

## Effects of employee development and marketing capacity on competitive advantages: The mediating role of product innovation

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ABSTRACT

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This research aims at examining the mediating of product innovation on the relationship between employee development and marketing capacity on product innovation of small and medium enterprises (SMEs) in Hanoi. After 4 months of collecting data, the author received 350 responses and 311 responses left after refining. The findings from the research indicate that employee development and marketing capacity did not only directly but also indirectly affect competitive advantages via product innovation. The findings provide enterprises with important implications for improving competitive advantages from marketing, human resources and product innovation perspectives.

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## 1. Introduction

During the period 2010-2017, SMEs are accounted for 98.1% of the total number of operating enterprises, contributing about 45% of gross domestic product (GDP), 31% of total state budget revenue. On average, over the period of 2012-2017, the number of SMEs was increased by 8.8%, higher than the average growth of large enterprises of 5.4% (Dong, 2019). As Vietnam's market becomes more and more open (according to the committed integration roadmap), SMEs in Vietnam have to deal with increasing international competition. However, according to Nga (2018), most Vietnamese enterprises are small and medium and have low competitiveness; Meanwhile, the rate of enterprises having innovation activities is still low and the level of innovation is still limited (Anh, 2019). Therefore, they are at the risk of losing the market at home (Nga, 2018). However, to do so, it is important to figure out factors affecting product innovation and competitive advantages as well as the mechanism these factors affecting the competitive advantages of SMEs in Vietnam. The resource-based view (RBV) argued that an enterprise is a combination of resources and capabilities. The resources and capabilities are sources of an enterprise's performance and competitive advantages (Barney, 1991; Prahalad & Hamel, 1990). According to Branco and Rodrigues (2006), resources are the means through which firms accomplish their activities. Resources include the assets that firms use to accomplish the activities they are engaged in to convert inputs into outputs, and can be classified as tangible or intangible (including employee's knowledge, experiences, skills, commitment and loyalty). Capabilities are thus seen as referring to the actions through which resources are used and that firms engage in to get something done and accomplish their objectives. Based on RBV, this study argues that employee development and marketing capacity are critical resources/capabilities of an enterprise. Product innovation is an indicator of enterprises performances, therefore, depends on employee development and marketing capacities. Finally, competitive advantage is achieved via product innovation, employee development and marketing capacity. Several studies support our argument. For example, Pakistan, Batool and Batool (2012) found positive effects of employee training on the organizational competitive advantage of private sectors in Pakistan. Nuryakin (2018) also confirm positive effects on marketing capability on the competitive advantages of SMEs in Indonesia. Nguyen (2016) found product

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innovation has a positive effect on business performances in Vietnam. While, training (employee development) enhances the assimilation of knowledge that promotes learning (Tsinopoulos et al., 2018); therefore, has positive impacts on innovation (Dostie, 2017; Forés & Camisón, 2016). More recently, Medase and Barasa (2019) confirmed effective effects of marketing capability on product innovation

Existing literature separately provide evidence to connecting employee development, marketing capacity to product innovation and then to competitive advantages. However, not much research paid attention on how these factors simultaneously affect competitive advantage. According to Nguyen and Nguyen (2019), such research could provide a better understanding of the roles and the importance of the related factors in explaining dependent variables. Therefore, simultaneously examining the effects of employee development, marketing capacity, and product innovation into an integrative research model could provide a better understanding of how these factors together affecting competitive advantages of SMEs in Vietnam. Therefore, to narrow these literature gaps, this current research incorporates the theoretically appropriate affecting factors of competitive advantages into an integrated research model to:

- Clarify the mechanisms through which employee development and marketing capacity affecting the competitive advantages of SMEs in Vietnam,
- Examine the mediating roles of product innovation on the causal relationship between employee development and marketing capacity and competitive advantages of SMEs in Vietnam,
- Provide SEMs' managers with practical implications to improve competitive advantages for SMEs in Vietnam.

The rest of the article is structured as follows. Section 2 presents the literature review and the research hypotheses, followed by the research methodology in Section 3. Finally, results are discussed in Section 4 and conclusion and recommendations in Section 5.

