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SME Brand identity: Its components, and performance effects

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SME brand identity:
Its components and performance effects

Abstract

Purpose – The purpose of this paper is to examine the performance effects of brand identity in small and medium-sized enterprises (SMEs).

Design/methodology/approach – The authors examine whether brand identity mediates the relationship between brand orientation and brand performance, and further, whether brand performance leads to better financial performance. The authors also study whether these performance effects are moderated by customer type and industry type. Differing from earlier research, this study analyzes brand identity through its constituent components: brand values, brand vision, and brand positioning. The data includes altogether 721 effective responses from Finnish SMEs. Structural equation modeling is used for testing the research hypotheses.

Findings – Brand positioning and brand vision have a direct positive effect on brand performance, which in turn positively affects financial performance. Brand orientation drives the components of brand identity. Importantly, there is variation in some of the relationships between brand orientation, brand values, brand vision, and brand positioning across B2B firms and B2C firms, and across firms in service industries and in production industries.

Research limitations/implications - The research is based on a single-country sample. Including additional factors to the model with the potential to moderate the described relationships is also called for. Future research could also consider new potential brand identity components currently not addressed in the paper.

Originality/value – This paper contributes to the literature by increasing the knowledge of SME branding.

Keywords brand identity; brand orientation; brand performance; financial performance; SMEs

Paper type Research paper

Introduction

The role branding plays in small and medium-sized enterprises (SMEs) differs from the common claim that, "every organization needs to develop strong brands as an essential part of their business strategy" (Kay, 2006, p. 742). SME owner-managers instead seem to think that branding is out of their reach (Merrilees, 2007) and also reflect this attitude in their behavior, as they often regard the brand as secondary to short-term sales figures (Krake, 2005). Lack of expertise in brand management and uncertainty about whether it contributes to their business performance may explain the limited efforts of SMEs in branding (Hirvonen and Laukkanen, 2014). Although researchers argue for the need for SMEs to include the brand in strategic planning (e.g. Horan, O'Dwyer, and Tiernan, 2011; Krake, 2005; Wong and Merrilees, 2005), there is no comprehensive answer to the question of how SMEs can implement such a strategy and whether they should – or even can – utilize the same branding practices as large firms (Berthon, Ewing, and Napoli, 2008).

The present study addresses the above concerns by adopting brand identity as its primary research construct, examining its association with business performance among SMEs. Brand identity represents a key factor in implementing a brand-oriented strategy (Urde, 1999). It is an integral part of brand development (Hanna and Rowley, 2013) and has stimulated much interest in the branding literature (e.g. Aaker and Joachimsthaler, 2002; de Chernatony, 1999; Ghodeswar, 2008; Kapferer, 2008). However, there has been no comprehensive examination from the perspective of SMEs. According to our best knowledge, the study by Hirvonen and Laukkanen (2014) is one of the rare exceptions in this regard, as they integrate brand identity with the SME brand orientation framework and empirically examine the relationship between these concepts, showing that brand identity has a positive effect on brand performance in SMEs. However, Hirvonen and Laukkanen (2014) do not include financial performance in their model, a matter of high importance when firms decide whether or not to invest in brands. Furthermore, the literature says little about whether such factors as customer type moderate the brand identity–business performance relationship.

To this end, in an attempt to both validate and extend earlier research contributions on brand identity in SMEs, we examine: (1) How brand identity affects business performance in SMEs; and (2) whether these effects are moderated by customer type (B2B vs. B2C) and/or industry type (services vs. products). Moreover, (3) the model investigates the role of brand orientation as an antecedent to brand identity, thus proposing a step-by-step chain progressing from brand orientation to brand identity, and from brand identity to business performance. We conceptualize business performance in this study as consisting of brand performance and financial performance.

Importantly, while some earlier empirical research has conceptualized brand identity as a single-dimensional construct (e.g. Hirvonen and Laukkanen, 2014), in this study we examine brand identity through its constituent components: brand positioning, brand values, and brand vision. Studying separate components allows more detailed insights into how brand identity connects with business performance. That is, given that each component emphasizes different things, their contribution to performance may also differ. Conceptualizing brand identity as a single-dimensional construct may, hence, conceal these differences. Consequently, we purport that analyzing brand identity through its components helps managers to make better-informed decisions about which are the most important elements of brand identity and, therefore, the most logical starting point for brand identity development. Interestingly, even though there are multiple conceptual models suggesting brand identity consisting of multiple components (e.g. Aaker and Joachimsthaler, 2002; Coleman, de Chernatony and Christodoulides, 2011; de Chernatony, 1999; de Chernatony and Dall'Olmo Riley, 1998; Kapferer, 2008), empirical research studying brand identity through its constituent components is still largely lacking.

The paper proceeds as follows. First, we address branding in SMEs. We discuss the concept of brand identity together with brand orientation, brand performance, and financial performance. Next, we develop the conceptual model and explain the research hypotheses. Then, we report the data collection, methodology, and results. Finally, we draw conclusions and suggest avenues for future research.

Branding in SMEs

Even though there is variation between SMEs with regard to their emphasis on branding (Krake, 2005), research shows that branding generally plays a limited role in SMEs. SME owner-managers often have a strong product orientation, and they rarely follow textbook branding theories (Krake, 2005; Ojasalo *et al.,* 2008). According to Stokes (2000), marketing in SMEs is *entrepreneurial*; that is, SMEs concentrate on innovating and developing new products, rather than thinking about marketing issues such as segmentation. SMEs seem to go through various phases of trial and error in their branding, building upon experimentation and intuition rather than following formal strategies (e.g. Centeno, Hart, and Dinnie, 2013; Reijonen, 2010; Stokes, 2000). The number of SME branding models is limited, although the literature holds a wide range of general guidelines for firms to benefit from branding. The main concern is whether these guidelines are applicable to SMEs (Hirvonen, Laukkanen and Reijonen, 2013).

Researchers including Horan *et al*. (2011), Ojasalo *et al.* (2008), and Wong and Merrilees (2005) report that resource limitations are among the main factors hindering SME brand development and potentially explain the strong preference for product-focused approaches. Moreover, SMEs perceive turnover as being at least as important a marketing objective as long-term brand recognition is (Krake, 2005). However, under closer scrutiny, SMEs do seem to show interest in branding, especially if the business grows bigger and the resources allow investments in brands (Wong and Merrilees, 2005). Some research (Berthon *et al.,* 2008; Ojasalo *et al.,* 2008) has argued that SMEs are able to build strong brands through creativity. Reijonen (2010) further notes that SMEs seem to have a certain image in mind that they want to establish. This view gains support from Spence and Essoussi (2010), who report that, in the context of manufacturing SMEs, "the core values of the brands have trickled down to present day [sic] business practices" (p. 1044). This suggests that SMEs, at least some of them, plan their operations around their brand values, one of the central issues in branding (Urde, 2003).

Much of this, however, depends on the owner-manager of the SME. They represent the key decision makers in SMEs (e.g. Centeno *et al.,* 2013; Horan *et al.,* 2011; Krake, 2005), as the responsibility for brand management is seldom delegated to anyone else in the firm. The role of owner-managers as the personification of the brand is important in achieving brand recognition, and their impact on business is more direct in SMEs than in large companies (Krake, 2005). For example, Boyle's (2003) case study on Dyson Appliances shows how the firm developed its brand by building upon the personality of its founder, James Dyson.

Key research constructs

Brand identity

Ghodeswar (2008) defines brand identity as "a unique set of brand associations implying a promise to customers and includes a core and extended identity" (p. 5). This definition is akin to Aaker (1996), who notes that brand identity refers to "a unique set of brand associations that the brand strategist aspires to create or maintain" (p. 68). An earlier definition by Ambler (1992, cited in Ambler and Styles, 1997) similarly states that the brand represents "the promise of the bundles of attributes that someone buys ... The attributes that make up a brand may be real or illusory, rational or emotional, tangible or invisible."

A well-defined brand identity promotes trust, enables differentiation from competitors, includes a promise to customers, and predicts the organization's actions in the future (Aaker and Joachimsthaler, 2002). It also eases customers' brand identification (Baumgarth and Schmidt, 2010) and helps to create a relationship between the brand and the customer through a value proposition, based on functional, emotional, and self-expressive benefits (Aaker, 1996). Of particular importance in this endeavor are the intangible benefits the brand provides the customers, considering that differentiation based on functional benefits is often temporary (Stride and Lee, 2007). Hence, brand identity is important in creating an emotional bond and relationship between the brand and customers (Urde, 2003).

