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THE IMPACT OF MARKET ORIENTATION AND INNOVATION ON SME PERFORMANCE: THE CASE OF KOSOVO

Ljubljana, April 2014   SHQIPE REÇICA SEFA

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INTRODUCTION

Micro, small and medium-sized enterprises (hereinafter: SMEs) have been playing an important role in the economy of all countries around the world, and are the focus of economic development for both developing and developed economies. SMEs are called engine of the European economic development, since they represent an important establishment for fostering significant entrepreneurial spirit, innovation, competitiveness and employment (European Commission, 2005; Wymenga, Spanikova, Barker, Konings, & Canton, 2012).

In the globalization era, rapid technological development due to stronger competitive pressure, rapid changes in the market and more demanding customers, it has become much more difficult for enterprises to gain competitive advantage (Kotler, 2002; Maravelakis, Bilalis, Antoniadis, Jones, & Moustakis, 2006). These changes have created new behaviors and challenges for both customers and enterprises. Customers are more demanding because they can obtain wide-ranging product information from internet and other information sources, which increases their expectations for high quality of products and services. In the other hand, brand manufacturers are facing intense competition from domestic and foreign brands. Small and medium-size retailers are facing intense competition from domestic large retailers and from online retailers' at the global level (Man, 2009).

SMEs that are more market oriented (such as customer orientation, competitor orientation and inter-functional coordination) and innovative can easier handle aforementioned challenges and create a better performance. SMEs that are dedicated to understand both the expressed and latent needs of their customers, and the competencies and plans of their competitors through a regular processes of obtaining and evaluating market information, continuously create superior customer value by sharing the knowledge broadly with all departments or employees (some micro or small enterprises do not have separate departments) and by acting in a coordinated and focused manner. This is called market oriented philosophy and goes beyond satisfying customers' expressed needs, but through understanding and satisfying also their latent needs (Slater & Narver, 1998, p. 1001). The term "market orientation" traditionally is used from researchers to mean the implementation of marketing concept (Kohli & Jaworski, 1990, p. 1).

Economic literature emphasizes that both market orientation and innovation have a positive relationship with the business performance, and also market orientation is positively related to innovation (Low, Chapman, & Sloan, 2007). According to one of most-cited earlier passage from Ducker, marketing, innovation and the performance of enterprises are linked, stating that 'there is only one valid definition of business purpose: to create a customer... It is the customer who determines what a business is… because its purpose is to create a customer; the business enterprise has two-and only these two-basic functions: marketing and innovation. Marketing and innovation produce results all the rest are 'costs'' (Drucker, 1986, p. 47).

Compared to large enterprises, lack of resources and lack of specialized structure and competences are main factors hampering their marketing planning and strategizing and their research and development (hereinafter: R&D). Because of constrains and the inherent characteristics of entrepreneur/owner related to marketing and decision making, SMEs cannot adapt and implement marketing concept to the same extent as larger enterprises. To pursuit their organizational goals they use marketing function in a specific form, which differs from conventional and structured marketing forms like in large enterprises (Gilmore, Carson, & Grant, 2001; Bettiol, Di Maria, & Finotto, 2012; O'Dwyer, 2009; Reijonen & Laukkanen, 2010; Carson, 2003). Small size, flexibility and their fast and supposedly efficient internal communication, enables them to develop market orientation culture and philosophy, and inter-functional coordination component is of particular importance (Spillan & Parneli, 2006). Risk-taking tendency of entrepreneurs/owner/managers to pursue new opportunities makes SMEs more prone to rapid innovation over large enterprises (Stoke & Wilson, 2006; Maravelakis et al., 2006).

The significant role of market orientation and innovation on SME performance has received much interest in literature in last decade. Various studies have tackled this issue but there is still a gap to be filled, especially in Kosovo. While more than 99 percent of all enterprises in Kosovo are SMEs and they have exerted a significant impact on national economic development (Gërgjaliu-Thaçi, 2012), there is still scarcity of related research. Few studies examining SME marketing and innovation in Kosovo, indicate that both marketing and innovation activities are largely neglected (Bajrami, 2011; Business Support Centre Kosovo-BSCK, 2011, SME's Support Agency, 2011).

The purpose of this thesis is to investigate the impact of market orientation and innovation on SME performance in Kosovo. The **main goal** of the thesis is to examine whether a positive impact of market orientation and innovation on SME growth found in different countries around the world holds for the case of Kosovo as well. This study is among the first attempts to investigate the impact of market orientation and innovation on the performance of SMEs in Kosovo based on primary collected data through personal in depth interviews of the author with Kosovo enterprises.

The research question of this thesis is "what is the impact of market orientation and innovation on SMEs performance in Kosovo"?

The aim of the thesis is tested through **two hypotheses**:

H1: "The SMEs market orientation and performance growth are positively correlated."
H2: "The SMEs innovation and performance growth are positively correlated."

The thesis is structured as follows, chapter one presents general insight for definition of SMEs, the development, impact in economy, their main characteristics in general and particularly in Kosovo. Chapter two examines literature on market orientation. It begins with

definition of marketing and characteristics of SME marketing. Followed by market orientation definition and its components, characteristics of SME market orientation in general and the characteristics of SME market orientation in Kosovo. Chapter three reviews literature on innovation. Characteristics of SME innovation, the impact of innovation on enterprise performance and the characteristics of SME innovation in Kosovo are the focus of the chapter. Chapter four presents a detailed overview of the methodology used in research, followed by data analysis and discussion of findings on impact of market orientation and innovation on SME performance in Kosovo. Last chapter concludes.

1   SMALL AND MEDIUM-SIZED ENTERPRISES

The objective of first chapter is to provide an introduction to small and medium-sized enterprises. It will begin with discussion related to SMEs definition, followed with the discussion on SME development and their importance for the economy as an important factor for both employment and gross value added. The last section of this chapter describes the development of SMEs and their main characteristics in the case of Kosovo.

1.1   SMEs Definition

There is not a unique definition for SMEs which is accepted worldwide. The term "SME" encompasses a broad spectrum of definitions, where different organizations and countries set their own guidelines for defining SMEs often based headcount and sales or assets (Hill, 2001; Storey, 2005; Dalberg, 2011). As an example, enterprises with more than 5 employees and fewer than 50 are considered SMEs in Egypt, while in Vietnam enterprises are considered SMEs only if they have between 10 and 300 employees. World Bank defines SMEs as enterprises with a maximum of 300 employees, $15 million in annual revenue and $15 million in assets, while Inter-American Development Bank describes SMEs as enterprises with a maximum of 100 employees and less than $3 million in revenue (Dalberg, 2011, p. 6). In practice, it is hard to draw a precise line that distinguishes enterprises by size however SMEs have certain common characteristics (Stoke & Wilson, 2006).

According to Stokes and Wilson (2010) the Bolton Committee's Report on Small enterprises (1971) attempted to overcome the problem of definition. They proposed that enterprises are considered small if satisfied three essential criteria such as:

- small enterprises are managed by their owners or part-owners in a personalized way
- small enterprises have a relatively small share of the market in economic terms and not through the medium of a formalized management structure
- small enterprises are independent, in the sense of not forming part of larger enterprise

These general qualities were supplemented by more specific quantitative measurements depending on the industry type, such as, enterprises with 200 employees or less are defined

small enterprises in manufacturing sector, while in construction, mining and quarrying with 25 employees or less. Meanwhile, small enterprises in Retailing, Miscellaneous and Service sectors are those enterprises with sales turnover of £50,000 or less, while in Motor trade with £100,000 or less and in Wholesale trades with £200,000 or less. Whereas, the number of vehicles is used, as size criteria in Road transport sector defining as small enterprises those with five vehicles or less (Tonge, 2001; Stoke & Wilson, 2006). Although, these definitions formed the basis of much research and they are the most widely quoted as sources to define and understand small enterprises, they are open to several criticisms as well (Hill, 2001; Storey, 2005; Stoke & Wilson 2006; O'Dwyer, 2009).

European Commission (hereinafter: EC) initiated an important set of SMEs definitions since year 1996, in order to overcome a number of the problems outlined above. They use numerical parameters in order to make differentiation between small and large enterprise, in addition they introduced a further category of the 'micro' enterprise to reflect the growing importance of very small enterprises as well (EC, 2009, p. 2).

Table 1. Definition of micro, small and medium-sized enterprises adopted by the EC

SMEs	Headcount:	Financial ceilings: Annual Turnover or Annual balance sheet total	
Enterprise Category	Annual Work Unit	Annual Turnover	Annual balance sheet total
Medium-sized	< 250	≤ € 50 million (in 1996, € 40 million)	≤ € 43 million (in 1996, € 27 million)
Small	< 50	≤ € 10 million (in 1996, € 7 million)	≤ € 10 million (in 1996, € 5million)
Micro	< 10	≤ € 2 million (previously not defined)	≤ € 2 million (previously not defined)

Source: European Commission, *Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises,* 2003, p. 4; European Commission, *The new SME definition: user guide and model declaration,* 2005, p. 14.

According to EC recommendation of 6 May 2003, an enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. That includes self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity Staff headcount and financial ceilings (either annual turnover or annual balance sheet total) are used as measures to determine enterprise categories such as **Micro, Small** or **Medium** (See Table 1).

SMEs are defined as enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million (EC, 2003, p. 4).

EC definitions are relatively simple to apply. Facilitating the use of statistical analysis they are widely applied throughout the European Union (hereinafter: EU). Although use of the definition is voluntary, the Commission together with the European Investment Bank and the European Investment Fund have invited member states to apply them as widely as possible (EC, 2005, Stokes & Wilson, 2010).

According to Stokes and Wilson (2010, p. 5), the number of people employed and the financial measures are very dependent on the sector of the enterprises, which makes generalized comparisons across sectors difficult. To overcome limitations, taking into account the economic developments since 1996 the EC revised upwards the turnover and balance-sheet values for each classification as are displayed in Table 1. Despite the criticism the member of people employed and the turnover value remain most widely used measures of enterprise size.

1.2 SMEs Development and Their Importance for the Economy

Scholars highlight that SMEs cover a wide spectrum of industries and play a significant role as a generator of economic growth in both developed and developing economies (Hultman, 1999; Dangayach, Pathak, & Sharma, 2005; Man, 2009; Hoq & Ha, 2009; Rosenbusch, Brinckmann, & Bausch, 2011; Mahmoud, 2011; Peci, Kutllovci, Tmava, & Shala, 2012; Gërgjaliu-Thaçi, 2012).

However, perceptions of their importance for national economies have shifted compared to forty to seventy years ago. First, small enterprises came under the threat during the Industrial Revolution because of the economies of scale favoring large enterprises. During 1950s and 1960s, SMEs importance was declining and they were "written off as out-of-date forms of economic activity". Later, during 1970s and 1980s the situation shifted from e managerial to entrepreneurial economy making SMEs known as the new saviors of unsound western economies. By the 1990s, SMEs were recognized as the key factor to employment (Stokes & Wilson, 2010, p. 7). In recent years, SME importance has increased rapidly. In Organization for Economic Co-operation and Development (hereinafter: OECD) member countries SMEs accounted for over 95 percent of enterprises and have been playing a major role in economic growth, by providing around 60 to 70 percent of employment in most countries and generating a large share of new jobs (OECD, 2000, p. 2). In the current decade, SMEs have become synonymous for economic development. They represent the largest proportion of enterprises and have significant impact on employment generation, innovation, creating a competitive market, contribution to the Gross Domestic Products (hereinafter: GDP) and

other aspects of social and economic development (Hill, 2001; McCartan-Quinn & Carson, 2003; Stokes & Wilson, 2010; Simpson, Taylor & Padmore, 2011; EC, 2011).

