (2017) have provided some qualitative evidence on the impact of marketing capabilities on an SME’s growth, especially when leveraged by digital technology. Sudirman *et al.* (2020) showed that different kind of capabilities associated with marketing can contribute to turnover and growth. Considering the multi-faceted but well-established positive relationship between marketing capabilities and firm performance, we believe that a firm with strong marketing capabilities is better positioned to grow than a firm with weak marketing capabilities. Further, we propose that stronger marketing capabilities enable firms to grow faster and that strong marketing capabilities are thus reflected in higher growth rates:

H3. MC has a positive relationship with a firm’s growth rate (employee numbers).

### 3. Data and methods

#### 3.1 Data description

Our data was gathered from Finnish limited companies from the South Ostrobothnia region that met the SME criteria (staff headcount under 250; turnover not over €50m; balance sheet total not over €43m (European Commission, 2022)). First, 1,005 SMEs were identified from the Finnish Voitto+ database. A Web-based survey was sent for the attention of the chief executive officers of those SMEs between September 2019 and January 2020. We received 102 responses, after which, follow-up telephone calls raised the responses to 306, a response rate of 30.5%. However, 64 observations were deleted from the data for the following reasons:

- financial information for three years was not available;
- no information available to identify the company or duplicated answers; and
- missing values. The final sample for the study consists of 214 firm responses.

Table 1 presents the background information on the companies. The companies were engaged in the following industries: commerce 13%, manufacturing 37.4%, services 42.7% and construction 7.1%. The firms employed between one and 209 employees, and the annual turnover ranged from €21,000m to €85m.

#### 3.2 Variables

Growth was measured by staff growth over three years. The data for the number of employees for each firm were accessed from the Voitto+ database for three consecutive years (2016; 2017; 2018). The number of employees was changed to a natural logarithm (ln) due to the non-normality of employee size (Hoque and James, 2000). Firm size was measured with this same value (ln size) from 2016 (the initial state).

In line with the processes of O’Cass and Sok (2014), MC was measured with a nine-item scale adapted from Vorhies and Morgan (2005). A seven-point Likert scale was used anchored with *much worse than competitors* (1) and *much better than competitors* (7).

**Table 1.**  
Data description

	Percentage
<i>Industry</i>	
Commerce	13%
Manufacturing	37.4%
Services	42.7%
Construction	7.1%
<i>Firm size</i>	N/value
Range	1–209
Mean	14.8 (sd 23.25)
Median	6.0
<i>Annual turnover</i>	Euros
Range	21,000–85m €
Mean	€320 900
Median	€896,700

### 3.3 Initial analysis

First, exploratory factor analysis was used to examine the MC scale. The Kaiser–Meyer–Olkin (KMO) measure indicated the suitability of the data for the factor analysis (KMO 0.90). Principal axis factoring was used. One factor with an *eigen* value of greater than one was extracted, which explained 55% of the variance. Table 2 presents the communalities and factor loadings of the items used. The first item had low communality (0.144) and relatively low factor loading (0.379) and was thus omitted from the final scale. After omitting the first item from the scale, the factor explained 65% of the variance. Thus, the final scale consisted of eight items with a Cronbach’s alpha of 0.93, which indicates high internal consistency and reliability for the scale based on Nunnally’s (1978) recommendations.

Convergent validity was further examined with composite reliability (CR) and average variance extracted (AVE). All the factor loadings were high enough (above 0.60) after omitting the first item, CR (CR 0.91) was greater than 0.70 as recommended by Hair *et al.* (2010), and AVE (AVE 0.60) greater than 0.50 as recommended by Fornell and Larcker (1981). Thus, convergent validity for the scale was good.

Table 3 presents the minimum and maximum values, mean values, standard deviations and correlations for the study variables. As can be seen from Table 3, firm size correlates with MC, and naturally firm size in one year have strong correlations with firm size in other years.