## 2. Literature review and hypotheses

### 2.1 Competitive advantage

Competitive advantage is reflected in the capability of a company to create more values for customers in comparison to competitors and in profitable market shares (Kaleka, 2002; Grant, 1991). Many researchers agree that the competitive advantage of an enterprise is represented by the market share and the profitability of an enterprise in the market. In the most general perspective, Porter (1985) suggests that, for enterprises, competitive advantage is reflected in the ability of enterprises to compete in markets. Correspondingly, Mcfetridge (1995) suggested that the four important factors used to measure the competitive advantages of an enterprise are profit, cost, efficiency, and market share. He argued that an enterprise that does not generate a profit does not have a competitive advantage. The fundamental reason is that the production costs of an enterprise do not guarantee a competitive price in the market. In other words, the value created by this enterprise may be less than the cost to create this value. This problem could stem from the possibility that the labor productivity of this enterprise is lower than that of its competitors. Market share is one of the important factors affecting the costs. According to the economy of scale rule, the greater the market share is, the larger the scale is, and then the higher the productivity is. As a conclusion, profitability and market share are sufficient representatives of the competitive advantage of an enterprise. According to the theories of strategy, the internal factors of a business, such as marketing, manufacturing, human resources, finance, research, and development are factors that directly impact the competitiveness of an enterprise. Similarly, Chawla et al (1997) suggested that internal elements such as finance, human resources, technology, organization structure, productivity, innovation quality, diverse product/service, flexible performance, and customer service are the key factors affecting the competitive advantage of an enterprise. These are the factors that enterprises themselves can control through strategic decisions as well as through their operational decisions (Luk; 1996; Anshori; 1999; Porter, 1980; Argote et al., 2003; Garcia-Cruz et al., 2018).

#### 2.1.1 Employee development and competitive advantage

According to Orr, Bush, and Vorhies (2011), employee development is defined as the activities performed systematically and routinely to maintain and enhance the knowledge and skills of employees. According to Newbert (2007), employee development is implemented through human resource practices, especially through training and compensation. Cenzo and Robbins (1994) defined employment development as a process that allows employees to acquire new knowledge, learn new skills, change attitudes and behaviors, and to improve personal performance. According to Wayne (1992), the concepts of training and development can be used interchangeably and consist of programs that are planned to improve performance at all levels: individual, group, and enterprise. These improvements lead to systematic changes in the evaluation of knowledge, skills, attitudes, and social behavior. Bishop (2003) and Haksever (2005) explained training helps workers master specific new skills and capacities that improve their performance or better take on new responsibilities. In a study in Pakistan, Batool and Batool (2012) found positive effects of employee training on the organizational competitive advantage. The above arguments and evidence indicate that:

Hypothesis 1: There is a positive relationship between employee development and the competitive advantage of an SME in Vietnam.

#### 2.1.2 Marketing capability and competitive advantage

According to Yam et al. (2004), marketing capability is a firm's ability to publicize and sell products on the basis of under-

standing a consumer needs, the competitive environment, the costs and benefits, and the acceptance of the innovation. Similarly, according to Drucker (1993), marketing capacity is the capacity to recognize the market segments based on needs and customer characteristics, and the capacity to develop unique marketing positions for products or services in the minds of the target customers. In the same way, Song et al. (2007) considered marketing capability as the ability of a firm to use its tangible and intangible resources to understand complex consumer specific needs, achieve product differentiation relative to competing products, and achieve superior brand equity. Vorhies and Morgan (2005) found that strong marketing capacity allows companies to leverage other resources for better competitive advantages. As Narsimhan et al. (2006) explain, a company that gives more resources for communicating with customers is more sensitive to the market. Market sensitivity becomes an inimitable resource of the company. According to Song et al. (2008), marketing capacity supports a company in creating strong connections with customers and distributors. In addition, marketing capacity contributes to a stronger brand. Burkitt and Zealley (2006) assert that effective marketing helps increase customer satisfaction, boosts market share, and raises profitability and productivity of employees. Therefore, the development of marketing capabilities can play a crucial role in keeping the market-orientation of companies. Davis (2007) asserts that every enterprise is facing a situation in which their customers are being drawn to wise competitors; as such, the key task of the marketing activities is to attract and retain customers. Currently, in a study with sample of 200 SMEs in Indonesia Nuryakin (2018) also, confirm positive effects on Marketing capability on competitive advantages of SMEs.

