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The Effects of Strategic Orientations on Innovation Capabilities and Market Performance: The Case of ASEM

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Abstract

In this study, the term *strategic orientation* that was developed within the scope of competitive advantage theories in the literature is analysed through the case of ASEM (Furniture Market of Sakarya). Throughout the study, the status of ASEM members is defined and the relationship of the strategic orientation of the firms with their innovation strategies is determined. This study has been conducted for defining the status of *strategic orientation* of the firms (market orientation, entrepreneurial orientation and technology orientation) in using innovation capabilities. Within the study, a model has been developed under the assumption that strategic orientations have positive effects on market performance and creating customer value through innovation capabilities. The data is collected through a survey that tests strategic orientations, innovation types and market performance for SMEs in ASEM. The findings suggest that proactive market orientation, proactive entrepreneurial orientation and technology orientation are positively related in innovation capabilities. In addition, innovation capabilities play a key role between strategic orientation and market performance.

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1. Introduction

Strategic orientation of a firm cannot be discussed without the internal and external environment which it operates in. There is a direct relationship among business strategies, market uncertainty, technological turbulence and competitive intensity. Under such market conditions where environmental uncertainties are lower; turbulence is

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relatively less and stability is higher while the risk taking tendencies of firms strengthen (Lukas, Tan and Hult, 2001). *Strategic orientation* that was developed by Kohli and Jaworski (1990) and carried forward through various studies by Noble et al. (2002) is now discussed with its components - *market orientation*, *technological orientation* and *entrepreneurial orientation*. The need for firms to behave strategically in a global competition environment in order to compete or to gain competitive advantage while trying to maintain it are important in realizing these firms' level of sensibility. In a destructive competition environment, how can competitive advantage or superiority be achieved? The first answer that comes to mind is that if firms carefully analyze market dynamism and display market-oriented, high entrepreneurial tendency and innovative strategy or strategic innovation, they may maintain their assets and competitive advantages (Jaworski and Kohli, 1993). One of the important tools of enterprises with improved entrepreneurship competence that ensure competitive advantage is the ability to display innovative strategy. Basically, the entrepreneurial orientation and market orientation of the firms' mean that they are strategic oriented. Strategic orientation is the philosophy of enterprises which represents their attempts to reach higher performance and shows how a job may be performed with a set of values and beliefs (Gatignon and Xuereb, 1997).

Today, in the intensely competitive environmental conditions, firms need to develop less bureaucratic and more flexible innovative strategies in order to adjust to market dynamism (Wheelen and Hunger, 2005:9). Strategic management, which states the firm's *raison d'être* (mission) and thoughts on future (vision), basically represents an understanding that aims to reveal the firm's *raison d'être*, current works, goals that it wants to achieve in the future (Bryson, 1995: 5). The questions of what and to whom they will be produced, in which markets they will be sold are important from the point of strategic management (Eren, 1997:27). When the answers to these questions are analyzed closely, the importance of innovation strategies in the adjustment to market dynamism is understood better.

In an environment where uncertainty and turbulence are increasing on a daily basis, adjusting to change and conditionally, being a leader for change requires innovation strategy. Innovation strategy is basically a strategic flexibility approach and represents the firm's strategy in adjusting to current conditions and not showing the strategic gap in any case. What is the main purpose of the firm within this scope? Which opportunities have strategic importance in reaching the main purpose? Which threats or barriers prevent reaching the main purpose? Which weakness may be overcome by which opportunities? Questions like these, when combined with market dynamism, may only be answered with innovation strategy. Innovation strategy, in its simplest terms, is choosing the most proper one amongst possible alternatives and developing the most convenient action type possible in the current conditions. ¹When something happens out of the plan, innovation strategy leads the activities so that the enterprise gets closer to the determined goal. Innovation strategy which frames strategic management is the activity that involves the required policies and processes, determining a new location and drawing a route that will end with the same goal.

