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Impacts of Marketing Capabilities on Competitive Advantage and Business Performance: Application of IPMA

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Abstract

Purpose: Based on the resource-based view and the competitive advantage theory, the study views marketing capabilities (product, pricing, delivery/inventory, and promotional support) as sources of competitive advantage (differentiation advantage and low-cost advantage) and examines their impacts on competitive advantage, which in turn, will influence non-business and business performance. **Research design, data and methodology:** Data were collected from 149 representatives of franchising companies in South Korea and analyzed with SmartPLS 3.3.7. **Results:** First, promotional support and product have a significant impact on differentiation advantage. Second, pricing and promotional support have a significant impact on low-cost advantage. Third, differentiation advantage has an influence on non-financial and financial business performance. Fourth, low-cost advantage has an impact on non-financial performance but has no significant direct impact on financial performance. Fifth, non-financial performance is related to financial performance. Finally, the result of IPMA shows that importance and performance values of exogeneous variables are different depending on firm size. **Conclusions:** The findings suggest that franchisors should focus on different marketing capabilities depending on their strategic focus and objectives. Finally, the findings based on an IPMA suggest that small companies perceive low-cost advantage as important, while their counterparts do not. Several theoretical and managerial implications are offered.

Keywords: Marketing Capabilities, Competitive Advantage, Non-financial and Financial Performance, Franchising Company, Importance-Performance Map Analysis

JEL Classification Code: L1, L8, M3

1. Introduction

As competition in the franchising industry intensifies, companies need to develop marketing strategies that will help them stand out among competitors and achieve competitive advantage. This study uses a model grounded on the resource-based view and the competitive advantage theory. According to the resource-based view, firms have different resources, and effective use of resources will help them achieve competitive advantage. Some scholars viewed marketing capabilities as high-order resources and treated

them as sources of competitive advantage. Our study, based on this view, examines the effect of marketing capabilities on two types of competitive advantage (low-cost advantage and differentiation advantage), which, in turn, influence two dimensions of business performance (non-financial performance and financial performance). Competitive advantage is realized when a firm achieves a superior or favorable position in the market place. The link between competitive advantage and business performance has been well documented in the literature. This is because customers (or consumers) tend to choose a firm when the firm's

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offerings are better than its competitors'. Our study that examines the relationship among marketing capabilities, competitive advantage, and business performance has some important strategic implications for franchisors.

While some scholars (Kim & Jang, 2007; Lee, Lim, & Yoon, 2005) examined the effect of franchising companies' marketing capabilities on non-financial performance (e.g., customer satisfaction), their focus was on franchisees' perspectives, and, thus, did not include financial aspects of business performance (e.g., revenue, profits). Our study, examining from the perspectives of franchising companies, offers deeper insights into how franchise operators link marketing capabilities to competitive advantage and business performance. Our study is in response to the gap in the Korean franchise literature regarding the relationship among marketing capabilities, competitive advantage, and business performance (Lee et al., 2005). One of the contributions of our study is related to an examination of four marketing functions as marketing capabilities. Some previous studies (e.g., Lee, Kim, & Seo, 2015) did not use a dimensional approach to marketing capabilities and treated marketing capabilities as an overall general concept, limiting managerial implications. Our study, by using four dimensions of marketing capabilities, will shed some light on how franchisors should deploy resources in order to succeed. Our study also viewed competitive advantage and business performance as multi-dimensional. The dimensional approach would allow us to understand differential effects of the antecedents on the outcome variables. Several previous studies indicate that non-financial performance such as service image (Lee, Park, & Yoo, 1999), employee satisfaction, customer satisfaction, and corporate image (Lee, Kim, & Lee, 1998) are linked to financial performance. Based on prior research, our study investigates the effect of competitive advantage on non-financial performance and financial performance, while treating non-financial performance as a mediator between competitive advantage and financial performance.

A review of the literature indicates that resources and capabilities required to achieve business performance may differ based on the industry. Our study aims to understand the role of firm size in the relationship among marketing capabilities, competitive advantage, and business performance. Currently, very little is known about how firm size plays a role in shaping strategic directions for franchising companies. Our study is the first one, to our best knowledge, to use an importance-performance map analysis (IPMA) in franchise studies. The result will offer some important managerial implications as to how firms should deploy resources depending on the size.

Specifically, our study aims to answer the following research questions.

(a) What is the most important marketing capability to achieve low-cost competitive advantage and differentiation competitive advantage?

(b) What is the relationship between two types of competitive advantage and two dimensions of business performance (non-financial performance and financial performance)?

(c) Does non-financial performance mediate the relationship between competitive advantage and financial performance? If so, does it mediate the relationship fully or partially?

(d) Does firm size account for differences in importance and performance of the antecedents that predict financial performance?

2. Literature review

2.1. The resource-based view and marketing capabilities

The resource-based view is grounded on the tenet that organizations have different levels of resources and capabilities, and effective utilization of them will help organizations achieve a desirable position in the marketplace (Hunt & Madhavaram, 2012; Tan & Sousa, 2015). This view considers two dimensional requirements: (a) resources and (b) capabilities. Resources are tangible and intangible assets that an organization owns, while capabilities are knowledge and skills that are necessary for the organization to deploy the resources. Day (1994, p. 38) defines capabilities as "a complex set of skills and accumulated knowledge that is implemented through organizational processes that enable a firm to coordinate its activities and use its assets". Based on this definition, we view marketing capabilities as marketing-related skills and knowledge that involve organizational processes and activities. From this, we can infer that there are multiple dimensions of marketing capabilities. Prior research examined different dimensions of marketing capabilities. Alnawas and Hemsley-Brown (2019) considered three types of marketing capabilities: customer relationship management capabilities, branding capabilities, and service innovation capabilities. Similarly, Fang and Zou (2009) examined product development capabilities, customer relationship management capabilities, and supply chain management capabilities. Not surprisingly, some scholars focused on four major functions of marketing (also known as marketing mix variables), that are, product, price, place (distribution), and promotion (Tan & Sousa, 2015). Examining four major functions of marketing is useful because they can be planned, implemented, and controlled by the management. Furthermore, they are the organization's major marketing activities that are intended to achieve the

