



# Role of Innovative Marketing Strategy for Success of Micro, Small, and Medium Enterprises (MSMEs)

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## 4.1 Introduction

Large firms are a threat to small businesses in all countries (Wanninayake and Chovancova 2013). “The Government of Sri Lanka recognizes MSMEs as the backbone of the economy” (Gunawardana 2016, p. 3). MSMEs in Sri Lanka have been struggling to compete with other firms (Vijayakumar 2013; Gajanayake 2010). In addition, the postwar environment of Sri Lanka contains huge problems and challenges (Shivany et al. 2015). “In 1983, 98% of MSMEs accounted for 48.6% of total employment and 31.1% of value added. In 2008, 93% of MSMEs accounted for 29.6% total employment and 20.3% of value added, this evidence clearly shows clearly the poor development of MSMEs” (Vijayakumar 2013, p. 41). Even though MSMEs have accounted for a vast percentage of establishments in Sri Lanka, their contribution to the economy is very low (Vijayakumar 2013). Earlier studies emphasized that MSMEs in Sri Lanka have been struggling to compete with nationally and internationally branded products (Vijayakumar 2013; Gajanayake 2010; Pushpakumari and Watanabe 2009). “Soon after the war, local productions were subjected to a market shock as road connectivity resumed to the wider market with far more advanced production” (Sivatheepan et al. 2018, p. 9). Most of the MSMEs were collapsed and destroyed by internal war while the remaining enterprises in Sri Lanka were vulnerable (Sivatheepan et al. 2018). MSMEs in the Northern Province have not been well developed and have thus diminished over 10 years. MSMEs make a vital contribution to GDP in Sri Lanka. In the Northern Province, more than 99% of enterprises are MSMEs. The growth rates of GDP contribution from the Northern Province were 9% in 2011, 0% in 2012, -8% in 2013, 15% in 2014, 5%

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in 2015, 10% in 2016, and 0% in 2017 (Central Bank Report 2015, 2018). These numbers display the fluctuating trend of GDP contribution from the NP. This trend also indicates the poor condition of MSMEs in the Northern Province.

The marketing strategy plays an important role in every organization. The marketing of goods or services is the ultimate objective and goal of all types of organizations (Baker and Hart 2008; Kotler et al. 1999). Marketing strategy has been becoming a popular concept among institutions to improve their organization performances (Baker and Hart 2008; Hunt 2017). The application of a marketing strategy allows for the better management of environmental challenges and result in superior performance, sustainable growth, and the development of the organizations themselves (Baker and Hart 2008; Kotler et al. 1999; Hunt 2017). Resource advantage theory of competition explains that marketing strategy is an intangible resource to firms and superior financial performance is achieved by the application of superior marketing strategy (Hunt and Morgan 1995; Hunt 2013; Hunt et al. 2006). MSMEs have limited finance, human, information, and organizational resources (Baker and Hart 2008; O'Dwyer et al. 2009a, b, c). Due to these characteristics, MSMEs cannot apply the common and conventional strategies used by most other firms (Gilmore et al. 2001; Quaye and Mensah 2019). Innovative marketing strategy is the effective specific marketing strategy which was suggested for MSMEs (Carson and Gilmore 2000; Haddad et al. 2019). Even though the literature suggested innovative marketing strategy and variables for MSMEs, they were not empirically tested for any MSMEs. Furthermore, these suggested variables were not tested for any MSMEs in the Sri Lankan context. As such, this research was initiated to study the current value of innovative marketing strategy to the MSMEs in Sri Lanka and to discover the extent to which innovative marketing strategy contributes to the success of MSMEs in the country.

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## 4.2 Literature Review

### 4.2.1 Micro, Small, and Medium Enterprises

In the Sri Lankan context, the national policy framework for SME development categorized MSMEs as being a part of the “manufacturing sector and service sector and defined micro, small and medium enterprises, as made up of an enterprise which employ less than 300 employees and which has an annual turnover not exceeding Rs.750 Mn” (National Policy Framework for SME Development, p. 3; Gunawardana 2016, p. 18) (Appendix 4.1). The Department of Census and Statistics (2013/2014) categorized MSMEs as belonging to industry and construction as well as trade and services. Moreover, MSMEs were defined based on the “person engaged” for industry and construction, trade, and services which are less than 200, 35, and 75, respectively (Appendix 4.2). MSMEs have limited resources such as finance, human resource, time, lack of expertise, and limited impact in the marketplace (Gilmore et al. 2001). MSMEs have small budgets, but smaller budgets are less complex because there is less room in the budgets. MSMEs have a simpler structure and less

restriction on access to internal financial resources (Loucks et al. 2010). MSMEs have limited employee resources such as a lack of knowledge and skills (Loucks et al. 2010). MSMEs do not have any corporate strategy and mission. MSMEs fail to use formal strategic tools, but they use informal and dynamic strategies (Meers and Robertson 2007; Hudson et al. 2001). The haphazard, informal, and unstructured environment of MSMEs leads to short-term focus and irrational decision-making (Blankson and Stokes 2002).

## 4.2.2 Innovative Marketing Theory

Innovative marketing means creating products or services using new ideas to capture the market opportunity in a new way (O'Dwyer et al. 2009a). The elements of innovative marketing are categorized in terms of marketing variables, modification, customer focus, integrated marketing, unique proposition, and market focus.

*Marketing variables:* MSMEs engage in innovative marketing in response to market requirements by altering their marketing activities and development of new products. Moreover, marketing adaptations are related to continuous supplemental changes or alterations to products and marketing mix distribution channels which enable them to differentiate their product or service in a niche market from the standardized offerings of large firms (Cummins et al. 2000).