2. Literature Review

Market orientation means the goal and culture of the firm is focused on creating value for customers (Narver et al., 1998), the creation of value becoming an institutionalized culture and becoming institutionalized. Market orientation is being aware of the expectations and needs of the customers, understanding and satisfying them, arouse their feeling of being worthy and all of the organizational activities towards the institutionalization of this understanding (Kohli and Jaworski, 1990). Essentially, the term market orientation is a culture which supports the creation of values in the market and is oriented by the market in order to gain competitive advantage. Market oriented firm culture is to sensitize all activities of the firm to the changes in the market and to be reproduced. The mentioned sensitivity also requires to be consolidated by the innovation strategy. Otherwise, a strict decision won't demonstrate the ability to be adequately functional against market dynamism. Being market oriented requires being more sensitive about the opportunities against the competitors whose market orientation level is lower (Micheels and Gov, 2010:7). Since the term market orientation mainly includes introducing new or different things in order to respond to market conditions, it may be perceived as a type of innovative behavior (Jaworski and Kohli, 1993: 56). With this qualification, market orientation creates a constant and proactive position with respect to satisfying the needs of the customer while at the same time, since it emphasizes the increased usage of knowledge in the firm; it increases the

innovativeness of the enterprises and performance of the new product (Olavarrieta and Friedman, 2008: 624). The reason why strong market orientation is observed in innovative enterprises is that the success of innovation and new product in firms is seen as a result of being oriented mainly by the market (Baker and Sinkula, 2007: 329). The concept of *market orientation* consists of three interrelated behavioral components. There are *customer orientation*, *competitor orientation* and *inter functional coordination*. Here, *customer orientation* is the main determiner of market orientation since customer orientation focuses on creating value for customer regardless of sector, industry, profession (McNaughton et al., 2002: 993). *Competitor orientation* is the ability to foresee current and potential competitors' strengths and weaknesses in the short term; their competence, efficiency and strategies in the long term. The third component of market orientation- *inter functional coordination* means the workers in different sectors and functions in the organization work in coordination as they create a synergy in order to achieve organizational goals. Since market orientation determines business vision and usage, this concept requires being learning-oriented at the same time. It constitutes a starting point for the organization to learn from the market and demands to handle being market oriented on a cultural basis. Market orientation is expected to positively affect the products with a basic innovation for being successful in the market. (Deshpandé and Farley, 2004; Micheels and Gow, 2010; Cambra- Fierro et al., 2011). Being market oriented may also have a positive effect on innovativeness. There has been a significant interest among scholars on the role of innovation capability in achieving superior market performance (Li and Mitchell, 2009, Rosenbuch et al., 201; Sok et al., 2013). Being market oriented is a strategic flexibility perception in which the firm aspires to identify the claims and needs of their customers while being sensitive to their future expectations, follow strategic moves of their competitors and develop innovation strategies at the same time.

Entrepreneurial orientation is a firm's tendency towards searching for new market opportunities, strengthening and restoring its current market status (Hult and Ketchen, 2001: 901). This orientation involves being highly proactive against market opportunities, tolerant to risks and sensible to innovations. In an economy, entrepreneurship means all kinds of efforts to make raw material, labor force and other production resources more valuable than they were in the beginning (Matsuno, Mentzer and Ozsomer, 2002). Entrepreneurial orientation reflects a mentality that consists of decisions, application and continuous searching which creates new business opportunities (Lumpkin and Dess, 2001). Nonetheless, in contemporary entrepreneurship studies, entrepreneurship is considered as an organizational level. Entrepreneurial orientation is a firm's tendency to try to reach new markets, search for new market opportunities and hold on to current markets; in short, its tendency towards being able to show marketing dynamism and its ability to react to the changes in the market. Entrepreneurial orientation or tendency is an understanding that requires being highly proactive against market opportunities and market dynamism, tolerant to risks and flexible against changes. In addition; being pacesetter for change, taking risks and making innovations are distinguishing qualifications of entrepreneurial orientated firms. Being more proactive against new opportunities and being able to behave properly to innovation strategies against the mentioned opportunities are requirements of entrepreneurial orientation. Producing better goods and services aren't the only ones in the strategic goals of entrepreneurial orientated firms; at the same time, they also aim to move beyond the expectations of their customers (Slater and Narver, 1995).

