



**THE RELATIONSHIP BETWEEN INTERNAL AND  
EXTERNAL FACTORS TOWARDS SMEs  
INNOVATION PERFORMANCE IN JORDAN**

by

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## LIST OF ABBREVIATIONS

TQM	Total Quality Management
MC	Marketing Capabilities
OC	Organizational Culture
EO	Entrepreneurial Orientation
IP	Innovation Performance
SMEs	Small and Medium Enterprises

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## **Hubungan antara Faktor Dalam dan Luaran Terhadap Prestasi Inovasi Perusahaan Kecil dan Sederhana (PKS) di Jordan**

### **ABSTRAK**

Kajian ini mengkaji hubungan antara Pengurusan Kualiti Menyeluruh, Keupayaan Pemasaran dan Prestasi Inovasi dalam konteks Perusahaan Kecil Sederhana (PKS) di Jordan. Ia juga mengkaji peranan penyederhanaan dan perantaraan tentang Budaya Organisasi dan Orientasi Keusahawanan mengenai hubungan antara Pengurusan Kualiti Menyeluruh, Keupayaan Pemasaran dan Prestasi Inovasi. Model teori ini dikaji dengan menggunakan pendekatan Teori Pandangan Berasaskan Sumber (RBV) terhadap perkembangan prestasi perniagaan dalam PKS. Pada masa kini, Orientasi Keusahawanan dan Keupayaan Pemasaran telah menjadi topik penting di kalangan ahli akademik dan pengamal perniagaan. Oleh kerana persekitaran perniagaan menjadi lebih kompetitif, keperluan untuk mengembangkan dan meningkatkan sumber dalaman kini menjadi prasyarat untuk kelangsungan hidup global; Orientasi Keusahawanan dan Keupayaan Pemasaran kini menjadi faktor penting yang membantu syarikat mencapai tahap yang sama. Walaupun pentingnya Orientasi Keusahawanan dan Keupayaan Pemasaran, penyelidikan yang mengaitkan konsep ini dengan prestasi PKS sangat terhad. Dalam pandangan ini, melalui pandangan literatur yang luas, kajian ini telah menemui kaitan teori yang wujud antara Orientasi Keusahawanan, Keupayaan Pemasaran dan prestasi PKS dan juga mengembangkan model konsep untuk pengesahan empirikal. Kajian ini berfungsi bukan hanya untuk memperjelas hubungan antara Pengurusan Kualiti Menyeluruh, Keupayaan Pemasaran dan prestasi PKS, tetapi juga menjelaskan peranan yang dimainkan oleh Orientasi Keusahawanan sebagai penyederhana dalam hubungan ini yang kebanyakan kajian telah diabaikan. Sekali lagi, model kajian juga mengkaji peranan penyederhanaan budaya organisasi dalam hubungan antara TQM, keupayaan pemasaran dan prestasi PKS. Kaedah tinjauan kuantitatif telah digunakan dalam peneliti kajian ini, dan kaji selidik telah digunakan untuk memperolehi data dari pemilik/pengurus PKS. Sebanyak 385 soal selidik telah didapati daripada tinjauan ini, pendekatan Partial Least Squared-Structural Equation Modelling (PLS-SEM) telah digunakan untuk menganalisis data. Hasil kajian menunjukkan bahawa dua pembolehubah bebas yang diteliti menunjukkan hubungan signifikansi dan positif dengan prestasi inovasi. Begitu juga dengan hubungan antara peranan penyederhanaan Orientasi Keusahawanan dan Pengurusan Kualiti Menyeluruh, Keupayaan Pemasaran dan Prestasi Inovasi juga telah disokong. Hasil daripada kajian ini juga menyokong peranan penyederhanaan Budaya Organisasi terhadap hubungan antara Pengurusan Kualiti Menyeluruh, Keupayaan Pemasaran dan Prestasi Inovasi. Penemuan ini memberikan beberapa implikasi teori dan praktikal kepada pemilik / pengurus PKS dan juga kepada pembuat dasar. Batasan kajian dan cadangan untuk penelitian pada masa depan juga dapat dikaji.

**Kata kunci:** Pengurusan Kualiti Menyeluruh, Keupayaan Pemasaran, Budaya Organisasi, Orientasi keusahawanan, Prestasi Inovasi.