**Table 2.**  
Communalities and  
factor loadings of MC  
items

Our firm’s marketing activities, compared to our major competitors, in terms of . . .	Communalities	Factor loadings
MC1: Doing an effective job of pricing products/services has been. . .	0.144	0.379
MC2: Test marketing of new products/services has been. . .	0.445	0.667
MC3: Launching new products/services has been. . .	0.546	0.739
MC4: Attracting and retaining the best distributors have been. . .	0.488	0.698
MC5: Developing and executing advertising and promotion programs have been. . .	0.689	0.830
MC6: Sales management has been. . .	0.584	0.764
MC7: Analyzing market information has been. . .	0.562	0.750
MC8: Developing creative marketing strategies has been. . .	0.744	0.863
MC9: Translating marketing strategies into action has been. . .	0.761	0.873

3.4 Latent growth curve modeling

Latent growth curve modeling is one application of structural equation modeling (SEM). It is designed to examine individual change patterns with intra- and inter-individual variations (Byrne, 2010). The method enables the estimation of growth trajectories on an individual level, and in this research, on a firm level. McArdle and Nesselroade (2003) emphasize that one of the advantages of the method is that it allows researchers to estimate both the initial state and the growth rate with two parameters; the intercept parameter and the slope parameter. The intercept parameter measures the initial state, and the slope parameter measures the rate of change (Byrne, 2010). In this research, the intercept mean represents the firm size in 2016 (the initial state for the study), and intercept variance makes it possible to examine the differences in the initial state. The slope factor represents the firm’s rate of growth (slope mean), and the differences between firms in the growth trajectories (slope variance). Factor loadings were fixed to correspond to the three-year linear time scale as recommended by Byrne (2010).

When conducting SEM, a sufficient sample size is important. According to Mitchell (1993), there should be at least 10 times as many observations as variables in the model. Based on this recommendation, our sample size was sufficient for using SEM (8 variables in the first model, 11 variables in the second model,  $n = 214$ ). As Byrne (2010) suggests, several model fit indices should be used when evaluating the model fit. We used the following fit indices for assessing the specified model fit based on the recommendations of Shevlin and Miles (1998), Byrne (2010), and Steiger (2007); root mean square error of approximation (RMSEA) values less than 0.08, normed fit index (NFI) values greater than 0.95, Tucker-Lewis index (TLI) values greater than 0.95, comparative fit index (CFI) values greater than 0.95 and minimum discrepancy/degrees of freedom (CMIN/DF) values less than three. In addition, chi-square should be non-significant for a good model fit.

4. Results

First, the estimates of growth parameters were examined. The results of the linear model are presented in Table 4. The estimated mean for the intercept is 1.834, which is the mean estimate for firm size (ln) at the beginning of the study. The mean estimate for the slope mean is 0.045, which indicates a positive and a significant ( $p < 0.001$ ) growth rate. However, the initial level is unrelated to the rate of change, as the covariance between the initial state and growth rate was not significant ( $0.009$ ;  $p = 0.482$ ). The variance related to intercept is significant ( $1.446$ ;  $p < 0.001$ ), which indicates that firms differ in size at the beginning of the study (the initial state in 2016). The variance related to slope is also significant ( $0.016$ ;  $p < 0.001$ ). This indicates that firms have different growth trajectories. The model fit indices are excellent for the tested model (CMIN/DF 0.211, NFI 1.000, TLI 1.004, CFI 1.000, RMSEA 0.000, Chi-square 0.633 with non-significant p-value of 0.889).

**Table 3.**  
Descriptive values  
and correlations for  
study items

Variable	Minimum	Maximum	Mean	SD	1	2	3
1: MC	1.13	7.00	4.1474	1.22338			
2: Size (ln) 2018	0.00	5.34	1.9239	1.25140	0.273***		
3: Size (ln) 2017	0.00	5.27	1.9612	1.18748	0.274***	0.985***	
4: Size (ln) 2016	0.00	5.25	1.8879	1.18018	0.239***	0.967***	0.982***

**Note:** \*\*\* $p < 0.001$



Table 4.

Growth parameters of the linear model

	Estimate	S.E.	C.R.	P
<i>Means</i>				
ICEPT	1.834	0.083	22.084	***
SLOPE	0.045	0.011	4.100	***
<i>Covariances</i>				
ICEPT ↔ SLOPE	0.009	0.013	0.704	0.482
<i>Variances</i>				
ICEPT	1.446	0.142	10.163	***
SLOPE	0.016	0.003	6.051	***
E1	0.016	0.002	9.462	***
E2	0.016	0.002	9.462	***
E3	0.016	0.002	9.462	***

Note: \*\*\* $p < 0.001$

The results of the growth parameters do not support *H1*. Firm size is not related to a firm's growth rate. The results show that the firms in our data differ in their size in the initial state (the year 2016), and the firms' growth rates also differ. However, a firm's initial size is not related to the firm's growth rate indicating that smaller firms do not grow faster than larger firms nor do larger firms grow faster than smaller firms. Based on prior research, this was not expected. However, it should be noted that all of our firms in the data are SMEs, which could have affected the results.