Figure 1. Enterprises in EU-27, by size-class in percentage, 2012
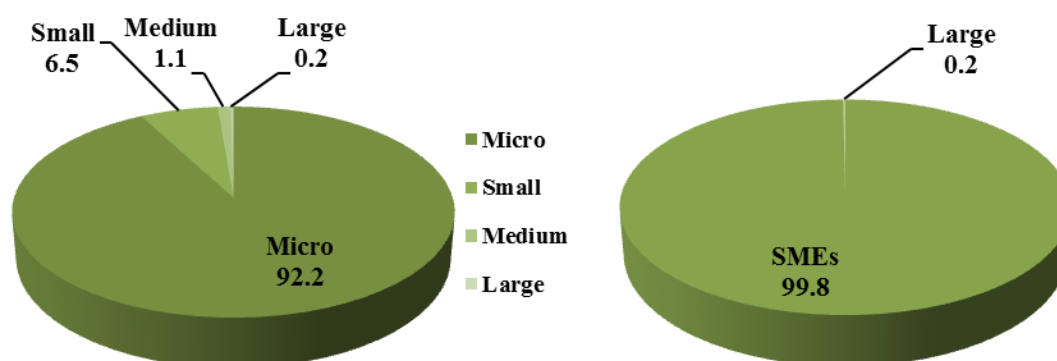
They present the majority of enterprises in the non- financial business sector in EU, from 20.8 million active enterprises, 99.8 percent are SMEs and only 0.2 percent large ones. As figure 1 shows the typical European enterprise is a micro enterprise accounting for around 19.1 million (92.2 percent) in the non-financial business sector (Ecorys, 2012, p. 15).

1.2.1 Employment by SMEs

The so-called engine of the European economic development particularly in employment term provided around 67.4 percent of jobs in the non-financial business economy while large enterprises around 32.6 percent (Figure 2).

Figure 2. Enterprises in EU-27, by employment in percentage, 2012

SMEs contribute to around 68 percent of employment in EU, with Micro enterprise having a larger share on employment. Report from EIM Business and Policy Research (2011) shows

that between 2002 and 2010 around 85 percent of total employment growth in EU37 was attributable to SMEs with a higher employment growth rate of 1 percent compared to large enterprises employment growth rate of 0.5 percent (EIM, 2011).

Figure 3. Employment share by SMEs in percentage based on income level countries
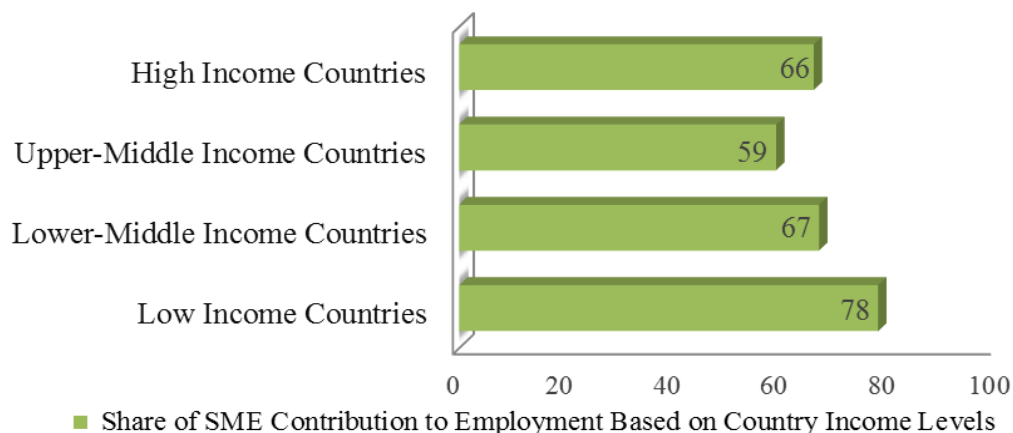
Source: Dalberg - Global Development Advisors*, Report on Support to SMEs in Developing Countries through Financial Intermediaries Countries,* 2011, p. 8

SMEs are by far the largest contributors to employment in all countries regardless of income level. As figure 3 shows at each country income level, SMEs provide more than half of employment. The biggest share belongs to low income countries where SMEs provide around 78 percent of employment, followed by lower-middle income and high income countries with 67 and 66 percent of employment respectively, and then the upper-middle income by 59 percent of employment (Dalberg, 2011).

1.2.2   Gross value added by SMEs

Contribution of SMEs on gross domestic products in most developed economies is increasing compared to before twenty years ago (Storey, 2005, p. 307).

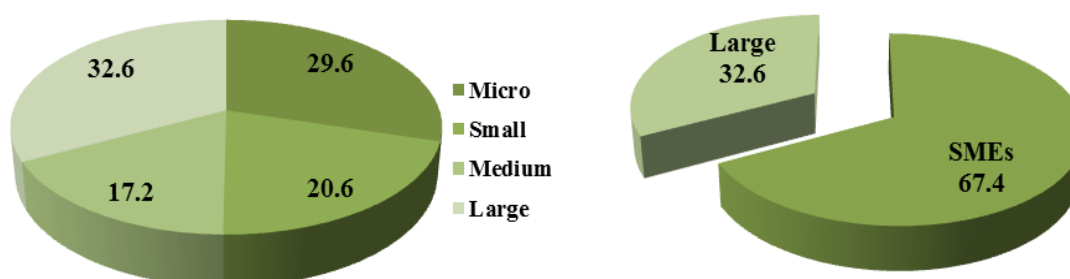*Figure 4.* Gross value added in EU-27, estimates for 2012 in percentage
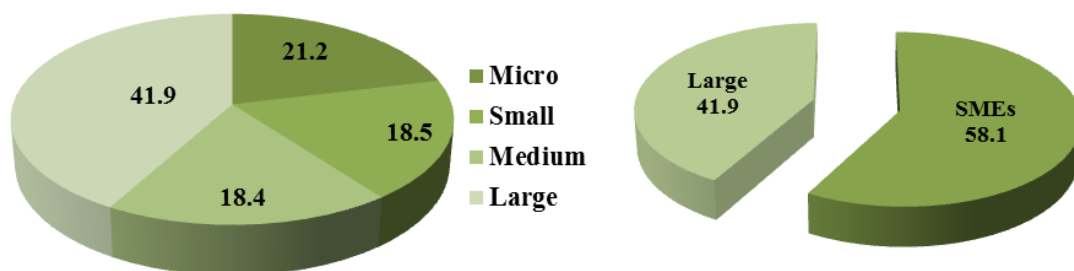
Source: Ecorys, *EU SMEs in 2012: at the crossroads Annual report on small and medium-sized -enterprises in the EU, 2011/12*, 2012, p. 15

Compared to large enterprises, SMEs output via gross value added in EU is bigger. While, the SME category, micro enterprises contribute with 21.20 percent followed by small and medium enterprises by 18.50 and 18.40 percent respectively (Figure 4).

1.3 SME Limitations

The previous sections demonstrated the importance and increasing role of SMEs in economies around the world. However, it is important to recognize that the majority of them differ from large enterprises based on their unique characteristics, which not always provides them with great influence in their markets.

Compared to large enterprises in general SMEs have a relatively smaller market share; scale and scope of operation that can be easily identified; majority of them are independent and managed by owners or part-owners with personalized management approach, tactical rather than strategic one; and the central role of owner in the business-decision making process, among other characteristics (O'Dwyer, 2009, pp. 14-16). Aside from their unique characteristics, they face a lot of obstacles. According to Gërgjaliu-Thaçi (2012) major obstacles affecting SMEs are as follows:

- **Access to finance** due to the rapid changes in the financial industries, SMEs face disproportionate barriers to finance, such as high administrative costs, high difficulties in obtaining capital or credit because of high collateral requirements, high interest rate and lack of experience within financial intermediaries especially in developing countries. This is a common problem also for SMEs in developed countries. In EU, about 21 percent of SMEs indicate that accessing finance is a problem and in many Member States the percentage is much higher (EC, 2008; Dalberg, 2011).

- **Lack of workforce diversity** due to lack of training, management and technical skills, and remaining rigidities in labor market prohibit SMEs to innovate and be more competitive in comparison with large ones.

- **Access to information,** as EC (2008) report emphasizes, SMEs do not fully benefit from the opportunities provided by the single market largely because of the lack of information on business opportunities and applicable rules in other Member States, as well as, insufficient language skills (EC, 2008, p. 14). Majority of them often lack information on the schemes available in EU and global market.

Overall, secondary data demonstrates that despite limitations SMEs play a significant role as a generator of economic growth in both developed and developing economies. Their contribution to both employment and gross domestic products is bigger than of large enterprises. They further contribute to innovation, creating a competitive market and other aspects of social and economic development.

1.4 Development of SMEs sector and Kosovo Economy

The number of employees is the only criteria for classification of the size of an enterprise in Kosovo. Enterprises with 1-9 employees are classified as micro enterprises, with 10-49 as small enterprises, with 50-249 as medium enterprises and enterprises with more than 250 employees are large enterprises (Ministry of Trade and Industry- MoTI, 2011, p. 13)[1]. This definition differs partially from EU definition because the amount of annual turnover or annual balance sheet is not taken into consideration but just the number of employees.

The SMEs sector in Kosovo is playing a very important role in economic development as a major source of job creation and income generation. The youngest European country, Kosovo went through major and multi-dimensional transition process. From a plan-based economy, that was poor, isolated and almost completely destroyed by the war in 1999, towards a market based-economy (Prašnikar, Koman, & Qorraj, 2010; Farčnik, Berisha, Reçica Sefa, & Šetrajčič Dragoš, 2012)[2]. Development of SMEs sector in Kosovo is discussed in the prewar and postwar context.

1.4.1 Pre-war phase, before 1999

The development of SMEs sector started before 1989 with a significant growth during years 1990 – 1993, with the second phase of growth from 1994 to 1999. In pre-war period, the establishment of SMEs has not been as a result of good conditions for doing business. The main driving force of SMEs development was the need to create jobs and family incomes after the massive layoffs in the socially owned sector (Riinvest-Institute for Development Research, 2001; Gërgjaliu-Thaçi, 2012).

According to Riinvest (2001, p. 21), it was estimated that around 16,500 private enterprises were registered on the eve of the military conflict in Kosovo. The most of them were family-run and small enterprises. They have differed from SMEs in developed countries because of their own characteristics and barriers that they have faced such as:

- Domination of trade enterprises in the overall structure by 65 percent
- Lack of tradition and business culture to manage private capital
- Lack of institutional support for SME financing and development
- Undeveloped managerial structures, lack of modern business partnerships - predominance of family business relationships, lack of formal business education
- Lack of strategic/business plans and
- High degree of political and commercial risk.

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[1] The SMEs size in Kosovo is defined in Law No. 2005/02 -L5 and in the Law for Supporting Small and Medium Enterprise No. 03/L-03
[2] The Republic of Kosovo claimed independence in February 2008

1.4.2   Post-war phase

The economic growth in the post war period has been driven mostly by international aid, the public sector, and by remittances. Although most of private enterprises were consolidated and many new were founded and provisionally registered, they role to GDP contribution on the initial phase was relatively weak (Qorraj, 2008; Prašnikar et al., 2010; MoTI, 2011).

