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The Mediating Role of Innovation Capability on Market Orientation and Export Performance: an Implementation on SMEs in Turkey

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Abstract

The purpose of this study is to investigate the relationship between market orientation, innovation capability and export performance and also to figure out the mediator effect of innovation capability on the relationship between market orientation and export performance with an implementation on small and medium-sized enterprises (SMEs) in Turkey. In this context, a research model and related hypotheses have been developed. In order to test the hypotheses in the research model, a field study was carried out using the survey method with 474 owners and managers in total, from 186 number of firms operating in manufacturing sector. Data collected from 474 owners and managers have been analyzed using correlation and regression analysis with Structural Equation Model (SEM). Analysis is performed using SPSS and AMOS software packages. As a result of this study, it is founded that innovation capability has a partial mediator effect on market orientation dimensions and export performance. This empirical findings show that SMEs can be able to achieve competitive advantage through improving a market-driven innovation capability.

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Keywords: Innovation Capability, Market Orientation, Export Performance, SMEs.

1. Introduction

World is renewing itself constantly and very quickly. This renewal process is formed around certain dynamic concepts like globalization, losing the boundaries of the markets, relentless competition, shorter product life cycles and dramatic pace of technological innovation. It was sufficient for companies to produce products and services which have higher quality standards than the market, however, in today’s world these quality standards are only considered among the hygiene factors. This factor forces companies to think and act with a broader point of view; being customer oriented instead of profit-driven mentality. This moving condition of the external surrounding and growing customer expectations require businesses to develop a number of powerful features in order to remain standing. This situation is especially valid for emerging markets like Turkey because of the intense competition and the dominance of SMEs on the economy in general.

At this point, theorists studying in the field of strategic management put forward the resource-based view by focusing on the internal dynamics of the organizations. Resource-based view connects competitive advantage and higher average returns to the business resources and capabilities and takes them to forefront for businesses to create their future strategies which is accepted as the basic management philosophy (Barney, 1991; Grant, 1991)

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Accordingly, companies develop organizational capabilities that will enable their survival in the long term and draw their organizational structure within the framework of these capabilities. In today’s highly competitive business environment, innovation capability within these organizational capabilities is essential for achieving a sustainable competitive advantage (Zehir et al, 2012). However, intense competition and market structure that changes very quickly within the framework of consumer demand and expectations make imperative to evolve this capability that contribute to the firm performance in a way that will be based on the market dynamics. At this point, market orientation concept offers an effective perspective in order to improve the effectiveness of this capability. It is obvious that it will be very beneficial for companies to develop an Innovation Capability based on the expectations of the market in order to obtain a competitive advantage. Considering the results of studies in the literature it can be said that this capability that the enterprises need can come true by a market-oriented management approach.

In our research, we used a questionnaire that includes introductory statement, demographic information and the measures. Data needed for research has been collected through face-to-face and self-administered questionnaire technique with managers and owners of various size manufacturing companies in Marmara region. A database has been consisted with 474 questionnaires that collected among over 186 SMEs.

2. Innovation Capability

According to the definition published in the OSLO Manuel (2005) which is one of the internationally accepted resources by OECD and Eurostat; innovation is the implementation of a new organizational method in new or significantly modified products, services or processes, in a new marketing method or business practices, in the workplace organization or external relations. Innovation Capability can be defined as improving and managing the existing technology, capability and knowledge needed for the creation of new ones. In this ambient environment which is dominated by high-tech applications with rapid variation, it is vital for businesses to develop innovation capability, because this provide companies to achieve dynamic competitive advantage. (Romijn, Albaladejo, 2002)

Innovation capability has a significant importance for superior innovation performance because of short product life cycles in the market and high rates of new product introductions. It’s very hard to imitate an organization that has high innovation capabilities in the market because the cost of imitating and transferring of knowledge that form the basis of innovation is very high because of the hardness of imitating verbal content of the R & D activities. This characteristic of R & D capability contributes companies to get competitive advantage because of its nature of triggering the success of innovation. (Çavuşgil, Calantone, Zhao, 2003)