## **The Relationship between Internal and External Factors Towards SMEs Innovation Performance in Jordan**

### **ABSTRACT**

The present study investigated the relationship between Total Quality Management (TQM), Marketing Capabilities (MC) and Innovation Performance (IP) in the context of the SMEs in Jordan. It also examined the moderating and mediating role of Organizational Culture (OC) and Entrepreneurial Orientation (EO) on the relationship between TQM, Marketing Capabilities and Innovation Performance. Theoretical model based on a Resource Based View (RBV) approach to the Innovation Performance of SMEs was developed. Nowadays, Entrepreneurial Orientation and Marketing Capabilities have become important topics among business academics and practitioners. As the business environment becomes more competitive, the need to expand and increase internal resources is now a prerequisite for global survival; entrepreneurial orientation and marketing capabilities are now important factors that help companies reach the same level. Despite the importance of MC and EO, research linking these concepts to SMEs performance is very limited. In this view, through an extensive literature review, this study has discovered the theoretical linkages that exist between TQM, Marketing Capabilities and SMEs performance and also developed a conceptual model for empirical validation. This study serves not only to clarify the relationship between TQM, Marketing Capabilities and SMEs Innovation Performance, but also to clarify the role played by Entrepreneurial Orientation as a mediator in this relationship which most studies have overlooked. Again, the conceptual model also examines the role of Organizational Culture moderator in the relationship between TQM, Marketing Capabilities and SMEs Innovation Performance. A quantitative survey method was employed in the study, and the questionnaires were used to obtain the data from the owners/ managers of SMEs. A total of 385 usable questionnaires were obtained from the survey, The Partial Least Squares to Structural Equation Modelling (PLS-SEM) approach was applied for analyzing the data. Results revealed that two independent variables under study had shown significant and positive relationship with innovation performance, Similarly, the mediating role of Entrepreneurial Orientation on the relationship between TQM, Marketing Capabilities and Innovation Performance had been supported. Also, the results support the moderating role of Organizational Culture on the relationship between TQM, Marketing Capabilities and Innovation Performance. The findings offered several theoretical and practical implications to owners/ managers of SMEs and also to the policy makers. The limitations of study and recommendations for future research were also addressed.

**Keywords:** TQM, Marketing Capabilities, organizational culture, Entrepreneurial orientation, Innovation Performance.

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# CHAPTER 1 INTRODUCTION

## 1.1 Introduction

This chapter is consisting of eight major sections namely introduction, background of study, problem statement, research questions, research objectives, scope of the study, definition of terms and the significance of the study. The aim of the chapter one is to provide introduction to the contextual background of this study as well as the thesis structure, explaining the content of the successive chapters.

## 1.2 Background of the Study

Small and medium-sized enterprises (SMEs) are critical for local economic growth, playing an important role in job creation, poverty alleviation and economic growth (Gherghina, et al 2020). As posited by Adamu and Ibrahim (2011), SMEs are seen to be the major providers of employment, and are contributing enormously to export as well as majority of the commercial ventures in a country's economy. Moreover, the significance of SMEs besides dominates all types of businesses in advanced as well as developing economies of the world; SMEs at the same time become dominant in terms of serving as a catalyst of innovative technological breakthrough (Shackelf & Sun, 2009). Equally, in relation to its size, SMEs are small, nevertheless, in its totality the sector serves as a very important segment of every country's business hemisphere (Eruh, 2012).

Everywhere in the world, smaller scale, little and medium ventures (SMEs) are considered as backbone of a nation's economy. They assume a key job in financial improvement and make a critical commitment to business and GDP and are crucial supporters of complete work and employment creation (AL-Tamimi & Jaradat,2020). They account for 40–60% of GDP in developed and developing countries (Igwe et al. 2018). At least 90% of the firms in both developed and developing countries are SMEs (Mbuyisa & Leonard 2017). Irrespective of the levels of economic advancement, the SMEs serve and will forever remain the major fulcrum of national growth (Dasanayaka et al., 2011; Hyz, 2011; Hessels & Parker, 2013).

The Jordanian economy is primarily considered a SMEs based economy where small and medium enterprises (SMEs) contribute 98% of Jordanian enterprises and their employees represent around 60% of the labor force with a total product counts around 50% of the GDP (AL-Tamimi & Jaradat,2020). Similarly, SMEs consist of 98.5% of total registered companies, and 60% of formal occupations, besides contributing 50% of total GDP in the year 2013, SMEs provides solutions to joblessness (JYES, 2014). Overall, more than 100,000 SMEs exists in Jordan, representing about 97% of all businesses, based on the estimates by the statistics department. These companies are at the center of the country's economy, contributing up to 50% or more to the GDP; it provides jobs to about 60% of Jordan's workforce; creating up to 70% new employment opportunities in the economy; contributes to about 45% of exports, based on the estimate by the Organization for Economic Cooperation and Development (OECD) (Mumani, 2014).