Concerning GDP, positive progress was made during the transition period. Analyzing period 2004 -2012, the real GDP increased by almost 70 percent (from 2.9 to 4.9 billion respectively) and GDP per capita increased from 1.822 to 2.721 EUR however, still is the lowest compared to other neighboring countries (Statistical Office of Kosovo-SOK, 2011; Kosovo Agency of Statistics-KAS, 2013a). The economy is highly oriented toward imports while exports still remain at very low levels resulting in a very high account deficit (exports/imports coverage was around 11 percent in 2012), which has a considerable negative effect on GDP (Ukaj, 2010; KAS, 2013a).

One of the most problematic macroeconomic issues is extremely high rate of unemployment. During 2001-2009 on average unemployment rate was 47 percent while employment rate 26 percent[3]. According to statistical data in 2012, the unemployment rate decreased to 30.9 percent. Moreover, around 30,000 young people entered the labor market every year (SOK, 2010; IMF, 2011; Farčnik et al, 2012; KAS, 2013 b).

Whereas number of active SMEs has grown during transition period, from 31,220 registered SME at the end of 2002 (Gërgjaliu-Thaçi, 2012, p. 61), the number increased to 103,697 registered SMEs at the end of 2010 (See Table 2). From a total of 103,755 enterprises, 98.37 percent are micro enterprises, 1.35 percent are small, 0.22 percent are medium, and only 0.06 percent are classified as a large. Sectorial distribution and ownership have not changed over the time. They are mostly concentrated in retail (around 50 percent); transport, storage and distribution (14 percent); food products, beverages and tobacco (9 percent); and, hotels and restaurants around (9 percent). By ownership structure the individual businesses dominate

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[3] According to Statistical Agency of Kosovo (2013b): **unemployed** are considered people aged 15-64 years who during the reference period were: without work (not in paid employment or self-employment), currently available for work (available for paid employment or self- employment within two weeks), and/or seeking work (had taken specific steps in the previous four weeks to seek paid employment or self-employment). On the other hand, **employed** are considered people aged 15-64 years who during the reference period performed some work for wage or salary, or profit or family gain, in cash or in kind or were temporarily absent from their jobs.

The unemployment rate is the proportion of the labor force that is not employed (unemployed divided by labor force, multiply by 100). **The labor force** (country's working-age population that engages actively in the labor market, either by being employed or unemployed during the reference period) serves as the base to calculate unemployment rate, not the working-age population (country's people 15 to 64 years of age). **Inactive persons** (country's people aged 15-64 who were neither employed or unemployed during the reference period) are not considered part of the labor force.

 The employment rate, also known as **the employment-to-population ratio** is the proportion of a country's working-age population that is employed (employed population divided by working-age population, multiply by 100) (Kosovo Agency of Statistics, 2013 b, pp.7-8).

with 90 percent and the rest of enterprises are general partnership and limited liability societies (MoTI, 2011, pp. 13-14).

Table 2. The range of registered enterprises in Kosovo based on numbers of employees

Classification by Size	Number of Employee	Number of Enterprise	Percentage
Micro	1 - 9	102,070	98.37
Small	10 - 49	1,406	1.35
Medium	50 - 249	221	0.22
SME	1 - 249	103,697	99.94
Large	250 and more	58	0.06
Total enterprises		103,755	100.00

Source: MoTI, *SME Development Strategy for Kosovo 2012-2016, 2011,* p. 13, table 4.

SME sector accounts for a high proportion of created jobs in Kosovo. According to Kosovo Business Registration Agency, SMEs in 2010 accounted for 216,799 employees or 79.59 percent of total employees in the private sector, and 62.24 percent of the total number of employees in Kosovo (MoTI, 2011, p. 13)

Table 3. Annual turnovers according to size of enterprise and share of GDP, 2010

Size of Enterprise	Number of Enterprises	Turnover (€)	Share of GDP (%)
Micro	14,968	656,885,164.33	16.79
Small	1,210	667,585,914.82	17.07
Medium	185	369,455,655.16	9.44
Large	58	528,558,359.84	13.51

Source: MoTI, *SME Development Strategy for Kosovo 2012-2016,* 2011, p. 15, table 6.

Table 3 shows that contribution of SME to GDP is high. Their total turnover in 2010 was around 1.7 billion euro or 43.30 percent of GDP, while turnover of total enterprises was 2.2 billion euro or 56.81 percent of GDP. The estimated size of the informal economy that ranges from 39-50 percent of GDP is assessing serious limitations in measuring their amount contribution (MoTI, 2011).

Moreover, according to Gërgjaliu-Thaçi (2012, pp. 64-67) the most serious barriers that SMEs face in their business activities in Kosovo are:

- **The legal framework -** both legal system and instructional mechanisms of low enforcement remains as high barriers. Although they are in process of upgrading still there is inadequate legal framework.

- **Access to finance** - both access to the loan and high interest rates are serious barriers. While the number of commercial banks has increased, in 2012 in Kosovo have been nine banks with 310 bank branches and sub-branches in banking market compared to period after the war when the banking system started from scratch (the old banks were no longer functional and it was a gap till the first bank started to operate), the interest rate remain too high (BSCK 2011; Central Bank of The Republic of Kosovo, 2013). Moreover, BSCK (2011, p. 27) report shows that compared to large or medium enterprises, small enterprises in Kosovo are discouraged to apply for a bank loan. They are supported less by bank loans because of asymmetric information, collateral assessment, transaction costs and bankruptcy costs. From 500 SMEs in the BSCK (2011) sample, 60 percent did not apply for a loan in 2010 whereas 49 percent of them were discouraged to apply (80 percent of the SMEs who answered, were small enterprises).

- **The presence of informal sector** can provide unfair competition and has a negative impact on GDP as it mentioned above. From entrepreneur point of view, this was one of most serious obstacles in Kosovo followed by strong competition and corruption (BSCK, 2011).

- **Human resource in Kosovo -** lack of entrepreneur culture and lack of qualified human resources are serious constraints. Brain drain has been a critical handicap in Kosovo since the early 1990s. A large number of qualified workers left the country due to the conflict, leaving a large gap in human capital (World Bank, 2013a).

Figure 5. Western Balkans Doing Business 2011-2014 Aggregate Ranking
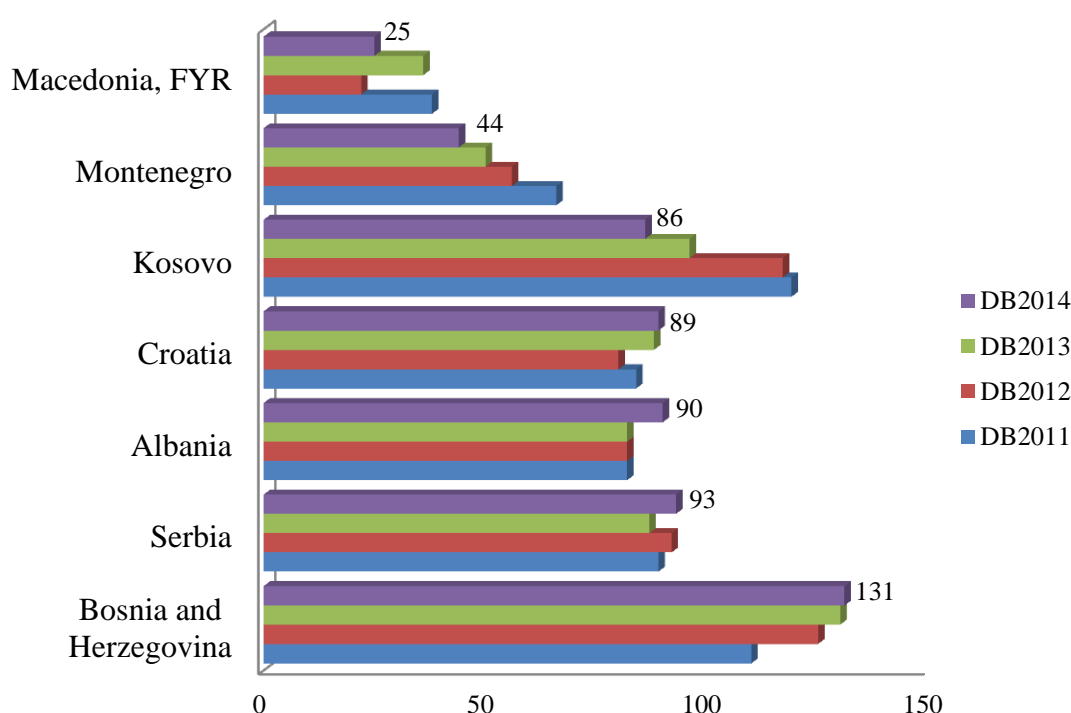
Source: World Bank, *Doing Business,* 2013b; World Bank, *Doing Business,* 2013c

However, there are some improvements on the overall business environment in Kosovo. As shown in figure 5, Kosovo is creating more favorable environment for doing business compared to previous years. It seems to have been the most reforming country in the region during last year. World Bank in doing business ranked Kosovo in 86th place out of 189 countries, and among the economies with the most improving in 2012/13 from areas tracked by Doing Business (World Bank, 2013c).

The data presented above leads to the conclusion that SMEs in Kosovo are the main generator of economic revival in post-war period. Their contribution to GDP and employment is not much different of the SMEs in Europe. However, business environment constraints still remains a serious challenge for the development of private sector in Kosovo.

2   MARKET ORIENTATION

Marketing in general and particularly market orientation with its components such as customer orientation, competitor orientation and inter-functional coordination has been extensively researched for more than two decades and it was found to be an important determinant with positive outcomes on enterprises performance (Narver & Slater, 1990). In this regard, the following chapter objective is to provide an introduction of market orientation, particularly in relation to SMEs. Traditionally the term "market orientation" is used from researchers as implementation of marketing concept (Kohli & Jaworski, 1990, p. 1). This chapter analyses marketing definition evolution and its application by SMEs. Then it followed by market orientation, its definition and behavior components. Then with discussion on market orientation and SMEs performance in general and last section discusses characteristics of SMEs market orientation in Kosovo.

2.1 Marketing Definition

Marketing is a distinguishing, unique function of the enterprises, which deals with identifying and meeting human and social needs (Drucker, 1986; Kotler, 2002).

The first official definition for marketing from AMA- American Marketing Association was adopted in 1935 as **"Marketing is the performance of business activities that direct the flow of goods and services from producers to consumers"**. Since then the definition was revisited, enriched and expanded through the time such as fifty years later it was described as: "The process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives" which emphasis more on marketing mix or on 4Ps such as Product, Price, Promotion and Place, and satisfaction for both organization and consumers. In 2004 marketing was defined as "An organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders" emphasizing more

on value creation as an important part of marketing. In 2007 a revisited definition: **"Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large"** (AMA, 2008, p. 2).

Marketing have evaluated with the time, so from a business activity that directed flow of products from producers to consumers with main focus to convince customer to buy what they have (during 1930s), is shifted to a business activity with the main focus to give customers what they want (during 1950s) as a rise of the marketing concept (Johnson, 2002). Lastly, marketing in 21 century is highlighted more as a science, educational process and a philosophy which it is not only a single event, but a set of processes that create value not only for individuals and businesses involved but also for society at large.

2.2 Characteristic of SME Marketing

The basic principles of marketing are generally accepted to be applicable for both large and small enterprises. SME marketing is particularly considered as one of the critical factors for SMEs survival, competitive advantage and growth. However, most of the researches studies placed greater emphasis on large enterprises marketing. On the other hand, SME marketing is more specific because it is based on their unique characteristics such as, size, resource constraints, entrepreneur/owner influence and marketing knowledge, sales focus, and personal contact networks, (O'Dwyer, 2009; Simpson et al., 2011; Hakimpoor, Hashim, Khani, & Samani, 2012; Marjanova & Stojanovski, 2012).