The above arguments and evidences indicate that:

Hypothesis 2: There is a positive relationship between the marketing capability and the competitive advantage of an SME in Vietnam

### *2.1.3 Product innovation and competitive advantage*

Chen and Liu (2005) consider product innovation as the planning and realization processes that create or rebuild a new technological system and provide the necessary functions to satisfy the needs of customers. The ultimate goal of product innovation is to provide a solution that can be used or accepted by customers. According to Damanpour and Gopaiakrishnan (2001), product innovation is defined as the creation of new products or services to meet the external user or market demand. Similarly, According to Wang and Ahmed (2004), product innovation reflects the novelty and meaningfulness of new products introduced to the market in a timely fashion.

Porter (1985) asserts that product innovation is one of the principal factors affecting the competitiveness of an enterprise. According to Gronhaug and Kaufmann (1988), product innovation has become increasingly important to the competitive advantage of enterprises. Product innovation allows companies to be ahead of their competitors, create market barriers, and establish a leading position in the market (Mu et al, 2009). Similarly, Akgu et al. (2007) found that product innovation capacity has a positive relationship with profitability and market share.

Philip Kotler (1999) pointed out that the most successful products are often the products that are introduced first. Due to rapid changes in tastes, technology and competition, companies cannot just rely solely on existing products. Consumers want and wait for new and perfect products. Consequently, each company must have programs to design their new products. Roberts (1999) argues that due to fierce competition and an uncertain environment, the pursuit of innovation is often important to achieve competitive advantage; furthermore, innovation is perhaps the best way a business can hope to prosper. Similarly, according to Akgu et al. (2007), product innovation capacity has a positive relationship with profitability and market share. Innovative products include entirely new performance features that are better than those already in the market. Additionally, the old features of innovative products can be produced at a lower cost. Wilson and Chew (2008) stated that many products in the same industry perform the same functions, and even look the same. Therefore, product innovation is an important way to create differentiation and increase competitiveness for companies. More recently, in a study with a sample of 105 manufacturing enterprises in Vietnam, Nguyen (2016) found product innovation has a positive effect on business performances.

The above arguments and evidences support:

Hypothesis 3: There is a positive relationship between product innovation and the competitive advantage of SMEs in Vietnam

### *2.1.4 Employee development and product innovation*

According to Hatch and Dyer (2004), investing in employee development (training) at the enterprise level enhances learning output. The reason is that training help staff to update new knowledge and improve absorptive capacity (Cohen and Levinthal 1990). Consequently, it results in successful innovation in both products and processes (Freel, 2005). Similarly, Tsinopoulos et al. (2018) argued that training enhances the assimilation of knowledge that promotes learning; therefore, according to Dostie (2017) and Forés and Camisón (2016) knowledge has positive impacts on innovation. Malik et al. (2017) found that a number of scientific employees were engaged in exploratory learning conducive to the generation of new patents and product innovation. More recently, Caloghirou et al. (2017) found training has positive effects on product innovation. The above arguments and evidences indicate that:

Hypothesis 4: There is a positive impact of employee development on product innovation.

### *2.1.5 Marketing capacity and product innovation*

Regarding product innovation, marketing capabilities reflect an enterprise's abilities to differentiate its products from those of competitors and to connect with consumers to create profitable relationships for innovation (Egbetokun, 2015). According to Durukan and Hamsioglu (2016), marketing activities have a significant impact on new products. In contrast, insufficient

market analysis, sales, distribution and promotion efforts have negative impacts over the success of the new product. More specifically, marketing capabilities influenced the impacts of commercialization of innovations (Ren et al., 2015). Similarly, Mu(2015) found that marketing capability is positively associated with new product development. Recently, Medase and Barasa (2019) argue that marketing capabilities also allow enterprises to predict customer-specific and concealed demands; therefore, have positive impacts on the ability of the enterprise to launch either new products or improved products.

The above arguments and evidences indicate that:

Hypothesis 5: There is a positive impact of marketing capability and product innovation.