Table 1.1: Numbers of Small and Medium Enterprises During 2011 and 2015

Classification	2011	2015	Difference
Small	10454	16307	5853
Medium	2244	3085	841
Total	12698	19392	6694

Source: JEDCO (2017)

Table 1.1 shows that small enterprises have the largest difference towards the end of 2015 compared to the last quarter of 2011, with 5853 enterprises while medium enterprises increased by 841 enterprises. where the number of small operating enterprises about 16307 in 2015 compared to 10454 at the end of 2011, an increase of 3085 in medium operating enterprises in 2015 whilst it was 2244 in 2011.

Table 1.2: Number of Small Enterprises in 2011 and 2015 by Major Sectors

Classification	2011	2015	Growth %
Manufacturing	2631	3533	34.3
Building	220	363	65.0
Internal Commerce	2941	5268	79.1
Transportation and Inventory	335	259	-22.7
Services	4184	6668	59.4
Financial and Insurance	143	216	51.0

Source: JEDCO (2017)

Table 1.2 shows the number of small enterprises in 2011 and 2015 by major sectors. In 2015 an increased in number of enterprises operating in the manufacturing sector to become 3533 compared with 2631 enterprises during 2011, also the number of enterprises operating in building had increased to reach out to 363 whilst it was only 220, enterprises operating in internal commerce increased to reach the number during in 2015

is about 5268 enterprises compared with 2941 establishments during 2011, many enterprises operating in the transportation and inventory sector have left in 2015 to be 259 from 335 in 2011, while the services sector, the number of enterprises operating increased to 6668 enterprises in 2015 compared with 4184 enterprises in 2011, the number of enterprises operating in financial and insurance during the year 2015 is about 216 enterprises compared with 143 enterprises in 2011.

Table 1.3: Number of Medium Enterprises in 2011 and 2015 by Major Sectors

Classification	2011	2015	Growth %
Manufacturing	603	840	39.3
Building	98	74	-24.5
Internal Commerce	470	744	58.3
Transportation and Inventory	108	80	-25.3
Services	914	1305	42.8
Financial and Insurance	51	42	-17.6

Source: JEDCO (2017)

Table 1.3 shows the number of medium enterprises in 2011 and 2015 by major sectors. In 2015 an increased in number of enterprises operating in the manufacturing sector to become 840 compared with 603 enterprises during 2011, also the number of enterprises operating in building had increased to reach out to 74 whilst it was only 98, enterprises operating in internal commerce increased to reach the number during in 2015 is about 744 enterprises compared with 470 establishments during 2011, many enterprises operating in the transportation and inventory sector also have left in 2015 to be 80 from 108 in 2011, while the services sector, the number of enterprises operating increased to 1305 enterprises in 2015 compared with 914 enterprises in 2011, the number of

enterprises operating in financial and insurance during the year 2015 is about 42 enterprises compared with 51 enterprises in 2011.

Table 1.4: Number of SMEs in 2015 by Major Sectors

Classification	Small	Medium	Total
Manufacturing	3533	840	4373
Building	363	74	437
Internal Commerce	5268	744	6012
Transportation and Inventory	259	80	339
Services	6668	1305	7973
Financial and Insurance	216	42	258
Total	16307	3085	19392

Table 1.4 indicates the number of SMEs in 2015 by major sectors. The number of enterprises operating in the manufacturing sector is 4373, and the number of enterprises operating in building reach out to 437, while the number of operating enterprises in internal commerce is 6012, and the number of transportation and inventory reach to 339, about the services sector the number of the operating enterprises operating in this sector is 7973, and lastly the number of operating enterprises in financial and insurance is 258.

Based on the opinion of Sila et al. (2007), TQM plays a significant role in improving the competitiveness of enterprises. The implementation of TQM in general exhibits has strong and positive relationship with quality performances (Brah et al., 2002; Prajogo & Sohal, 2003; Zehir et al., 2012). Likewise, Lagrosen and Lagrosen (2003), finds that quality management resulted in business performances. Similarly, Huarng and Chen (2002), equally showed how business performances is influenced by TQM.