3. Market Orientation

The concept of marketing has been put forward by Adam Smith in the 1700s. In his writings, customers are located in the center of the business as a partner. (Heiens, 2001) In the last 20 years, the concept of Market-Orientatio has begun to be studied regarding the concept, performance and precursors of the marketing. The term of market orientation, representing the implementations of the marketing concept, is defined as a business philosophy by the researchers. (Kohli, Jaworski, 1990, Heiens,2000) In this regard marketing concept is forming the basis of the market orientation. (Jaworski, Kohli ,1993)

Market-oriented perspective supports the opinion that the companies performing self-improvement in a way to answer the needs of the market and foreseeing the changing conditions can get returns above the average and long-term competitive advantage (Day, 1994) The two most prominent conceptualizations of market orientation are those given by Kohli and Jaworski (1990) and Narver and Slater (1990). While Kohli and Jaworski (1990) consider market orientation as the implementation of the marketing concept, Narver and Slater (1990) consider it to be an organisational culture.

Kohli and Jaworski (1990) defined market orientation as the organization-wide generation of market intelligence, dissemination of the intelligence across departments and organization-wide responsiveness to it. According to them, marketing concept is a business philosophy, whereas the term market orientation refers to the actual implementation of the marketing concept. They also add; a market orientation appears to provide a unifying focus for the efforts and projects of individuals and departments within the organization. On the other hand, Narver and Slater (1990) defined market orientation as the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business.

Both of them agree on the idea that; the basis of the market orientation includes not only providing a major competitive advantage but also integrating information about customers and competitors with the business processes. The features of the market-oriented enterprises listed by Day (1994) by analyzing the studies in the literature are shown as below:
Thought system that take the interests of customers to forefront
Organizational skills oriented to the establishment, dissemination and usage of information about customers and competitors
Coordination of resources between functions to create superior customer value

In our research, we used three sub dimensions of market orientation which are competitor orientation, customer orientation and inter-functional coordination as Narver and Slater (1990) suggest. Customer orientation continually and proactively defends the need to communicate with customers (Han, Kim, Srivastava, 1998) Competitor orientation, the focus on beating the competition rather than maximizing profits, seems to thrive in business situations despite being, by definition, suboptimal for profit-maximizing firms (Bendle & Vandenbosch, 2014) Inter-functional coordination is defined as the integration and collaboration of various functional areas within an organization (Narver & Slater, 1990)

4. Export Performance

Performance is the evaluation of all planned efforts and results qualitatively or quantitatively shown for the realization of the objectives. (Venkatraman & Ramanujam, 1986). In this research, we use export performance as the base for performance criteria because when a recession comes true in the local markets, export performance is becoming a decisive factor to separate SMEs, which is the most affected firm types in an economic recession (Zehir, Aksu, Şehitoğlu, 2014), in terms of the evaluation of the success of these companies.

Export performance is the indication of company’s success in the export. High export performance is important for enterprises in terms of ensuring sustainability of the firm in the long term. Export performance, defined as the output of the motion for overseas sales in different organizational and environmental conditions, is significant for companies and communities for two reasons (Diamantopoulos, 1999)

Considering the macro level, governments all around the world try to improve firms’ export performance because it has a position of being one of the economic growth indicators. In micro level however, it does not mean that being successful and respected in the local market will contribute companies to become successful also in export market, too. It requires some special strategies to become successful in the export.

5. Methodology

5.1. Research Model

Market orientation is positively related to export performance (Rose & Shoham, 2000) and also plays a crucial role in developing cooperative efforts with overseas distributors. Market orientation serve as an antecedent to the development of business-to-business relationships, which ultimately enhances export performance. (Racela et. al. 2007). In many researches (Han, Kim, Srivastava, 1998; Hurley & Hult, 1998; Ngo & O’Cass, 2012) innovation has a mediator effect on market orientation and firm performance.