*Modification:* Within this context, the marketing behaviors of MSMEs fit with the action-oriented activities required to identify change opportunities and nurture continual change in the MSMEs and their markets. The marketing activities of MSMEs can extend from innovative to highly innovative, while sticking to the basic concept of existing features, and it is not essential to adopt products' originality (Cummins et al. 2000). Such adaptations form a central element of MSME innovative marketing may it be proactive or reactive, by initially focusing on the innovations of products and services (Stokes 2000).

*Customer focus:* Customization is highly possible for micro and small businesses; they can be successful by developing strongly personal relationships (O'Donnell and Cummins 1999). One of the key aspects of MSME marketing strategies is to be innovative in their customer orientation. Stokes (2000) demonstrated that it is essential to identify potential customer groups by process of elimination based on common customer traits. This innovative approach to customers is critical in establishing a competitive advantage for MSMEs (O'Dwyer et al. 2009a).

*Integrated marketing:* Innovation is pervasive throughout marketing. MSMEs involve continuously small alternatives and change these practices and activities. They make niche customers differentiated the products that are different from the standardized offerings of larger firms (Cummins et al. 2000). This differentiation can be possible due to the prompt marketing of information using formal or informal strategies, which are indicative of the interactive and integrated marketing methods favored by MSMEs (O'Dwyer et al. 2009a).

*Market focus:* Firms should focus on market-related positioning factors and the adoption of a more flexible structural design for the management of marketing. MSMEs concentrate on financial success as marketing objectives, and they also include the vision for the SME. This, in turn, focuses on the competitive differentiation achieved through innovation, enabling the formation and maintenance of the material competitive advantage which is required of innovative marketing (O'Dwyer et al. 2009a).

*Unique proposition:* The characteristics of innovation within enterprises have been identified as the search for creative, novel, or unusual solutions to problems and needs. This includes the development of new products and services and new processes for performing organizational functions. In addition, O'Dwyer et al. (2009a) suggest that the purpose of market innovation is "to identify better (new) potential markets, and satisfy those target customers." Hence the dimensions of innovative marketing are uniqueness, newness, and unconventionality.

#### **4.2.2.1 Characteristics of Innovation in Business**

In facing the challenges posed by limited growth conditions and larger resource-rich competitors, MSMEs compete using a combination of invention and pioneering products or services and by adopting flexible business structures, strategies, and culture. Innovation is the most significant factor that can be used by MSMEs to compensate for any disadvantages experienced because of their size. Innovativeness can be defined in terms of its nature, continuity, and attributes of innovation (O'Dwyer et al. 2009b).

*Nature of innovation:* "Innovation takes the form of either radical or incremental innovations where radical innovations produce fundamental changes in the activities of organizations and large departures from existing practices while incremental innovations are the improvement of existing process, product, service or market approach and involve a lesser degree of departure from existing practices" (O'Dwyer et al. 2009a, p. 50).

*Continuity of innovation:* Continuous incremental innovation concentrated on existing market conditions, and discontinuous innovation focuses on altering market conditions to achieve competitive advantage. The vast majority of MSMEs successfully engage in a process of incremental innovations, which has a cumulative and positive effect on their business (O'Dwyer et al. 2009b).

*Degree of innovations:* Johannessen et al. (2001) illustrated the three degrees of the innovation process within a company. The first degree is innovation, which involves changes within the model of existing production methods and management philosophy. The second focuses on changes from one production method and management philosophy to a new type. Meanwhile, the third concentrates on changes within the model of the new productions and management philosophy.

### 4.2.3 Development of MSME

Yang and Xu (2006) and Lavric (2010) described that the MSME development presupposes their growth in the efficiency and efficacy of their organization. Yang and Xu (2006) identified four elements of MSME development: changes in the number of MSMEs, production value, profits, and number of employees in each region, in order to analyze regional differences of entrepreneurship. Lavric (2010) discovered six elements in the MSMEs: the number of enterprises, the number of persons employed, the gross value added, the apparent labor productivity, the rate of profitability, and the propensity to invest.

*Number of enterprises:* It represents one of the most often used indicators in the studies. It is considered to be a proper proxy to illustrate the level of the entrepreneurship spirit from a country, especially when it's divided by the population number (the density), making therefore possible the comparison between different states, regions, and even localities. At the same time for single MSMEs, it is the base for the qualitative expansion. For a single MSME, an increase in branches, outlets, or enterprises is considered to measure the development of MSME.

*Number of persons employed:* It is also a very popular indicator which is taken into account, and this is because of the social implications it brings along. MSMEs should be treated with priority because they are the only ones that still create jobs; the number of persons employed gives us a clue over these development tendencies and also over the employment structure of MSMEs and large enterprises. For single MSMEs, a number of persons are employed in a MSME.

*Gross value added:* "In comparison with the first two, it is an indicator of results, representing actually the amount of actual salaries and other elements related to labor by factoring in cost, profit, exploitation subsidies and fixed capital amortization, after subtracting production taxes. The total value of raw materials consumed, cost of industrial and non-industrial services provided by others and fuel, electricity and water consumption, have all been defined as the value of inputs (intermediate consumptions)" (Lavric 2010, p. 934). Gross value added is calculated as the difference between the value of output and the value of intermediate consumptions. For a single SME, gross value added is the difference between the gross value of product and expenses (intermediate consumption).

*Apparent labor productivity:* "It is defined as gross value added (at factors cost) per person employed. The word 'apparent' refers to the fact that this is a broad evaluation of what happens physically at the production level. This measure will be analyzed from two perspectives concerning the rate of growth (determined using the growth rates of gross value added and persons employed and the ratio between the MSMEs labor productivity)" (Lavric 2010, p. 934). Labor productivity of a single SME is a gross value added (at factors cost) per person employed in a MSME.