Next, the effect of MC on the latent growth curve was examined. MC was used as a firm covariate in the model. Figure 1 presents the model with standardized regression weights. MC has a significant effect on both the intercept and the slope parameters (*standardized regression weights for both parameters 0.24,  $p < 0.001$* ).

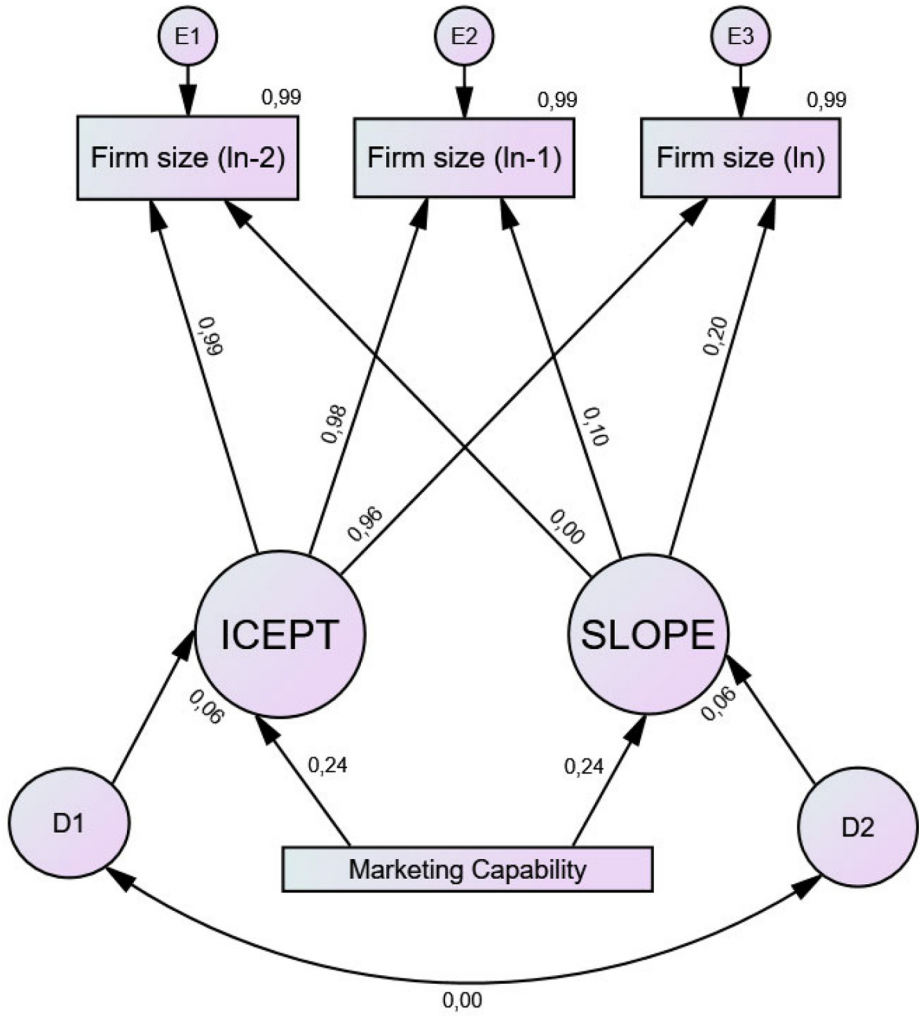
The mean value for MC is 4.2, and firms differ significantly in MC ( $p < 0.001$ ). The estimates of growth parameters of the linear model are presented in Table 5. MC has a significant effect on the intercept parameter ( $0.234, p < 0.001$ ) and on the slope parameter ( $0.025 p < 0.01$ ). The fit indices for the model are excellent (*CMIN/DF 0.834; NFI 0.997; TLI 1.001, CFI 1.000; RMSEA 0.000; Chi-square 3.338 with non-significant  $p$ -value of 0.503*).

The results indicate that in the initial state, larger SMEs have greater MC than smaller SMEs, a finding that supports *H2*; MC has a positive relationship with firm size. MC has a significant effect on a firm's growth rate; thus, MC has a positive relationship with firm growth, a finding that supports our third hypothesis. We performed an additional analysis by testing the model separately in the manufacturing and service sectors (construction and commerce had insufficient responses). The main results did not differ between the industries, so we conclude that the findings are not industry dependent.