Brand identity it also offers a framework for employee behavior and impacts the way an organization thinks and acts (e.g. de Chernatony, 1999; Saleem and Iglesias, 2016). Employees will better understand their role in brand development when the brand vision and values, promises to customers, and consumer expectations are openly communicated inside the organization (de Chernatony and Segal-Horn, 2003). Urde (2003) uses Volvo, a Swedish car manufacturer, as an example of a firm managed in alignment with its brand identity. He explains how Volvo designs its products within the limits of its brand values, the most important one being safety (Urde, 2003; 2016). According to Urde et al. (2013), brand identity can therefore signify a strategic hub for the organization, emphasizing the fact that brand identity is more than a logo or a simple visual element (de Chernatony and Dall'Olmo Riley, 1998).

Brand values, brand vision, and brand positioning

This paper examines brand identity through its constituent components. Addressing each of the components separately helps to build a more detailed picture of whether some of them are more important than others in relation to business performance. Unpacking the brand identity construct into a number of components is in accordance with several brand identity models arguing that brand identity should be conceptualized as a multidimensional construct (e.g. Aaker and Joachimsthaler, 2002; Coleman et al. 2011; de Chernatony, 1999; de Chernatony and Dall'Olmo Riley, 1998; Kapferer, 2008; Ghodeswar, 2008; Urde, 2003). For example, one of the branding experts interviewed by de Chernatony and Dall'Olmo Riley (1998) commented on their component-based brand model by stating: "I think it's a good analytical tool, but as long as people remember that in the end, it's how these things work together that define what the brand is". (p. 1084).

Reviewing the brand management literature indicates that brand values (e.g. Aaker and Joachimsthaler, 2002; de Chernatony, 1999), brand vision (e.g. de Chernatony and Dall'Olmo Riley, 1998; Urde, 2003), and brand positioning (e.g. Ghodeswar, 2008; Kapferer, 2008) are among the most important brand identity components, as they appear in several brand identity frameworks. For example, Aaker and Joachimsthaler (2002) suggest that defining the brand's core values is among the first steps in the development of brand identity. De Chernatony and Dall'Olmo Riley (1998) similarly suggest that defining the brand vision and values represents a starting point for the brand identity development, subsequently followed by considerations of brand positioning (de Chernatony, 1999). Importantly, even though brand identity can be divided into multiple components, de Chernatony (1999) underlines that the elements of brand identity should be congruent.

Brand values. According to de Chernatony (2001), brand values represent the basis for a firm's attempts to differentiate its brand. Urde (2003; Urde and Greyser, 2015) proposes that brand values are built upon organizational values, which, in turn, "answer, in principle, the questions of what we, as an organization stand for and what makes us who we are" (p. 1019). Simply put, brand values summarize what the brand stands for. For example, Aaker and Joachimsthaler (2002) suggest that the brand identity of Virgin, a multinational conglomerate also known for its founder, Sir Richard Branson, builds upon four brand values, namely *service quality, innovation, fun and entertainment*, and *value for money* (p. 47). These values are then used to integrate the variety of things done in the organization, ranging from product development to decisions concerning which new markets to enter. However, the number of brand values should be limited, as employees may find it difficult to internalize numerous values, causing uncertainty as how to behave under certain situations, consequently leading to inconsistent branding (Aaker and Joachimsthaler, 2002).

Brand vision. Brand identity must grasp what the organization is going to do in the future (Aaker and Joachimsthaler, 2002), and for that reason it should build upon a clear brand vision. Defining the firm's goal for the future of the brand, brand vision refers to "the long-term, stretching intent for the brand" (de Chernatony, 2001, p. 33). It gives a sense of direction to the firm and inspires it to take action that supports the achievement of its long-term objectives (de Chernatony, 2001; Urde, 2003). Indeed, de Chernatony (2001) notes that brand vision defines the purpose of the brand. It should be exciting to the staff, strengthen their commitment to the brand, and help them to contribute to its success (see also de Chernatony and Dall'Olmo Riley, 1998).

Brand positioning refers to emphasizing specific characteristics that differentiate the brand from the competition and using the brand personality to give life to the brand, build relationships with customers, and augment the brand values (e.g. Ghodeswar, 2008; Kapferer, 2008). It represents an integral part of brand identity development and the value proposition communicated to the brand's target groups (e.g. Aaker and Joachimsthaler, 2002; Srivastava, 2011). Keller (1998) talks about points-of-parity and points-of-difference associations as key concepts in regard to brand positioning. Points-of-parity associations are factors needed to compete in the markets, but may not differentiate the firm from its competitors (i.e. the same associations may be adopted by a number of brands), whereas points-of-difference associations are truly unique to the brand, and as such they help it to stand out in the markets (Keller, 1998). With strong and sustainable positioning, a brand is likely to compete successfully against the rival brands and ensure customer identification to the brand.

Antecedents of brand identity: brand orientation

In his seminal paper, Urde (1999) refers to brand orientation as, "an approach in which the processes of the organization revolve around the creation, development, and protection of brand identity in an ongoing interaction with target customers with the aim of achieving lasting competitive advantage in the form of brands" (p. 117). The logic behind brand orientation is that the conventional market orientation paradigm of placing customer needs at the center of company operations, dating back to the prominent articles by Kohli and Jaworski (1990) as well as Narver and Slater (1990), leads to a situation where the brand is used as an unconditional response to customers' wants and needs (Urde, 1999). In the worst-case scenario, the firm runs a risk of its brand becoming inconsistent and losing direction in the eyes of customers.

The redirection of focus to the strategic importance of brands indicates a change in the priorities of a firm and how it develops its strategies. The definition by Wong and Merrilees (2005) emphasizes this change, as they suggest that brand orientation refers to, "the extent to which the marketing strategy and activities are centered on the brand" (p. 157). The brand becomes the hub around which brand-oriented firms organize their operations and strategies, representing a framework for deciding when and to what extent they pursue the satisfaction of customer needs (Urde, 1999; Urde *et al.,* 2013). That is, although building a strong brand requires that a firm provides customers with desired benefits and thus remains relevant to them (Keller, 2000), researchers see it as important that firms also accept the theory and practice of branding (Hankinson, 2001) and that they embrace the brand throughout their business decisions (Wong and Merrilees, 2005).

Importantly, brand orientation can be examined either from a cultural perspective or a behavioral perspective (Urde *et al.,* 2013). The former refers to the values, beliefs, and attitudes of an organization, while the latter concentrates on the extent to which its practices support long-term brand building. In this study, we follow the cultural perspective when defining brand orientation, further arguing that the behavioral perspective alone is insufficient for understanding how SMEs can build competitive advantage based on branding. This view gains support from, for example, Evans et al. (2012), who define brand orientation as, "the extent to which the organization embraces the brand at a cultural level and uses it as a compass for decision-making to guide brand behaviors (p. 1471). That is, the organizational culture of a firm, including its values and norms (Schein, 1992), based on the view according to which branding is a strategically important matter, thus ensuring that the brand has a role to play in strategy development and that there are explicit or implicit regulations supporting and guiding subsequent behaviors (Baumgarth, 2010).

Outcomes of brand identity: business performance

Business performance has been debated widely in the literature over the past years, followed by various definitions (see e.g. Eccles, 1991; Neely, 1999). Venkatraman and Ramanujam (1986) distinguish between two separate, yet related, domains of business performance: (1)

operational (nonfinancial) performance; and (2) financial performance. These categories, in turn, include more specific performance metrics. The first category may include such metrics as customer loyalty and firm reputation, whereas the latter can be used in reference to firm profitability or turnover, among other things. This study addresses two performance metrics, namely brand performance and financial performance.