Marketing planning and strategizing in SMEs is hampered from lack of resources and competences, as main factors (Bettiol et al., 2012; Cacciolatti & Fearne, 2011, Stock & Wilson, 2006). Consequently, SMEs cannot adapt marketing concept to the same extent as large enterprises, but in order to pursuit organizational goals, they use marketing function in a different specific forms.

Most common marketing forms adapted by SMEs are direct marketing and relationships, events, word of mouth and buzz (Bettiol et al., 2012; O'Dwyer, 2009; Reijonen & Laukkanen, 2010). Employed marketing activities and high involvement of the owner/manager with their thoughts and behavior (Gilmore et al. 2001), show also that SMEs marketing is different from conventional and structured marketing like in large enterprises.

Likewise, according to Gilmore et al. (2001), existence of the owner/ manager's 'network' for SMEs it is considered as one of marketing 'competences'. Personal contacts, social, business, industry, and marketing networks are considered to be a way of doing marketing for SMEs, and also a useful way for SME owner/managers to expand marketing expertise and improve their performance (Gilmore et al., 2001; Hakimpoor et al., 2012).

Table 4. Small enterprises characteristics and marketing issues

Small business characteristics	Marketing issues
Relatively small in given industry	Limited customer base
Resource constrains	Limited activity, expertise and impact
Personalized management style	Depend on owner's marketing skills
Uncertainty	Intuitive, reactive marketing
Evolutionary	Variable marketing effort
Role of innovation	Developing and defending niches

Source: D. Stoke & N. Wilson, *Small Business Management & Entrepreneurship,* 2006, p. 358, Table 12.1.

Table 4 shows that customer base relationship with enterprise size varies by industry. Resource constrains make them to spend less on marketing as a percentage of total income compared to large enterprises and most of them cannot afford to employ a marketing specialist. Instead, they depend on owner's marketing skills. On the other hand, according to Stock and Wilson (2006) their owner/managers tend to perceive marketing in different way because they are less aware of principals of customer orientation, marketing strategy and intelligence gathering. They see marketing as an employ techniques and activities to attract and win new customers. Because of their small size and lack of capacities, reactive and short-term consideration of marketing takes priority over long-term planning (Stock & Wilson, 2006, pp. 356-359).

2.3 Market Orientation Definition and Its Component

Market orientation that traditionally is used from researchers as a term to explain the implementation of marketing concepts took place in United State of America by 1940s, it was spread in Western Europe by the 1950s and in eastern part by the 1980s, whereas in developing economies is increasingly implemented since 1990s (Kohli & Jaworski, 1990, p. 1; Mavondo, 2011, p. 49).

Kohli and Jaworski (1990) have defined market orientation as a set of behaviors and activities related to organization-wide generation, dissemination and responsiveness to market intelligence, which is one of most widely, quoted definition from researchers (Kohli et al., 1993; Spillan & Parneli, 2006; Low et al., 2007; Hoq & Ha, 2009; Mavondo, 2011). Generally, the market orientation entails understanding of current and the future needs of customers and affecting factors (such as competitors, technology, government regulation); sharing this understanding with other departments in enterprise, keeping them informed with changes and engaging them in the activities designed to meet selected customer needs, in order to create superior value for customers (Kohli & Jaworski, 1990). In addition, Narver and Slater (1990) defined market orientation as an organizational culture that most effectively and efficiently creates the necessary behaviors for achieving a superior business's

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performance. They further distinguish three main behavioral components of market orientation such as customer orientation, competitor orientation and inter-functional coordination, as well as, two decision criteria's such as long-term focus and profitability. The three behavior components on average are equaled important and in the model presented in figure 6 from Narver and Slater (1990, p. 23) they compromise an equilateral triangle.

Figure 6. Market orientation
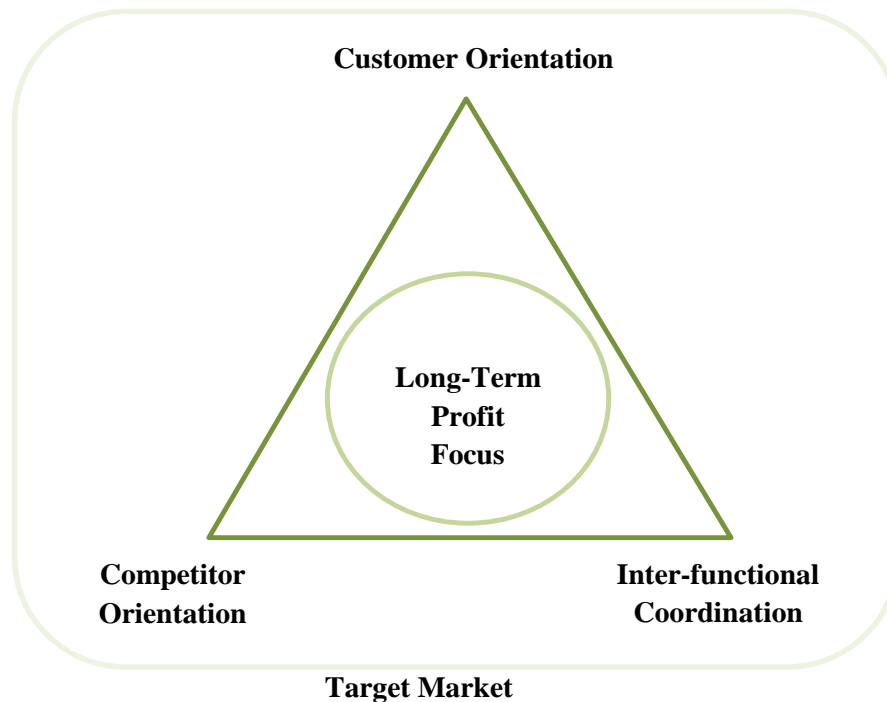
Source: J.C. Narver & S.F. Slater, *The Effect of a Market Orientation on Business Profitability,* 1990, p. 23.

2.3.1   Customer Orientation

Customer orientation component includes all regularly activities involved in getting information for customers in the target market and creating strong relationship with them. Collecting information regularly for customers' needs and requirements, and their levels of satisfaction on one hand and disseminating the information through the enterprise on the other hand enables enterprise to create or adapt objectives and policies in order to satisfy those customer needs and requirements. In turn, this helps them to create a strong relationship with distinct groups of customers or segments. Consequently, consumer orientated enterprise understand its customers well enough and continuously create super value for them (Narver & Slater, 1990; Mavondo, 2011).

2.3.2   Competitor Orientation

This component includes all regular activities exercised information for short and long-term capabilities and plans of both current and potential competitors in the target market, and in order to assess their strengths relative to competitors, so they could gain competitive

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advantage (Narver & Slater, 1990). Hence, competitor oriented enterprises are aware of short and long-term capabilities of the key competitors. They give a lot of efforts in creating advantage over competitors by responding rapidly to major competitor offers (Mavondo, 2011).

2.3.3   Inter-functional Coordination

The first two components essentially involve collection and dissemination of information from market throughout the enterprise, whereas inter-functional coordination includes integration of all necessary enterprises resource in a cohesive way to create value for target customers. To achieve effective inter-functional coordination enterprise must engage all business functions. Different departments/employees should work together effectively without tensions and rivalries in order to serve customers effectively. This is usually applied of rewarding every functional area for their contribution on added value for customers (Narver & Slater, 1990).

2.3.4   Long-term Profit Focus

Additional to three behavioral components market orientation consists of two decision criteria such as long-term focus and profitability (Narver & Slater, 1990). As literature suggests, market orientation is likely to lead to higher customer satisfaction, job satisfaction and employee commitment. Both authors Kohli and Jaworski (1990), and Narver and Slater (1990) found that profit is perceived as component of market orientation, long-term focus is related with implementation of all three behavioral components.

One of most well-known tool for measuring market orientation is based on the components that are discussed above, developed in the United State by Narver and Slater (1990). Based on their conclusion, it was the first important step to validate market orientation/performance relationship. Since then, many researchers used as the basic measure and replicated it in diverse situation and environments. Mavondo (2011, p. 47) reinforced the importance of market orientation and presented a measuring tool for measuring enterprise's market orientation based on its components and the following activities that an enterprise should employ is setting its market orientation:

- For managers and employees, the focus of the business must be the customer
- They must listen to the customer to understand and act on current and latent needs
- Relative to competitors, assess what they do best to gain competitive advantage
- Accurately define and target specific customer
- Aim for long-term profitability, not sales volume
- Seek to deliver superior customer value and hence receive customer loyalty
- Continuously measure and manage customer expectations
- Build long-term relationship with customer and suppliers

- Commit to continuous improvement and innovation
- Grow with partners and alliance to meet evolving needs

In general, research findings suggest that the importance of market orientation is too big and it goes beyond marketing department. Enterprises should aim to be more, rather than less, market-oriented, although it is not easy to develop such a culture.

2.4 Characteristics of SME Market Orientation

Findings of studies on developed and developing economies examining the concept of market orientation generally suggest that market orientation has emerged to a critical component of business performance. Studies report positive and consistent relationship between market orientation and business performance for all enterprises in general (Narver & Slater, 1990; Canoa et al., 2004; Low et al., 2007; Verhoef & Leeflang, 2009), and for SMEs in particular (Appiah-Adua, 1998; Appiah-Adua & Singh, 1998; Becherer, Halstead, & Haynes, 2001; Spillan & Parneli, 2006; Sciascia, Naldi, & Hunter, 2006; Ledwith & O'Dwyer, 2009; Banterle, Cavaliere, Stranieri, & Carraresi, 2010; Mahmoud, 2011). Market orientation is also found to be positively related to other performance drivers such as innovation (Keskin, 2006; Low et al., 2007; Hoq & Ha, 2009; Banterle et al., 2010).

A market orientation is drum on large enterprises, hence the need to understand issue in the context of SMEs is of crucial context, as many of them have no departments or separate marketing functions (Mavondo, 2011). However, Pelham and Wilson (1999) argue that market orientation for small enterprises is a less critical ingredient of success than in large enterprises because small ones have fewer customers, simpler organizational structure and more adaptable to the marketplace changes. This opinion was supported by Spillan and Parneli (2006), who show that inter-functional coordination component is of particular importance in SMEs due to their small size, flexibility and their fast and efficient internal communication. Moreover, existence of inter-functional coordination enables SMEs to be responsive to customer orientation as a major component of market orientation (Spillan & Parneli, 2006).

Whereas, in terms of competitor orientation component, Ledwith and O'Dwyer (2009) show that small enterprises report significantly lower engagement compared to customer orientation or inter-functional coordination components. According to Becherer et al. (2001, p. 8), as enterprise size decreases from medium to small or to micro enterprise, on average, their market orientation is smaller, suggesting that the market orientation is significantly different across the size of enterprises within SMEs (measured by the number of employees).

Below are presented some of potential market orientation issues that are discussed by Walker, Mullins, Boyd and Larréché (2006, pp. 13-17):

- **Customers do not know always what they want** – this issue mainly belongs to high-tech enterprises. Some of managers argue that customers cannot articulate their latent needs, because they do not know what kinds of products are technically possible. However, customer demands should not be ignored because customers may not be aware of future needs in the perspective of technological possibilities, but they know what they would upgrade in their current products. Enterprises should consider customer input when anticipating the future customer's needs.