*Profitability rate:* "It is calculated as the ratio between the gross profit and the gross value added at factors cost and represents pretty well the performances of the

enterprise” (Lavric 2010, p. 934). In other words, this measure reveals the MSME’s capacity to accomplish its primary reason of existence, as it is being one of the variables that illustrate the enterprise’s efficiency. The net profitability rate is considered for a single MSME.

*Propensity to invest:* “It is determined as the ratio between the gross investments and the gross value added at factors cost and aims to emphasize the future development perspective of the MSMEs sector” (Lavric 2010, p. 934). The specificity of this measure consists actually of the fact that it is a present allocation of resources for future results and therefore it catches the mentality, vision, and risk tolerance that entrepreneurs and managers manifest in real life. This is the future investment in the gross profit for single SME.

#### 4.2.4 Balanced Scorecard Performance

Karabulut (2015) explained a model of the balanced scorecard approach for the performance of a manufacturing firm in Turkey. The balanced scorecard approach is used to measure the performance of firms. It links an organizational strategy to firm performance. It reveals financial performance, customer performance, internal business process performance and learning, and growth performance. The financial dimension focuses on financial objectives which reflect the firm’s success in reaching its goals. The customer dimension determines a firm’s goals based on customer evaluation criteria. The dimensions of internal business process force managers to keep a smooth process in firms. The learning and growth perspective defines the structure, critical factors, internal business processes, and customer processes to improve the growth of the firm in the long term.

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### 4.3 Hypothesis Development

The previous marketing literatures, theories, and models regarding MSME marketing and development are touted as the foundations required to design the appropriateness of a marketing strategy for MSMEs. In this context, the theory of resource advantage is mainly underpinned to produce an appropriate model. Furthermore, MSME marketing characteristics are also underpinned to produce and construct this model of MSMEs in a strong way. Resource advantage theory explains that superior resources lead to superior financial performance (Hunt and Morgan 1995; Hunt 2013, 2017, 2018). The resources can be tangible and intangible; a marketing strategy is an intangible resource to firms (Hunt et al. 2006). The managers or owners are the responsible ones and adopt suitable strategies to achieve superior performance, and resource characteristics are heterogeneous and imperfectly mobile (Hunt 2013, 2017, 2018). The firm’s resources are financial, physical, legal, human, organizational, informational, and relational (Hunt 2018). MSMEs have limited resources (Baker and Hart 2008; O’Dwyer et al. 2009a, b, c). Gilmore et al. (2001) acknowledged that managers of MSMEs understand the limited resource capacity

and follow innovative marketing rather than the conventional marketing and then practices used in large companies. Innovative marketing strategy was suggested for MSMEs by Baker and Hart (2008); O'Dwyer, Gilmore, and Carson (2009a, b, c); Carson and Gilmore (2000); Quaye and Mensah (2019); and Finoti et al. (2017). This strategy is suggested as a valuable, unique, and superior intangible resource that can be used by MSMEs to achieve superior performance under resource advantage theory (Hunt 2013, 2017, 2018).

The objective of the organization is to earn superior financial performance (Hunt 2018). Shareholder benefits are considered as major objectives of any organization, and marketing understands this strategic role (Lukas et al. 2005). This resource advantage theory focuses only on the shareholders as a financial success (Hunt 2018); in contrast this research underpinned balance scorecard performance measurement considering the benefit to all stakeholders as a customer, internal process, and employees (Freeman 1984). Moreover, measurement regarding the development of SMEs was examined and adopted as an indicator of performance development in this research. Hence the balanced scorecard performance measurement with the SME development indicators is utilized to measure the development of SMEs; it is a special aspect in this research. Overall, the new insights of this research found that marketing strategy as intangible resources was linked with performance development.

In facing the challenges posed by limited growth conditions, innovation is the most significant factor that can be used by MSMEs to compensate for any disadvantages that arise experienced because of their size or their internal and external environments (O'Dwyer et al. 2009b; Ferreira and Coelho 2020). The success of MSME innovation is determined by its newness, the extent of its adoption, and its translation into an exploitable opportunity for the MSME. "Marketing's role in innovation is to provide the concepts, tools and infrastructure to close the gap between innovation and market positioning to achieve a sustainable competitive advantage" (Gardner 1991, p. 49). Small firms can compete using the development of innovative products or processes, which is reliant on the accurate market and customer information (Haddad et al. 2019; Low and MacMillan 1988). Creative, alternative, and instinctive marketing practices may flourish even under financial resource constraints. "The innovative behaviour is illustrated as exploitation of an opportunity by the owner/managers" (O'Dwyer et al. 2009a, p. 51). Innovative marketing is a significant, unique, and valuable intangible resource that can contribute to the success of MSMEs (O'Dwyer et al. 2009a). Innovative marketing strategy is a superior resource which leads to the superior performance of MSMEs (O'Regan and Ghobadian 2005; O'Dwyer et al. 2009c; Karabulut 2015).

Small firm owners/managers can achieve a sustainable competitive advantage by encouraging strong market orientation which stems from engaging in innovative practices. The key factors of MSME are profitability, long-term growth, and survival (O'Dwyer et al. 2009c; Ferreira and Coelho 2020). When innovative marketing is integrated fully into the organization and used on a proactive/reactive basis to support MSMEs operating in a dynamic environment, it can successfully be used to successfully achieve organizational goals (Finoti et al. 2017; O'Dwyer et al. 2009c).