## 5. Discussion

The objective of this research was to examine the growth rates of SMEs over a three-year period, the relationship between firm size and firm growth in the context of SMEs, and the effect of MC on firm growth and its relatedness to firm size.

Prior research on firm size and growth suggests that either small firms grow faster than larger firms do (Daunfeldt and Elert, 2013), or larger firms have higher growth rates than do smaller firms (Bentzen et al., 2012); thus, no consensus has been found. The results show



**Figure 1.**  
MC effect on the latent growth curve of firm size (standardized regression weights)

**Table 5.**  
Estimates of growth parameters with MC

Path	Estimate	S.E.	C.R.	P	Standardized regression weight
ICEPT ← MC	0.234	0.066	3.543	***	0.238
SLOPE ← MC	0.025	0.009	2.772	**	0.241

**Note:** \*\* $p < 0.01$ ; \*\*\* $p < 0.001$

that SMEs' growth rates differ – some firms have high growth rates when other firms find growth challenging – but the initial size was not related to the growth rate of an SME. Hence, the results show that in the context of SMEs, firm size is not an important determinant of firm growth. It seems that [Gibrat's \(1931\)](#) law suits the context of SMEs, as it states that the size of a firm is independent of its growth rate. It may be that when large corporations and SMEs are compared, firm size can explain the growth rates of firms, but within the category of SMEs, firm size in itself does not appear to be a relevant factor explaining firm growth.

MC however does explain SME growth. Firms with a stronger MC grow at a higher rate than firms with a weak MC. This supports the findings and arguments of [Morgan et al. \(2009\)](#) who established that marketing capabilities are linked to profit growth rates, and [O'Cass and Sok \(2014\)](#), who showed that MC is a crucial determinant of growth. However, [O'Cass and Sok \(2014\)](#) measured growth using a subjective evaluation by the respondent concerning growth in sales revenue, increase in customer satisfaction, growth in profitability and exceeding financial goals. [Wall et al. \(2004\)](#) state that subjective measures are not absolute but rather relative. This research verifies, using the objective measure of employee growth, that MC is a significant factor explaining the growth of SMEs.

Our results also show that MC has a positive relationship to firm size. This means that smaller SMEs have a weaker MC than larger SMEs. This supports the results of [Ates et al. \(2013\)](#) stating that SMEs struggle with resources and are more focused on internal and short-term planning rather than paying attention to long-term planning. Small firms operate with even more limited resources than medium-sized firms, which can affect their ability to build MC. However, our results also show that if a small firm has strong MC, that has a positive effect on its growth rate. Therefore, building MC is crucial if an SME is seeking growth.

[Table 6](#) presents the summary of our hypotheses and results.

## 6. Conclusions

This study examined the relationship between MC and growth rate in the context of SMEs. The results show that larger SMEs have stronger marketing capabilities than smaller ones. As [Eggers \(2020\)](#) state, SMEs in general face a liability of smallness, which means less resources, and makes them more vulnerable to internal and external events. Smaller the firm, lesser are the resources. The result of larger SMEs having stronger marketing capabilities may relate to the fact that MC involves several different routines and forms of knowledge. A small firm with fewer personnel is less likely to possess well-developed capabilities in all the facets of MC: it may, for example, excel in sales management but barely manage when it comes to analyzing market information. Creating and developing effective bundles of routines, that is, capabilities call for human resources and larger firms, by definition, possess greater human resources. It is worth noting, however, that the number of personnel does not necessarily reflect the resources possessed by a firm. A firm may have excellent financial resources, and yet choose to channel its growth through the use of external human resources. Such a firm would appear resource poor although, in reality, it is

Hypothesis	Result
H1. The size of a firm size relates to its growth rate	Not supported
H2. There is a positive relationship between firm size and MC	Supported
H3. MC has a positive relationship with a firm's growth rate	Supported

**Table 6.**  
Summary of the results

not. Accordingly, growth in sales or profit does not always translate into an increase in resources or capabilities. From the perspective of the RBV and DCV, it is therefore imperative to consider different types of growth separately. Our study contributes to this need by demonstrating the connection between employee growth rate and MC in SMEs. This is especially important in SMEs, as individuals can serve as micro-foundations of growth, and individual-level components such as knowledge, experience and values are important building blocks of the firm (Scuotto *et al.*, 2021) – thus, this leads to the conclusion that employee growth is vital for SMEs in increasing the heterogeneity of the skills and capabilities of the firm. This research contributes to prior growth research by showing how MC can enhance employee growth, which in turn has long-term effects on vitality of SMEs.