- **Does being market oriented pay? -** Considerable research supported idea that being market-orientated pays in both developed and developing economies. However, Mavondo (2011, pp. 52-53) argues that studies mostly used perceptual measures of performance and there is ambiguous relationship between market orientation and 'hard' financial data, which makes it more difficult to convince skeptical manager to commit to market orientation.

- **Many enterprises are not very focused on their customers or competitors and they succeed –** on this issue competitive conditions are important factors that affect enterprise' market orientation. Early entrants into newly emerging industries, especially in industries based in new technology, enable an enterprise to be successful in short term even without paying much attention to external environment such as customer, competitors, etc. However, this success can be just for a short time, because as industries grow they become more competitive and new entrants are attracted (Walker et al., 2006, p. 17).

Overall, reviewed literature suggests that market orientation culture as measured by its main behavioral components such as customer orientation, competitor orientation, and inter-functional coordination can have a significant and positive impact on SME performance. In addition, it is expected to positively affect innovation intensity in SMEs, which in turn is expected to affect their performance.

2.5 Characteristics of SME Market Orientation in Kosovo

Few studies examining SMEs in Kosovo suggest that they are mainly sales oriented and rarely engaged in market orientation. The majority of them are indicated to perceive the term "marketing" as advertising, which is almost the only marketing activity that they perform. Whether SMEs in Kosovo are still in so-called 'Sales Era' of marketing development where the main focus of enterprises was to convince customers to buy their actual products, or they apply more marketing related comprehensive strategies and activities but do not knowledge those as marketing activities, it is an issue that requires further research (Johnson, 2002; Stoke & Wilson, 2006).

Study of Bajrami (2011) is based on survey data of 200 SMEs in Kosovo. This study only briefly examines situation of SME's with respect to marketing and the way of doing business. According to Bajrami (2011), SMEs in Kosovo are doing business in traditional way and they are not able to challenge the competition coming from outside and mainly from developed countries. Although they are operating in quite complex business environment and marketing has a core role, majority of them do perceive marketing as advertising and is the only marketing activity they perform.

In terms of the term "marketing" she finds that only few enterprises understand the concept of marketing in right way. Around 43 percent of enterprises have a marketing department within their enterprise. However, in majority of the cases it is mainly in charge of promotion and does not deal with other activities of marketing mix. More than half of enterprises (62 percent) have not segmented the market, which means that they do not know who their customers are, regarding to age, gender, education, incoming, preferences or other aspects but they try to satisfy current needs of all customers with just one offer.

Regarding to market orientation, most of the enterprises are **sales oriented** and not market oriented. They produce according to their tastes and capacities and then spend a lot of time and money to push sales. It was noted that they do not have strategy for action in specific market situation but just use aggressive selling tactics with a short term plans. Overall, they still do not know who their customers are and what is important for them or their preferences, so the close interest relationship between enterprises and costumers is still missing. Consequently, Kosovar customers prefer imported products while they distrust domestic products. Because of large trade deficit, the economy needs more than anything to boost domestic production and create jobs (Bajrami, 2011, pp. 69-70).

Table 5. Marketing implementation and SMEs in Kosovo

Tools for marketing implementation	Manufacturing	Trade	Service	Average
Web site	9.90	7.90	12.90	10.23
Through print and electronic media	11.30	11.20	12.40	11.63
Participation in trade fairs	10.30	6.10	2.30	6.23
Brochures /catalogs	17.90	13.50	15.70	15.70
Other	1.50	2.90	1.10	1.83
Not apply marketing	49.10	58.40	55.60	54.37
Total	100.00	100.00	100.00	100.00

Source: SME's Support Agency, *Research of 800 small and medium-sized enterprises,* 2011, p. 52.

In addition, results from another research report, based on survey done on 800 SMEs in Kosovo, shows that more than half of the respondents answered that they do not apply marketing in their enterprises to develop their activities (SME's Support Agency, 2011, p. 52). Table 5 showed that 54.37 percent of enterprises do not apply marketing, while the

highest percentage is from trade enterprises (58.4 percent), followed by service enterprise (55.6 percent) and manufacturing (49.1 percent).

One concern regarding the results of survey data is the way how the respondents were asked. The methodology of survey might have confused respondents. They were asked whether they apply such as promotion, communication channels (brochures/catalogs, participation in trade fairs, through print and electronic media, web site or others) followed by 'Not apply marketing', which leads respondents to think of marketing as promotion and leads them to the answer that they do not apply marketing. As presented in section 2.2 SME literature suggests that entrepreneurs might apply comprehensive marketing strategies and activities in their enterprises but do not acknowledge as marketing but under another name (Stoke & Wilson, 2006). SMEs cannot adapt marketing concept to the same extent as large enterprises but they have their personal way such as personal contacts and relationships as a most common way of doing marketing for SMEs.

As both Kosovo SME studies are based on survey, and the survey questions did not include broad marketing concepts, it cannot be concluded whether the majority of SMEs in Kosovo are sales oriented and if they really neglect market orientation. Therefore, it might be suggested that findings of current studies on SME marketing orientation are rather questionable. Hence, an additional research drawing on in depth interviews with SME owner/managers might shed more light on this issue.

3 INNOVATION

Economic theory and empirical studies suggest that innovation is a key driver of productivity and economic growth (Schumpeter, 1934; World Bank, 2013a; OECD, 2013a). In SME context, innovation is also found to be positively correlated to the performance of SMEs (Low et al., 2007; Rosenbusch et al., 2011).

This chapter will discuss innovation definition, innovation types, and concepts related to the degree of innovation's novelty, based on the third edition of the Oslo Manual (OECD, 2005). The following section will discuss characteristics of SME innovation, with the particular focus in Kosovo.

3.1 Innovation Definition and Types

The Oslo Manual (2005, p. 46) defines innovation as the implementation of a new or significantly improved product (good or service), or process, a new marketing method or a new organizational method in the business practice, workplace organizations or external relations. An enterprise can constantly make different types of changes such as work methods, production factors, and outputs with a purpose to improve the performance. According to the Oslo Manual, four types of innovations are distinguished: **product**

innovations, process innovations, organizational innovations and marketing innovations (OECD, 2005, p. 47) [4]. The following are presented definitions for each type.

Product innovation is the introduction of a product (good or service) that is new or significantly improved with respect to its characteristics or intended uses. It includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics. However, changes of a solely aesthetic nature and the simple resale of new product purchased from other enterprises are not considered as a product innovation (OECD, 2005, p. 48).

Moreover, product innovative enterprise is one that has introduced, new and significantly improved product, with respect to their fundamental characteristics and technical specifications during the period under review (Eurostat, 2013).

Process innovation is the implementation of a new or significantly improved production or delivery method by an enterprise that includes a significant change in techniques; equipment, and /or software (OECD, 2005, p. 49). However, simply organizational or managerial changes shall not be included as a process innovation. While the outcome from process innovation should be significant with respect to the level of output such as increasing quality of products or decrease cost of production or distribution (Eurostat, 2013).

Therefore, process innovative enterprise is one that has implemented a new or significantly improved process during the period under review. If an enterprise has implemented a new or significant improved product or process, it will be classified as a product/process innovative enterprise (OECD, 2005, p. 47).

Organizational innovation was discussed in the second edition of manual (1997) but practically was used for the first time in third edition (2005). It has to do with the implementation of a new organizational method in the enterprise's business practices, workplace organization or external relations. However, changes in business practices, workplace organization or external relations which are based on an organizational method already in use in the enterprise, is not considered organizational innovation (OECD, 2005, p. 51).

Marketing innovations is called the implementation of a new marketing method that involves a significant change in product design or packaging, product placement, product promotion or pricing. However, just seasonal, regular and other routine changes in marketing instruments based on marketing method already in use in the enterprise are generally not

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[4] The Oslo Manual, developed jointly by OECD and the Eurostat, is part of a continuously evolving family of manuals devoted to the measurement and interpretation of data relating to science, technology and innovation. Which This includes manuals, guidelines and handbooks covering R&D, globalization indicators, patents, the information society, human resources, and biotechnology statistics (OECD, 2005)

consider marketing innovations. To be considered they must involve marketing methods not previously used by the enterprise (OECD, 2005, p. 49).

As in case of organizational innovation marketing innovation practically was used for the first time in third edition of manual but it was not discussed previously. The Community Innovation Survey (a series of surveys executed by Eurostat the statistical office of the EU) from 2008 onwards has been collected information not only on product and process innovations but also on organizational and marketing innovation (Eurostat, 2013).

3.2 The Novelty of an Innovation

Regarding to the novelty of an innovation tree concepts such as new to the firm, new to the market, and new to the world, have been suggested by OECD (2005, pp. 57-58) as described below:

New to the firm – an innovation (product, process, marketing method or reorganizational method) may already have been implemented by other enterprises in the market, but if it is new or significant improved (in case of product and processes) to the enterprise, then it is considered an innovation for that enterprise. As is noted to the definition of innovation, the minimum entry level for an innovation is that it must be new to the enterprise.

New to the market- an innovation is new to the market when the enterprise is the first to introduce the innovation on its market. To define then innovation as new to the market enterprises need to verify whether a certain innovation has already been implemented by other enterprises in their market. Moreover, the enterprise that first develops innovation can be considered driver of the process of innovation adaption; however, the economic impact of that innovation is depending on its adaption by other enterprises.

New to the world – an innovation is considered new to the world when the enterprise is the first to introduce the innovation for all markets and industries, domestic and international. Innovation new to the world in comparison with new to the market implies a qualitatively greater degree of novelty.

3.3 Characteristics of SME Innovation

Significant and positive impact of innovation on SMEs performance is recognized by Schumpeter (1938), who hypothesized that entrepreneurs play a fundamental role in innovative activities due to their potential flexibility and creativity. Also North and Smallbone (2000, p. 153) found that the most innovative SMEs have achieved the best growth performance in terms of sales turnover and employment generation.

The SMEs context of innovation has changed very much over the past twenty years. In recent years, it has been closely studied because of strong interest shown from both practice managers and policy makers, due to expectations for increasing SMEs competitiveness and their expected impact on economic development (Mazzarol, 2002; Rosenbusch et al., 2011). Especially, in the time of market globalization, intensification of innovation activities is one of main tasks for SMEs (Lesáková, 2009, p. 23).

Relative to large enterprises which have larger number of workers and established departments, researchers working in SMEs are expected to have more motivation to engage in innovative activities as their compensation may be more directly related to their performance (Kamien & Schwartz, 1982). According to OECD (2000), around 30 to 60 percent of SMEs in broad sense are characterized as innovative in the OECD area. Lin and Chen (2007) show that 80 percent of the 877 surveyed SMEs in Taiwan conducted some sort of innovation, and the two major types of innovations were technological (product, process, or service technology) and marketing innovations (new sales approach, new market, new brand). However, this study found that innovation has a weak relation with an one hand enterprise sales, but administrative innovation(organization's structure or administrative processes) is found to be the most decisive factor in explaining sales on the other hand (Lin & Chen, 2007, p. 115). Also, Rosenbusch et al., (2011, p. 441) shows that the type of innovation is one of factors that influence the strength of innovation-performance relationship.

SMEs are often considered to be more innovative than large enterprises, with an important role in the innovation of new product (both good and services), having advantage in emerging industries with high levels of innovation. Compared to large enterprises, on average SMEs are less likely to conduct R&D. Nevertheless, due to their flexibility and willingness to try new methods, they are more likely to find other ways to innovate, such as creating or re-engineering products (good or services) to meet new market demands, introducing new organizational or marketing methods to enhance productivity or to expand sales (OECD, 2000; Stoke & Wilson, 2006; Ecorys, 2012).