The purpose of this study is to investigate the relationship between market orientation, innovation capability and export performance and also to figure out the mediator effect of innovation capability on the relationship between market orientation and export performance with an implementation on SMEs in Turkey. Variables used in our analysis are not commonly used together in the literature, so we aim to complete this gap as much as possible. Besides it provides compelling evidence for future work to gain further insight into innovation capability, market orientation and export performance parameters. In accordance with this aim, research model and hypotheses are given below:

![Figure 1. Research Model](image-url)
H1: Dimensions of market orientation has a positive effect on export performance
H2: Dimensions of market orientation has a positive effect on innovation capability
H3: Innovation capability has a positive effect on export performance
H4: Dimensions of market orientation has a positive effect on export performance through innovation capability

5.2. Sample and Data Collection

This study was designed to investigate the mediating effects of innovation capability between market orientation and export performance in SMEs. There are several reasons to choose SMEs as the implementation area for this research. First of all, SMEs have a more flexible structure compared to the big companies by easily adapting to the changes that occur in the external environment. Since they are closer to the market, development of innovation capability is more applicable for SMEs. Secondly, SMEs can seem as one of the key drivers in the economy because they compete the gap between the needs of big companies and customers. They act as a bridge between these two factors directing the economy.

The research data was collected from SMEs through a questionnaire. The questionnaire make up of the introductory statement, demographic information and the measures. Data needed for research has been collected through face-to-face and self-administrated questionnaire technique with managers and owners of various size manufacturing companies in Marmara region, which is most industrialized area of Turkey. A database has been consisted with 474 questionnaires that collected among over 186 SMEs. Big majority of the data came from Middle \ Bottom Level Managers with a 72,6% out of 474 usable surveys. It shows that 55,7% of the sample is graduate and 28,2% is under graduate. When we look at the data in terms of firm size, we see that 44,6% of data came from SMEs that have 51-250 number of employees. SMEs that have 250-500 number of employees compose only 15,1% in our research. The descriptive statistics values are shown in the Table 1.

Table 1. Descriptive Statistics

| Gender   | Frequency | Valid % | Education          | Frequency | Valid % |
|----------|-----------|---------|--------------------|-----------|---------|
| Female   | 155       | 37,4    | Under Graduate     | 131       | 28,2    |
| Male     | 259       | 62,6    | Graduate           | 259       | 55,7    |
|          |           |         | Master / PhD       | 75        | 16,1    |
| Total    | 474       | 100     | Total              | 474       | 100     |

| Firm Size | Frequency | Valid % | Status             | Frequency | Valid % |
|-----------|-----------|---------|--------------------|-----------|---------|
| 3--10     | 11        | 5,9     | Owner \ Shareholder| 41        | 9,4     |
| 11--50    | 64        | 34,4    | Top Level Manager  | 78        | 18,0    |
| 51-250    | 83        | 44,6    | Middle \ Bottom Level | 315       | 72,6    |
| 250-500   | 28        | 15,1    | Man.               | 474       | 100     |
| Total     | 186       | 100     | Total              | 474       | 100     |

5.3. Measures

For the evaluation of our data, we used SPSS and AMOS computer programs. Exploratory and confirmatory factor analysis, correlation analysis, reliability tests, the means of the variables and regression analysis with structural equation modelling (SEM) are used to analyze the relationship between variables of the research model. The frequencies of demographic variables were analyzed, and then the average and standard deviations were calculated. The results are presented in tables below.

The construct of our study is developed by using measurement scales taken from prior studies and all of them are measured by five-point Likert scales ranging from (1) strongly agree to (5) strongly disagree. Market orientation dimensions (Competitor orientation, customer orientation, and inter-functional coordination) are measured using the 17-item scale adapted from Narver and Slater (1990). Innovation capability is measured with the 8-item of the scale adapted from distinct scales which were developed by Calantone, Cavusgil ve Zhao (2002). Further, export performance questions are adapted from distinct scales which were developed by Walter and Samiei (1990), Zahra and Garvis (2000), and measured with 5-item scale.
5.4. Factor Analysis and Reliability

The scales were submitted to exploratory factor analysis. Best fit of the data was obtained with a principal component analysis by a promax rotation. There are; four items for competitor orientation, five items for customer orientation, six items for inter-functional coordination, six items for innovation capability and five items for export orientation. The factor loadings of competitor orientation, customer orientation, inter-functional coordination, innovation capability and export orientation are seen in Table 2. Five factors captured all of the variance with 67.7%. To confirm exploratory factor analysis, we conducted confirmatory factor analysis. These are the fit indices used in our research to examine whether the model is fitted; χ²/df (≤3), GFI (≥0.90), TLI (≥0.90), CFI (≥0.90), RMSEA (<0.08) (Hooper et al. (2008); Hu and Bentler (1999)).