Two basic factors of competition for firms are reducing the prices and improving *technologic* competence. The goals of both reducing the prices and improving technological competence orientate the enterprises towards new organizational structures and working styles. Technology orientation is the ability of an enterprise to constitute a strong technologic infrastructure and use it in developing new products. Technology orientation means that a firm is able to use its ability to produce technology and its technological knowledge in responding its customers' needs and claims, and even, for predicting those (Gatignon and Xuereb, 1997). Technology orientation represents an entrepreneurial understanding which acts from the assumption that consumers prefer technologically improved products and services. In addition, a technology-oriented firm means that it will give importance to R&D, obtain new technologies and improve them constantly. While market orientation aims to satisfy the needs of the customers in a better way, technology orientation aspires to develop and use advanced and innovative technology. Technologic innovation is an approach that believes in owning groundbreaking technologies to create groundbreaking

innovations. Technology oriented enterprises aim creativity, invention, finding new techniques, technologies and methods that orientate the company's activities and strategies. Technology oriented enterprises often encourage and tolerate their employees, emboldening them to develop new technology and methods. In an enterprise that is operated with this approach, groundbreaking innovations have strategic priority and in such enterprises, being technologically oriented is a qualification that is adopted as a culture by all the employees (Hurley and Hult, 1998). Technologic innovation may be effectively used in the production process of new methods and technologies as long as it is adapted by everyone from the strategic level to the lower level.

An important tool for holding on under the dynamic environmental conditions and market conditions surrounded by destructive competition is adopting a technology-oriented approach in production technologies and methods. Technology oriented companies relatively have a higher advantage in creating new resources that will enable competitive advantage. In enterprises with this approach, technology is considered as an important tool in ensuring competitive advantage (Kelly and Rice, 2001). Being technology oriented aims not only to follow technological developments closely, but also to be a pacesetter in the market thanks to innovative technologies. Especially under uncertain market conditions, technology orientation improves the innovativeness of the company (Soto-Acosta and Meroño-Cerdan, 2008). Being technology oriented facilitates following the competitors or behaving as per the threads around. The competitive abilities of market oriented enterprises increase in accordance with their sensibility to develop new products and technologies. Being pacesetter around a dynamic market requires being a pioneer in method, technique and technology (Lieberman and Montgomery, 1988). Pacesetter enterprises are able to discover the asymmetries in the market fast and efficiently, benefit from them and ensure competitive advantage.

There are many important competition tools that firms use to ensure competitive advantage; the factors such as product and service quality, reducing costs, creating innovation, sustainability, stabilization and innovative strategies have an important part while enterprises try to ensure competitive advantage. Innovation is also a long-termed performance indicator which is integrated with concepts like change, creativity, improvement and risk taking for the firms, competition mostly shapes around the customer. This situation orientates the firms towards a customer-centered organization and it puts the customer relations forward. The factors such as the firm focusing on its basic competences, having a flexible and learning structure, being innovation-centered with openness towards organizational change also requires being consolidated with innovative strategies. Here, innovation means a strategic understanding based on adopting a new tool, policy, program, process, product or service which are produced internally or produced from external resources and may be considered as new in the organization (Drucker, 2003). Innovation strategies are the capacity of the one that is required in a future design which may not be fully estimated, to respond to changing conditions in a flexible way. Innovative strategies carry a significant meaning especially for the firms with limited resources and it is an important indicator of the market orientation competence of such firms. Innovative strategies of the firms are the vision to transform any innovation to product that could be presented to the market, to bring it to a position that creates new markets and have competitive advantage. A firm becoming a market builder means that it is capable of orientating the customer and has the opportunity to be a leader in the market (Becherer et al., 2008).

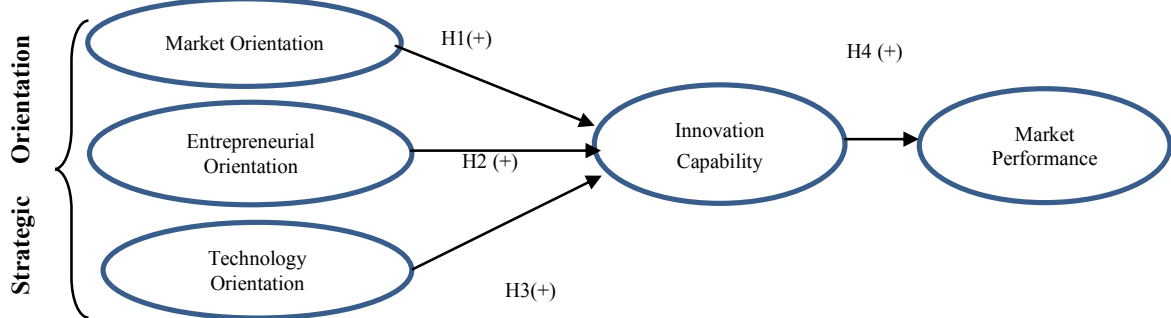
Achieving superior business performance represents a central area in strategic marketing and management. Business performance is a result of business strategies and it is called as market performance in market process. There has been significant interest among scholars on the role of innovation capabilities in driving market performance (Chandy and Tellis, 2000; Li and Mitchell, 2009). Innovation capabilities can be considered as the supportive process towards market performance. Based on the above reasoning we propose that;

- H1: Market orientation has a positive relationship with innovation capability.
- H2: Entrepreneurial orientation has a positive relationship with innovation capability.
- H3: Technology orientation has a positive relationship with innovation capability.
- H4: Innovation capability has a positive relationship with market performance.