In addition, innovation can exist within MSME marketing and contribute to organizational success (O'Dwyer et al. 2009b). It depends upon the application of the perceived value of a marketing throughout the organization, and the integration of marketing helps achieve organizational goals. Innovation is essential in order to guarantee the growth of the business within a highly competitive environment (O'Dwyer et al. 2009b). Innovative marketing objectives concentrate on the level at which new products or services meet their commercial objectives and the vision for the MSME. The perception of innovation encompasses customer satisfaction, a competitive advantage, creativity, and profit (O'Dwyer et al. 2009a).

Drucker (1954) linked innovation with marketing, and the purpose of innovation is to create a customer base, because customers determine what the business is. "Dynamically continuous innovations use new technology to serve an established function where consumers often adapt their behaviour; this adaptation may be resisted if the change in behaviour is substantial and if the costs are too high" (O'Dwyer 2009, p. 32). Amendment to its distribution channel helps gain a competitive advantage and increase cost efficiency as well as customer satisfaction. The attributes of IMS reflect the response of customers to the proposed innovation from their perception of the strength of the advantages posed by the innovation (relative advantage) (Karabulut 2015). Kleindl et al. (1996) found that one of the key aspects of MSME marketing strategies is their aim to be innovative in their customer orientation. Stokes (2000) revealed that segmentation, targeting, and positioning processes are traditional approaches to eliminate unsuitable groups and select potential customer groups. This innovative approach to customers is critical in establishing a competitive advantage for MSMEs and has significance for MSMEs in positively impacting customer satisfaction and, in turn, company performance (Kandampully 2002; Stokes 2000).

While a few MSMEs may experience rapid growth as a result of innovation, the majority of MSMEs successfully engage in a process of incremental innovation, which creates more customer demand and long-term sustainability (Carroll 2002; Stokes 2000). Innovation is evidenced through the production of a unique concept pieced together from existing ideas and concepts and including the involvement of employees, development of new intelligence and ideas, and employee satisfaction (Cummins et al. 2000). Incremental innovation is a smaller change from existing practices; it induces the internal process related to product or services (Ettlie and Subramaniam 2004). Continuous incremental innovations result from the ongoing improvement of techniques in the internal process. Small firms have been found to have higher rates of innovation compared to their share of sales or number of employees (Das and He 2006). The MSMEs utilize market intelligence to maximize their market focus for the benefit of the business. With regard to these facts and evidences, the researcher hypothesized that:

H1: Innovative marketing strategy influences on the development of MSMEs.

H1a: Innovative marketing strategy influences on the financial performance of MSMEs.



H1b: Innovative marketing strategy influences on the customer performance of MSMEs.

H1c: Innovative marketing strategy influences on the internal process performance of MSMEs.

H1d: Innovative marketing strategy influences on the learning and growth performance of MSMEs.

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## 4.4 Methodology

This study formulated the research hypothesis and framework, which was validated using a questionnaire survey followed by structural equation modeling (SEM) analysis. The study adopted innovative marketing strategy as an independent variable and MSME development as the dependent variable (business performance). The study also explored the effect of IMS on the development of MSMEs.

This study designed a questionnaire based on current theories and literature. Measures for innovative marketing strategy were derived from a review of the innovative marketing literature (Rajapathirana and Hui 2018; O'Dwyer et al. 2009a, b, c; Baker and Hart 2008). To measure the development of MSMEs, variable items and scales were designed on the basis of literature regarding MSME development (Yang and Xu 2006; Lavric 2010) balance scorecard performance measurement (Wu and Lin 2016; Karabulut 2015; Hubbard 2009; Tsai and Chou 2009) and the feedback obtained in the interview and focus group discussion.

Based on the literature, variables of innovative marketing strategy were identified. Further, we conducted both a pretest and a pilot test prior to the formal survey. In the pretest, convenience sampling was used to select 10 owners of SMEs. Furthermore, two group discussions and interviews with four academic experts on marketing and entrepreneurship research were adopted for this study. The findings revealed that a number of question items were unclear. These sentences were subsequently modified, and one item from IMS and one inappropriate aspect of MSME development were deleted. Finally, this questionnaire employed questions drawn from relevant research that underwent semantic modification by scholars and experts as well as adjustments proposed by MSME owners. In addition to that, convenience sampling was then employed to select 48 MSMEs for the pilot test. Reliability and validity analyses were conducted on the data, the results of which presented a Cronbach's exceeding 0.7 for each aspect with eigenvalues over 1 and cumulative explained variance exceeding 0.5. Moreover, the factor loadings were greater than or close to 0.5, and the item-to-total correlation coefficients exceeded or were close to 0.5, indicating strong reliability and convergent validity (Kerlinger 1978). In its final form, the test passed reliability and validity testing in a pilot test, indicating good content validity. The final questionnaire was divided into three parts as profile information of MSMEs, IMS, and MSME development. Innovative marketing strategy comprised 3 aspects which included 17 items and MSME performance, comprising 4 aspects with 26 items. All question items were assessed using a five-point Likert scale with higher scores indicating a higher level of satisfaction.

The target population in MSMEs in the Northern Province included 3203 owners of MSMEs. The proportionate stratified random sampling method was used to select samples for this study. A total of 1038 samples were selected to issue the questionnaire; 686 of them were considered valid which represent a response rate of 66%. According to Bentler and Chou (1987), samples should be at least five times the number of estimated parameters, and Boomsma and Hoogland (2001) claimed that a sample size in the 200–400 range is the most appropriate for SEM analysis. Thus, the sample size in this study was deemed acceptable.