According to Lesáková (2009, p. 23), SMEs are forced to make innovation to be able to compete with the permanent pressure from local and global competitors. Therefore, innovation cannot be considered only a very important component for successful development of SMEs, but it is their necessity and one of the principal challenges to their management (O'Regan, Ghobadian, & Sims, 2006; Lesáková, 2009). In terms of innovation determinants, Hoq and Ha's (2009) study shows the high importance of managerial emphasis on the creation of an internal business environment affects innovative activities. In addition, they have found **a significant and positive relationship between market orientation and innovation**. According to the model tested from O'Regan et al. (2006), SMEs which place a higher emphasis on strategy attributes, organization culture and having stronger leadership, will result with a greater emphasis placed on innovation. This study also indicates that high

performance enterprises place a greater emphasis in all those attributes which yield to an effort in undertaking fast tracking innovation compared to low performance enterprises. Rosenbusch at al. (2011) suggests that performance increases significantly in cases when SMEs strategic goals are based on innovation.

On the other hand, even when SMEs are very well aware of the importance of innovation, they have been rather slow in adapting tools and techniques due to problems that they have faced in implementation, which are used by large enterprises for improving their innovative performance. Those problems generally are linked to financing R&D as the main obstacle for SMEs. They often face lack of internal funds to conduct simple projects and it is much more difficult to obtain external funds for R&D (Maravelakis et al., 2006; OECD, 2005; O'Regan et al. 2006). Reviewed literature suggests that innovation is an important determinant of SMEs performance. Even though SMEs tend to be resource constrained, they can still benefit from flexibility and informal management approach that makes them more inclined towards innovation.

3.4 Characteristic of SMEs innovation in Kosovo

According to paper from World Bank (2013a), Kosovo has limited capabilities in terms of human capital and research and development. Continued emigration of highly-skilled workers, under-developed competencies in technology transfer, and knowledge absorption are some of most important bottlenecks for the growth of private sector innovation (World Bank, 2013a, p. 9).

Research report 'Entrepreneurship and Small Business Development in Kosovo' (BSCK, 2011) that is amongst the first attempts to provide data on the level of innovation activities of SMEs in Kosovo, shows that only 19.6 percent of SMEs have undertaken research and development activities, for the development of new or substantial modification of products, services or new processes in period 2008-2010. While, among this small number of SMEs which performed innovation activities, only 36.3 percent declared that innovations were new to Kosovo's market and others were new only to the enterprises. Regarding to organizational and marketing innovation, 17.1 percent of enterprises performed some organizational innovation and 19.7 percent have introduced a new marketing method for its products that was not used by other enterprises in the market. Further, this report shows also that there is a low level of cooperation amongst enterprises in terms of innovation. Around 27 percent of 500 surveyed SMEs do cooperate with other enterprises in producing innovation, 13 percent with other organizations while 60 percent of enterprises mainly conduct innovation in house without cooperating with others (BSCK, 2011, pp. 38-39).

According to OECD (2013a), 52 percent of 153 private enterprises in Kosovo that consider themselves to be innovative have performed product (good or service) innovations followed by marketing innovations (42 percent), organizational innovations (26 percent), and process

innovations (20 percent) during the period 2009-2011. Enterprises that did not perform innovations or did not answer were 11 and 3 percent respectively (See Figure 7) [5].

Figure 7. Type of innovation introduced by enterprises in Kosovo, in percentage
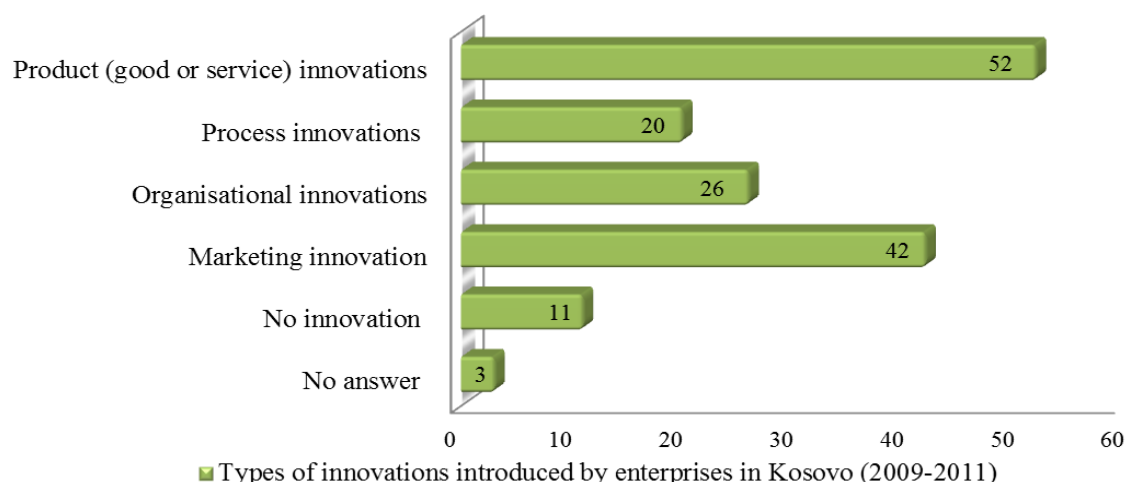
Source: OECD, *Private Sector Development Project Insights: Assessment of the Kosovo Innovation System,* 2013a, p. 76.

Further, enterprises were asked to estimate the impact of introduced innovations on their profit and over half of the respondents indicated that the estimated impact of innovations resulted in at least a 10 percent increase in profits. However, report suggests that this findings need to be treated with carefulness as estimating effects of innovations is based just on profit (OECD, 2013a, pp. 73-76).

Figure 8. Motivating factors for innovating by enterprises in Kosovo
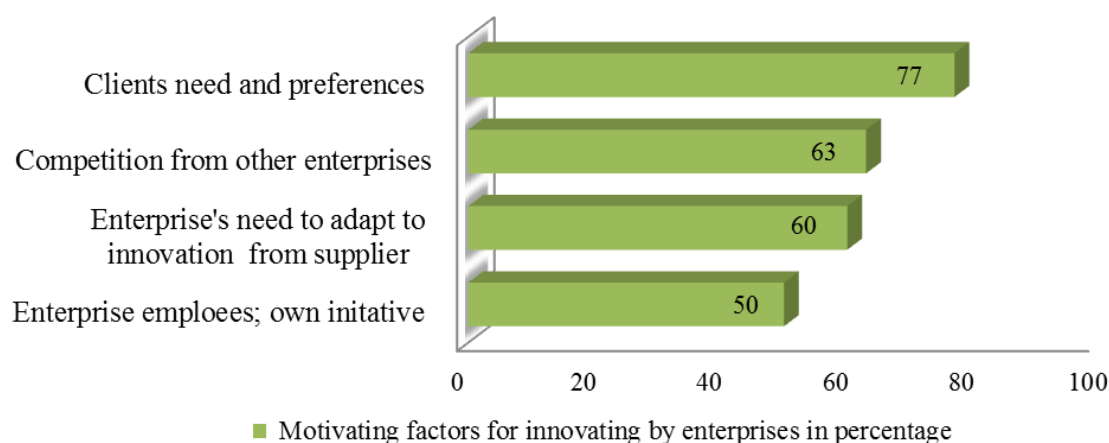
Source: OECD, *Private Sector Development Project Insights: Assessment of the Kosovo Innovation System,* 2013a, p. 79.

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[5]OECD (2013a) report is based on survey that was conducted by OECD as part of project "The Western Balkan Regional Competitiveness Initiative" in 153 private enterprises that had implemented at least one innovation (2009 -2011). From them, 65 percent were small (10-49 employees), 24 percent medium (50-150) and 11 percent large (more than 150 employees). For the purpose of project this categorization is made and also enterprises (1-9 employees) were not surveyed. According to (OECD, 2013b) based on this research Kosovo carried out the first assessment of its innovation system and developed a comprehensive Innovation Strategy.

As presented in figure 8, the OECD (2013a) report shows that customers' needs and preferences are main drivers for innovations in Kosovo (77 percent), followed by competition from other enterprises (63 percent), the need to adapt to innovation from suppliers (60 percent), while it is less affected by enterprise employees' initiatives (around 50 percent).

Based on this sample, enterprises in Kosovo do not introduce innovation only based on their preferences, as Bajrami (2011) shows that SMEs produce according to their tastes and capacities, but majority of them considers as first priority the internet sources, while half of them consider customers advices when identifying the opportunities for innovation (See Figure 9). Other important ways of identifying the opportunities for innovation by enterprises are attendance at trade fairs, and information from suppliers.

Figure 9. Ways of identifying the opportunities for innovation by enterprises in Kosovo
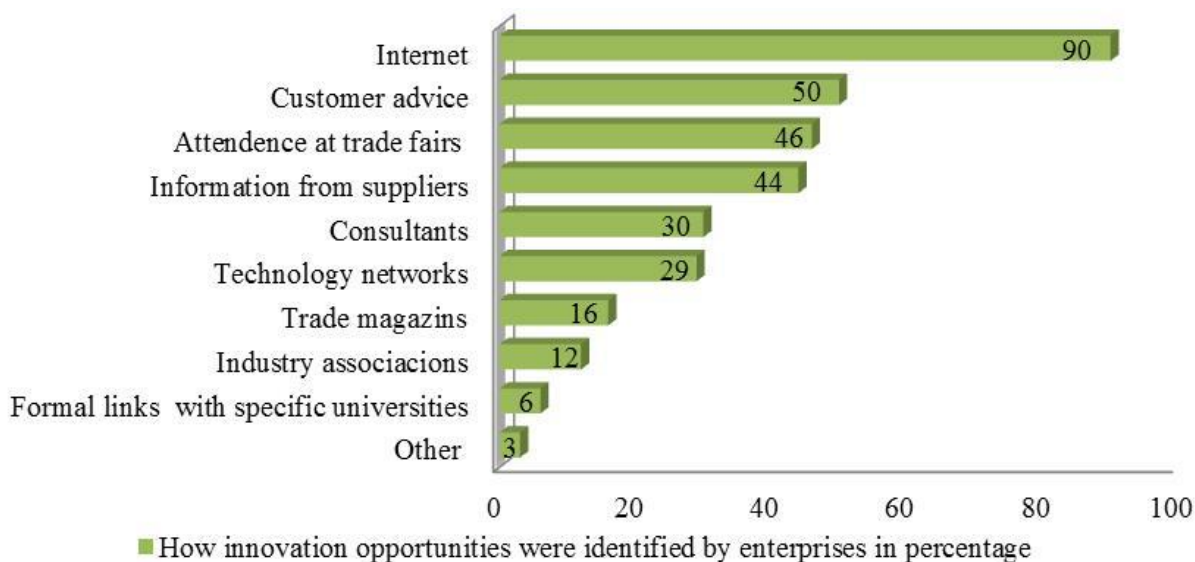
Source: OECD, *Private Sector Development Project Insights: Assessment of the Kosovo Innovation System,* 2013a, p. 78.

Moreover, formal links with specific universities is ranked the last source of innovation among others presented in figure 9 and it is in line with the findings of BSCK (2011, p. 38) report, which noted that none of the enterprises performing some innovation activities has cooperated with academic institutions.