3. Research Methodology

The main aim of this study is to understand the relationship among the dimensions of strategic orientations, innovation capabilities and market performance. This paper proceeds with a review of the literature and as the dimensions of the strategic orientation is determined market orientation, entrepreneur orientation and technology orientation. Innovation capabilities in SME firms is important both because of its contribution to the competitiveness and because of the key role on the market performance. The research model developed within the context of this study is presented in Figure-1.

Figure 1: Research Model



3.1. The Measuring Instrument

The research in this study was conducted by employing a quantitative technique. The convenient resource for this study is the primary resource. It is necessary, therefore, to constitute a survey form to measure the constructs in the research model. The survey form is developed by the authors based on extant literature. There are three parts in the survey form. The first part, towards determining the dimensions of strategic orientations, involves items about market orientation, entrepreneur orientation, and technology orientation. The first component of the questionnaire form involves 22 items. The scales of Narver and Slater (1998, 1990) have been based upon for *market orientation*. For *entrepreneurial orientation* and *technology orientation*, the study has grounded on the framework proposed by Covin and Slevin (1989), Vorhies et al. (2009) and Aldas- Manzano, Küster and Vila (2005). Second part of instrument involves 16 items to measure the *innovativeness* of the firms. The scale has been adapted the study of Darroch and Jardine (2002) and Salavou et al. (2004). All constructs were measured on five-point Likert scales ranging from Definitely Agree to Definitely Disagree. Third part of the survey form measures the basic demographics and background data on the respondents and firms.

3.2. Sample and Data Collection

The population of this study consists of all the Turkish SMEs engaging in production and sale activities of furniture. However, the population of the study is too large. It is impossible to randomly sample the entire population due to several limitations. In this study, therefore, the SMEs who are the members of ASEM (ASEM Furniture Market) were selected as the sampling frame due to the feature of it. Members of ASEM engage in both selling and production activities of furniture. ASEM is Turkey's third largest furniture market and is located in the Marmara region. Among the seven geographical regions, the Marmara Region has the largest population in Turkey. It represents approximately 8.6% of the Turkish national territory and about 30% of its population. Marmara is the most developed region in terms of industry and volume of trade. ASEM was established in 2000 and has 204 members.

The authors' contacted the board of directors of ASEM to get permission for the research. The data collection process was conducted with personal interviews. Two interviewers were informed about the questionnaire before in

the field research. It is suggested in the literature to build a positive relationship between the sample size and the number of items asked in the survey, representing a ratio of at least 1:4 or 1:5 (Tinsley and Tinsley, 1987, Hinkin et al., 1997). We, therefore, aimed to reach a total sample size, at least of 160 which represents an allowable error rate less than 5 % at the 95 % confidence level. The total number of questionnaires acquired in the data collecting phase the period of February 2015 is 171. The collected data were analyzed by employing SPSS program to see the statistical results of the hypothesis. The series of factor and regression analysis were used to measure the validity of the research model developed in this study that estimates the effect of *market orientation*, *entrepreneur orientation* and *technology orientation* on *innovation capabilities and market performance*.

3.3. Analyses and Findings

In total, 171 usable survey forms were collected from firm owner or managers of ASEM members. After editing process, the forms were coded for data analysis. Firms' characteristics of the sample showed that in two age groups (10 - 19 years) there were 40 % (68 firms) and (20 -29 years) 25 % (42 firms) of the sampled group, respectively. In terms of firm size, half of them (52 %) reported that they employed more than 25 people. An exploratory factor analysis was performed on the 22 strategic orientation items to reduce data and to identify the underlying dimensions. Principal component analysis, with varimax rotation and latent root criterion (eigenvalues >1), was used in the factor analysis. As recommended by Hair, Black, Babin, Anderson, and Tatham (2006), factor loadings greater than .50 are considered necessary for practical significance; therefore, a cutoff point of .50 was established to include items in the interpretation of a factor. Table 1 displays obtained five factors, factor loadings, eigenvalues, the percentage of variance explained by the factors, and the corresponding Cronbach's alpha reliability coefficients.