Brand performance is an operational metric that refers to the success of a brand in the markets, and it can be measured in terms of brand image, brand awareness, customer brand loyalty, and brand reputation (Wong and Merrilees, 2008). For example, brand awareness refers to "the likelihood that a brand name will come to mind and the ease with which it does so" (Keller, 1993, p. 3). Keller (1993) further notes that brand awareness can be aided (i.e. the customer is being told the brand name) or unaided (i.e. only the product category is being explained). However, in both cases, it is highly important, as it ensures that the brand will be placed on the consideration set of a customer. Brand loyalty similarly exemplifies a brand's success, as it indicates customers having favorable beliefs and attitudes towards the brand and, thus, making repeat purchases over time. There is an argument that brand performance represents the most logical outcome metric of brand identity development, since the overall purpose of this activity is to develop strong brands.

Financial performance refers to how successful a firm is in meeting its financial goals. Relating brand identity development to financial measures is important, especially for SMEs that operate under resource constraints (Horan *et al.,* 2011) and refrain from branding due to not knowing its impact on financial success (Hirvonen and Laukkanen, 2014). Sales growth, profitability, and earnings per share are among the indicators used for measuring financial performance (Venkatraman and Ramanujam, 1986). In the present study, we define financial performance following Wong and Merrilees (2008), who use such measures as sales growth, market share growth, and profitability as indicators of a firm's economic success.

Conceptual model and research hypotheses

Brand orientation and brand identity (H1–H3)

According to Urde *et al.* (2013), brand-oriented firms apply brand identity as the guiding light that they use for managing the firm. That is, business decisions are made on the basis of what is beneficial for the long-term success of the brand. Following this reasoning, Hirvonen and Laukkanen (2014), similarly to the earlier contributions by Baumgarth (2010) and Evans *et al.* (2012), argue that the brand needs to be first established at the cultural level of a firm, referring to brand orientation as an organizational mindset. This then sets the direction of the firm's behavior, with brand identity development being among the most crucial behavior. Consequently, brand orientation, as an underlying primary concept, should affect all brand identity components, namely positioning, values, and vision. The findings by Hirvonen and Laukkanen (2014) support this claim, as they find that brand orientation drives brand identity development among small service firms (Figure 1):

H1. Brand orientation has a positive effect on brand positioning.

H2. Brand orientation has a positive effect on brand values.

H3. Brand orientation has a positive effect on brand vision.

Brand values, brand positioning, and brand vision (H4–H5)

Urde (2003) suggests that core brand values permeate all the other components of brand identity, as they are enduring in nature and based on the organization's value foundation; they "affect leadership, strategy, organization, product development, communications etc" (Urde, 2003, p. 1020). Thus, a firm develops and strengthens its brand positioning through its core brand values (de Chernatony, 1999, 2001). For example, de Chernatony (1999) suggests that the brand's intended positioning should be considered in reference to its values, implying that values do indeed drive brand positioning. While acknowledging that drawing a clear distinction between values and positioning may be difficult, Urde (2003) similarly sees brand values as being more fundamental and, as such, having an impact on how the brand will be positioned in the markets. Regarding the relationship between values and vision, we hypothesize that brand values affect brand vision. For example, considering again the Volvo case, the fundamental core value of Volvo is safety, which has led Volvo to pursue a position as a car manufacturer that offers state-of-the-art safety features (Urde, 2003). Furthermore, a close association exists between this core value and the brand vision of Volvo being the number one company in the automotive world in terms of safety[1]. Thus, we hypothesize:

H4. Brand values have a positive effect on brand positioning.

H5. Brand values have a positive effect on brand vision.

Brand identity and brand performance (H6-H8)

Craig *et al.* (2008), similarly to Hirvonen and Laukkanen (2014), report a close association between brand identity and improved performance. In this paper, we elaborate on these findings by deconstructing brand identity into its constituent components and explaining how they individually affect brand performance.

Regarding brand positioning, Craig *et al.* (2008) state that, “the strongest brands develop a position that is unique to that company” (p. 354). Brand positioning strives to ensure that the brand is not confused with other brands in the markets and that it generates positive attitudes among customers (Ghodeswar, 2008). De Chernatony and Dall’Olmo Riley (1998) note that

[1] The brand identity models of Urde (2003) and de Chernatony (1999) suggest that brand vision drives brand values and not the other way around. However, the view that a firm would first determine its brand vision and then modify its brand values accordingly faces opposition from Urde (2003) himself, as he argues that, “neither is it possible to choose or create a core value that is not already firmly established in the organization” (p. 1035). Therefore, we argue in this study that brand values precede brand vision.

customers' assessments of a brand are affected by its positioning. Thus, firms that carefully position their brands are likely to succeed better than firms that do not follow this practice or carelessly manage it. A strong and favorable brand positioning draws customers from competing brands (de Chernatony and Segal-Horn, 2003) by facilitating the creation of distinctive and positive associations that target customers find desirable (Wong and Merrilees, 2008).

Brand values affect brand performance indirectly via brand positioning and brand vision, but also directly; they engender a connection between the brand, the customer, and the staff (e.g. de Chernatony, 2001; Urde, 2003). Urde (2003), for example, argues that the relationship between customers and the brand is likely to develop when their values are congruent. Boatwright et al. (2009) similarly emphasize the role of brand values in driving performance. Brand values also affect employees so that they deliver the brand promise in a more consistent way when they refer to these values as a kind of guidebook for behavior (de Chernatony, 2001). Drawing on brand values in all communications and customer touch points helps firms to ensure consistency and enhance credibility in the eyes of customers, both of which Keller (2000) argues to be among the key factors characterizing successful brands.

Finally, brand vision may not always be visible to customers, but it can still have a notable impact on brand performance. Brand vision provides an organization with a sense of direction and thus motivates staff, strengthens their commitment, and encourages them to perform in a way supportive to the brand (e.g. de Chernatony, 1999, 2001; de Chernatony and Dall'Olmo Riley, 1998). Thus, a powerful brand vision motivates and drives the organization (Reid et al., 2005). This, in turn, translates into better products and service, among other things, which has a positive effect on brand performance. For example, Merrilees (2007) suggests that branding offers small firms focus and discipline so that they conserve their scarce resources and pursue only those innovations with the greatest potential. Brand vision can also affect customers directly by making the brand emotionally exciting (Boatwright et al. 2009). Thus, we hypothesize:

H6. Brand positioning has a positive effect on brand performance.

H7. Brand values have a positive effect on brand performance.

H8. Brand vision has a positive effect on brand performance.

Brand performance and financial performance (H9)

Much research considers brand performance to be a driver of financial gain (e.g. Ailawadi, Lehmann, and Neslin, 2003; Keller, 1993; Lassar *et al.,* 1995). For example, having loyal customers is economically beneficial: researchers generally argue for a positive association between customer loyalty and a firm's financial performance (e.g. Ahmad and Buttle, 2001; Heskett et al. 1994; Reichheld, 1993). As Ghodeswar (2008) notes, having loyal customers helps firms to reduce their vulnerability to competitive threats and translates into increased sales and profits. This is due to the ability of strong brands to charge price premiums and extend the brand to new product and service categories (Keller, 2003). A positive brand image and reputation are similarly suggested to have a positive relation with performance, as they help to convince the customers about the benefits and trustworthiness of the brand (e.g. Erdem and Swait, 1998; Keller, 1993). These effects are empirically supported by, for example, Wong and Merrilees (2008), who report that brand performance has a positive effect on financial performance. Therefore:

H9. Brand performance has a positive effect on financial performance.

Moderation effects (H10-H11)

Finally, we examine whether the paths in the conceptual model are moderated by two market-related external factors; (1) customer type; and (2) industry type. The moderators were selected following Hirvonen, *et al.* (2013), who argue that these factors are important for SMEs and also represent topics that have given rise to considerable debate in the literature.

Customer type. In the business-to-business (B2B) context, brands are valued as risk reducers, but the other intangible benefits they offer (e.g. self-expressive benefits) may not appear as relevant for B2B customers as they do for consumers (Leek and Christodoulides, 2012). Bendixen *et al.* (2004), for example, report that B2B buyers regard quality, reliability, and performance as the most important criteria when selecting between brands. Although B2B buyers would recognize a brand and even have favorable attitudes towards it, technical performance and quality considerations still greatly influence the final buying decision (Leek and Christodoulides, 2012). On the other hand, in the consumer (B2C) context, customers may find new technologies and performance specifications to have little value unless offered under an attractive brand name (Hirvonen *et al.,* 2013). Indeed, Hirvonen *et al.* (2013) report that the brand orientation–brand performance relationship is stronger in B2C markets than in B2B markets. Overall, B2B marketers have generally been less interested in branding than B2C firms (Leek and Christodoulides, 2012). This may result in B2B firms being less systematic in brand identity development than B2C firms, and for that reason, the relationships between brand orientation and brand identity, and among the brand identity components, are likely to be weaker in the B2B context in comparison to B2C. Hence, we hypothesize:

H10. Customer type moderates the relationships between brand orientation, brand identity components, and business performance.