organization's objectives. In fact, Tan and Sousa (2015) considered the four marketing mix variables and examined their effects on competitive advantage and business performance in the export industry. Following the McCarthy's (1964) proposal of 4ps (Product, Price, Place, and Promotion), some scholars considered additional Ps to embrace the broader view of marketing functions. The additional Ps include people, package, payment, personalization, precision, physical evidence and process (Booms, & Bitner, 1981; Chen, 2006; Lawrence et al., 2000). In an attempt to preserve a parsimonious model, we focus on four major functions of marketing (4Ps) in our study.

We view that resources and capabilities that are required for an organization to succeed may differ based on the industry. Hunt and Madhavaram (2012) suggest that different resources and capabilities are needed to target and serve different market segments. As an example, effective distribution may be a critical factor for manufacturers that are heavily dependent on retailers. On the other hand, distribution may not be relevant to the airline industry. Prior research on the franchising industry suggests that all four major functions of marketing are important to the franchising industry, and they are known to have a direct influence on business performance (Lee et al., 2005). Based on previous studies, our study considers four functions of marketing to examine their effects on competitive advantage.

The resource-based view also suggests that unique resources and capabilities are hard to be imitated by competitors, and, thus, may lead to competitive advantage (Day & Wensley, 1998; Hunt & Madhavaram, 2012). This means that acquiring competitive advantage necessitates not only having unique resources but also developing marketing capabilities to effectively deploy the resources.

2.2. Competitive advantage

Competitive advantage is a condition that puts a firm in a favorable or superior business position compared to its competitors. Competition theorists (Hunt & Morgan, 1995) view that achieving competitive advantage is extremely important in a competitive marketplace because customers make a purchase decision based on a comparison between offerings of the firm and those of the competitors (Day & Wensley, 1988). Thus, some scholars (Hunt & Morgan, 1995) argue that competition is not based on quantity in competition but rather comparative advantage (comparison). Prior research (Hunt & Morgan, 1995; Porter, 1985; Tan & Sousa, 2015) suggests two major types of competitive advantage: low-cost advantage and differentiation advantage. A low-cost advantage occurs when a firm keeps costs lower than its competitors. A firm in this position can transfer cost savings to its customers by offering lower prices, achieving a competitive position. Walmart is a prime example of

having a low-cost advantage. Differentiation advantage occurs when a firm achieves superiority by being unique and different from the competitors. Firms have used different approaches to stand out from competitors by focusing on certain marketing dimensions. For example, Dyson is known for its superior high-quality vacuum cleaners that outperform its competitors. Zara, a great example of the fast fashion industry, has successfully integrated supply chain to achieve efficiency in distribution, and as a result, differentiated itself from the competitors. Prior research investigated the impact of competitive advantage on business performance and showed a link between competitive advantage and business performance (Hunt & Morgan, 1995; Tan & Sousa, 2015). Based on prior research, our study examines two dimensions of competitive advantage (low-cost advantage and differentiation advantage) and their effects on business performance.

2.3. Business performance

Business performance can be measured in terms of financial performance and non-financial performance. Financial performance measures are typically quantifiable and are assessed with regard to profit, sales, return on investment, and market share. On the other hand, non-financial performance measures are non-quantifiable and subjective, and involve corporate image, reputation, customer satisfaction, employee satisfaction, and loyalty. Although some previous studies used quantitative data extracted from corporate financial reports as a proxy of financial performance, a majority of the previous studies used subjective measures because of their easy measurement (Prieto & Revilla, 2006). Following the approach of prior research, our study measures financial performance using respondents' subjective evaluation of the firm. In addressing non-financial business performance, many previous studies (Bordonaba-Juste, & Polo-Redondo, 2008; Davis, Lassar, Manolis, Prince, & Winsor, 2011) used satisfaction as a global evaluation of the firm and treated it as an important antecedent of behavior (e.g., purchase, re-purchase). For example, Lee, Nor, Choi, Kim, Han, and Lee (2016) found in the franchisor-franchisee relationship context that satisfied franchisees are more likely to remain with the franchisor than their counterparts. Thus, we view satisfaction as a global evaluation of the firm and use it to measure non-financial business performance.

3. Hypotheses

3.1. Relationship between marketing capabilities and competitive advantage

We anticipate that all four dimensions of marketing capabilities will have a direct positive influence on differentiation advantage. Our explanation is as follows. According to the resource-based view, marketing capabilities are conceptualized as organization-wide skills and knowledge that enable firms to effectively utilize resources to achieve superiority in the marketplace (Hunt & Madhavaram, 2012; Hunt & Morgan, 1995). This view leads to the inference that firms will be able to use resources more efficiently when they have marketing capabilities (Hunt & Madhavaram, 2012; Hunt & Morgan, 1995). A review on the definition of efficiency may be helpful for our understanding of the relationship between marketing capabilities and competitive advantage. Efficiency is determined by the ratio of output relative to input (Imad, Latef, & Osman, 2022). Efficiency can be achieved when the output is greater than the input. Following the resource-based view, we regard resources as an input and competitive advantage as an output (Hunt & Madhavaram, 2012). We view capabilities as enablers that transform input into output. This view is in alignment with others who view marketing capabilities as high-order resources (Hunt & Madhavaram, 2012). Because efficient firms can produce greater output in terms of both quantity and quality than their competitors, they will have a better chance of differentiating themselves from the competitors and achieving superiority in the marketplace.