## 2.2 Summary of research model

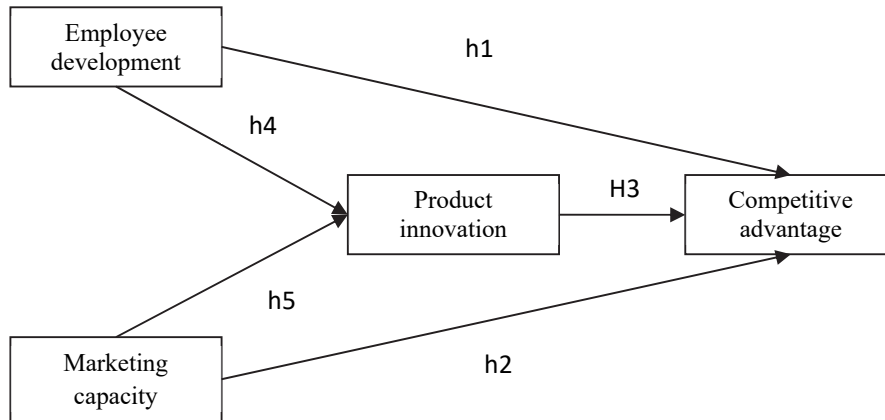


Fig. 1. Research model

The summary of the above hypotheses is depicted in the research model in Fig. 1. According to this model, employee development, marketing capacity, and product innovation have positive relationships with the competitive advantage of SMEs.

## 3. Research Methods

### 3.1 Sample

This study applies the systematic sampling method. The sample was selected based on a business directory in Hanoi. From this list, 1000 enterprises were selected purposively. After 4 months of data collection, the author received 350 responses and 311 responses were left after refining. The response rate was about 35%. By business structure, respondents from the Limited Enterprises accounted for 40%, respondents from Private Enterprises accounted for 29%, respondents from Joint Stock Enterprises accounted for 24%, and respondents from other business structures accounted for 7%. By gender, 55% were males, 40% were females, and 5% were not specified. By age, respondents aged below 30 accounted for 20%, respondents aged from 31 to 40 accounted for 43%, those aged from 41 to 50 accounted for 30%, and those aged from 51 to 60 accounted for 5%.

### 3.2 Measurement Scales

Competitive advantage was measured via scales developed by Bhatt et al. (2010). Employee development was measured via scales developed by Orr et al. (2011). Marketing capacity was measured by some scales developed by Yam et al. (2004). Product Innovation was measured via scales developed by Akgu et al. (2007).

## 4. Research Findings

### 4.1. Confirmatory factor analysis

Based on the original scale, we conducted CFA. The results are presented in Fig. 2, Table 1, Table 2 and Table 3.

The detailed results of CFA for all construct were presented in Table 1. These results showed that the measurement model was well fitted with  $1 < \text{CMIN/DF} = 2.748 < 3$  (acceptable);  $\text{CFI} = 0.959 (> 0.95)$  (excellent);  $0.06 < \text{RMSEA} < 0.08$  (acceptable). All of these model-fit indexes indicate that the whole measurement model was well-fitted.

Table 1

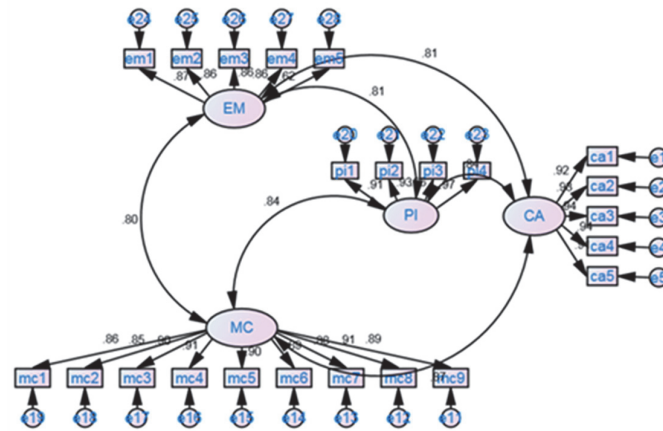
Measure	Estimate	Threshold	Interpretation
CMIN/DF	2.748	Between 1 and 3	Excellent
CFI	0.959	>0.95	Excellent
RMSEA	0.075	<0.08	Acceptable

To evaluate the measurement model, convergent and discriminant validity tests were conducted. To meet the convergent validity criterion, values of composite reliability (CR) for each construct should be higher than 0.7. In addition, values of the average variance extracted (AVE) should be greater than the recommended threshold of 0.5. The results in Table 2 indicated

that the measurement models of employee development, marketing capacity, and product innovation meet construct reliability and convergent validity criteria.