Industry type refers to a firm operating either in the production or service industry. Such characteristics as high labor intensity and repetitive interactions between service employees and customers make service branding different from the branding of goods (Berry, 2000). Researchers argue that brand identity offers a firm's employees guidelines on how they should act in order to support the brand (Aaker and Joachimsthaler, 2002; de Chernatony, 1999). This is of particular importance in the service sector, given that service employees communicate with customers about the brand through their behavior (de Chernatony and Dall'Olmo Riley, 1999). Unlike production firms, service firms cannot rely on product attributes in creating meaning for the brand (Marquardt *et al.,* 2011), highlighting the importance of organization-wide understanding and commitment to the brand (de Chernatony and Segal-Horn, 2003). While customers can evaluate a physical product with relative ease, in services it is the brand that mainly communicates and explains the service to the customer. This emphasizes the role of brand orientation and brand identity development, especially in the context of service firms. Consequently:

H11. Industry type moderates the relationships between brand orientation, brand identity components, and business performance.

- - Figure 1 about here - -

Methodology

Questionnaire and data collection

The research data consists of 721 effective responses collected from Finnish SMEs using an online questionnaire. The questionnaire was directed at firms whose contact information was available in public company registers. An email with a cover letter and a link to the survey was sent to 7.304 firms (a response rate of 9.87 per cent). According to Statistics Finland (the national authority for statistics in Finland), a vast majority of Finnish firms, based on the number of people employed, are SMEs (99.8 per cent).[2] The proportion of small firms (i.e. firms that employ less than 50 people) is as high as 98.9 per cent of all firms in Finland. The corresponding number of small firms in the sample used in this study is 95.8 per cent (Table 1). Thus, the sample is a close match with the national distribution of firms in Finland.

The questionnaire included 21 measurement items used to measure brand orientation, brand identity, brand performance, and financial performance. We adopted from Wong and Merrilees (2008) a five-item brand orientation scale, together with the brand performance and financial performance scales, each measured with four items.

Regarding brand identity, an eight-item scale from Hirvonen and Laukkanen (2014) was adopted. However, differing from Hirvonen and Laukkanen (2014), who treat brand identity as a single-dimensional construct in their model, the items were specified to load on three separate factors: (1) *brand positioning*, intended to measure the extent to which efforts are made to ensure brand distinctiveness and personality; (2) *brand values* used as guidance for marketing activities; and (3) *brand vision*, dealing with the future prospects of the brand. The scale by Hirvonen and Laukkanen (2014) was selected as it has previously been used in the context of SMEs. The specification of how items load on the three factors was determined by reviewing the items in Hirvonen and Laukkanen's scale and comparing the item content against the three factors identified, based on the literature review explained earlier in this paper. On the basis of this comparison, each item was assigned to one of the factors considered as being the most suitable. Importantly, all items were considered as having a good fit with the factors, thus making it possible to utilize all of them in this study.

[2] We follow the official definition of the European Commission, according to which an SME is a firm that employs less than 250 people and has an annual turnover of less than €50 million or balance sheet total of under €43 million.

All the constructs were measured with a seven-point Likert scale labeled from (1) *totally disagree* to (7) *totally agree*, except for financial performance, where the end points were (1) *decreased significantly* and (7) *increased significantly*.

With regard to the moderators, namely customer type and industry type, we used dichotomous variables. We asked the respondents whether they serve mainly consumers or other businesses and whether they operate mainly in the production or service industry.

- - Table 1 about here - -

Non-response bias

The data was tested for non-response bias by classifying the first quarter of people to respond as *early* respondents (based on the response order) and the fourth quarter as *late* respondents (Armstrong and Overton, 1977), and then comparing the two groups against each other. The technique suggests that late respondents are akin to theoretical non-respondents. Insignificant differences between the two groups indicate that the non-respondents are similar to the actual survey respondents, hence minimizing the risk. The results show that there are no statistically significant differences ($p>0.05$) between the early and late respondents in any of the items, thus confirming that non-response bias is not a problem in this study.

Construct validity

We used confirmatory factor analysis to establish a measurement model and validate the four latent research constructs. The initial model showed an unsatisfactory fit with χ^2=967.19 (df=174), GFI=0.89, CFI=0.94, TLI=0.93, RMSEA=0.08. Consequently, we omitted from the model one measurement item from the brand identity construct. In addition, because of high modification indices (Byrne, 2010), an error term covariance was specified as a free parameter between brand orientation items v2–v4 and v4–v5, and financial performance items v17–v18. Allowing error terms to covary must be based on careful consideration, but can be done when, for example, there is overlap in item content and the items associate with the same theoretical construct (Byrne, 2010). In this study, items v17 and v18, for example, are close to each other in terms of item content and also load on the same factor. The final model evinces a good model fit (Table 2).

- - Table 2 about here - -

The standardized factor loadings all exceed the suggested threshold of 0.70 (Table 3), while the average variance extracted (AVE) values all exceed their respective threshold of 0.50, supporting convergent validity (Fornell and Larcker, 1981). Also, all the composite reliability (CR) estimates are above 0.70 (Hair *et al.,* 2010). Thus, construct reliability and convergent validity are supported. Discriminant validity is also satisfied, as the AVE values are greater than the shared variance (i.e. the corresponding squared correlation between the construct and any other construct in the model) in all cases (Fornell and Larcker, 1981).

- - Table 3 about here - -

Common method bias

We tested for common method bias (Podsakoff *et al.,* 2003) by conducting Harman's single factor test. Specifically, we compared the final measurement model with multiple latent constructs against an alternative model with only one factor on which all the items were specified to load. This test follows an assumption that in the presence of common method bias, the one-factor CFA model should provide an equally good model fit as the multiple factor model, resulting from the fact that the observed covariance among variables is caused by common method variance. The results show, however, that the alternative model does not fit the data (χ^2=4649.51 ($p<0.001$; df=167), χ^2/df=27.84, CFI=0.646, RMSEA=0.193). Also, the decrease in model fit compared to the multiple factor model is statistically significant, with $\Delta\chi^2$=2673.68, Δdf=15, $p<0.001$. The significant decrease in model fit when forcing all the items to load on the same factor implies that common method bias should not be a major concern in this study.

Measurement invariance

We tested configural and metric invariance as part of moderation analysis (e.g. Byrne, 2010; Hair *et al.,* 2010; Steenkamp and Baumgartner, 1998). First, we studied the equivalence of the basic factor structure (i.e. configural invariance) by estimating the measurement model simultaneously for both moderator groups (e.g. products vs. services). However, importantly, we imposed no constraints on the model parameters; they were freely estimated. A good model fit, based on the conventional fit indices (e.g. χ^2, CFI), is said to indicate configural invariance (Hair *et al.,* 2010). Both moderators meet this criterion as the results confirm a good model fit (Table 4).

Following configural invariance, we examined metric invariance. Metric invariance is a necessary prerequisite for cross-group comparisons (Hair *et al.,* 2010). Consequently, we constrained the factor loadings equal between the groups of each moderator and then compared this constrained model against the unconstrained configural model. A statistically insignificant $\Delta\chi^2$ value ($p>0.05$) indicates that the more constrained metric invariance model is acceptable and that the moderator groups do not differ from each other in terms of factor loadings. Metric invariance was supported for both moderators.

- - Table 4 about here - -

Research findings

Basic model (H1- H9)

We tested the research hypotheses using structural equation modeling with AMOS 21. First, we examined H1–H9, using the overall sample (N=721).

The findings show that brand orientation has a positive effect on both brand positioning (β=0.33, $p<0.001$) and brand values (β=0.77, $p<0.001$). H1 and H2 thus gain support from the results. Interestingly, the path from brand orientation to brand vision appears statistically non-significant (β=-0.02, p=0.76), rejecting H3. The effect of brand orientation on brand vision is thus only indirect, since the results further show that brand values have a significant positive effect on brand positioning (β=0.58, $p<0.001$) and brand vision (β=0.75, $p<0.001$). Hence, the results support H4 and H5.