We also expect that four dimensions of marketing capabilities will have a positive impact on low-cost advantage. Well-planned and executed marketing strategies (i.e., marketing capabilities) should help a firm achieve cost savings as the firm attains efficiency. As discussed above, efficiency is viewed as the ratio of output relative to input (Imad, Latef, & Osman, 2022). Based on this perspective, efficiency can be attained when a firm expends less resources (input) in achieving the same amount of output, which leads to cost saving. Thus, we expect that marketing capabilities will positively influence an acquisition of low-cost advantage. Our hypothesis that marketing capabilities will have a positive impact on both differentiation advantage and low-cost advantage are supported in the literature. For example, Tan and Sousa (2015) and Murray, Gao, and Kotabe (2011) report that marketing capabilities related to pricing, new product development, and marketing communication have a positive influence on lowering costs and gaining differentiation advantage in the export industry.

H1: Marketing capabilities (product (H1-1), pricing (H1-2), delivery/inventory (H1-3), and promotional support (H1-4)) will have a positive impact on differentiation competitive advantage.

H2: Marketing capabilities (product (H2-1), pricing (H2-2), delivery/inventory (H2-3), and promotional support

(H2-4)) will have a positive impact on low-cost competitive advantage.

3.2. Relationship between competitive advantage and business performance

We propose that competitive advantage will positively influence a firm's business performance. As discussed before, customer's purchase decision is not made in a void but rather in a competitive market with a vast array of choices (Hunt & Madhavaram, 2012). Thus, achieving competitive advantage will put the firm in a favorable position compared to the competitors, leading to better business performance. More specifically, we propose differentiation advantage will have a positive impact on business performance. Our rationale is that a firm with differentiation advantage will be able to attract and retain customers more easily than their competitors as customers are drawn to unique offerings of the firm. This will result in better financial performance (e.g., sales) and non-financial performance (e.g., customer satisfaction). Similarly, we view that low-cost advantage will be positively related to business performance. A firm with low-cost advantage will be able to offer lower prices to the customers than its competitors, and this will lead to customers' perceptions of value and result in increased demand, improving both financial and non-financial business performance.

Previous studies (Newbert, 2008; Zhou et al., 2009) support our viewpoint by showing a link between competitive advantage and business performance. Newbert (2008) shows that competitive advantage is positively related to financial performance such as revenue growth, market share, and profitability. Zhou et al. (2009) suggest that differentiation advantage is a predictor of positive business performance including customer satisfaction, customer retention, and financial performance. Haseeb, Hussain, Kot, Androniceanu, & Jermsittipareert (2019) also show that sustainable competitive advantage predicts sustainable business performance.

Additionally, we propose that non-financial performance will have an impact on the firms' financial performance. Evidence on the strong relationship between non-financial performance and financial performance is well documented in the literature (Gomez, McLaughlin, & Wittink, 2004; Lee, Jang, & Lee, 1999; Tan & Sousa, 2015). For example, Lee et al. (2016) showed that non-financial performance as measured with franchisee satisfaction had a positive impact on financial performance that were measured with franchisees' long-term orientation and intentions to stay with the franchisor. A review of the literature indicates that non-financial performance including customer satisfaction and value perceptions is a good indicator of financial performance such as stock price, market share, and revenue

(Chandrashekar & Citrin, 2010; Gomez, McLaughlin, & Wittink, 2004; Lee, Jang, & Lee, 1999; Otto, Szymanski, & Varadarajan, 2020).

H3: Differentiation competitive advantage will have a positive impact on business performance (non-financial financial performance (H3-1) and financial performance (H3-2)).

H4: Low-cost competitive advantage will have a positive impact on business performance (non-financial performance (H4-1) and financial performance (H4-2)).

H5: Non-financial performance will have a positive impact on financial performance.

4. Methodology

4.1. Sampling and data collection

Data were collected from representatives of franchisors across different industries in South Korea. The respondents consisted of CEOs, directors, managers, and department heads who had knowledge on the company's marketing strategies and business performance. If the company had multiple business units, we treated strategic business units (SBU) of the company as separate entities. We used a list of franchise companies that were registered with the Fair Trade Commission, and only one person from a SBU or a company was asked to fill out the survey. Our sampling method was a judgment sampling method, which served the purpose of our study well. We reached out to 800 franchise companies and asked the respondents to fill out the survey. The questionnaire was distributed and retrieved in person, by phone, or by mail. In order to increase the response rate, we offered a free book on franchising as an incentive. We collected 207 responses. We excluded 58 responses due to missing information and disqualification of the respondents. Franchisors with fewer than 10 franchisees were excluded from the analysis. Finally, the total number of responses used for data analyses was 149.

4.2. Measures

All constructs were measured on a 7 - point scale of "1 = strongly disagree" and "7 = strongly agree" (see Appendix 2). We measured marketing capabilities using four dimensions including product (five items), pricing (3 items), delivery & inventory (7 items), and promotional support (6 items) based on Lee et al. (2005). Competitive advantage was measured with two dimensions: differentiation advantage (4 items) and low-cost advantage (3 items). The measures were adopted from the study of Li and Zhou (2010). We measured non-financial business performance using

franchisee satisfaction and franchisees' perceptions of their customers' satisfaction. Finally, financial performance was measured by asking the respondents to answer six subjective measures of financial performance (Miller & Lee (2001).