Table 2. Factor Analysis

| ITEMS                                                                 | Factor Loadings |                      |                      |                      |                      |                      |
|-----------------------------------------------------------------------|-----------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|                                                                       |                 | EFA                  | CFA                  | Std. Est.             | t Value              | P                    |
| We respond to competitive actions that threaten us.                   | ,877            |                      |                      |                      | 0,595                |                      |
| Our salespeople share information within our business concerning      | ,747            | 0,787                | 11,819               | ***                  |                      |                      |
| competitors’ strategies.                                             |                 |                      |                      |                      |                      |                      |
| The top management team regularly discusses competitors’ strengths    | ,723            | 0,786                | 11,816               | ***                  |                      |                      |
| and strategies.                                                      |                 |                      |                      |                      |                      |                      |
| We target customers and customer groups where we have, or can develop,| ,542            |                      |                      |                      |                      |                      |
| a competitive advantage.                                              |                 |                      |                      |                      |                      |                      |
| We monitor our level of commitment and orientation to serving         | ,781            | 0,787                |                      |                      |                      |                      |
| customers’ needs.                                                    |                 |                      |                      |                      |                      |                      |
| Our business objectives are driven by customer satisfaction.          | ,861            | 0,769                | 17,448               | ***                  |                      |                      |
| Our strategy for competitive advantage is based on our understanding  | ,855            | 0,823                | 18,895               | ***                  |                      |                      |
| of customer needs.                                                   |                 |                      |                      |                      |                      |                      |
| Our business strategies are driven by our beliefs about how we can    | ,714            | 0,743                | 16,763               | ***                  |                      |                      |
| create greater value for customers.                                   |                 |                      |                      |                      |                      |                      |
| We give close attention to after-sales service.                      | ,574            | 0,685                | 15,227               | ***                  |                      |                      |
| All functions of our firm is sensitive to needs and demands of each   | ,656            | 0,703                |                      |                      |                      |                      |
| other                                                                  |                 |                      |                      |                      |                      |                      |
| Our top managers from every function visit our current and           | ,716            | 0,721                | 14,71                | ***                  |                      |                      |
| prospective customers.                                               |                 |                      |                      |                      |                      |                      |
| We communicate information about our successful and                   | ,885            | 0,820                | 16,596               | ***                  |                      |                      |
| unsuccessful customer experiences across all business functions.      |                 |                      |                      |                      |                      |                      |
| All of our managers understand how everyone in our company can       | ,849            | 0,829                | 16,779               | ***                  |                      |                      |
| contribute to creating customer value.                                |                 |                      |                      |                      |                      |                      |
| We stimulate an informal information exchange between the different  | ,728            | 0,780                | 15,838               | ***                  |                      |                      |
| functions of the firm                                               |                 |                      |                      |                      |                      |                      |
| All of our business functions (e.g. marketing/sales,                  | ,559            | 0,678                | 13,849               | ***                  |                      |                      |
| manufacturing, R&D, finance/accounting, etc.) are integrated in      |                 |                      |                      |                      |                      |                      |
| serving the needs of our target markets.                             |                 |                      |                      |                      |                      |                      |
| Our company frequently tries out new ideas.                          | ,778            | 0,661                |                      |                      |                      |                      |
| Our company seeks out new ways to do things.                         | ,730            | 0,632                | 15,028               | ***                  |                      |                      |
| Our company is creative in its methods of operation.                 | ,862            | 0,774                | 14,4                 | ***                  |                      |                      |
| Our company is often the first to market with new products and        | ,845            | 0,821                | 15,056               | ***                  |                      |                      |
| services.                                                            |                 |                      |                      |                      |                      |                      |
| Innovation in our company is perceived as too risky and is           | ,810            | 0,830                | 15,181               | ***                  |                      |                      |
| resisted.                                                            |                 |                      |                      |                      |                      |                      |
Our new product introduction has increased over the last 5 years.