Moreover, brand vision (β=0.38, $p<0.001$) and brand positioning (β=0.41, $p<0.001$) have a significant positive effect on brand performance, supporting H6 and H8. However, brand values do not have a direct impact on brand performance (β=-0.10, p=0.33), therefore rejecting H7. Finally, brand performance has a significant positive effect on financial performance (β=0.44, $p<0.001$). The results thus support H9 (Figure 2).

- - Figure 2 about here - -

Importantly, as Figure 1 shows, the structural model includes a number of indirect paths (i.e. $X \rightarrow M \rightarrow Y$, where *X* represents the independent variable, *M* is the mediator, and *Y* refers to the dependent variable) linking the constructs together. We applied a bootstrapping procedure in structural equation modeling, in order to test these indirect effects in detail and ensure their statistical significance. We follow the framework suggested by Zhao et al. (2010). The framework is different from Kenny and Baron's (1986) work in that it suggests that the direct relation between X and Y does not have to be statistically significant for a mediation effect to exist (i.e. it is enough that the paths $X \rightarrow M$ and $M \rightarrow Y$ are both statistically significant).

The results are reported in Table 5. It appears that all the indirect paths are statistically significant, as the 95 per cent confidence intervals (CIs) do not include a zero value. In order to scrutinize these results further and reveal the type of mediation, we studied one path at a time whether the associated direct paths (i.e. $X \rightarrow Y$) were statistically significant. Importantly, some of these direct paths were already hypothesized in the conceptual model (e.g. the effect of brand orientation on brand positioning was hypothesized to be both direct and also indirect *via* brand values – see Figure 1), whereas, for others, the direct paths were analyzed on a *post hoc* basis (e.g. the effect of brand orientation on brand performance, which was hypothesized to be indirect only).

The results show that 1) brand orientation directly affects positioning (β=0.33, $p<0.001$; hypothesized *a priori*) and brand performance (β=-0.26, $p<0.001$; not hypothesized *a priori*). Furthermore, 2) brand values have a direct positive effect on financial performance (β=0.12, $p<0.05$) and 3) brand vision directly affects financial performance (β=0.26, $p<0.001$), both effects being contrary to the hypothesized model. In the terminology of Zhao et al (2010), the absence of a significant direct path is termed as indirect-only mediation (full mediation in Baron and Kenny, 1986), whereas complementary mediation refers to both the direct effect and indirect effect being statistically significant (partial mediation in Baron and Kenny, 1986). The non-hypothesized, yet statistically significant direct paths suggest that there are likely omitted mediators currently not included in the model[3]. While the significance of these paths is surprising, overall, the results nonetheless support the hypothesized model.

- - Table 5 about here - -

Moderated model (H10-H11)

We tested the hypothesized moderation effects of customer type and industry type using multigroup structural equation modeling. Applying the unconstrained model as a basis for comparison, we constrained the paths in the model equal one path at a time across the groups of each moderator. We used the $\Delta\chi^2$ test to study moderation, with a statistically significant difference between the unconstrained model and constrained model ($p<0.05$) indicating moderation.

Table 6 summarizes the results for customer type. First, the findings show that the effect of brand orientation on brand positioning is significantly stronger ($\Delta\chi^2$=5.505, Δdf=1, $p<0.05$) in B2B firms (β=0.418, $p<0.001$) than in B2C firms (β=0.205, $p<0.01$). The results further show that the effect of brand orientation on brand values is slightly stronger among B2C firms (β=0.795, $p<0.001$) than among B2B firms (β=0.730, $p<0.001$), the difference being statistically significant ($\Delta\chi^2$=3.539, Δdf=1, $p<0.10$). The brand values–brand positioning relationship is stronger in B2C firms (β=0.708, $p<0.001$) than in B2B firms (β=0.482, $p<0.001$), the difference being statistically significant ($\Delta\chi^2$=4.288, Δdf=1, $p<0.05$). Finally, customer type also moderates the effect of brand values on brand vision ($\Delta\chi^2$=6.530, Δdf=1, $p<0.05$) so that the effect is stronger among B2C firms (β=0.880, $p<0.001$) than

[3] The direct path from brand orientation was assumed to exist in the case of brand positioning, but not in the case of brand performance; also, no direct path was assumed between brand vision and financial performance.

among B2B firms (β=0.626, $p<0.001$). Importantly, no other paths in the model are moderated by customer type; H10 gains only partial support.

- - Table 6 about here - -

Regarding industry type, the results (Table 7) reveal that brand orientation has no statistically significant effect on brand positioning in the product context (β=0.138, $p>0.10$), whereas in service firms this effect is significant (β=0.378, $p<0.001$). The $\Delta\chi^2$ shows that this difference is statistically significant ($\Delta\chi^2$=5.281, Δdf=1, $p<0.05$). Moreover, the effect of values on brand positioning is stronger in product firms than in service firms ($\beta_{products}$=0.749, $p<0.001$ vs. $\beta_{services}$=0.542, $p<0.001$), the difference being close to the 95 per cent confidence level ($\Delta\chi^2$=3.694, Δdf=1, $p<0.10$). Finally, the results show that the effect of brand values on brand vision is, at the 90 per cent confidence level, stronger in service firms (β=0.800, $p<0.001$) than in product firms (β=0.570, $p<0.001$) ($\Delta\chi^2$=2.749, Δdf=1, $p<0.10$). We found no other moderation effects, lending only limited support to H11.

- - Table 7 about here - -

Discussion and conclusions

Brand identity development in SMEs

Brand identity is one of the key concepts in the brand management literature (e.g. Aaker and Joachimsthaler, 2002; de Chernatony, 1999; Kapferer, 2008) and plays an important role in implementing a brand-oriented strategy and enhancing business performance (Urde, 1999). However, although researchers have recently addressed the relevance of SMEs being brand-oriented (e.g. Hirvonen *et al.,* 2013; Wong and Merrilees, 2005), they have thus far paid limited attention to brand identity in implementing SME brand orientation.

The present study responds to the call to pay more attention in research to SME branding (Wong and Merrilees, 2005). The results of this study show that SMEs can make their brand a unique and effective source of competitive advantage through developing their brand identity; this supports a number of studies arguing that branding is as important for SMEs as it is for large companies (e.g. Abimbola and Kocak, 2007; Krake, 2005; Wong and Merrilees, 2005).

However, importantly, when reviewing the results path-by-path, interesting insights are revealed, as it appears that brand identity development in SMEs includes multiple related steps that each play an important role in driving business performance in the SME sector.

Antecedents of brand identity

When reviewing the results following the sequence in the conceptual model, it first appears that brand orientation indeed drives brand identity development. This finding lends support to the seminal work of Urde (1999) and also supports Hirvonen and Laukkanen (2014), who report a positive relationship between brand orientation and brand identity among small service firms. However, importantly, given that in this study we examined brand identity via its constituent components, our results offer more detailed insights into this relationship.

Specifically, there is a direct positive association between brand orientation and (a) brand values and (b) brand positioning. However, the results show that the direct effect on brand vision is statistically insignificant. This finding somewhat contradicts the view that brand-oriented firms consider the long-term success of their brands as crucial and, as such, would be interested in visioning the brand's future (Urde, 1999).

The insignificant direct effect of brand orientation on brand vision may come from such characteristics of SMEs as short-term orientation and lack of strategizing (e.g. Centeno *et al.,* 2013; Krake, 2005). That is, even if an SME were to develop a brand orientation and, for that reason, pay increasing attention to both brand values and brand positioning, making decisions concerning brand vision may prove to be troublesome, as it would require careful planning about what the brand wants to accomplish in the long term. In other words, brand positioning and values might be easier for SMEs to tackle than the question of where the brand should in five or even ten years, therefore encouraging SMEs to emphasize the former and putting less emphasis on the latter.

Brand identity components

The results show that brand values drive both brand vision and brand positioning. Therefore, it appears that brand vision becomes relevant for SMEs *after* they have first progressed from brand orientation to working on their brand values. Thus, thinking about brand values seems to also make SMEs consider what they want to accomplish with their brand. Making brand values an explicit matter may therefore "wake SMEs up" to see that the decisions they make now affect the future of the brand and therefore increase their interest in visioning the brand's future. This conclusion is, of course, speculative and requires further research.