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## 4.5 Key Findings

The innovative marketing strategy included 17 items. Initially the insignificant values of intercorrelation between items were excluded; they were three items, viz., “Vision (VIS), Profit focus (PF) and Image (IMA).” All other values of the commonalities of 14 items from innovative marketing strategy were above 0.5, excluding “customer focus (IM13)” which had a value of 0.405. Development of MSME included 26 items. Initially the insignificant values of intercorrelation between items were excluded; they were six items, viz., “Return on asset(ROA), Gearing (GEAR), Gross value added (GVA), Number of enterprises (NEN), Ratio of Number of new products to total (RNP) and Duration to launch a new product (DLNP).” All values of the commonalities of 20 items from the development of MSME were above 0.5. Further, the factor of a component was decided based on an eigenvalue greater than 1. Four factors were identified from the exploratory factor analysis (Table 4.1). In summary, exploratory factor analysis identified three factors that could be extracted from the items related to innovative marketing strategy and four factors from MSME development. Our results presented a Cronbach’s value between 0.773 and 0.929 for each aspect (factors), thereby demonstrating the acceptable overall reliability of the questionnaire (as shown in Table 4.1). The eigenvalue of each factor was above 1, the cumulative explained variance exceeded 0.6, and the factor loadings of each item were all higher than 0.5.

The study also used AMOS software to conduct confirmatory factor analysis (CFA) in order to further determine the efficiency and construct validity of the measurement scale models. CFA showed that  $\chi^2/df$  is 3.5, root mean square residual (RMR) is 0.048, goodness-of-fit index (GFI) is 0.871, normed fit index (NFI) is 0.899, adjust goodness-of-fit index (AGFI) is 0.847, comparative fit index (CFI) is 0.92, and root mean square of approximation (RMSEA) is 0.060. All indexes of this model met or came close to the acceptable standards (Bentler 1990). Lower factor loading of all items should be deleted for latent construct due to the unidimensionality problem. For newly developed items, the factor loading for every item should exceed 0.5. For an established item, the factor loading for every item should be 0.6 or higher (Hair et al. 2014). Construct validity is made up of four components, viz., convergent validity, discriminant validity, nomological validity, and face validity (Hair et al. 2014). Convergent validity can be estimated by factor loadings, average variance extracted (AVE), and reliability (Table 4.2).

**Table 4.1** EFA result with factor loading and reliability of innovative marketing strategy and development of MSMEs

Aspects and items	Code	Factor loading	% of explained variance	Cumulative explained variance (%)	Cronbach's alpha
<i>Marketing variable (MI)</i>			48.622	48.622	0.902
Product enhancement	PE	0.83			
Use different marketing communications	DMC	0.82			
Adopt pricing system	PS	0.85			
Alteration of the distribution channel	DC	0.91			
Market centered	MC	0.90			
Customer focus	CF	0.61			
<i>Unique proposition (UP)</i>			15.336	63.958	0.888
New	NEW	0.84			
Unique	UNI	0.88			
Unconventional	UNC	0.77			
Product quality	PQ	0.94			
<i>Integrated marketing (IM)</i>			9.358	73.315	0.886
Proaction	PRO	0.85			
Change	CHA	0.76			
Marketing integration	MI	0.89			
Permeation of marketing throughout	PMT	0.89			
<i>Financial performance (FP)</i>			42.969	42.969	0.889
ROI	ROI	0.855			
Sales revenue	SR	0.878			
Cash flow	CAF	0.768			
Profitability rate	PIT	0.795			
Capital growth	CGR	0.550			
Labor productivity	LAP	0.753			
Number of employees	NOE	0.749			
<i>Customer performance (CP)</i>			14.850	57.820	0.929
Number of new customers	NNC	0.941			
Sales to new customers	SNC	0.890			
Sales to current customers	SCC	0.851			
Customer retention rate	CRR	0.820			
<i>Internal process performance (IPP)</i>			6.864	64.684	0.915

(continued)

**Table 4.1** (continued)

Aspects and items	Code	Factor loading	% of explained variance	Cumulative explained variance (%)	Cronbach's alpha
Technology for new process and new product development	NPD	0.923			
Production cost	PC	0.912			
Duration of productions	DP	0.759			
Defective production rate	DPR	0.715			
Ratio of on time delivery	ROTD	0.707			
<i>Learning and growth performance (LGP)</i>			5.230	69.914	0.773
Employee happiness	EH	0.956			
Gathering information about new product and customers	IAPC	0.715			
Employee turnover	ET	0.624			
Number of employee suggestion and implementation	ESI	0.593			

The standardized regression weight of all items is above 0.6 of the standardized regression weight except the customer focus (CF) with 0.524 and the number of employee suggestions and implementation of 0.546. AVEs of learning and growth performance are 0.461 which is close to 0.5 (Table 4.3). All other AVE values of constructs are above or close to 0.5. The values of the construct reliability of all factors are above 0.7 (Table 4.3). These measures ensured the validity of the factors which were adopted for the model. The diagonal value should be higher than the square root of AVE to prove the discriminant validity (Hair et al. 2014). All the factors have high discriminant validity and are given in Table 4.3.

#### 4.5.1 Structural Model Validity

AMOS 20.0 software was used to conduct SEM, following the criteria of the good model (Hu and Bentler 1999), to ensure consistency with the following criteria:  $\chi^2/df$  should be less than 3 (Hair et al. 2014), the RMSEA value should be less than 0.05, and the GFI, AGFI, RFI, NFI, and CFI indicators should be greater than 0.9 (Joreskog and Sorbom 1989). The findings indicated that the relevance of the overall model was close to, or met, the ideal standard, thereby demonstrating that the proposed model was acceptable, as shown in Table 4.4.