|                          |                |     |     |
|--------------------------|----------------|-----|-----|
| Export sales volume      | 0.628          | 0.638 | 12,242 | *** |
| Export sales revenue     | 0.917          | 0.914 | 33,364 | *** |
| Export profitability     | 0.877          | 0.836 | 26,159 | *** |
| The share of exports in total sales | 0.902 | 0.830 | 25,654 | *** |
| Overall export performance | 0.896    | 0.840 | 26,338 | *** |

Explained Total Variance: 67.7%; 1. Competitor orientation, 2. Customer orientation, 3. Inter-functional coordination, 4. Innovation capability, 5. Export performance

χ²/df=2,465  GFI=0.904  TLI=0.941  CFI=0.949  RMSEA=0.056

5.5. Descriptives, Correlations and Reliabilities of the Measures

As shown in Table 3, all variables are significantly and positively correlated with each other. For exploratory research, a Chronbach α greater than 0.70 is generally considered as reliable (Hair et al., 2010). Chronbach α statistics for the study are 0.87, 0.94, 0.89, 0.78 and 0.88 for each of the five factors respectively. The average variance extracted (AVE), whose values should be greater than 0.50 (Roldán & Sánchez-Franco, 2012) gives the assessment of convergent validity. As it seen in the Table 3, AVE value of all variables exceeds 0.50.

Table 3. Descriptives, Correlations and AVE Alpha Reliabilities of the Measures

|                      | μ   | δ   | AVE | α   | 1      | 2      | 3      | 4     | 5   |
|----------------------|-----|-----|-----|-----|--------|--------|--------|-------|-----|
| 1 Customer Orientation | 3.73 | .619 | 0.58 | 0.87 | 1      |        |        |       |     |
| 2 Export Performance  | 3.66 | .955 | 0.77 | 0.94 | 0.372**| 1      |        |       |     |
| 3 Int- Func. Coordination | 3.34 | .624 | 0.57 | 0.89 | 0.727**| 0.438**| 1      |       |     |
| 4 Innovation Capability | 3.14 | .559 | 0.54 | 0.88 | 0.564**| 0.50** | 0.583**| 1     |     |
| 5 Competitor Orientation | 2.66 | .489 | 0.53 | 0.78 | 0.571**| 0.411**| 0.641**| 0.482**| 1   |

*p<0.05; **p<0.01; ***p<0.001

5.6. Regression Analysis

In order to test the hypothesizes, we performed multiple regression analysis with SEM. Table 4 shows the results of the regression analysis. The result of regression analysis in Model 1 shows that there is a significant effect of competitor orientation (β=0.206, p=0.004) and inter-functional coordination (β=0.251, p=0.003) on export performance. There is no significant effect of customer orientation on export performance. As a result of these findings; H1, dimensions of market orientation has a positive effect on export performance, is partially supported. Model 2 indicates that there is a significant effect of competitor orientation (β=0.134, p=0.046), customer orientation (β=0.241, p=0.000) and inter-functional coordination (β=0.325, p=0.000) on innovation capability. Thus H2, dimensions of market orientation has a positive effect on innovation capability, is supported. In Model 3, there is a significant effect of innovation capability (β=0.484, p=0.000) on export performance and so H3, innovation capability has a positive effect on export performance, is supported.

To investigate the mediator effect (Baron and Kenny, 1986) of innovation capability on relationship between competitor orientation, customer orientation, inter-functional coordination and export performance, Model 4 was designed. According to the results innovation capability is partial mediator variable in this relationship. We see that the effects of competitor orientation and inter-functional coordination on export performance shown in Model 1 are changing in Model 4. The effect of inter-functional coordination is completely disappearing together with the mediator effect of the innovation capability and the effect of competitor orientation is decreasing. Therefore H4, dimensions of market orientation has a positive effect on export performance through innovation capability, is partially supported.
### Table 4. Regression Analysis