Brand values also have a notable positive effect on brand positioning. This finding is in accordance with, for example, de Chernatony (2001), who suggests that brand values provide firms with a basis on which they can build distinctiveness. Urde (2003) similarly highlights the role of values as driving a firm's positioning in the markets. Our results thus allow the conclusion that brand identity development in SMEs largely follows the same principles as the general brand management literature suggests.

Effects on business performance

Craig *et al.* (2008) as well as Hirvonen and Laukkanen (2014) find that brand identity has a positive effect on performance among SMEs. This study lends support to these findings, as we found that brand positioning and brand vision both have a positive effect on brand performance. Given the wide range of alternatives that customers can choose from when making purchase decisions, brands play an important role in streamlining their decision-making by sorting out services and products (Keller, 2003).

Even though we did not find brand values to have a direct effect on brand performance, it contributes to performance indirectly through brand positioning and brand vision. This may be because values may appear too abstract for customers to easily comprehend: for example, such values as "quality" or "innovation" may not explain enough to the customers about the brand and what it stands for (Aaker and Joachimsthaler, 2002). Indeed, according to Aaker and Joachimsthaler (2002), "these terms – whose terseness makes them easy to communicate and remember – can also be ambiguous and thus fail to provide the needed guidance and inspiration" (p. 65). Such ambiguousness can be reduced, however, by making brand values a basis for brand positioning and vision, through which customers come to better understand the brand's meaning and the benefits it can offer.

The results further show that brand performance drives financial performance, lending support to, for example, Wong and Merrilees (2008) and Laukkanen *et al.* (2013). Overall, this result supports the general notion that brands play an important role in enhancing a firm's financial success. Strong brands allow firms to charge price premiums and expand into new product and service categories, which, in turn, help to improve profitability and sales (Keller, 2003). This result also proves to be important in the light of arguments that unless SMEs receive adequate information concerning the performance benefits of branding, they are likely to remain reluctant to invest in it (Hirvonen and Laukkanen, 2014).

Moderation effects: customer type and industry type

As to moderation effects, the results reveal that the conceptual model is largely invariant across customer types (B2B vs. B2C) and industry types (services vs. products). There are, however, a few important exceptions to this conclusion, as we found statistically significant moderation effects in four paths: (1) brand orientation → brand positioning; (2) brand orientation → brand values; (3) brand values → brand positioning; and (4) brand values → brand vision.

As for customer type, the effect of brand orientation on brand positioning is stronger among B2B firms than among B2C firms. This finding is somewhat surprising, given that researchers note that industrial firms often put less effort into branding than consumer firms (Leek and Christodoulides, 2012). Interestingly, the reason for such a finding may lie in this very notion. Given that thinking about brand positioning is a natural way of operating for many firms in consumer markets, pursuing higher levels of brand orientation may not change the situation very much. However, in B2B firms, brand orientation has a stronger effect, as thinking about brand positioning might not be as integral to their businesses as it is to firms operating in the consumer context.

On the other hand, brand values have a stronger effect on both brand positioning and brand vision among B2C firms than among B2B firms. Furthermore, the effect of brand orientation on brand values is similarly stronger among consumer firms than among industrial firms. A brand's value foundation may play a greater role in the consumer context because consumers often stress the intangible benefits of brands more than industrial buyers do, e.g.

the idea that they can express themselves and their personalities by using particular brands (Hirvonen *et al.,* 2013). In the B2B markets, on the other hand, the emotive and self-expressive benefits play a minor role (e.g. Bendixen *et al.,* 2004; Leek and Christodoulides, 2012) and, consequently, customers may not examine brand values as closely. B2B firms may not therefore put as much emphasis on building on brand values as firms operating in the consumer context.

Regarding industry type, brand orientation has a statistically significant effect on brand positioning among service firms, whereas among product firms the effect is non-significant. According to de Chernatony and Segal-Horn (2003), the strength of a service brand largely depends on how service employees behave when interacting with customers. To ensure effective brand positioning, employees need to internalize the brand and communicate and strengthen its positioning through their behavior. This, in turn, calls for a holistic approach to brands (i.e. brand orientation). On the other hand, in production firms, it might not be as critical as in service firms that every employee buys into the branding philosophy (Hirvonen *et al.,* 2013), potentially reducing the role of brand orientation in brand positioning.

The pronounced role of employees in services may also explain why brand values have a stronger effect on brand vision in the service context than in production firms. De Chernatony (2001), for example, suggests that brand vision excites the staff and strengthens their brand commitment. In services, the role of brand vision as an internal guide may be stronger than in production firms, leading service firms to put more effort into translating brand values into an internally (but also externally) stimulating brand vision. In addition, that brand values have a stronger impact on brand positioning among production firms than among service firms can similarly relate to the role of employees. In product firms, brand positioning is less affected by face-to-face interaction between the firm and its customers than in service firms, negating the direct effect of brand orientation on positioning and instead highlighting the role of values in brand positioning. That is, effective brand positioning in production firms derives from how well a firm translate its values into a market position, whereas services firms need to consider their value foundation, but also how to build an organizational mindset that supports this position. Of course, production firms similarly need staff support for their brand positioning, but this need is likely to be more apparent among service firms.

Finally, we highlight the fact that neither industry type nor customer type moderates any other path in the conceptual model. Thus, it appears that, despite the above-mentioned differences between firms, investments in brand identity development in general are equally beneficial for both B2C firms and B2B firms, and for both service firms and product firms.

Managerial implications

The results come with several implications for practitioners, showing that there is potentially more to gain than to lose in making the brand a strategic choice in running the business. The results suggest that SMEs should indeed view branding as equally beneficial as their larger counterparts. Despite the fact that many SMEs perceive brand development as being out of their reach (Merrilees, 2007), we urge – gaining support from our results – that they actively attempt to change their attitudes and integrate the brand into their strategies.

First, our results indicate that SMEs need to consider brand orientation as a guiding light of brand development. That is, firms need to appreciate the strategic value that a strong brand provides and, thus, make brand management a top priority. It is also important that everyone inside the firm values the brand. This puts pressure in particular on the owner-manager, who often plays a critical role in branding in SMEs (e.g. Krake, 2005; Spence and Essoussi, 2010). For example, Krake (2005) argues that branding in many SMEs is the sole responsibility of the owner. Therefore, we encourage SME owner-managers to reconsider their thinking that branding would be only for large firms or that it is secondary to short-term sales figures. Of course, we acknowledge that such a change is difficult: as Hirvonen and Laukkanen (2014) note, a lack of knowledge whether investments in branding will pay off is likely to increase suspicion among SMEs towards branding. However, we believe that the results of this study, and others in the field of SME branding, should show SMEs that the risk is worth taking.

Secondly, managers need to be made aware that a brand-oriented mindset alone is not enough, but rather an antecedent to and an important first step towards more concrete brand management activities. That is, brand orientation provides firms with a solid structure for building a unique brand identity (Urde, 1999). We argue that managers greatly benefit from spending time and effort on thinking of their brand identities. As shown in this paper, it makes sense for managers to consider brand identity as incorporating multiple components: as noted by de Chernatony and Dall'Olmo Riley (1998), analyzing the brand through components "simplify brand complexity into a small number of parts" (p. 1074). Hence, managers may make their brand building process more systematic by dividing the brand construct into a number of smaller parts and focusing on each part individually.

However, while dividing brand identity into components, we urge that managers at the same time pay close attention to the fact that the components are interrelated. Managers must notice the role of brand values as providing direction for brand identity development. For example, brand values offer a basis for positioning the brand and how it portrays itself to customers. Indeed, as de Chernatony (1999) notes, the brand's intended positioning should be considered in reference to its values, implying that brand positioning depends on brand values. Therefore, SMEs should establish a good understanding of the values they stand for. Given that the owner-manager is often the personification of the SME brand, his/her values are likely to form the value base for the brand as well (Centeno *et al.,* 2013). Thus, SME owner-managers should carefully consider their own role in brand building as their creativity, skills, know-how and attitudes towards brand management are crucial in adopting the brand as a strategic podium. At the very concrete level, firms may, for example, organize internal workshops, where both the management and employees can, together, talk about and develop the brand identity.

