

# Do Accreditation, Brand Equity and Loyalty Affect Small Medium Enterprise Performance?

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The Malaysian government has placed serious attention on Small Medium Enterprises (SMEs) development by outlining relevant policies, incentives and continuously strengthening the framework that addresses their developmental needs. Consequently, this conceptual paper aims to study the discovery of the essentials of accreditation, brand equity, loyalty, and SME performance. This study is vital to SME development, especially to the entrepreneur or owner of the business entity, and acts as guidance for them to analyze and benchmark themselves in terms of market positioning and their global market readiness. Prior the components of key performance measurement technique for SMEs were the focus from the financial aspect of revenue and profit and loss as determined in the literature review. Thus, this research advanced existing understanding regarding the essential of accreditation, brand equity, loyalty, and SME performance. This extends beyond SME performance in the Malaysian context. Future research is also recommended.

**Key words:** *Accreditation, Brand Equity, Loyalty, Performance, Small Medium Enterprise.*

## Introduction

Small medium enterprises (SMEs) comprises up to 95% of the world's firms (International Trade Centre, 2015). The International Labor Organization suggests: "...there are 420 to 510 million SMEs worldwide, of which 9 per cent are formal SMEs (excluding micro-enterprises)". The benefits and roles play by SMEs in creating job opportunities and spurring invention and growth up the entrepreneurial skills have been officially recognized (National Credit Regulator, 2011, p.7). In the Malaysian context, SMEs become the major contributor toward GDP in Malaysia's economy (Department of Statistic Malaysia, 2014). Figure 1 below indicates positive growth of SME performance from 2005 to 2013.

**Figure 1.** Department of Statistic Malaysia (2014)



There is no standardized meaning of SME, each country practices a different definition and values diverse characteristics. The process of how to define and rank SME status is usually based on a few factors and characteristics, generally including size of the entity, geographic, structure, maturity of the entity, quantity of employees, sales figure and others financial element practices, ownership through innovation and technology (Zeinalnezhad, Mukhtar, & Sahran, 2011). In Malaysian practice, number of employee and total turnover are used as benchmarks to categorize the SMEs (Norailis, 2013). The method applied to categorize the SMEs had been conducted in various ways based on certain elements, but commonly is categorizes through the socioeconomic achievement of each country (Tahir, Mohamad, & Hasan, 2011). SMEs function as the skeleton for industry and play a very significant role in fostering national economic development and employment and wealth creation and are universally acknowledged as an integral element in the economic transformation process and development for every country. This significant role of SMEs is prevalent in generating employment and assists in developing national economic wealth is a well-accepted fact, acknowledged in various studies (International Labor Organization, 2013, p: 1).

Amongst the obstacles and difficulties faced by SMEs the most prevalent are very bad or poor management skills amongst operators, poor access to financial assistance, lack in long-term strategy planning and shortage of skilled manpower (Southiseng & Walsh, 2010). Government efforts to supporting the SMEs, through its agency provide various facilities; financial aids, machinery and equipment. SMEs must grab these golden opportunities to extend their businesses. To maximise these opportunities, the entrepreneur must be alert with up to date technologies and management operation skills in order to adapt their operational method with modern environments and severe challenges (Mohd Amy Azhar, Harizal, & Hoe, 2010). SME entrepreneurs mostly manage their operation through an inherited informal

structured without clear protocols when obstacles and managerial issues are encountered (Mohd Amy Azhar et al., 2010).

From previous finding, the majority of SMEs faced the same problem which is both managerial and financial (Hashim & Wafa, 2002). In the Malaysia scenario, after a decade many opportunities and initiatives have been created by the Government in developing and assisting the Bumiputera Small and Medium Enterprises (SMEs) to ensure aggressive, enthused and self- independence in global market, but they still face many problems in the competitive market (Ahmed, Rafiq & Saad, 2005; Shukor, 2006). There are many reasons and factors contributing toward Bumiputera SME failure to survive and thrive in the market (Foziah, Aziz & Sudin, 2006; Khairudin, 2007). Consequently, this conceptual paper aims to study the essential accreditation, brand equity, loyalty as relevant to SME performance.

## **Literature Review**

### ***SMEs Performance***

The introduction of Performance Measurement Systems (PMSs) in SMEs as a mechanism to calculate the performance of SMEs is still a field in which little research has been conducted. For the past 30 years, this area of research has been a separate focus for scholars and is now being acknowledged by numerous publications, especially within the area of performance measurement (Neely, 1999). SMEs as a minimum, realize the importance of conducting performance analysis and the potential they can gain from this measurement, and they never implement integrated, strategic performance measurement systems (Buhovac & Groff, 2012). Further, Taticchi, Tonelli & Cagnazzo (2010) pointed out after a broad review of scientific publications in the field of performance measurement, that the first models of performance measurement and management for big companies were implemented in the 1980s, but the proposal of models for SMEs appeared in the mid-1990s.

Early in the 21<sup>st</sup> century, research to define SME performance achievement was conducted in two directions: adapting models developed for large companies and developing specific models for SMEs. Past scholars assessed the linkages between brand or branding and SME performance. Wong and Merrilees (2008) applied brand orientation as antecedent to relate this significant, and determined the relationship. Additionally, Temporal (2010) examined brand management to explain this relationship. Agostini, Fillippi and Nosella (2014) revealed that trademarks have positive relationship with performance.