|                          | Model 2                  | Model 1                  |
|--------------------------|--------------------------|--------------------------|
|                          | B  | t   | p    | B  | t   | p    |
| Competitor Orientation   | 0.134* | 1.991 | 0.046 | 0.206** | 2.875 | 0.004 |
| Customer Orientation     | 0.241*** | 3.298 | 0.000 | 0.072 | 0.955 | 0.34  |
| Inter-functional Coordination | 0.325*** | 4.000 | 0.000 | 0.251*** | 3.023 | 0.003 |
| DV: Innovation Capability |     |     |     |     |     |     |
| x²/df=2,651 GFI=0.918, TLI=0.938 |     |     |     | x²/df=2,598 GFI=0.924 TLI=0.953 |     |     |
| CFI=0.947 RMSEA=0.059     |     |     |     | CFI=0.960 RMSEA=0.058     |     |     |

|                          | Model 3                  |
|--------------------------|--------------------------|
|                          | B  | t   | p    |
| Innovation Capability    | 0.484*** | 9.129 | 0.000 |
| DV: Export Performance    |     |     |     |
| x²/df=3,560 GFI=0.951 TLI=0.962 |     |     |     |
| CFI=0.973 RMSEA=0.074     |     |     |     |

|                          | Model 4                  |
|--------------------------|--------------------------|
|                          | B  | t   | p    | B  | t   | p    |
| Competitor Orientation   | 0.133* | 1.985 | 0.047 | 0.161** | 2.332 | 0.02  |
| Customer Orientation     | 0.246*** | 3.375 | 0.000 | -0.011 | -0.154 | 0.878 |
| Inter-functional Coordination | 0.324*** | 4.013 | 0.000 | 0.142 | 1.733 | 0.083 |
| Innovation Capability    |     |     |     | 0.337*** | 5.427 | 0.000 |
| DV: Innovation Capability |     |     |     |     |     |     |
| x²/df=2.465 GFI=0.904 TLI=0.941 |     |     |     |
| CFI=0.949 RMSEA=0.056     |     |     |     |

*p<0.05; **p<0.01; ***p<0.001

### 6. Discussion

The research was done using a theoretical framework developed based on previous studies. The main purpose of this study was to investigate the mediator role of innovation capability in the relationship between market orientation dimensions and export performance. This subject is important because the findings can direct SMEs to find ways for growth opportunities in this competitive business environment. Results from hypotheses testing suggest the following information:

Competitor orientation and inter-functional coordination as the dimensions of market orientation have a positive impact on export performance. This situation not only shows that SMEs which are making exportation should take into consideration of their competitors while developing their strategy but also indicates the importance of the harmony and cooperation of business functions. The reason for customer orientation’s ineffectiveness on export performance can be because of the dominant relationship between other two dimensions. This situation can also create an area to make further research on it.

It is founded that all dimensions of market orientation have a positive impact on innovation capability. This finding supports the idea of companies that build a strategy based on market-oriented approach other than profit-oriented view will contribute to their long term sustainability since it focuses on the stated or hidden needs and wants of the customers. It is also found that innovation capability has a positive impact on export performance. For this reasons, companies that improve and implement of an idea of export based on innovation-oriented will be successful.

One of the most important results of our study is that innovation capability has a partial mediator role on market orientation and export performance. This finding requires SMEs to develop a market-oriented innovation capability to achieve a competitive advantage. Instead of confining with the current situation, developing new products and services by taking into consideration of customer needs and possible actions of competitors will bring the growth in foreign markets.
7. Limitations and Future Direction

This study is subject to several limitations. The primary limitation of this research is that it takes into account only export performance as firm performance indicator, potentially limiting to make generalizations. Another limitation is to make analysis only on SMEs that are operating in Marmara Region. Although Marmara Region covers most of the SMEs in Turkey and so appropriate to make generalization, it can be beneficial for future researches to make this analysis also on large-scale, global and multinational companies. Information of performance indicator was only measured by subjective opinions. For further researches, it is suggested that objective performance indicators such as analyzing the balance sheets of the companies.

As we mentioned before, variables used in our analysis are not commonly used together in the literature. For this reason we aim to complete this gap as much as possible and also think that this analysis can also be applied to other companies operating different areas of the world. Besides it provides compelling evidence for future work to gain further insight into market orientation, innovation capability and export performance parameters. For further researches the analysis also can be expanded in taking into account of other capabilities.

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