Our results further provide practitioners with evidence that despite the challenges, the benefits of branding are notable for SMEs business performance. Overall, the relevance of brand identity relates to its ability to create an emotional bond with customers (Urde, 2003). Our results also confirm this, showing that brand identity (via its components) drives business performance. These findings should offer SMEs further reason to look back at the beginning of the chain and develop a brand orientation. However, we find it important to remind SMEs that they should attempt to measure their success, especially in terms of brand performance. The key to higher performance is to carefully measure how each action made by the firm affects its performance. While our results show that there is a positive linkage between brand identity and performance, firms need even more details to guide their decisions, emphasizing a systematic measurement of how its actions relate to its success.

However, importantly, while we encourage SMEs to actively invest in branding, we also urge them to pay close attention to the context in which they operate. That is, the moderation analysis results show that customer type and industry type moderate some of the paths in the model. For example, it appears that brand values generally play a greater role in B2C firms than in industrial firms. Because of these differences, firms should develop an understanding of their customer base and adjust their actions and resource allocation accordingly. Given that consumers use brands to express themselves and their personalities (Hirvonen *et al.,* 2013), and that the relationship between customers and the brand will develop more easily when their values are congruent (Urde, 2003), the use of brand values as a basis for other brand identity components is particularly critical for B2C firms. Again, we highlight the role of the owner-manager in implementing these insights.

Furthermore, regarding the industry type, we highlight the finding that brand orientation has a stronger impact on brand positioning among service firms than among production firms. We, therefore, especially encourage service firms to actively develop a brand orientation. In service industries, where the success of a firm is intimately related to its employees, the role of an organizational mindset and attitude becomes even more pronounced than in the production context. Service firm managers should, hence, develop their abilities to interpret and manage people's attitudes and beliefs, as building a strong brand positioning in the service context is highly dependent on how employees generally think about branding.

Future research

There are several avenues for future research. First, including new factors with the potential to moderate the hypothesized paths would add depth to the knowledge of SME branding. For example, firms may have different goals regarding internationalization, making the level of internationalization (or orientation towards internationalization) a potential moderator. That is, while some firms prefer to operate only in local markets, others aim for international markets even right from the inception (i.e. representing so-called *born globals*; see e.g. Gabrielsson, 2005). In addition, extending the research beyond national boundaries to various geographical areas could offer interesting opportunities for cross-national comparisons.

Secondly, this study did not explicitly examine the concept of internal branding and the involvement of employees in translating brand identity into business performance. By adding employee brand orientation to the model (to serve as a mediator and/or a moderator variable), the effects of brand identity on business performance could be further understood. Given that the bootstrapping results indicate that there might be potential mediators currently omitted from the model, investigating such concepts appears a feasible avenue for future research. Moreover, we find brand orientation and brand identity to be important, both when developing brands at the company level (corporate brands) and at the level of products (product brands), given that in both cases firms need to develop a brand identity, measure its impacts on performance, and also ensure proper organizational support through the development of a brand orientation. However, we nevertheless consider it as interesting for future research to examine whether there are differences between the brand types.

Third, the majority of firms in our sample are small businesses, instead of medium-sized firms. While the sample characteristics correspond with the national distribution of firms in Finland, and elsewhere in Europe, collecting a sample with an emphasis on medium-sized firms represents a potential avenue for future research. However, even though a large share of firms in the sample are small firms, we argue that the results are relevant for medium-sized firms, as well. That is, the brand management literature suggests that both brand orientation (e.g. Hirvonen et al., 2013; Urde, 1999; Wong and Merrilees, 2005, 2008) and brand identity (e.g. Hirvonen and Laukkanen, 2014; Ghodeswar, 2008) are critical for all firms, despite their size. Of course, before going any further, we await future research validating this claim.

Finally, we conceptualized and measured brand identity as consisting of three related components, namely brand values, brand vision, and brand positioning. While the literature on brand identity suggests that these components play a crucial role in developing a brand identity, we acknowledge that other components could also be addressed. For example, de Chernatony (1999) suggests that one of the tasks related to brand identity development is to determine what kind of relationships the brand has with customers and other stakeholders. Hence, we urge that researchers would consider whether the inclusion of additional brand identity dimensions into the model could offer new valuable insights into the role of brand identity in driving the business performance among SMEs. Furthermore, in this study, we relied upon the brand identity scale by Hirvonen and Laukkanen (2014). While this scale has been proven to be operational in the context of SMEs, future research may also consider the development of new measurement tools for brand identity.

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Figure 1 Conceptual model and research hypotheses (H1-H11)

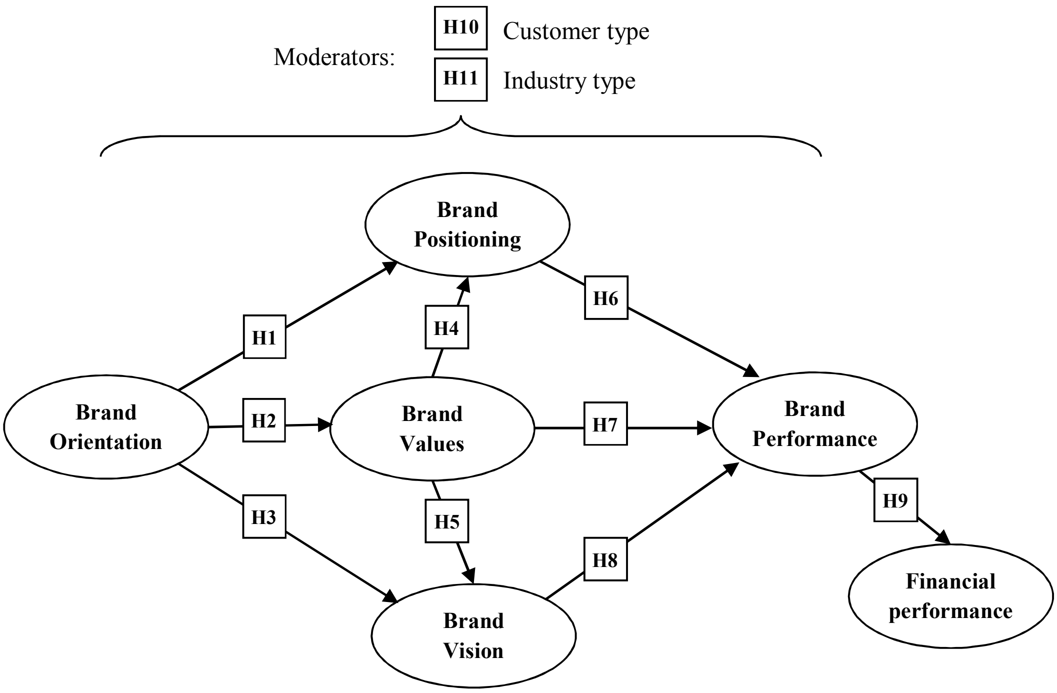
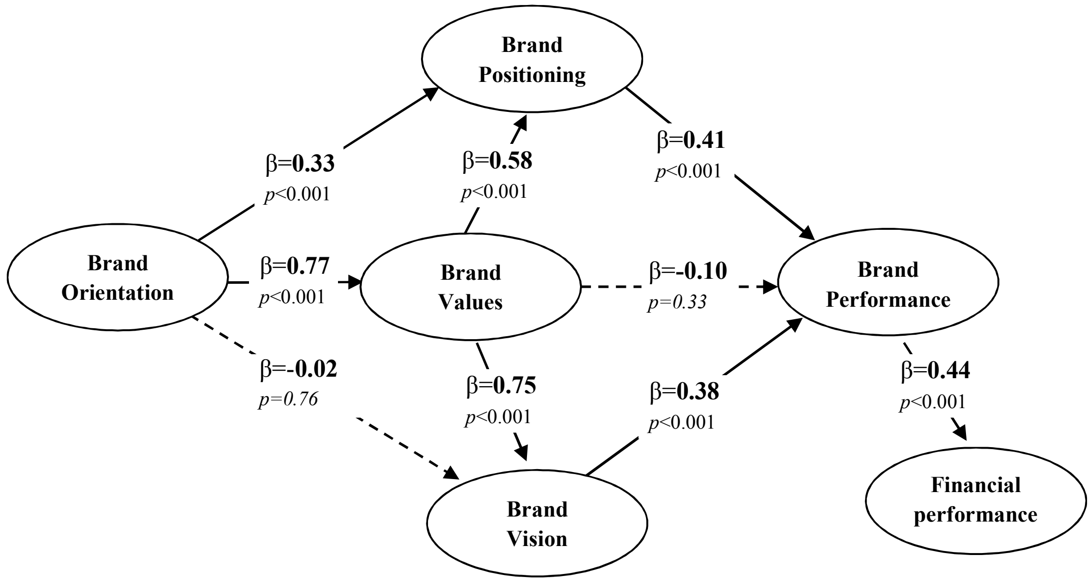


