

## **Effect of Market Orientation on Innovation Performance of Micro Enterprises: Research on Micro Enterprises in Eskişehir**

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### **Extensive Summary**

Micro enterprises are one of the major contributors of national economies of developed and developing countries (Fumo and Jabbour 2011; Stel et al., 2005; van Praag and Versloot, 2007; Karadeniz and Göçer, 2007; Acs et al., 2008; Beck et al., 2005). Most economic studies define micro enterprises as business with less than 10 employees, and usually they are considered to be an important source of employment and provide self employment opportunity (Sheikh et al., 2002; Edmiston, 2007). They are not only seen as a main driver for generating employment, they also promote innovation, realize business ideas, increase regional economic integration, and maintain social stability (Franco and Haas, 2010). Since micro enterprises play a significant role in Turkish economy, it is therefore critical to develop and understanding why these businesses succeed or fail.

Drucker (1973) argues that creating and keeping customers is the only valid purpose of a business, for achieving this purpose businesses should focus on only two functions: Marketing and innovation. The essential success factor for micro enterprises is selling products and services at profitable terms. However, this can only be achieved in the competitive business environment by developing relationship with customers and retaining them by providing value to customers through new products and services. These relationships will provide viability in the long run and sustain cash flow. Yet, the central question here is how micro enterprises would establish and retain relationships that will add value to the customers and earn profits.

Marketing philosophies, such as market orientation would help micro enterprises, like their larger counterparts, to develop and retain customer relationships that would allow them to keep up with their competitors. Since Narver and Slater (1990) revealed a positive relationship between firm performance and market orientation in large firms, it is suggested that the market orientation construct is applicable in research on small businesses.

Furthermore, business environment dictates for small and medium-sized enterprises (SMEs) that success starts with investigating the customers' needs, and developing differentiated products or services for a well-defined segment (Zortea-Johnston et al., 2012). Thus, requiring small and medium-sized, and likewise micro enterprises to focus on customers and develop market driven innovations, since they are strategically and tightly aligned with the market in such a way that they put their customers' expressed needs first before creating appropriate products to meet these explicit needs (Deshpande et al., 1993). Following this research path, recent studies investigated the link between market orientation and innovation performance of firms, and depicted a positive relationship that market orientation enhances innovation performance (Bulut et al., 2009; Jimenez-Zargo et al., 2012; Tung, 2012; Zortea-Johnston et al., 2012; Erdil vd. 2013).

On the other hand, research indicates that failure of SMEs is high, above all within the first years after starting, and shows that over 20% of new ventures fail within one year and 66% within six years (Franco and Haas, 2010). SMEs and particularly micro enterprises encounter several business challenges and problems, such as liquidity constraints, lacking innovative capacity, lack of developing firm-specific assets, lack of deployment of technology, lack of cooperation and collaboration, etc., which lead to business failures (Franco and Haas, 2010). These business challenges not only affect firm performance but also innovation performance of SMEs and micro enterprises.

Accordingly, this research aims to identify the impact of market orientation and business challenges of micro enterprises on their innovation performance operating in Eskişehir. This study is part of a research project that aims to identify the structures and main problems of micro enterprises that operate in Eskişehir, and provide suggestions for improvement, and contributes to the literature by being the first comprehensive study on micro enterprises in Eskişehir. The variables and research model is presented in Figure 1.

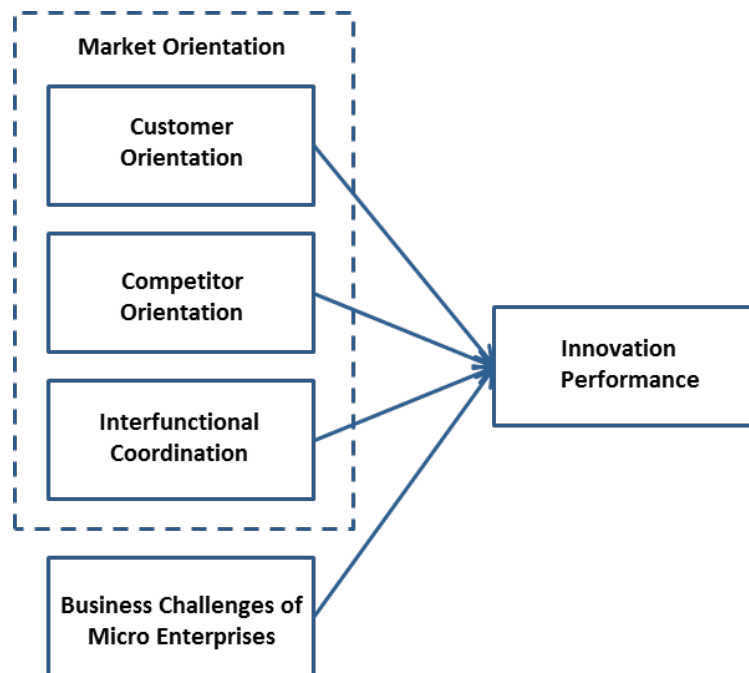


Figure 1. Research Model

The hypothesis for this study addresses the relationship between three components of market orientation, business challenges and innovation performance of micro enterprises:

**H<sub>1a</sub>:** There is a positive relationship between customer orientation component of market orientation and innovation performance of micro enterprises.