**Table 4.2** Factor loading of the measurement model

Items	Item no.	Factor loading
<i>Innovative marketing strategy</i>		
<i>Marketing variable (MV)</i>		
Product enhancement	PE	0.860
Use different marketing communications	DMC	0.825
Adopt pricing system	PS	0.865
Alteration of the distribution channel	DC	0.820
Market centered	MC	0.812
Customer focus	CF	0.524
<i>Unique proposition</i>		
New	NEW	0.830
Unique	UNI	0.796
Unconventional	UNC	0.804
Product quality	PQ	0.851
<i>Integrated marketing</i>		
Proaction	PRO	0.829
Change	CHA	0.836
Marketing integration	MI	0.804
Permeation of marketing throughout	PMT	0.783
<i>Financial performance</i>		
ROI	ROI	0.777
Sales revenue	SR	0.792
Cash flow	CAF	0.737
Profitability rate	PIT	0.744
Capital growth	CGR	0.731
Labor productivity	LAP	0.680
Number of employees	NOE	0.673
<i>Customer performance</i>		
Number of new customers	NNC	0.845
Sales to new customers	SNC	0.909
Sales to current customers	SCC	0.878
Customer retention rate	CRR	0.881
<i>Internal process performance</i>		
Technology for new process and new product development	NPD	0.801
Production cost	PC	0.856
Duration of productions	DP	0.867
Defective production rate	DPR	0.797
Ratio of on time delivery	ROTD	0.805
<i>Learning and growth performance</i>		
Employee happiness	EH	0.679
Gathering information about new product and customers	IAPC	0.776
Employee turnover	ET	0.693
Number of employee suggestions and implementations	ESI	0.546

**Table 4.3** Average variance extracted (AVE), construct reliability (CR), and discriminant validity of construct

	CR	AVE	IM	IPP	CP	FP	MV	UP	LGP
IM	0.887	0.662	<b>0.814</b>						
IPP	0.915	0.684	0.562	<b>0.827</b>					
CP	0.932	0.774	0.520	0.791	<b>0.880</b>				
FP	0.891	0.540	0.185	0.428	0.412	<b>0.735</b>			
MV	0.913	0.640	0.687	0.725	0.765	0.371	<b>0.800</b>		
UP	0.893	0.675	0.477	0.324	0.317	0.143	0.420	<b>0.822</b>	
LGP	0.771	0.461	0.339	0.564	0.512	0.677	0.489	0.204	<b>0.679</b>

## 4.5.2 Hypothesis Testing

According to the Path analysis, innovative marketing strategy (IMS) has a positive influence on the development of MSMEs (SRW = 0.88) as shown in Fig. 4.1, thereby supporting H1. IMS has a positive effect on financial performance (SRW = 0.46, Fig. 4.2), which supports H1a. IMS has an effect on customer performance (SRW = 0.85, Fig. 4.2), thus supporting H1b. IMS has a positive effect on the IPP (SRW = 0.91, Fig. 4.2), hence supporting H1c. IMS has an effect on the LGP (SRW = 0.60, Fig. 4.2), thereby supporting H1d. In summary, IMS enhances MSME development directly. Our results show (Table 4.5) that innovative marketing strategy has the greatest effect on SME development. However, with regard to the effect of innovative marketing strategies, the greatest influence appears to be the effect of innovative marketing strategy on IPP, followed by customer performance, then LGP, and ultimately financial performance.

## 4.6 Conclusion and Discussion

Despite IMS having been suggested for MSMEs, no studies have not sought the effect on the business performance in Sri Lanka. This study selected owners of MSMEs as respondents to investigate the influence of IMS with an effective measurement scale. The findings provide a valuable intangible resource for MSMEs. This study has developed an influencing model to illustrate the effectiveness of IMS implemented by MSMEs. From the findings of the study, three dimensions were diagnosed for the MSMEs in the Sri Lankan context. These included marketing variables, integrated marketing, and unique proposition.

This research indicated that “marketing variables” contribute highly to MSMEs. Hence, MSMEs need to apply the marketing variables (0.92) of IMS on a weekly basis. Under the marketing variables, product enhancement, pricing system, and marketing communications are the most important factors for MSMEs. Moreover, distribution channel, market centered, and customer focus are the other important factors for marketing variables. The second important variable for IMS is “integrated marketing” which includes change, proaction, marketing integration, and the permeation of marketing throughout. Among these factors, change and proaction

**Table 4.4** Structural model validity

$\chi^2$	df	$\chi^2/\text{df}$	<i>p</i> -value	RMR	GFI	AGFI	NFI	CFI	RMSEA
2551.607	1022	2.497	0.00	0.088	0.865	0.854	0.861	0.911	0.047