5. Analyses

5.1. Demographic profile of the respondents

Appendix 1 shows a profile of the respondents. A majority of the respondents were male (89.9%), 40 years of age or older (68.4%) and had a four-year college degree or higher (74.5%). About 43% of the respondents were with franchise companies that had an annual revenue of 100 billion won, followed by the group that had a revenue of 10-50 billion won. About 47% of the respondents were from the companies that had 10-30 employees at the headquarters. About 32.9% of the respondents worked for companies that had fewer than 50 franchisees, followed by the group of 100-299 franchisees (24.8%), 50-99 franchisees (24.2%), 300 or more franchisees (18.1%) (See Appendix 1).

5.2. Measurement model assessment

A measurement model analysis was performed with SmartPLS 3.3.7 to assess reliability and validity of the constructs. One item was excluded from the product construct based on the result of the measurement model analysis. As shown in Appendix 2, the composite reliabilities (CR) values exceeded 0.7, demonstrating internal consistency reliability. Convergent validity was indicated because the average variance extracted (AVE) values were greater than the threshold of 0.5. The squared values of AVE were larger than the correlation values between latent constructs. In addition, the heterotrait-monotrait (HTMT) ratio of correlations value was lower than 0.90 (Henseler, Ringle, & Sarstedt, 2015). These support discriminant validity.

5.3. Common method bias assessment

To reduce common method bias (CMB), we used several procedural and statistical approaches (Kang, Sinha, Park, & Lee, 2021). First, we conducted a pre-test on the questionnaire. Based on the result, we eliminated some items that were considered difficult or ambiguous for respondents to comprehend or interpret. Second, in order to increase the response rate and promote accuracy of the responses, we explained our study purpose to the respondents and offered specific instructions on how to fill out the survey (Podsakoff et al., 2003, 2012). Third, the order of independent variables,

mediators, and dependent variables was changed on the questionnaire so that they were not presented simultaneously on one page. This was done to prevent respondents from being exposed to the list of questions in the order presented in the proposed model. We also used a statistical approach. Following the Kock (2015)' procedure, we performed a common method bias assessment using VIF (variance inflation factor) values. The VIF values were lower than 3.3 (VIF = 1.602 – 2.191), indicating common method bias was not a problem.

5.4. Model assessment

We assessed the structural model using following criteria with SmartPLS 3.3.7 (Hair, Hult, Ringl, & Sarstedt, 2017; An, 2021; Kim, 2021) (see Figure 1). PLS is a desirable multivariate data analysis method for a small sample size because it can maximize variance explanatory power while minimizing structural errors (Chin, 1998; Hair et al., 2017). We took several approaches to assess the model. First, we used a variance inflation factor (VIF) to assess multicollinearity among exogenous constructs. The VIF values were in the range between 1.602 and 2.191, which were lower than the cut-off value of 10. This means multicollinearity was not an issue. Second, we used variance explained (R^2) in the endogenous constructs to assess the predictive power of the model. As shown in Appendix 4, the R^2 values (0.363 to 0.483) of the independent variables explaining the predictive power of the model were moderate according to the study of Chin (1998). Third, we checked the cross-validated redundancy Q^2 -values (0.248 to 0.348), and they were higher than 0. This means that the model had predictive relevance. Finally, the value of the standardized root mean squared residual (SRMR) that explains the overall model fit, was 0.090. This value was smaller than the 1.0 cut-off level (Hu & Bentler, 1998), indicating that the overall model fit was good.

5.5. Hypotheses testing

H1 states that four dimensions of marketing capabilities (product, pricing, delivery/inventory, and promotional support) will have a positive impact on differentiation competitive advantage. As shown in Appendix 4, product ($\beta = 0.193$, $t = 2.366$, $p < 0.05$) and promotional support ($\beta = 0.491$, $t = 5.576$, $p < 0.01$) significantly influence differentiation advantage. However, pricing ($\beta = 0.129$, $t = 1.322$, n.s) and delivery/inventory ($\beta = -0.123$, $t = 1.224$, n.s) do not have a significant impact on differentiation advantage. Hypotheses H2 addresses the effect of four dimensions of marketing capabilities on low-cost competitive advantage. The finding shows that pricing ($\beta = 0.302$, $t = 3.816$, $p < 0.01$) and promotional support ($\beta = 0.421$, $t = 4.721$, $p < 0.01$)

significantly influence low-cost advantage. However, product ($\beta = 0.269$, $t = 0.788$, n.s) and delivery/inventory ($\beta = 0.064$, $t = 0.742$, n.s) do not have a significant impact on low-cost advantage. H3 posits that differentiation advantage will have a positive impact on business performance (non-financial and financial). The result shows that differentiation advantage significantly influences both non-financial ($\beta = 0.298$, $t = 3.207$, $p < 0.01$) and financial performance ($\beta = 0.357$, $t = 3.641$, $p < 0.01$). H4 states that low-cost advantage will have a positive influence on non-financial and financial performance. The result shows that low-cost advantage significantly influences non-financial performance ($\beta = 0.423$, $t = 5.624$, $p < 0.01$), but has no significant effect on financial performance ($\beta = 0.052$, $t = 0.572$, n.s.). H5 predicts that non-financial performance will have an impact on financial performance, and the hypothesis was supported ($\beta = 0.370$, $t = 3.634$, $p < 0.01$).

5.6. Effect Size (f^2) Analysis

In order to assess relative contribution of the exogenous constructs to an explanation of the endogenous constructs, we used effect size (f^2). Cohen (1998) offers guidelines for determining an effect size: 0.02 (small), 0.15 (medium), and 0.35 (large). Appendix 5 shows that the effects of promotional support (0.193) and product (0.036) on differentiation advantage were medium and small, respectively. It also shows that the effects of promotional support (0.176) and pricing (0.105) on low-cost advantage were medium and small, respectively. The effects of differentiation advantage on both non-financial performance (0.084) and financial performance (0.118) were found to be small. The effect of low-cost advantage on non-financial performance was found to be medium (0.170). Finally, we found the effect size of non-financial performance on financial performance to be medium (0.145).