**Table 2**  
Tests results of convergent validity and reliability

	CR	AVE	MSV	MaxR(H)	CA	EM	MC	PI
CA	0.968	0.858	0.757	0.969	0.926			
EM	0.910	0.672	0.661	0.925	0.813	0.820		
MC	0.971	0.787	0.757	0.972	0.870***	0.801***	0.887	
PI	0.971	0.893	0.705	0.977	0.838***	0.811***	0.840***	0.945



Chi-square=615.530; df=224; Chi-square/df=2.748  
;P=.000; CFI=.959; RMSEA=.075;

**Fig. 2.** Results from CFA

To meet the discriminant validity requirement, the square root of each construct’s AVE should be higher than the correlation of the construct with other latent variables. The results are also presented in Table 2, confirming the good discriminant validity of the measurement model. Employee development, marketing capacity, and product innovation are three different constructs. Factor loadings of items on the related variables are presented in the Table 3.

**Table 3**  
Factor Loading

	Variables/Item	Factor loading
Competitive Advantage (CA)	Over the past three years, our firm’s financial performance has been outstanding.	.918
	Over the past three years, our firm’s financial performance has exceeded the competitor’s performance.	.925 ***
	Over the past three years, our firm’s sales growth has been outstanding.	.937 ***
	Over the past three years, profitability of our firm has been higher than our competitor’s profitability.	.939 ***
	Over the past three years, our firm’s sales growth has exceeded the competitor’s sales growth.	.912 ***
Employee Development (ED)	Routinely provide employees with opportunities for training.	.872
	Systematically provide employees with regular feedback about their performance.	.859 ***
	Provide regular opportunities for enhancing employee skills.	.859 ***
	Regularly reward performance as a means of increasing employee motivation.	.859 ***
	Regularly empowering employees to make decisions about their assigned tasks.	.621 ***
Marketing capacity (MK)	Relationship management with major customers.	.857 ***
	Knowledge of different market segments.	.847 ***
	Effectiveness of the marketing intelligence system.	.901 ***
	Effectiveness of marketing information dissemination.	.911 ***
	Distribution efficiency.	.897 ***
	Sales-force efficiency.	.890 ***
	Performance of after-sales services.	.883 ***
	Tracking customer satisfaction level.	.912 ***
	Maintenance of brand image and corporate image.	.885
Product Innovation (PI)	In new product and service introduction, our company is often first-to-market.	.909
	Our new products and services are often perceived as very novel by customers.	.930 ***
	New products and services in our company often take us up against new competitors.	.965 ***
	In comparison with competitors, our company has introduced more innovative products and services during the past 5 years.	.974 ***

Significance of Correlations: \*\*\* p < 0.001

All five items of competitive advantages had factor loadings that varied from 0.912 to 0.939. All five initial items of employee development had factor loadings that varied from 0.621 to 0.872. All nine initial items of marketing capacity had factor loadings that varied from 0.857 to 0.912. All items of product innovation had factor loadings that varied from 0.909 to 0.974. The above findings indicate that the measurement scales used in this study were reliable and valid.

4.2. Hypothesis testing

We apply the SEM method to simultaneously test the proposed hypotheses (Fig. 3, Table 4, and Table 5). The results showed that the structural model was well-fitted (CMIN/DF = 2.748; CFI = 0.959; RMSEA = 0.075)