Another important aspect of the results is that while the overall human resources level of the SME (i.e. the initial number of employees) is not linked to the rate of growth, MC is. This is an important point for small business growth studies, for it shows what type of personnel is called for during rapid growth. If the number of employees is small, it is important that their skills are versatile, and that MC is emphasized in developing the routines and practices of the firm. MC is linked to the capacity of the firm to grow in terms of staff, which in turn can lead to the development of all capabilities. An SME aiming for rapid growth should therefore specifically consider the development of its MC. In addition, it should be noticed that prior research has also demonstrated the importance of individual digital capabilities in terms of SME growth (Scuotto *et al.*, 2021); thus, combining digitalization and information technology to routines and practices of MC will more probably lead to growth and performance. The results of this research are also in line with the findings of Bobelyn *et al.* (2021). Firms that focus on marketing activities, and therefore possess higher marketing capabilities, receive higher valuations at acquisition than others. Thus, MC is crucial for SME growth, but also for valuation.

The finding is interesting also in terms of the relationship between marketing and entrepreneurship. Both can be viewed as fundamental philosophies of seeing and responding to business opportunities, and the concept of entrepreneurial marketing (EM) has gained wide attention across scholars (Kraus *et al.*, 2012; Lopes *et al.*, 2021). Indeed, our study can be loosely associated with the EM resources and capabilities cluster identified by Most *et al.* (2018). Our research suggests that marketing and growth, which is in the core of seizing entrepreneurial opportunities, are strongly linked in practice in SMEs. This may also relate to firm's entrepreneurial orientation (EO), the different dimensions of which can have different effects on SME performance and growth (Sorama and Joensuu-Salo, 2022). Within EM, extensive research has considered the interplay of EO and market orientation (Montiel-Campos, 2018), but growth as the outcome has been overshadowed by more general business performance measures. In future research, the interplay of MC and EO in terms of employee growth could be examined.

For a small firm allocating resources to certain objectives usually means starving some others. These trade-offs merit consideration, especially in a growth-oriented firm. Marketing investment may reduce innovation expenditure leading to sub-optimal results (Jeng and Pak, 2016), or a focus on marketing exploration may divert resources from exploitation, with adverse consequences for capabilities (Vorhies *et al.*, 2011). Rahmandad (2012) suggests that short-term growth pressure may lead to prioritizing operational capabilities over dynamic capabilities, with effects that only become visible subsequently. It is a limitation of our study that we have not been able to observe the development of MC and its interaction with growth over time. Future studies that could do so would help establish the long-term impact of MC. The main practical implication concerns the need to strengthen the role of MC in SMEs and especially in smaller SMEs. We propose that SMEs could advance significantly

and rapidly if they invest in versatile human capital, especially in the marketing area. When resources are scarce, it is crucial that marketing professionals are multi-skilled and possess up-to-date marketing competencies. In the new digital era, marketing professionals need digital skills, for digital technologies can be used in optimizing different processes related to MC to increase efficiency and reduce costs (Verhoef *et al.*, 2021). Digitalization can enhance market learning and resource reconfiguration. If a firm has no option to employ new skilled staff, it should ensure that the existing staff possess the required up-to-date expertise in marketing. The tacit knowledge internal professionals possess can have a significant contribution to the success of marketing processes (Zebal *et al.*, 2019). The skills and competences of professionals need to be continuously developed if they are to produce valuable contributions to a firm (Wong, 2005). Human resource management practices are the primary means by which firms can influence the skills of individuals. Hence, firms should also scrutinize their human resource development practices.

Our study is also limited in that we cannot definitively establish directionality in the relationship between growth rate and MC. O'Casey and Sok (2014) present evidence that in terms of growth, high levels of resources cannot compensate for weak capabilities, nor can strong capabilities compensate for a lack of resources. Read in conjunction with our results, this would suggest that larger SMEs with stronger marketing capabilities are better able to leverage their greater resources into more rapid growth rates, but also that strong marketing capabilities are paramount.

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