As opined by Sila et al. (2007), TQM has a significant influence in increase the competitive prowess of enterprises. Moreover, researchers like Brah et al., 2002; Prajogo and Sohal, 2003, and Zehir et al., 2012 revealed that the implementation of TQM as a whole strongly and positively relates with the quality performances. In the same vein, Lagrosen and Lagrosen (2003), revealed that business performances could be achieved through quality management. Also, Huarng and Chen (2002), equally suggested how TQM impacted on the business performances.

The competencies in marketing enables organizations comprehend effectively present and impending needs of their clients so as to serve them better at the same time identify new customers and to examine competition effectively (Fowler, 2000). As put forward by Kotabe et al. (2012), marketing competences is a reflection of the firm's ability to distinguish product and services from contestants and maintain brands successfully through value addition to their goods and services. Market-oriented companies advance higher marketing competences through marketing research, pricing, development of products, and channel, promotion, and market management from less-oriented companies and thus surpass competitions as it relates to performance of organization (Vorhies et al., 1999).

Agbenyiga (2011) averred that the culture of organization entails what has been observed and put into practice by the members of the organization considered as their guiding thread which is attributed greatly to the performance result of the organization. With the commitment from employees sharing the same norms and values with the organization, that achievement of general goals of the organization is expected (Shahzad et al., 2012). When the effect of organizational culture is not considered, practices in the

organization like performance management will be against productivity as both are dependent on one another, and as the changes in one will affect the other (Magee, 2002).

Businesses with developed orientation in terms of entrepreneur will make optimum use of their resource to increase their performance (Hughes & Morgan, 2007). There is a correlation between executive officers and performances, which is likely to be more complex than just the primary effect, and there are other aspects within and outside of the company that assist in comprehending such relationships appropriately (Lumpkin & Dess, 1996). Orientations of entrepreneurship or some of its elements have been associated with positive impacts on performance (Chow, 2006).

### **1.3 Problem Statement**

Based on the direct impact of TQM on performance quality, Zehir et al. (2012), proposes that TQM is an oriented approach to quality that directly influences the manufacturing quality performance, IT and companies that are service oriented. Research on the correlation between quality and innovation are new and few than those studies that consider the relationship between quality and other factors of performance in organizations (Long et al., 2015). Also, Previous studies by Agus and Hassan, 2011; Arumugam, et al., 2008; Brki et al., 2011; Konecny and Thun, 2011; Miyagawa and Yoshida, 2010; as well as that of Ahmed et al., 2012 indicates that TQM strongly correlates with performance of businesses.

In addition, researches indicate that Total Quality Management and performance in an organization are positively related (Demirbag et al., 2006; Feng et al., 2006). Lakhali

et al. (2002), and Talha (2004), show that TQM's practices directly contribute to improving organizational performance through costs reduction, improving staff performance, and improving the extent of customer satisfaction. Even though Saizarbitoria (2006), explains that TQM has direct effects on the organization's performance positively. According to (Al-Ettayem & Al-Zu'bi, 2015), positive correlations exist among TQM practice and organizational performances (both financial and non-financial). In a research conducted by Demirbag et al. (2006), carried out a research to identify key elements of overall quality management TQM and to assess its effect on the performances of SMEs organizations in Turkey textile industrial sector. Using returned 163 questionnaires, the analysis of the data indicated a positively strong correlation between TQM practice and SME's non-financial performance, whereas on TQM practices and SMEs financial performances shows a weak effect. Nonetheless, there are other studies which revealed no improvement in business performance with TQM increase (Corredor & Goñi, 2011; Demirbag, Tatoglu et al., 2006). Dooyoung et al. (1998), shows that in some cases the implementation of TQM is unable to achieve the desired organizational goals. The studies of Harari (1993), and Salegna and Fazel (1995), demonstrated lack of effect of TQM on various achievement measures. As the studies of McCabe and Wilkinson (1998), and Yeung and Chan (1998), TQM has a negative correlation with organizational performance. Empirical studies reveal the presence of direct and indirect correlation between TQM practice and organizational performance (Hendrick & Singhal, 2001; Kaynak, 2003). Conversely, other research findings revealed that TQM have no effect on the improvement in the performance of businesses (Corredor & Goñi, 2011; Demirbag, Tatoglu et al., 2006). TQM and organizational performance correlation were not convincing for much of the area's extensive research work (Nair, 2006). Nevertheless, in this respect, Ehigie and Mcandrew (2005), and Douglas & Judges