5.7. Mediation test

The mediating role of non-financial performance in the relationship between competitive advantage and financial performance was tested using bootstrapping (Zhao et al., 2010; Kang, Sinha, Park, & Lee, 2021). Appendix 6 shows that non-financial performance plays a partial mediating role in the relationship between differentiation advantage and financial performance. This is based on the finding that financial performance was significantly affected by differentiation advantage ($\beta = 0.110$, $t = 2.071$, $p < 0.05$) even in the presence of non-financial performance ($\beta = 0.357$, $t = 3.666$, $p < 0.01$). The indirect effect of differentiation advantage on financial performance was also significant ($\beta = 0.110$, $t = 2.071$, $p < 0.05$) (CI [LLCI, ULCI] = [0.029, 0.237]). The study finds that non-financial performance fully

mediates the relationship between low-cost advantage and financial performance. This is based on the finding that the direct effect of low-cost advantage on financial performance was not significant ($\beta = 0.052$, $t = 0.570$, n.s.) in the presence of non-financial performance. However, the effect of low-cost advantage on non-financial performance was significant ($\beta = 0.423$, $t = 5.554$, $p < 0.01$), and the indirect effect of low-cost advantage on financial performance was significant ($\beta = 0.157$, $t = 3.181$, $p < 0.05$) (CI [LLCI, ULCI] = [0.073, 0.264]).

5.8. IPMA by company size

We used an Importance Performance Map Analysis (IPMA) by firm size to identify and assess importance and performance levels of the constructs used for explaining financial performance. Company size has been considered an important variable for explaining different dynamics and relationships among constructs (Fang & Zou, 2009; Jeng & Pak, 2016). We divided the sample into two groups based on the company size. The first group consisted of companies with 100 or fewer franchised stores (small size). The second group was comprised of companies that had more than 100 franchised stores (large size). Figure 1 shows the result of IPMA for the two groups.

IPMA is a helpful analysis tool as it will point out variables that are considered of high importance with low performance or high performance with low importance in explaining the target construct (financial performance). Our finding shows that for small size companies, variables that were considered of high importance and low performance are non-financial performance (franchisee satisfaction), differentiation advantage, low-cost advantage, and promotional support (in this order). The study also finds that variables that were considered of high performance and low importance are product, pricing, and delivery/inventory (in this order). For large size companies, variables that were considered of high importance and low performance include differentiation advantage, non-financial performance (franchisee satisfaction), and promotional support (in this order). Variables that were considered of high performance and low importance are in the order of product, delivery & inventory, and pricing. Low-cost advantage was found to be considered low importance and low performance by large companies. The IPMA result shows that the major difference between small and large companies is related to their perceptions of low-cost advantage. While small companies view low-cost advantage as important, large size companies do not. However, all companies, regardless of size, perceive that they were not good at achieving low-cost advantage.

6. Discussion and implications

We integrated the resource-based view into the competitive advantage theory to hypothesize that marketing capabilities including product, pricing, delivery/inventory, and promotional support will have a positive impact on differentiation advantage and low-cost advantage. We also predicted that competitive advantage (differentiation advantage and low-cost advantage) would affect the firm's non-financial performance and financial performance. Our findings are discussed below.

First, the study finds that promotional support is the most important marketing mix variable in achieving competitive advantage. This is the only marketing mix variable that strengthens both low-cost advantage and differentiation advantage. The significant effect of promotional support makes sense because promotional support is intended to deliver value to franchisees by communicating benefits to the franchisees and offering franchisees deals and incentives. Second, delivery/inventory marketing capability was found to have no significant effect on differentiation advantage or low-cost advantage. This is interesting. One of the plausible explanations is that franchisors do not place high value on delivery & inventory because this component of business is already embedded in the franchise business model. Our explanation is consistent with the study finding based on IPMA that neither small size companies nor large size companies considered delivery/inventory important. Consistent with our study finding, Tan and Sousa (2015) found that delivery/inventory marketing capability had no significant effect on competitive advantage in the export industry. Third, product-related marketing capability is shown to have a significant effect on differentiation advantage but no effect on low-cost advantage. This is understandable. Product management usually requires financial resources to build a superior position in the marketplace and has little to do with gaining low-cost advantage. The finding that product capability has a significant effect on differentiation advantage alludes to our assertion that product marketing capability, along with promotion marketing capability, is critical for establishing a firm's superior position in the marketplace. Fourth, our study shows that pricing has a direct effect on low-cost advantage. This finding is understandable as pricing and cost are intertwined and interdependent. Fifth, we found a positive relationship between two dimensions of competitive advantage and two types of business performance except for the relationship between low-cost advantage and financial performance. The insignificant relationship between low-cost advantage and financial performance may be related to the finding that non-financial performance fully mediates the relationship between low-cost advantage and financial performance. Lastly, the study found that small and large companies had different perspectives on low-cost advantage.

While small companies considered low-cost advantage important, large companies didn't not.

6.1 Theoretical implications

Our study offers several theoretical implications. First, based on the resource-based view and the competitive advantage theory, we regarded marketing capabilities as sources of competitive advantage and examined their effects on competitive advantage. As indicated in the literature (Hunt & Madhavaram, 2012), achieving competitive advantage is essential for improving business performance. By integrating two theoretical perspectives into a model and testing the model in the franchising industry, the study adds evidence to the literature that marketing capabilities are important sources of competitive advantage. Testing our model in the franchising industry is noteworthy because types of resources and capabilities required for success may differ based on the industry (Hunt & Madhavaram, 2012). In order to better understand the franchising industry, our study examined various marketing capabilities and their effects on two dimensions of competitive advantage (low-cost advantage and differentiation advantage). Our finding that promotional support is the most important marketing capability, and delivery/inventory is the least important marketing capability adds important information to the body of knowledge on franchise operations.