Consequently, main drawbacks of the innovation system in Kosovo, as presented by World Bank (2013a) are three-fold, such as:

- The best and brightest residents leave Kosovo altogether;
- Skills of previous graduates become obsolete as a result of not being used; and
- Education system is not producing graduates with the skills needed by the private sector.

Overall, limited access to finance and limited capabilities of Kosovo SMEs to afford available costly financing, seem to be great obstacle to innovation. Strong institutional support, such as financial support for motivation might create motives for Kosovo SMEs to engage in innovation.

4 RESEARCH OF MARKET ORIENTATION AND INNOVATION ON SME IN KOSOVO

Reviewed literature suggests that market orientation and innovation have positive impact on SMEs performance, which in turn has positive impact on economic growth. Next sections of the chapter aim to examine the situation of SME market orientation and innovation in Kosovo, in order to contribute to the actual scarce pool of research in the field in context of Kosovo and shed more light in the literature on laggard transition economies.

4.1 Why Kosovo is selected to obtain the primary data?

Determination to obtain the primary data for this research on SMEs in Kosovo has a specific importance. First, SMEs in Kosovo are the main generator of economic revival in post-war period. The majority of enterprises are SMEs (99 percent) and they account for a high proportion of created jobs (80 percent in private sector or 62 percent in total employment) and generated income (43 percent of GDP), (MoTI, 2011). As it is presented in section 1.4, the youngest European country Kosovo went through a major and multi-dimensional transition process and it is still in the transitional phase, where the main attention and hope for a modern free market economy, and an economic development is directed towards SMEs.

Second, as already discussed (chapters 2 and 3) studies from developed and developing economies have examined the concept of market orientation and innovation in context of SMEs and findings generally suggest that they have emerged to critical components for increasing SME performance. Although, the significant role of both market orientation and innovation on SME performance has received much interest in literature, in Kosovo there is still scarcity of related research. Despite their importance, few empirical evidences in Kosovo show that both, market orientation and innovation are neglected by SMEs.

According to Bajrami (2011), the majority of SMEs, produce according to their tastes and capacities and spend a lot of time and money to push sales. They are mainly sales oriented and rarely engaged in market orientation. While SME's Support Agency (2011) shows that, more than half of SMEs do not apply marketing in their business activities (report based on 800 SMEs). However, as both studies were based on survey data, there are some concerns regarding to the way how the respondents were asked as this might have affected their response. Bajrami (2011) shows the majority of SMEs are indicated to perceive the term "marketing" as advertising, which it is the only marketing activity that they perform. Whereas SME's Support Agency (2011) shows that over fifty percent of 800 respondents

answered that they do "not apply marketing" in their enterprises to develop their activities (See Table 5, questions did not include broad marketing concepts). It is questionable if they do not implement marketing concept or just misunderstood the term "Marketing" when asked in the survey interview. Nevertheless, they might implement more marketing related strategies under another name as Stoke and Wilson (2006) suggested.

In innovation terms, BSCK (2011) shows that small number of SMEs performed innovation activities (19.6 percent, sample 500 SMEs, 2008-2010,) and among them the majority of innovations were new only new to the enterprise (36 percent new to the market). According to OECD (2013a), private enterprises that considered themselves to be innovative have reported much more innovation (See Figure 7), and over half of the respondents indicated that the estimated impact of innovations resulted in at least a 10 percent increase in profits[6]. Although there is an indication that innovation has positive impact on enterprise financial performance, since 11 percent of enterprises in the sample were defined as large (with 150 employees and more) and micro enterprises were not included, it is indicative that this findings need to be treated with carefulness.

This additional research draws on in-depth interviews with SME owner/managers in order to shed more light on those issues. It is considered as a better way to understand more and to obtain primary data for this research by avoiding misunderstanding of terminology and concepts.

4.2 Research Question

The main research question of this study is "**what is the impact of market orientation and innovation on SMEs performance in Kosovo"**?

4.3 Hypotheses

In the reviewed literature the majority of the studies suggested that both market orientation and innovation have a positive relationship with the enterprises performance.

Based on findings from studies such as Schumpeter (1938), Kohli and Jaworski (1990); Narver and Slater (1990); Appiah-Adua (1998); Appiah-Adua and Singh (1998); North and Smallbone (2000); Becherer et al., (2001); Rosenbusch et al., (2011); Mazzarol,(2002); Spillan and Parneli (2006); Sciascia et al., (2006); Keskin (2006); Stoke & Wilson (2006); O'Regan et al.,(2006); Low et al., (2007); Hoq and Ha (2009); Ledwith and O'Dwyer, (2009); (Lesáková, 2009); Banterle et al., (2010); Mahmoud, (2011), is assumed that market orientation and innovation have a positive impact on SMEs performance in Kosovo as well.

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[6] Estimated impact on profit: 12 percent of respondents indicated that the estimated impact of innovations resulted with over 30 percent increase in profits, then 16 percent by 20-30 percent increase, 26 percent by 10-20 percent, 35 percent with less than 10 percent and 11 percent don't know (OECD, 2013a, p. 76).

To address the aim of the research, main hypotheses are set and the conceptual model of the research (Figure 10). The hypotheses can be either rejected or confirmed through this research.

First hypothesis (H1): The SMEs market orientation and performance growth are positively correlated.

Second hypothesis (H2): The SMEs innovation and performance growth are positively correlated.

Figure 10. Conceptual model of the research
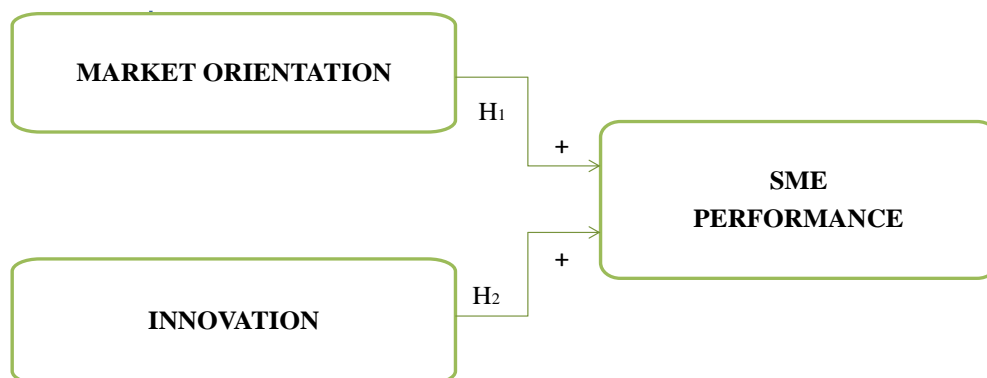
4.4 Research Methodology

In addressing the research aim, the theoretical and empirical research methods are used. The starting point was the analysis of available secondary data such as literature on SMEs development, marketing, market orientation, innovation, and especially studies on relationship of market orientation and innovation with SME performance. The main findings of the study are based on primary data taken from the interviews with owner/managers of SMEs in Kosovo.

4.4.1 Questionnaire and interviews

In-depth interview encompasses three steps: writing an interview guide, conducting the interviews, and analyzing the data (Boyce & Neale, 2006, p. 4). The in-depth interview guide includes general information for the enterprise with criteria that enabled one enterprise to be part of the interview, some of important Open−ended questions, and lastly a questioner.

Following Jankowicz (2005) and Boyce and Neale (2006), for in-depth interview are used combined techniques such as semi-structured, open-ended and structured techniques. Answers from Open-ended questions help the author to gain different pieces of important information, as this technique uses questions where the respondents are encouraged to

answer in their own words. While, answers from questionnaire add to the quality and reliability of data and do not limit the extent of statistical analysis (Jankowicz, 2005, pp 219-333).

Questions for the questionnaire are carefully designed following studies such as BSCK (2011); Mavondo (2011) and Prašnikar, Redek and Memaj (2012). They involve two types of questions, such as Cascade type of questions which contain of statements with simple Yes/No answers and Likert type questions which contain statements with a scale measurement. While the form of Open-ended questions, is carefully designed following Boyce and Neale (2006) and Miyagawa et al. (2010). Both Open-ended questions and questions in the questioner are mostly related to market orientation, innovation and some general data for enterprises.

Contacts with owners/managers were made to explain the aim of research and then meetings were set. All in-depth interviews were conducted face-to-face with owners/managers of SMEs in the environment, in which the respondents work every day. Interviews were conducted during the period March-April 2013 and on average each interview lasted around two hours, which required great efforts not only from author but from enterprises as well.

4.4.2 Sampling the population

The in-depth interviews and questioner were conducted on a sample of 21 SMEs in Kosovo. The sample was not chosen randomly, due to limited resources. The sample was carefully chosen by using the snowball method. Contacts were gain from the list of best performing SMEs in Kosovo during 2011 and recommendations from commercial banks. Parts of this sample are enterprises that have won an award either in national or regional level in small business competitiveness competition in 2011 or were part of the competition organized by SME support agency in Kosovo, and enterprises with high mode in a market that were recommended from commercial banks. As the sample is small this combination is chosen in order to represent more relevant structure of SMEs in Kosovo.

Table 6. Research Sample

Classification by Size	Frequency		Sectors		
	2010	2012	Manufacturing	Services	Trade
Micro enterprises	9	5	1	3	1
Small enterprises	9	11	4	2	5
Medium enterprises	3	5	2	2	1
Total	21	21	7	7	7

Table 6 shows that the sample of SMEs in year 2010 has different frequency for enterprise types compared to the end of study period (year 2012). As some of SME in the sample are growth enterprises, they increased employment and also changed category within SME. Five

enterprises moved from micro to small category and two enterprises from small to medium. Total number of employees in the sample was 611 in 2010 and 803 in 2012 (Appendix C). Enterprises in the sample are from three different sectors (7 enterprises in each sector) such as manufacturing, service and trade. Enterprises in sectors were selected according to industry types (Appendix A).

4.4.3   Measurements of research construct

As this research sought to assess the impact of market orientation and innovation on SME performance, thus, the level of enterprise' market orientation, innovation and performance are measured.

The level of an enterprise's market orientation is measured based on is the scale measurement tool of Mavondo (2011, p. 52). This tool includes three main components of market orientation and decision criteria based on well-known tool MKTOR developed by Narver and Slater (1990), used as a basic form from many other researchers that replicated it in diverse situation and environments.

Market orientation tool consists of 20 items divided in five groups (customer orientation, competitor orientation, inter-functional coordination, long-term perspective and organizational culture). Each item is measured by using rang five to zero (strongly agree, agree, neither, disagree, strongly disagree, and/or don't know). As an example items of competitor orientation component are presented in table 7 (See market orientation tool with 20 items in Appendix B).

Table 7. Competitor Orientation

No.	Items for competitor orientation component
1	Over the past three years information about competitor activitie was collected regularly.
2	We conducted regular benchmarking against major competitor offerings in the last three years.
3	There was a rapid response to major competitor offering in the last three years.
4	We put a major emphasis on differentiating ourselves from the competition on factors important to customers in the last three years.

Total score for competitor orientation is 20 (4 items were evaluated with 'strongly agree' or 5). While, total score for market orientation measurement tool is 100. According to Mavondo (2011), results with total score 80 to 100 indicates that the enterprise has a high level of market orientation although scores below 100 can still be improved. Score 60 to 80 indicate a moderate market orientation but should be identified the areas where the more improvement is needed. Score between 40 to 60 show a long way to go in developing market orientation and enterprise should identify the main gaps and set priorities for action to close

theme. Lastly, score between 20 and 40 indicate that the enterprise is far away of developing market orientation culture and that it should work its way through.