### ***Brand Equity and SMEs Performance***

Brand equity is defined as “a set of assets (and liabilities) linked to a brand’s name and symbol that adds to (or subtracts from) the value provided by a product or service to a firm and/or that firm’s customers” (Aaker, 1991). Further, Keller (1993) viewed brand equity as “the differential effect of the brand knowledge on consumer response to the marketing of the brand”. Similarly, Yoo, Donthu, and Lee (2000) described brand equity as “consumer’s different response between a focal brand and an unbranded product when both have the same level of the marketing stimuli and product attributes”. Brand equity is very important for assessing the effect of marketing strategies in the long-term (Keller, 2003; Sasmita & Mohd Suki, 2015).

Thus, to manage this type of intangible asset, there is a need for special attention to understand and identify the characters that influence the formation of brand equity (Norjaya, Moh, & Osman, 2007). Preceding research (Buil, de Chernatony, & Martínez, 2013; Ebeid, 2014; Hanaysha & Haim, 2015) had more focus on a large organization where the findings were less likely to make comparison with SME companies. Empirical studies on brand equity are very limited in the SME context. Specific effort has been dedicated to analyze marketing strategies such as brand personality, which influence brand equity in Malaysia. Accordingly, in this study brand equity is conceptualized based on consumer perception and is referred to as consumer-based brand equity. Based on the discussion above, the following hypothesis is put forward:

**H1:** Brand equity positively influences SMEs performance.

### ***Brand Loyalty and SMEs Performance***

Brand loyalty is the loyalty created and resulted from the brand itself, in regard to the value that the product or service has to offer. Brand loyalty has been considered a fundamental concept in strategic marketing. Positive word of mouth is what loyal customers spread about the product (Thompson & Sinha, 2008). Business entities unable to manage and adopt relationship marketing will loss impact on customer loyalty which will in turn minimize their competitive advantage. Hence, to establish a strong and long-term relationship it is essential to consider factors such as brand experience, brand satisfaction and brand trust. These factors could be applied to gain support from users (Şahin, Zehir, & Kitapci 2011). Brand loyalty was observed to have strong impact on the perception customers hold about quality and satisfaction related to a particular brand. Previous research work examined the quality of products and their impact on customer satisfaction (Bennet & Rundle-Thiele, 2005). Firm image might influence customer expectations in terms of perception, delight, and loyalty (Kandampully & Hu, 2007; Ogba & Tan, 2009). From the discussion above, it is posed that:



**H2:** Brand loyalty positively influences SMEs performance.

### **Accreditation and SMEs Performance**

The ultimate goal for each entrepreneur is to bring their firm to the global market. Therefore, they must equip themselves with all strategy and networking. One of the secret weapons or an advantage which can be used by a firm is quality. Briscoe, Fawcett, and Todd (2005) expressed that internalizing core ISO practices is important and could improve performance and that ISO 9000 practices must become part of the norm in organizations. Abdalsalam (2004) reported that companies applied ISO certification due to external pressure by customers and thus gain significant advantage. Chua, Goh and Wan (2002), studied certification and its benefits for Singapore based companies and suggested that certification contributes to better overall financial performance. A study by Bayati and Taghavi (2007) noted that accredited companies improve their performance. Certification has positive significant impact on enhanced organizational performance with respect to increasing return on asset and increased productivity, and this certification enhances the competition (Lafuente, 2009). Accordingly, this study posited that:

**H3:** Accreditation positively influences SMEs performance.

**H4:** Accreditation mediates the relationship between brand equity and SMEs performance.

**H5:** Accreditation mediates the relationship between brand loyalty and SMEs performance.

### **Methodology**

Data for this study were collected via a self-administered questionnaire distributed and analysed from 300 SMEs in Klang Valley area. Bryman (2008) avowed that quantitative method should be used as its data was easily explained through analysis for readers and in order to maintain research that is least biased. This sample size is reasonable (see Roscoe, 1975). The structured close-ended questionnaire comprises three sections: Section A consisted of demographic characteristics of respondents, Section B presented personal experiences with organization performance, and Section C listed aspects such as brand equity which were adapted from Baumgarth and Schmidt (2013), brand loyalty borrowed from Keller (2013), accreditation adapted from Psomas (2013), and SMEs performance borrowed from Mu and Benedetto (2011), Slater (2013, and Zhang (2010). These items were measured on a five-point Likert Scale ranging from 1 (strongly disagree) to 5 (strongly agree). Multiple regression analysis would be used for analysis of data.

### **Conclusion**

This conceptual paper discusses the essential correlation of accreditation, brand equity, loyalty, and SME performance. In this research, it is postulated that SME performance is



driven by factors such as accreditation, brand equity and loyalty. The significance of this study to SME development, especially for the entrepreneur or owner of the business entity, becomes a guide for them to analyze and benchmark themselves in market positioning and readiness for the global market. Future research is suggested to use the proposed conceptual model in assessing the hypothesised relationships by using a covariance-based structural equation modelling approach via analysis of moment structure computer software.

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