Table 1: Dimensions of Strategic Orientation

	Factor Loadings					Eigenvalue	Explained Variance	Alpha
	Factor 1	Factor 2	Factor 3	Factor4	Factor 5			
<i>Proactive Orientation</i>	<i>Market</i>							
PMO1	.847					5.04	20.10	0.77
PMO2	.805							
PMO3	.778							
PMO4	.767							
PMO5	.595							
<i>Reactive Market Orientation</i>						3.82	16.15	0.79
RMO1		.750						
RMO2		.679						
RMO3		.673						
RMO4		.603						
<i>Technology Orientation</i>						2.14	11.57	0.71
TO1			.871					
TO2			.738					
TO3			.632					
TO4			.623					
<i>Proactive Entrepreneurial Orientation</i>								
PEO1				.810		1.85	10.98	0.73
PEO2				.702				
PEO3				.549				
<i>Risk- Taking</i>								
R1					.787	1.38	9.98	0.87
R2					.734			

Explained Total Variance: % 68.78 KMO: 0.81

According to Table 1, analysis result found five characteristics for strategic orientation. Examining the results of the analysis, market orientation variable defined in the research model is divided into two sub dimensions. These were

called as proactive market orientation and reactive market orientation. Similarly, entrepreneurial orientation variable was divided into two sub-dimensions as a result of the analysis. These sub-dimensions were called as proactive market orientation and risk-taking.

An exploratory factor analysis was performed on the 16 innovative capabilities items to reduce data and to identify the underlying dimensions. Principal component analysis, with Varimax rotation and latent root criterion (eigenvalues >1), was used in the factor analysis. Table 2 displays the factors, factor loadings, eigenvalues, the percentage of variance explained by the factors, and the corresponding Cronbach’s alpha reliability coefficients. According to analysis results, three factor dimensions were obtained.

Table 2: Types of Innovation Capabilities

	Factor Loadings			Eigenvalue	Explained Variance	Alpha
	Factor 1	Factor 2	Factor 3			
<i>Marketing Innovation</i>						
MI1	.812			4.04	22.88	0.81
MI2	.775					
MI3	.761					
MI4	.675					
MI5	.535					
<i>Product Innovation</i>						
PI1		.891		1.85	19.77	0.85
PI2		.865				
PI3		.649				
<i>Process Innovation</i>						
PR1			.838	1.38	18.10	0.79
PR2			.757			
PR3			.604			
PR4			.558			

Explained Total Variance: % 60.75 KMO: 0.79

The findings of the Table 2 show that innovation capabilities are constituted in three sub-dimensions. These were called as marketing innovation, product innovation and process innovation. According to these findings; to analyze the relationships in the research model profoundly, we employed the regression analysis. Before doing the regression analysis, a correlation test was applied to examine for possible signs of multicollinearity. The greatest VIF statistics in the model was 4.5, substantially less than the conservative cut-off 10 suggested by Hair et al. (2000). The results of the regression analysis for how predictive the constructs the strategic orientation towards types of innovation capability and also the effect of strategic orientation dimensions on innovation capabilities are shown in Table 3.

Table 3: The Regression Analysis for the Relationship of Strategic Orientation Dimensions and Innovation Capability Types

Model/dependent variable	Independent Variable	β	p	F	Model Significance
Model 1 Marketing Innovation	Proactive Market Orientation	.566	.010**	11.622	Adjusted R ² = 0.454 p = 0.000*
	Reactive Market Orientation	.013	.274		
	Proactive Entrepreneurial Orientation	.486	.012**		
	Risk-Taking	-.026	.786		
	Technology Orientation	.086	.521		
Model 2 Product Innovation	Proactive Market Orientation	.276	.047**	2.963	Adjusted R ² = 0.232 p = 0.019**
	Reactive Market Orientation	.231	.110		
	Proactive Entrepreneurial Orientation	.081	.663		
	Orientation	-.009	.940		

Model 3	Process Innovation	Risk-Taking Technology Orientation	.168	.010**	38.708	Adjusted R ² = 0.347	p = 0.000*
		Proactive Market Orientation	.167	.034**			
		Reactive Market Orientation	.028	.717			
		Proactive Entrepreneurial Orientation	.211	.040**			
		Risk-Taking Technology Orientation	-.035	.592			
			.598	.000*			

*Correlation is significant at 0.001 level, **Correlation is significant at 0.05 level

The results provide a basis for firm owners' practical implications for building superiority innovation strategies in the marketplace, firm owners or managers must pay attention to developing marketing, product and process innovation capabilities. These three capabilities are critical for the firms to achieve outstanding performance. Strategic orientations of managers and strategy development skills of managers related to these critical factors have direct positive effect on market success.