Second, our study linked competitive advantage to business performance and examined the direct effects of two dimensions of competitive advantage on non-financial and financial business performance. In doing so, we also proposed that non-financial business performance would positively affect financial business performance, treating it as a mediator between competitive advantage and financial performance. The most interesting finding is concerned with the significant role of non-financial performance (franchisee and customer satisfaction) as a mediator. While non-financial performance partially mediates the relationship between differentiation advantage and financial performance, it fully mediates the relationship between low-cost advantage and financial performance. The full mediating effect suggests that low-cost advantage may not be sufficient for a firm to do well financially if the firm lacks non-financial performance (franchisee and customer satisfaction). Our finding is consistent with prior research (Lodish & Mela, 2007) that suggests that offering deals, incentives, and low prices may bear some negative consequences such as cheapening of the firm image, low profits, and customers' reluctance to consider product quality. Our study finding highlights the important role of non-financial performance in linking competitive advantage to financial performance.

Third, our study showed that firm size might be an important factor to consider when a study examines a

relationship among marketing capabilities, competitive advantage, and business performance. Using an IPMA tool, our study found that small and large firms' perspectives on low-cost advantage were different. Large companies, unlike their counterparts, were found to consider low-cost advantage of little importance. This might be due to the economies of scale that large companies have already achieved by having large business volumes and favorable business negotiation terms.

6.2 Practical implications

The findings of the current study offer several important practical implications for franchisors. The study finding with regard to differential effects of marketing capabilities on two dimensions of competitive advantage suggests that franchising companies may want to allocate resources differently based on their strategic focus. For example, a firm whose objective is to achieve differentiation advantage may want to focus on product strategy and promotion strategy. For example, the company may want to prioritize its resources to develop innovative products, increase product quality, offer promotional activities, and help franchisees with developing marketing communication strategies. On the other hand, a firm whose aim is to achieve low-cost advantage may want to focus on price strategy and promotion strategy. More specifically, the firm may want to offer franchisees appropriate price discounts, consultation on price conditions and terms, and promotional incentives. Interestingly, delivery/inventory was not found to have any significant effect on either type of competitive advantage. This suggests that return on investment for delivery/inventory may be negligible compared to other types of marketing capabilities.

Second, the finding that non-financial performance is an important mediator between competitive advantage and financial performance deserves our attention. We used franchisee and customer satisfaction as a measure of non-financial performance based on prior research (Luo & Homburg, 2008; Grewal et al., 2010; Otto et al., 2020). Our study finds that franchisee satisfaction is a full mediator between low-cost advantage and financial performance, and a partial mediator between differentiation advantage and financial performance. This finding highlights the important role of franchisee and customer satisfaction in linking competitive advantage to financial performance. The full mediating effect of franchisee and customer satisfaction suggests that franchisors should strive to achieve franchisees' customer satisfaction because low-cost advantage would not be translated to financial performance without satisfied franchisees. On the other hand, differentiation advantage was found to have a significant direct influence on financial performance, even after franchisee and customer satisfaction

was considered. We studied effect sizes to determine relative magnitude of the effects. Our study found that the magnitude of effects of differentiation advantage and franchisee and customer satisfaction on financial performance was the same (medium). This finding suggests that franchisors should place a priority on satisfying franchisees along with gaining differentiation advantage in order to do well financially.

Finally, our study based on an IMPA offers some interesting managerial implications related to firm size. The analysis tool allowed us to identify two groups of variables that explained financial performance: (a) a group of variables that were perceived as high importance and low performance and (b) a group of variables that were perceived as little importance and high performance. Regardless of firm size, franchisors perceived that their performance in product, pricing, and delivery/inventory was high, while they considered those three areas not critical for improving financial performance. On the other hand, franchisors perceived that their performance in differentiation advantage, promotional support, and franchisee satisfaction was low, while they considered those three areas important for achieving financial success. This result suggests that franchisors should focus on offering more promotional support to franchisees, building differentiation advantage, and achieving franchisee and customer satisfaction. This may be done by shifting resources from product, pricing, and delivery/inventory. Our study also shows that one major difference between small and large firms is concerned with their perceptions of low-cost advantage. Small companies considered low-cost advantage important, while their counterparts did not. This might be due to small companies' lack of economies of scale. The study suggests that small companies should find ways to do more with less in order to deal with the lack of economies of scale and cost advantage. Achieving efficiency should be a priority in order to address this issue. For example, identifying functional areas to cut down costs and utilizing employees to perform cross-functional tasks may help small firms achieve cost advantage by doing more with less.

6.3 Limitations and future research directions

We have a few study limitations. First, this study was conducted cross-sectionally. Therefore, causal relationships among marketing capabilities, competitive advantage, non-financial performance, and financial performance were not established. Future studies may want to employ a different study design (e.g., time series, experimental design) to test the causal relationships. Second, although this study used four most important functions of marketing (marketing capabilities) as sources of competitive advantage, future studies might want to consider some other marketing mix variables such as package and people as mentioned in the

literature review section. Third, our study finds that firm size plays a role in the relationship between financial performance and its antecedents. Future studies may want to investigate the role of firm size to see if firm size moderates the relationship among marketing capabilities, two dimensions of competitive advantage, and two types of business performance. Lastly, future studies may want to use a larger sample size and replicate our study to confirm the results and establish generalization of the study.