Figure 2 Research results (H1-H9)



Notes: β=standardized regression estimate; the paths marked with dotted line are statistically insignificant

Table 1 Sample characteristics

		n	%
Customer type	Other businesses (B2B)	407	56.4
	Consumers (B2C)	314	43.6
Industry type	Products	186	25.8
	Services	535	74.2
Annual turnover (€)	Less than 100,000	256	35.5
	100,000-199,999	96	13.3
	200,000-999,999	210	29.1
	1,000,000-1,999,999	67	9.3
	More than 2,000,000	92	12.8
Number of employees	1-9 (micro firms)	593	82.2
	10-49 (small firms)	98	13.6
	50-249 (medium-sized firms)	30	4.2

Table 2 CFA results and construct validity

			Squared correlations between the constructs ($Corr^2$)				
Construct	**CR**	**AVE**	**BO**	**POS**	**VIS**	**VAL**	**BP**
Brand orientation (BO)	0.963	0.839[a]					
Brand positioning (PST)	0.864	0.761[a]	0.613[b]				
Brand vision (VIS)	0.833	0.714[a]	0.312[b]	0.404[b]			
Brand values (VAL)	0.872	0.694[a]	0.585[b]	0.689[b]	0.527[b]		
Brand performance (BP)	0.880	0.648[a]	0.138[b]	0.326[b]	0.308[b]	0.272[b]	
Financial performance (FP)	0.907	0.711[a]	0.049[b]	0.092[b]	0.181[b]	0.084[b]	0.178[b]

Model Goodness-of-fit					
$\chi^2_{(df)}$	**Sig.**	**GFI**	**CFI**	**TLI**	**RMSEA**
$674.38_{(152)}$	<0.001	0.915	0.959	0.948	0.069

Notes: [a]Convergent validity satisfied (AVE>0.50); [b]Discriminant validity satisfied (AVE>$Corr^2$)

Table 3 Measurement items and factor loadings

Construct	Mean	SD	CFA factor loading
Brand orientation			
v1 Branding is essential to our strategy	4.64	1.74	0.93
v2 Branding flows through all our marketing activities	4.57	1.75	0.94
v3 Branding is essential in running this company	4.49	1.78	0.93
v4 Long-term brand planning is critical to our future success	4.74	1.79	0.89
v5 The brand is an important asset for us	4.92	1.77	0.89
Brand positioning			
v6 We have differentiated our service and brand from the competitors	4.58	1.61	0.84
v7 We have created a brand that is personal and memorable	4.42	1.65	0.90
Brand vision			
v8 We know where we are heading in the future	5.27	1.42	0.88
v9 We know what needs to be done to achieve our future goals	4.64	1.42	0.81
Brand values			
v10 Our brand represents the values of our organization	5.21	1.52	0.88
v11 Our marketing is guided by our brand values	4.97	1.55	0.82
v12 We strive for the integration of our marketing activities	4.97	1.51	0.80
Brand performance			
v13 Our firm has built a strong brand awareness in the target market	4.63	1.47	0.80
v14 Our firm has built a solid reputation	5.09	1.41	0.88
v15 We have developed the desired brand image in the markets	4.27	1.63	0.76
v16 Our firm has built strong customer brand loyalty	5.34	1.44	0.77
Financial performance			
v17 Growth rate of sales in the last 12 months	4.38	1.40	0.81
v18 Market share in the last 12 months	4.26	1.27	0.73
v19 Profitability of your firm in the last 12 months	4.32	1.36	0.93
v20 Overall financial performance in the last 12 months	4.34	1.40	0.88

Notes: All the factor loadings (CFA) are statistically significant ($p<0.001$). One brand identity item, namely "our office layout, logo, and clothing represent our brand values", was omitted from the final measurement model due to a low factor loading.

Table 4 Measurement invariance

Moderator	Model Goodness-of-Fit					Model differences		
	χ^2	df	Sig.	CFI	RMSEA	$\Delta\chi^2$	Δdf	Sig.
Industry type								
Configural invariance	897.85	304	<0.001	0.953	0.052	–	–	–
Metric invariance	911.45	318	<0.001	0.953	0.051	13.607	14	ns.
Customer type								
Configural invariance	880.75	304	<0.001	0.955	0.051	–	–	–
Metric invariance	895.31	318	<0.001	0.955	0.050	13.884	14	ns.

Note: ns.=non-significant (p>0.10) (invariance supported)

Table 5: Indirect effects

Independent variable → Dependent variable	95 per cent CIs Lower–Upper bounds[a]	Direct path added	Mediation Type (Zhao et al. 2010)
Brand orientation			
→ Brand positioning	0.35…0.57***	0.33***	Complementary
→ Brand vision	0.46…0.70***	-0.02[NS]	Indirect-only
→ Brand performance	0.38…0.52***	-0.26***	Competitive
→ Financial performance	0.15…0.25***	0.07[NS]	Indirect-only
Brand values			
→ Brand performance	0.32…0.77***	-0.01[NS]	Indirect-only
→ Financial performance	0.12…0.25***	0.12*	Complementary
Brand positioning			
→ Financial performance	0.01…0.27***	0.09[NS]	Indirect-only
Brand vision			
→ Financial performance	0.09…0.26***	0.26***	Complementary

Note: *** p<0.001; * p<0.05, NS=not significant (p>0.05). [a] 2000 bootstrap iterations.

Table 6 Multigroup moderation analysis (H10: customer type)

	Moderator groups		Model differences		
	B2B	B2C	$\Delta\chi^2$	Δdf	Sig
Brand orientation → Brand positioning	0.418^{***}	0.205^{**}	5.505	1	**
Brand orientation → Brand values	0.730^{***}	0.795^{***}	3.539	1	*
Brand orientation → Brand vision	$-0.058^{ns.}$	$-0.092^{ns.}$	1.784	1	ns.
Brand values → Brand positioning	0.482^{***}	0.708^{***}	4.288	1	**
Brand values → Brand vision	0.626^{***}	0.880^{***}	6.530	1	**
Brand positioning → Brand performance	0.417^{***}	0.331^{**}	0.157	1	ns.
Brand values → Brand performance	$-0.183^{ns.}$	$0.057^{ns.}$	1.358	1	ns.
Brand vision → Brand performance	0.366^{***}	0.370^{***}	0.020	1	ns.
Brand performance → Financial	0.378^{***}	0.512^{***}	1.176	1	ns.

Notes: *** p<0.001, ** p<0.05, * p<0.10; ns.=non-significant (p>0.10)

Table 7 Multigroup moderation analysis (H11: industry type)

	Moderator groups		Model differences		
	Products	**Services**	$\Delta\chi^2$	Δdf	**Sig**
Brand orientation → Brand positioning	0.138$^{ns.}$	0.378***	5.281	1	**
Brand orientation → Brand values	0.774***	0.769***	0.047	1	ns.
Brand orientation → Brand vision	0.101$^{ns.}$	-0.054$^{ns.}$	1.175	1	ns.
Brand values → Brand positioning	0.749***	0.542***	3.694	1	*
Brand values → Brand vision	0.570***	0.800***	2.749	1	*
Brand positioning → Brand performance	0.605**	0.379***	1.361	1	ns
Brand values → Brand performance	-0.224$^{ns.}$	-0.102$^{ns.}$	0.286	1	ns.
Brand vision → Brand performance	0.202*	0.444***	2.39	1	ns.
Brand performance → Financial	0.376***	0.453***	0.658	1	ns.

Notes: *** p<0.001, ** p<0.05, * p<0.10; ns.=non-significant (p>0.10)