The three constructs (marketing orientation, product orientation and process orientation) conceived in the model to explain the innovation capabilities of the firms were analyzed for how predictive they were for the construction of market performance. The results of a series of regression analyses are presented in Table 4.

Table 4: The Regression Analysis for the Innovation Capability Types and Market Performance

Model/dependent variable	Independent Variable	β	p	F	Model Significance	
Market Performance	Marketing Innovation	.111	.037*	4.869	Adjusted R ² = 0.193	p = 0.004*
	Product Innovation	.294	.002*			
	Process Innovation	.161	.045*			

In our final hypothesis, we had expected that innovation capabilities have a positive effect on the market performance. It was assumed that as the firms have awareness, they will build more positive market performance through utilize the innovation capabilities. The coefficient for market performance signed as predicted in our hypothesis with statistically significant ($p < 0.05$). Indeed, the beta values in sampled group (0.11, 0.29 and 0.16, respectively) indicate that product innovation made the most statistically positive and significant contribution among the constructs of the model.

4. Conclusion

This paper reports the results of a study that examined effects of strategic orientation on innovation capabilities and market performance among a sample of 171 furniture manufacturer and seller firms in the Sakarya city in Turkey. A multi-path model was proposed and tested as a regression model. Specifically, the study examined the relation among strategic orientation, innovation capabilities and market performance.

The findings showed that dimensions of strategic orientation are proactive market orientation, reactive market orientation, proactive entrepreneurial orientation, risk-taking and technology orientation. In addition, the findings showed that there are three types of innovation capability for this sector; market innovation, product innovation and process innovation. Better understanding of determiners for innovation capabilities can assist firms to develop more successful strategies. As the leading variables, proactive market orientation and proactive entrepreneurial orientation are central players in explaining innovation capabilities as the antecedent of market performance. Both variables as very effective triggers seem to be core to all types of innovation capabilities that market, product and process

innovation. Previous studies have confirmed effects of market orientation and entrepreneur in the context of firms' market performance (Roper, 1997; Alam et al. 2013; Iyer, 2015).

We examined the market orientation in two dimensions: proactive market orientation and reactive market orientation. Both of the constructs exhibited similarities in most of the aspects. Nevertheless, proactive market orientation focuses on concealed and new consumer expectations. The findings of this study showed that there is no significant and positive relationship between reactive market orientation and innovation capabilities even though there is positive relationship between proactive market orientation and innovation capabilities.

In order to gain competitive advantage nowadays, firms need to define themselves in a totally different way, recreate their main strategies in the form of innovative strategies, rediscover the sector they are in; in short, they need to have the ability to be different from their competitors and create a difference in their products and services. As a result, performing innovation strategies successfully is possible only with a strategic flexibility. Strategic flexibility is the ability of a firm to respond to uncertainties by organizing or regulating its goals with the support of the knowledge and skills it has. Strategic flexibility supports the development of production strategies and makes it easier for the firm to respond to the rapidly changing external factors. While high quality and low costs have become a requirement for entering the market, flexibility is in key position in increasing the competitive ability of a firm. Though uncertainty may be a threat for nonflexible firms, it may provide important opportunities for highly flexible firms. Strategic flexibility not only describes a flexibility capacity but also represents the increase of the recruitment of workers who have advanced process and information technology in order to foresee customer demands. Firms with high levels of flexibility also have the ability to meet the customer expectations which are impossible for the competitors in the market to satisfy. While the innovation strategies that firms perform in accordance with the changing internal and external environmental conditions have the tendency to change in time, it may also be claimed that they may use more than one strategy at the same time.

In this study the sample selected as furniture manufacturer and seller firms. This might cause damage to generalization towards market performance based on strategic orientation. Additionally, the findings are restricted to one market, ASEM, among some others. Some variables, such as dimensions of strategic orientation and innovation capabilities might be different for other firms and sectors.

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