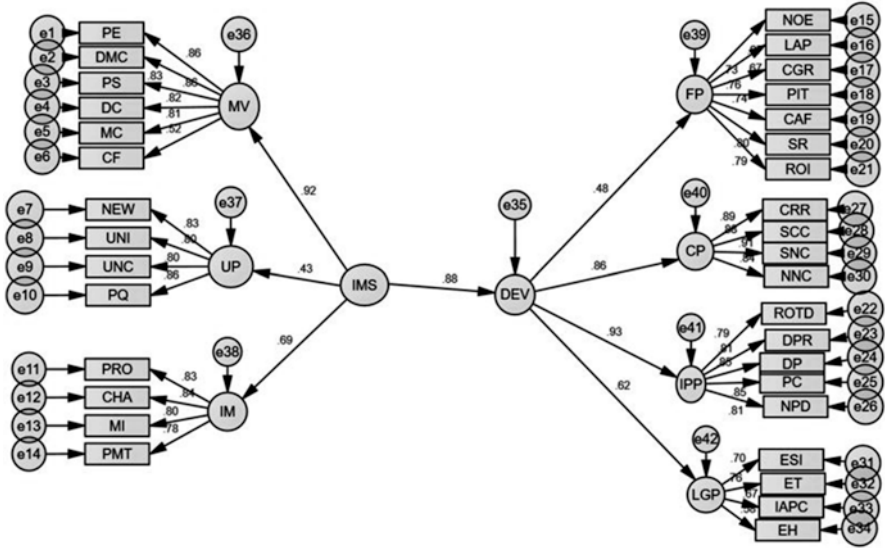


Fig. 4.1 Path model of IMS and development of SMEs

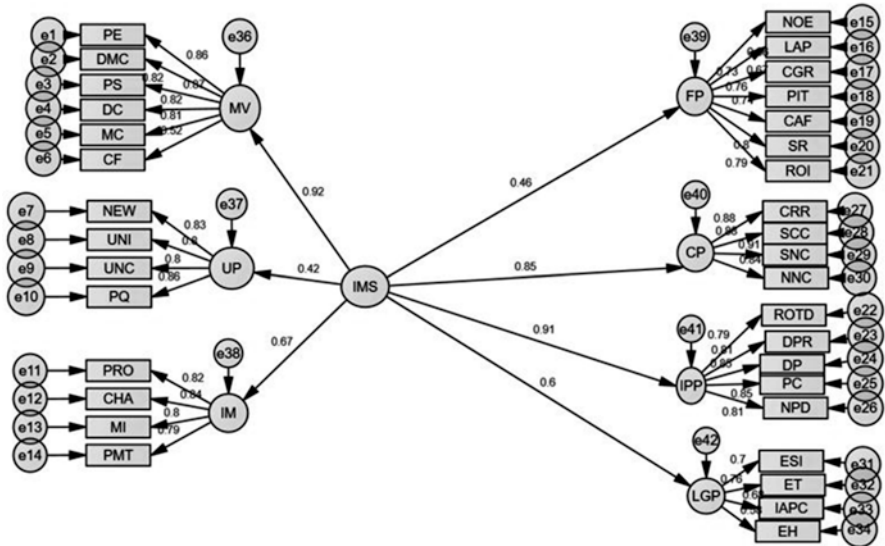


Fig. 4.2 Path model of IMS and dimension of the development of SMEs

are the effective factors for the integrated marketing of IMS. MSMEs need to apply the integrated marketing of IMS (0.67) for every month. The third vital variable of IMS is “unique proposition” which includes product quality and can be new, unconventional, and unique. Product quality needs to be a highly considered factor for unique proposition. The newness and unconventional aspects of products or

**Table 4.5** Hypotheses of IMS and development of SMEs

Hypotheses	Standardized regression weights (SRW)	Significant level	Conclusion
Innovative marketing strategy – development	0.88	0.000	H1: accepted
Innovative marketing strategy – financial performance	0.46	0.000	H1a: accepted
Innovative marketing strategy – customer performance	0.85	0.000	H1b: accepted
Innovative marketing strategy – internal process performance	0.91	0.000	H1c: accepted
Innovative marketing strategy – learning and growth performance	0.60	0.000	H1d: accepted

services are also significant factors for a unique proposition. This research indicated that MSMEs need to apply the unique proposition of IMS (0.42) on a yearly basis.

Our results identified one key path, through which IMS highly induces the development of MSMEs. The second most important path is the enhancement of internal process performance by applying the IMS. This research proved that innovative marketing strategy also has a high influence on the internal process performance, particularly a firm admits short duration to produce products/services with a low cost of production. Firms adopted advanced technology for new process and product/service development. It also caused a low defective production rate. The third path is that IMS enhances customer performance. This result demonstrates the vigorous customer development of MSMEs through the IMS application in the Northern Province. This result indicated that MSMEs obtain new customers, increase sales to new and existing customers, and continuously retained customers by applying IMS. Next, the findings ensured that IMS induces the learning and growth performance of MSMEs. This result explains the need for IMS to foster positive learning and growth performance of MSMEs. By applying this strategy, the most important benefit is that the firm gathered information about new products/services as well as its customers. Meanwhile the second benefit is that it was possible to have a low employee turnover. Further employees of MSMEs are willing and happy to learn and grow in their work, and employees are highly open to giving suggestions and implementations. Finally, this result revealed that IMS influences on the financial performance of MSMEs. According to the result, by applying IMS, MSMEs are possible to earn high sales revenue and ROI, then earn an adequate profit, and have sufficient cash flow. Another important benefit is that it increases the capital investment of the business. At last this strategy helps to sustain high labor productivity and increase the number of employees for MSMEs' work.

Our findings suggest that MSMEs should persist with IMS in order to develop their performances of MSMEs, which is consistent with the findings of Finoti et al. (2017) and Haddad et al. (2019). MSMEs are able to use innovative marketing strategies on a weekly basis and continue to implement IMS in order to develop themselves which was previously described by Baker and Hart (2008). Our result

indicates that IMS enhances the internal process performance which is consistent with Carroll (2002) and Stokes (2000). Furthermore, IMS induces the customer performance of MSMEs, which is consistent with the literature of Karabulut (2015), Kandampully (2002), and Stokes (2000). The innovative marketing strategy has a positive effect on learning and growth performance of SMEs. This is an important finding that is related to Carroll (2002) and Ettlle and Subramaniam (2004). Innovative marketing strategy had a positive effect on the financial performance of SMEs, which is consistent with the O'Dwyer, Gilmore, and Carson, (2009a, b) and Cummins et al. (2000). These results indicate that MSMEs should apply innovative marketing strategies to develop performance.