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Appendixes

Appendix 1: Respondent characteristics

Demographics	Frequency	Small size group (n = 85)	Large size group (n = 64)	%
Gender				
Male	134	74	60	89.9
Female	15	11	4	10.1
Age				
29 and under	2	2	0	1.3
30-39	45	28	17	30.2
40-49	78	44	32	51.0
50 and over	26	11	15	17.4
Education level				
High school or less	11	6	5	7.4
Two-year college	27	14	13	18.1
Four-year college	91	54	37	61.1
Graduate school or more	20	11	9	13.4
Job Position				
Top management	50	32	18	33.6
Director	43	23	20	28.9
Assistant chief/Head of Department	36	18	18	24.2
Manager	20	12	8	13.4
Sales (billion won)				
Less than 10	7	7	0	4.7
10-50	59	41	18	39.6
51- less than 100	19	15	4	12.8
100 or more	64	22	42	43.0
Number of employees at franchise headquarters				
Less than 10	23	20	3	15.4
10-30	69	44	25	46.3
31-50	17	6	11	11.4
51-100	17	6	11	11.4
101 or more	23	9	14	15.4

Appendix 2 Measurement model (PLS)

Constructs and items	Factor loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Cost advantage		0.765	0.862	0.677
Manufacturing costs are lower than our competitors.	0.870			
We constantly offer low opening costs than our competitors.	0.864			
We constantly offer overall cost advantage	0.727			
Delivery & Inventory		0.907	0.926	0.643
Systematic inventory management policy	0.780			
Appropriate product order intervals	0.850			
Compliance with promised receipt date	0.813			
Fully capable of handling urgent orders	0.714			
Accuracy of order fulfillment	0.843			
Use of containers or appropriate packaging materials to prevent freshness or breakage	0.783			
Appropriately provide support for operation management methods for hygiene management or consultation on inventory management	0.824			
Differentiation advantage		0.874	0.914	0.726
Our new products and service development offer superior benefits to customers.	0.834			
We make great efforts in building a strong brand name.	0.856			
We successfully differentiate ourselves from others through effective advertising and promotion campaigns.	0.845			
We successfully differentiate ourselves from others through effective design (ex. brand identity, store identity).	0.874			
Non-financial performance		0.801	0.909	0.832
Customer satisfaction	0.891			
Franchisee satisfaction	0.933			
Financial performance		0.928	0.943	0.735
Achieved goal of net profit	0.839			
Achieved goal of sales	0.888			
Increased net profit	0.848			
Increased sales	0.838			
Achieved the number of franchise contracts	0.870			
Improved overall business performance	0.861			
Pricing		0.770	0.867	0.686
Appropriate price discounts and deduction policies for purchases	0.821			
Systematic system for prices and price conditions	0.890			
Non-unilateral, continuous consultation on price and price conditions	0.770			
Product		0.718	0.826	0.544
Maintaining high quality products	0.678			
Providing products with a fast turnover rate to increase sales	0.753			
Successful new product (new menu) supply	0.824			
Variety of product (menu) choices	0.686			
Promotional support		0.909	0.929	0.686
Establishment and support of sales promotion plans for franchisees	0.726			
Carry out promotion activities for customers	0.755			
Promotion activities tailored to the needs of franchisees	0.833			
Offer sales promotion ideas to franchisees	0.865			
Providing information on new products	0.873			
Advertisement and public relations activities for brand image management	0.901			

Appendix 3: Fornell-Larcker criterion, mean, and standard deviation (SD).

	1	2	3	4	5	6		
1. Product	0.738							
2. Pricing	0.519	0.828						
3. Delivery/Inventory	0.554	0.539	0.802					
4. Promotional support	0.434	0.537	0.666	0.828				
5. Differentiation advantage	0.405	0.427	0.381	0.562	0.852			
6. Cost advantage	0.397	0.574	0.52	0.636	0.684	0.823		
7. Non-financial performance	0.337	0.49	0.477	0.59	0.587	0.627	0.912	
8. Financial performance	0.196	0.418	0.398	0.567	0.61	0.529	0.612	0.857
Mean	5.537	5.434	5.608	5.374	5.070	5.025	5.091	4.690
SD	0.916	1.007	0.927	1.068	1.126	1.138	0.960	1.086

Diagonal elements (bold) are the square root of the variance shared between the constructs and their measures (AVE). Off-diagonal elements are the correlations among constructs. For discriminant validity, diagonal elements should be larger than off-diagonal elements.

Appendix 4. Heterotrait-monotrait ratio (HTMT).

	1	2	3	4	5	6		
1. Product								
2. Pricing	0.709							
3. Delivery/Inventory	0.683	0.634						
4. Promotional support	0.543	0.620	0.736					
5. Differentiation advantage	0.512	0.513	0.419	0.607				
6. Cost advantage	0.500	0.714	0.596	0.727	0.807			
7. Non-financial performance	0.446	0.610	0.544	0.679	0.693	0.775		
8. Financial performance	0.244	0.494	0.429	0.601	0.673	0.603	0.701	

Appendix 5 Standardized Structural Estimates (PLS)