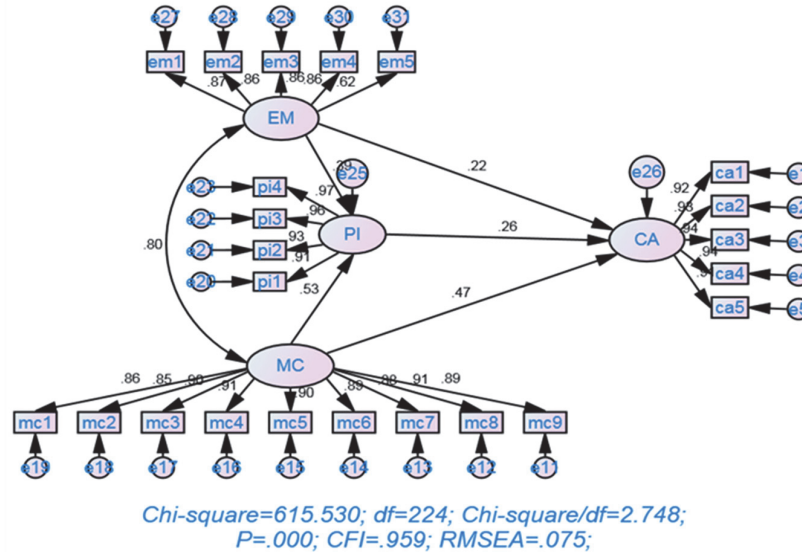


Fig. 3. Findings from SEM

Table 4

Measure	Estimate	Threshold	Interpretation
CMIN/DF	2.748	Between 1 and 3	Excellent
CFI	0.959	>0.95	Excellent
RMSEA	0.075	<0.08	Acceptable

The results of hypotheses testing were presented in Table 5. The result indicates that employee development (EM) has positive impacts on competitive advantage (CA) ( $\beta=0.225$ , at  $\alpha \leq 0.001$ ), hence H1 is supported; marketing capacity (MC) also has positive impacts on competitive advantage (CA) ( $\beta=0.474$ , at  $\alpha \leq 0.001$ ), hence H2 is supported; Product innovation (PI) has positive effects on competitive advantage (CA) ( $\beta=0.257$ , at  $\alpha \leq 0.001$ ), hence H3 is supported; Employee development (EM) has positive impacts on product innovation (PI) ( $\beta=0.386$ , at  $\alpha \leq 0.001$ ), hence H4 is supported; marketing capacity (MC) also has positive impacts on product innovation (PI) ( $\beta=0.530$ , at  $\alpha \leq 0.001$ ), hence H5 is supported.

Table 5

Predictor	Outcome	Std Beta	Conclusion
EM (direct)	CA	.225 ***	H1: supported
EM (via PI)	CA	.108	PI mediates EM-CA relationship
EM (total)	CA	.403	
MC (direct)	CA	.474 ***	H2: supported
MC (via PI)	CA	.138	PI mediates MC-CA relationship
MC (total)	CA	.619	
PI	CA	.257 ***	H3: supported
EM	PI	.386 ***	H4: supported
MC	PI	.530 ***	H5: supported

Significance of Correlations: \*\*\*  $p < 0.001$

The results in Table 5 also indicate that employee development has indirect positive-effects on competitive advantages via product innovation ( $\beta=0.108$ ) and marketing capacity has indirect-positive effects on competitive advantages via product innovation ( $\beta=0.138$ ).

## 5. Conclusions and recommendations

The findings indicate that employee development, marketing capacity, and product innovation positively affecting competitive advantages. However, different from existing research, this study found that employee development and marketing capacity affects competitive advantages through two mechanisms: directly and indirectly through product innovation. In other words, the findings confirm the mediating effects of employee development and marketing capacity on the competitive advantages of an enterprise.

The findings from the research suggest that investment in employee development and marketing capacity could have double effects: speed up product innovation and improve competitive advantages. SMEs can do so by regularly creating opportunities for employees to know their performances, training employees to improve their knowledge and skills, rewarding employees to improve their motivation, and giving employees greater autonomy in the implementation of assigned tasks. SMEs can strengthen the marketing capacity by improving their relationships with big customers, enhancing marketing research for better knowledge of different market segments, improving the effectiveness of information systems and marketing communication activities, boosting the performance of the sales forces and distribution channels, promoting after-sales services, regularly monitoring the level of customer satisfaction, and continuously maintaining the brand image and company image.

This study has the following limitations. Firstly, the sample was drawn from the SMEs in Hanoi based on the purposive method, therefore, the findings have certain limitation in terms of generalization; future research can overcome this limitation with the more representative sampling methods. Second, this study has not examined the controlling effects of factors such as the size of the enterprises or industry that enterprise. Such research could provide a better understanding of how employee development, marketing capacity affect product innovation and competitive advantage.

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