#### **4.6.1 Limitations and Suggestions**

This study examined MSMEs in the Northern Province. Most of the enterprises are on a micro level. These results are not generalized to medium enterprises. Further research can take MSMEs from other provinces, thus allowing for comparison among the two sets of data. MSMEs have certain characteristics such as size and age of the firm, which may exercise an influence over the result and may be considered as the moderating variable of the cause-effect relationship between innovative marketing strategy and performance. Regarding research methodology, 15 categories of MSMEs were adopted for this study. Future researchers can accommodate more categories of MSMEs. This research applied variables which existed in the literature and concepts and did not explore new variables. Future researchers could explore variables of innovative marketing strategy with a qualitative study relating to the context of MSMEs in Sri Lanka.

#### **4.6.2 Implications**

The current study integrates the resource advantage theory with the innovative marketing theory and balance scorecard theory of performance in driving the theoretical framework. Meanwhile, the framework addresses the specific nature of MSMEs in Sri Lanka. Therefore, the framework of the study is new for the area and deviates from the conventional frameworks applied in the various other areas. This empirical investigation has confirmed the value of a marketing strategy to develop the MSMEs. This study attempts to answer an unproved aspect of previous studies. Accordingly, the effect of innovative marketing strategy on the development of MSMEs has been tested. This study ensured the essential each factor of innovative marketing strategy for MSMEs. Further to this, the study found that financial, customer, learning and growth, and internal process performance are the vital dimensions of the performance development of MSMEs in Sri Lanka. Moreover, this indicated that the MSMEs prefer to apply innovative marketing strategy to achieve more financial success, increase customers, increase internal process, and increase learning and growth in this postwar market. Altogether this study indicated that innovative marketing strategy boosts the development of MSMEs. As far as MSMEs are concerned, the most critical challenge

is to develop a MSME in a developing country. Marketing strategy helps to manage the aforementioned challenges. In addition to that, the developed framework can be used as a strategic plan for the development process of the MSME sector. This can be done by determining the appropriate level of a marketing strategy for the development of MSMEs. The value of this research is to use this model as an instrument to improve the MSME sector. In particular, innovative marketing strategies can be instrumental in bringing about improvement in financial success, customer performance, internal process performance, and learning and growth performance. Moreover, owners of MSMEs can understand each innovative marketing features and the level of each factor that must be maintained in the Sri Lankan context. MSMEs implement innovative marketing programs to enhance their performance.

### **Takeaways: Marketing Strategy Lesson for MSMEs**

*Lesson 1: Understand the need and value of IMS for MSMEs.* This study has developed an influencing model which illustrated the effectiveness of IMS to MSMEs. Findings produced a valuable intangible resource for MSMEs. MSMEs need to apply IMS when facing challenging and competitive environments. This research also explains the value of IMS for the stakeholders of MSMEs.

*Lesson 2: Diagnose the readiness of the MSMEs to adopt IMS.* MSMEs suffer from limited resources pertaining to finance, human, organizational, and relational resources. This research diagnosed the unique capabilities of MSMEs when using IMS. MSMEs need to devote their time to apply the IMS to overcome their barriers. This research suggested three dimensions of IMS, namely, marketing variables, integrated marketing, and unique proposition. MSMEs need to apply the marketing variables of IMS for every week, the integrated marketing of IMS for every month, and the unique proposition of IMS for every year.

*Lesson 3: Understand the characteristics of MSMEs' marketing.* MSMEs have the features of resource scarcity, while at the same time they have flexible structure and decision-making characteristics. This research considered the features of MSMEs in a developing country and postwar market features which contain huge problems and challenges as opposed to MSMEs in developed countries.

*Lesson 4: Identify the broad scope of performance development of MSMEs.* In this research, the stakeholder-based balanced scorecard performance and the MSME's development indicators were applied when producing the *performance development of MSMEs*. This broad scope includes financial performance, customer performance, internal process performance, and learning and growth performance.

*Lesson 5: Evaluate the influence of IMS on the development of MSMEs.* This research proved that there is a significant influence of IMS on the development of MSMEs. In particular, the results indicated that the implementation of innovative marketing strategies by MSMEs can help to boost internal process performance and assist with vigorous customer development of MSMEs through the IMS in Northern Province. Moreover, the findings ensured that IMS induces the learning and growth performance as well as the financial performance of MSMEs.

## Reflection Questions

1. What is the current value of the innovative marketing strategy for the MSMEs in Sri Lanka?
2. What are the important dimensions and indicators of IMS in relation to MSMEs in Sri Lanka?
3. What are the current problems and challenges of MSMEs in Sri Lanka?
4. What types of performance are expected to develop for MSMEs in Sri Lanka?
5. To what extent does innovative marketing strategy contribute to the success of MSMEs in Sri Lanka?

## Appendices

### Appendix 4.1

Sector	Criteria	Medium	Small	Micro
Manufacturing sector	Annual turnover	Rs. Mn. 251–750	Rs. Mn.16–250	Less than Rs. Mn. 15
	No. of employees	51–300	11–50	Less than 10
Service sector	Annual turnover	Rs. Mn. 251–750	Rs. Mn.16–250	Less than Rs. Mn. 15
	No. of employees	51–200	11–50	Less than 10

### Appendix 4.2

	SME groups	Criteria (number of persons engaged)
Industry and construction	Micro	1–4
	Small	5–24
	Medium	25–199
	Large	200 and above
Trade	Micro	1–3
	Small	4–14
	Medium	15–34
	Large	35 and above
Services	Micro	1–4
	Small	5–15
	Medium	16–74
	Large	75 and above

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