	Paths	Estimate	f^2	t	p	Results
H1-1	Product → Differentiation advantage	0.193	0.036	2.366	0.018	Supported
H1-2	Pricing → Differentiation advantage	0.129	0.016	1.322	0.186	Not supported
H1-3	Delivery/Inventory → Differentiation advantage	-0.123	0.011	1.224	0.221	Not supported
H1-4	Promotion support → Differentiation advantage	0.491	0.193	5.576	0.000	Supported
H2-1	Product → Cost advantage	0.022	0.001	0.269	0.788	Not supported
H2-2	Pricing → Cost advantage	0.302	0.105	3.816	0.000	Supported
H2-3	Delivery/Inventory → Cost advantage	0.064	0.004	0.742	0.458	Not supported
H2-4	Promotion support → Cost advantage	0.421	0.176	4.721	0.000	Supported
H3-1	Differentiation advantage → Non-financial performance	0.298	0.084	3.207	0.001	Supported
H3-2	Differentiation advantage → Financial performance	0.357	0.118	3.641	0.000	Supported
H4-1	Cost advantage → Non-financial performance	0.423	0.170	5.624	0.000	Supported
H4-2	Cost advantage → Financial performance	0.052	0.002	0.572	0.567	Not supported
H5	Non-financial performance → Financial performance	0.370	0.145	3.634	0.000	Supported
		R^2		Q^2		
	Differentiation advantage	0.363		0.248		
	Cost advantage	0.483		0.296		
	Non-financial performance	0.440		0.348		
	Financial performance	0.472		0.339		
	SRMR	0.090				

Appendix 6: Mediating role of non-financial performance using bootstrapping

Paths of mediating role	Direct effects β (t)			Indirect effects β (t)		Mediating roles
	(X → M)	(M → Y)	(X → Y)	(X → M → Y)	CI [LLCI, ULCI]	
Differentiation advantage (X) → Non-financial performance (M) → Financial performance (Y)	0.298 (3.131) **	0.370 (3.629) **	0.357 (3.666) **	0.110 (2.071) *	[0.029, 0.237]	Partial
Cost advantage (X) → Non-financial performance (M) → Financial performance (Y)	0.423 (5.554) **	0.370 (3.629) **	0.052 (0.570) n.s	0.157 (3.181) **	[0.073, 0.264]	Full

** p<.01, * p<.05, n.s. : not significant

LLCI: the lower limit confidence interval

ULCI: the upper limit confidence interval

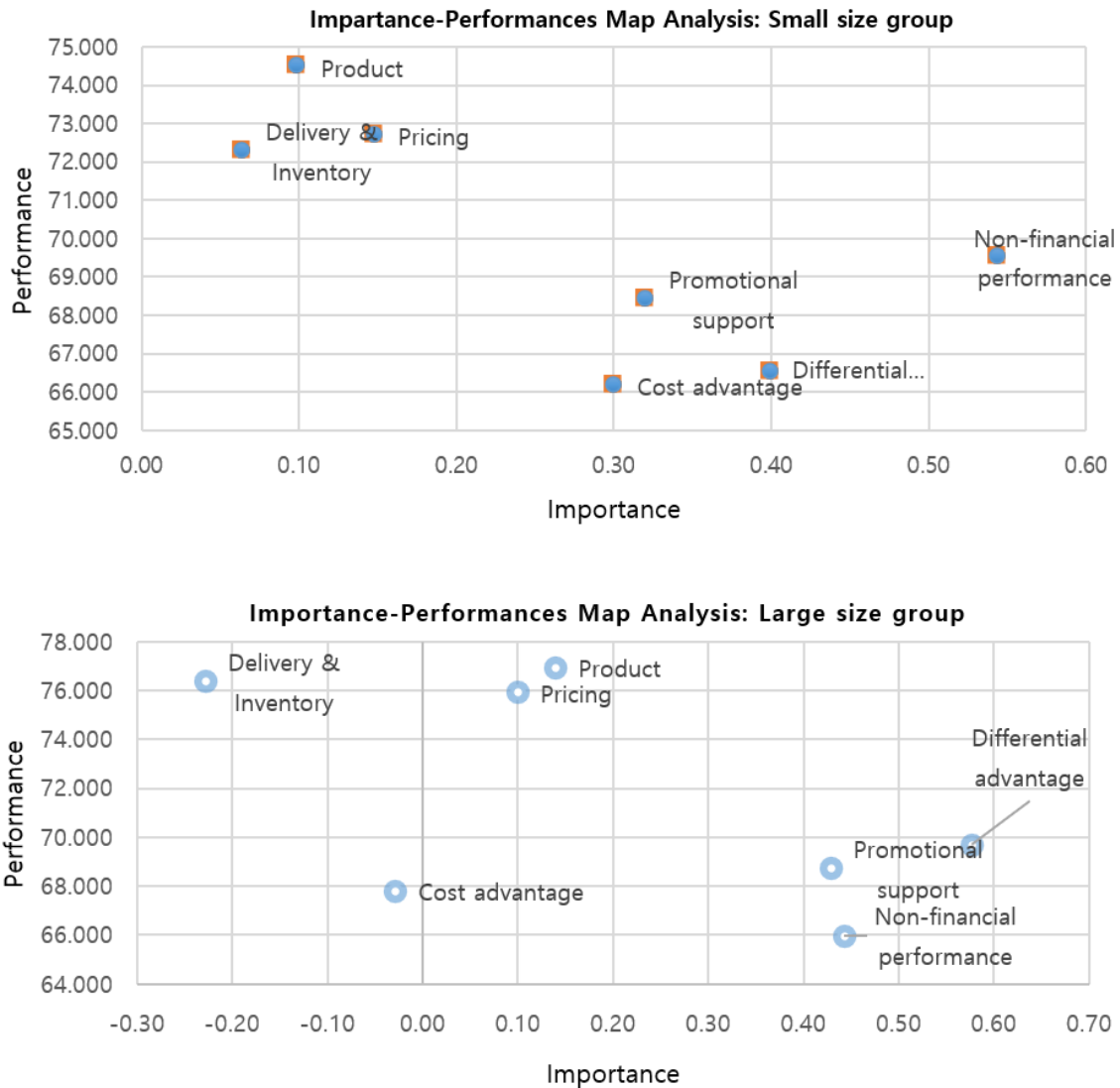


Figure 1: Importance-Performances Map Analysis (Group: Small vs Large)