**H<sub>1b</sub>:** There is a positive relationship between competitor orientation component of market orientation and innovation performance of micro enterprises

**H<sub>1c</sub>:** There is a positive relationship between inter-functional coordination component of market orientation and innovation performance of micro enterprises.

**H<sub>2</sub>:** There is a negative relationship between business challenges and innovation performance of micro enterprises.

**H<sub>3a</sub>:** Customer orientation component of market orientation has a positive impact on innovation performance of micro enterprises.

**H<sub>3b</sub>:** Competitor orientation component of market orientation has a positive impact on innovation performance of micro enterprises.

**H<sub>3c</sub>:** Inter-functional coordination component of market orientation has a positive impact on innovation performance of micro enterprises.

**H<sub>4</sub>:** Business challenges have a negative impact on innovation performance of micro enterprises.

### **Sample and Data Collection**

Research data was collected via face-to-face interviews with owners/managers of micro enterprises in Eskişehir. The survey questionnaire was prepared according to interviews with executives of Eskişehir Chamber of Tradesmen and Craftsmen, and finalized after a pilot survey with 120 micro enterprises. Due to participation rates research comprises data collected from 1769 micro enterprises.

### **Findings**

For testing the research hypothesis, we needed to conduct correlation and regression analysis. However, before those analyses, we conducted an exploratory factor analysis to determine whether the sub-dimensions of the market orientation scale were observed in the data set. The exploratory factor analysis produced two sub-dimensions for market orientation (MKTOR) scale instead of three, customer orientation and, competitor orientation-intraenterprise coordination, which was an expected outcome of micro enterprises as the MKTOR scale was developed and mostly tested with data from large businesses. Following the exploratory factor analysis, we performed reliability analysis for the emerging sub-dimensions of MKTOR scale, business challenges and innovation performance scales, and detect that the calculated Cronbach's alpha values vary between 0,807 and 0,957, which could be considered highly reliable.

We conducted correlation analysis for testing H<sub>1a</sub>, H<sub>1b</sub>, H<sub>1c</sub> and H<sub>2</sub>. According to the results of the analysis, there are positive correlations between customer orientation ( $r^2 = 0,610$ ), competitor orientation-intraenterprise coordination ( $r^2 = 0,879$ ) and innovation performance. In addition, correlation analysis results showed that there is a

negative correlation between business challenges that micro enterprises encounter ( $r^2 = -0,508$ ) and their innovation performances, as anticipated. Thus, the results support  $H_1$  and  $H_2$ .

We performed a regression analysis with backward method for testing  $H_{3a}$ ,  $H_{3b}$ ,  $H_{3c}$  and  $H_4$ , to estimate the variance explained in innovation performance by market orientation sub-dimensions and business challenges encountered. The results of the regression analysis indicate that 77,6% of the variation in micro enterprises' innovation performance is explained by the dependent variables (Adjusted  $R^2 = 0,776$ ;  $F = 1879,136$ ;  $p < 0,01$ ). In regression analysis beta values of each independent variable signifies the contribution and impact on innovation performance. The results suggested that customer orientation with beta value of 0,034 and t-value of 1,635 ( $p = 0,102$ ) might have an impact on innovation performance of micro enterprises but not significantly. Thus,  $H_{3a}$  is rejected and, we excluded customer orientation variable and repeated the backward method regression analysis.

The results of the renewed regression analysis suggest that competitor orientation-intraenterprise coordination, and business challenges that micro enterprises encounter could explain 77,6% of the variation in innovation performance (Adjusted  $R^2 = 0,776$ ;  $F = 2814,468$ ;  $p < 0,01$ ). When beta values of independent variables evaluated, competitor orientation-intraenterprise coordination sub-dimension has the highest beta value of 0,831, thus which has the highest impact on innovation performance of micro enterprises. The variable business challenges that micro enterprises encounter has also an impact on innovation performance those firms, however, comparatively a minor one with a beta value of -0,093. Accordingly,  $H_{3b}$  and  $H_{3c}$  are accepted indicating that competitor orientation-intraenterprise coordination has a strong positive impact on innovation performance of micro enterprises.  $H_4$  is also accepted suggesting business challenges that micro enterprises encounter impacts innovation performance in a negative fashion as anticipated.

### Discussion

The findings indicate that market orientation is a significant determinant of innovation performance of micro enterprises. As the level of market orientation, in other words customer and competitor orientation, and intraenterprise coordination levels increase, there would be an upward inclination in the innovation performances of micro enterprises. In addition, the findings also imply that as the business challenges that micro enterprises encounter intensify, their innovation performance would exhibit a downward inclination.

For micro enterprises business viability in long run requires enhancing innovation performance that would revive business profitability through developing new products and services. Market orientation is one of the key factors that would facilitate the process, and thus it is essential to increase market orientation by tracking the changes in competitors' activities and to react accordingly with an intraenterprise coordination of resources while considering the changes in customers' needs and wants.

Furthermore, business challenges such as lack of collaboration and cooperation culture, lack of utilization of information technologies, lack of employing new technologies for developing new products and services, lack of innovative ideas, and lack of providing customized products and services for customers impede on innovation

performance of micro enterprises. Any improvement in these areas that would diminish overall business challenges would significantly affect innovation performance in positive fashion.