Next, the level of enterprise innovation is measured based on guidelines for collecting and interpreting innovation data by OECD (2005). Four differentiates types of innovation are measured such as product innovation, process innovation, organizational innovation and marketing innovation. Based on three concepts for the degree of novelty: new to the enterprise, new to the market or new to the world.

Tool for measuring enterprise's innovation consists of total 18 items divided in six groups with a set of three simply 'yes/no' statements, following BSCK (2011) and Prašnikar et al. (2012). An example with three statements for introducing new products (good or service) is presented in table 8 (See tool for innovation in Appendix B).

Table 8. Introducing new products (good or service)

No.	Items for introducing new products (good or service)
1	The enterprise introduced a significant number of new products in our relevant market in the past three years.
2	The majority of those products were not new only for the enterprise, but were new also to the market we work in.
3	In this period of time we introduced also produced that were a novelty in the global market as well.

Following Prašnikar et al. (2012), statements in a group are designed in a way that each additional 'yes' means that the enterprise is in the same aspects in a higher level of development. It is measured on a scale from 1 to 4, which allows empirical analyses. With positive answers for all sub-statements in a group, enterprise score is 4 or the possible maximal achievement in the specific field. So, if answer for the first statement is 'yes' the enterprise score is 2, if the answer is 'no' it is 1, while for the second and third statements if answer is 'yes' the enterprise is awarded with one more point and if answer is 'no' its value remains the same (Prašnikar et al., 2012, p. 61).

The performance of enterprises is measured in terms of employment growth, since there is a little or no published financial data by SMEs and also not all of owners wanted to share their financial data during personal interviews. Moreover, some of owners suggested that not-reporting data on enterprise annual reports is due to the lack of credibility of Kosovo institutions. Regarding to the number of employees getting the data was not a problem. As well as, according to Chong (2008), number of employees is one of the most common non-financial measures adopted by SMEs.

The measurement is based on David Birch Growth Index, following OCDE (2002) report. This indicator uses combined measures of absolute and relative growth, in order to reduce

the impact of enterprise size on the growth. By using either, employment, turnover or some other indicator size at the end, and at the beginning of the sample period of study.

$$m = \left(X_{t1} - X_{t0} \right) \cdot \frac{X_{t1}}{X_{t0}} \qquad (1)$$

Equation (1) shows the growth indicator index where X_{t1} and X_{t0} represent indicator size at the end and at the beginning of the sample period respectively (OECD, 2002, p. 16). In this research sample period is three years (2010-2012).

4.4.4 Analysis

Statistical software SPSS version 22 is applied for statistical description, reliability and analysis of data. Following Low et al. (2007), the correlation analysis is used to examine the relationship between key variables.

4.4.5 Reliability

The Cronbach's coefficient alpha is used to measure the reliability of the data. The reliability analysis is conducted in multi-item scales to check the internal consistency of the scale for both market orientation and innovation items (Table 9).

Table 9. Reliability Statistics

Reliability Statistics			
Type of items	Cronbach's Alpha	Alpha based on Standardized items	Number of items
Market orientation	0.899	0.912	20
Innovation	0.917	0.917	18

Both Cronbach's Alpha coefficients for market orientation items (0.899) and innovation items (0.917) are higher than generally accepted lower limit (0.7), which is recommended for exploratory research (Narver & Slater. 1990; Low et al. 2007).

4.5 Results and Discussion

The relevant correlation coefficients were calculated using the SPSS bivariate correlate command and Spearman's rho statistic for non-parametric data. Result from the correlation analysis shows that there is a positive impact of market orientation and innovation on SME performance in Kosovo, since the correlation coefficients are strong, positive and significant (Table 10).

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Table 10. Correlation analysis

Correlations Analysis			Market Orientation	Innovation	Growth
Spearman's Rho	Market Orientation	Correlation Coefficient	1	.854**	.771**
		Sig. (2-tailed)		0.000	0.000
		N	21	21	21
	Innovation	Correlation Coefficient	.854**	1	.834**
		Sig. (2-tailed)	0.000		0.000
		N	21	21	21
	Growth	Correlation Coefficient	.771**	.834**	1
		Sig. (2-tailed)	0.000	0.000	
		N	21	21	21
**. Correlation is significant at the 0.01 level (2-tailed).					

First, the level of enterprise's market orientation is positively (rho=0.771) and significantly (*p*=0.000) correlated to the enterprise's performance growth. The analysis confirms first hypothesis (H1), which states that the level of SMEs market orientation and performance growth are positively correlated.

Next, the correlation coefficient between the level of enterprise's innovation and performance growth is also positive (rho=0.834) and significant (*p*=0.000), which confirms the second hypothesis (H2) that states that the level of SMEs innovation and growth are positively correlated.

Moreover, the analysis shows also that the correlation coefficient between the level of enterprise's market orientation and innovation is strong, positive (rho=0.834) and significant (*p*=0.000). These findings are in line with the outcome of the research from Hoq and Ha's (2009), as well as, "Interrelationships between innovation and market orientation in SMEs" research from Low at al. (2007), who found that market orientation and innovation are positively correlated and both have a positive relationship with enterprise's performance (measured in financial terms).

Figure 11 shows the visibility of the relationship between SMEs market orientation and innovation with performance. Relationship between enterprise's market orientation level and innovation level is linear and positive, and their high levels are accompanied with high growth that is presented by the size of the circles. However, figure shows an outlier, which is an enterprise that has high growth and level of innovation but moderated level of market orientation (75 of 100). This case is related to one of issues regarding market orientation that

is discussed in section 2.4 "Many enterprises are not very focused on their customers or competitors and they succeed".

Figure 11. Market orientation, innovation and growth relationship
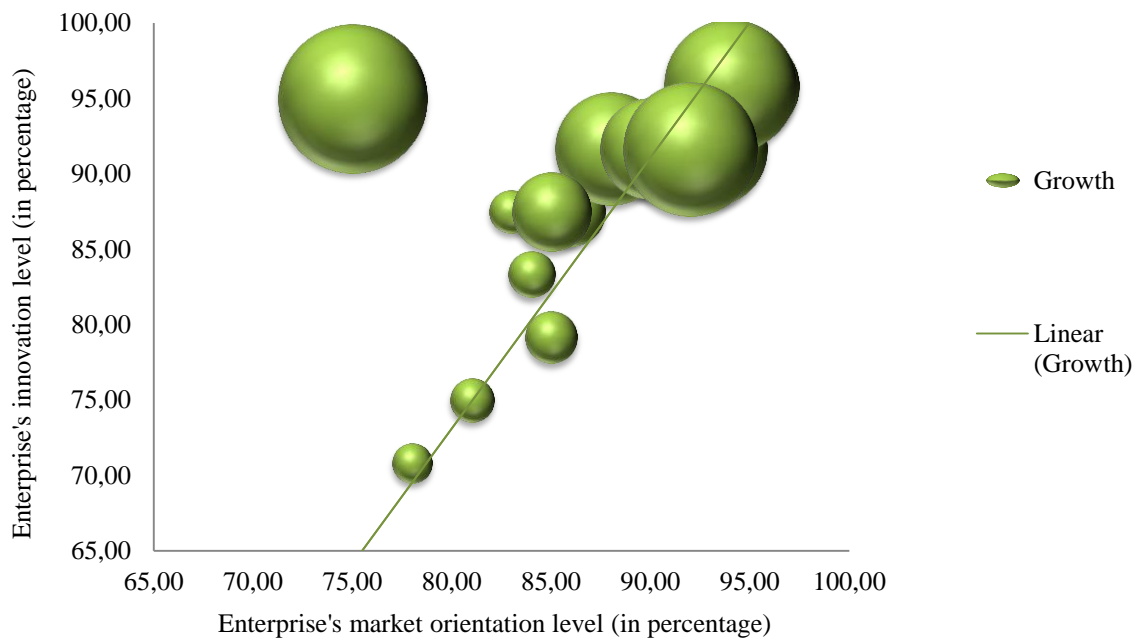
The outlier enterprise belongs to manufacturing sector and has introduced various types of innovation which led to an increased employment, but its innovation is mainly driven by the supply side rather than customer demand side. The owner considered that the main successes came from innovations; they are a leader in the industry and untouched by current competitors. In interview he said "…our offer is new and the best one in the market…our products are based on new ideas from experts and produced with new technology…we have more sales than we have capacity… so customers buy… they do not have better offers…although we are growing still we cannot full fill high demand and competitors are far away from us…" However, reviewed literature emphasized that an enterprise can be successful in short time even without paying much attention to external factors but as industry will grow also competition will grow and new entrants are attracted (Walker et al., 2006, p. 17).

Overall, results from correlation analysis regarding to **outcomes on the implementation of marketing concepts and innovation activities in their enterprises in recent years are in line with expectations**. The majority of interviewers (18 enterprises), have said that they got positive outcomes such as **higher revenues, higher profits, more customers, then more employees** etc. For more than half of enterprises implementation of market orientation has brought **new ideas for innovations that were successful**. These is in line with literature research which suggests that market orientation and innovation have positive impact on SME performance (such as Schumpeter 1938; Appiah-Adua, 1998; Appiah-Adua & Singh, 1998; North & Smallbone, 2000; Becherer et al., 2001; Spillan & Parneli, 2006; Sciascia et al.,

2006; Keskin, 2006; Low et al., 2007; Hoq & Ha, 2009; Ledwith & O'Dwyer, 2009; Banterle et al., 2010; Mahmoud, 2011). The following sections present findings from questionnaire in more details combined with important information from open questions for each group of questions in market orientation and innovation.

4.5.1   Market orientation findings

Findings show that 16 of 21 enterprises have high level of market orientation, four enterprises have moderate level of market orientation and just one enterprise (has low level of market orientation (Table 11).

Table 11. SME market orientation levels in Kosovo

Market Orientation	Frequency	Score	Average Score
High market orientation level	16	81-100	88.50
Moderate market orientation level	4	61-80	72.75
Low market orientation level	1	41-60	59.00
Total	21	1766	84.09

The highest market orientation level achieved by enterprises was 95 out of 100 total score and the lowest was 59 score. The average for all enterprises is 84.09 score, which lets to conclude that on average SMEs in the sample have high levels of market orientation. However, as scores are below 100 the level can still be improved (Mavondo, 2011). Followed are presented the level of achievement by enterprises for each component of market orientation combined with important notes from in-depth interviews.

Customer orientation component was highly achieved by SMEs (on average 22.62 out of 25 score or 91 percent). Findings show that the majority of enterprises understand its customers well enough and continuously create super value for them (See Figure 12). Almost all enterprises strongly agree (20 enterprises) that their main aim is to create satisfied customers. They are collecting information for customers' needs and requirements regularly (12 enterprises strongly agree and 9 agree) and they do put a major effort into building strong relationship with their customers (18 enterprises strongly agree and 3 agree). The majority of them agree (4 strongly agree and 14 agree) that they measure regularly customer satisfaction and take action to improve matters where necessary. As well as, 17 of 21 enterprises recognize needs of distinct groups of consumers and have segmented the market accordingly. However, it is important to mention that the majority of micro and small enterprises have used a very simple process for customer orientated market research, and for segmentation as a specific process compared to what literature suggests such as Walker et al., (2006) or Mooradian, Matzler and Ring, (2012). Like Carson (2003) mentioned, they use more casual and natural aproche based on everyday information that they get directly form their customers and intuitive judgementies is the basis of evaluation in most of the time (Carson, 2003, pp. 760-761).

Figure 12. Customer orientation component and SMEs in Kosovo
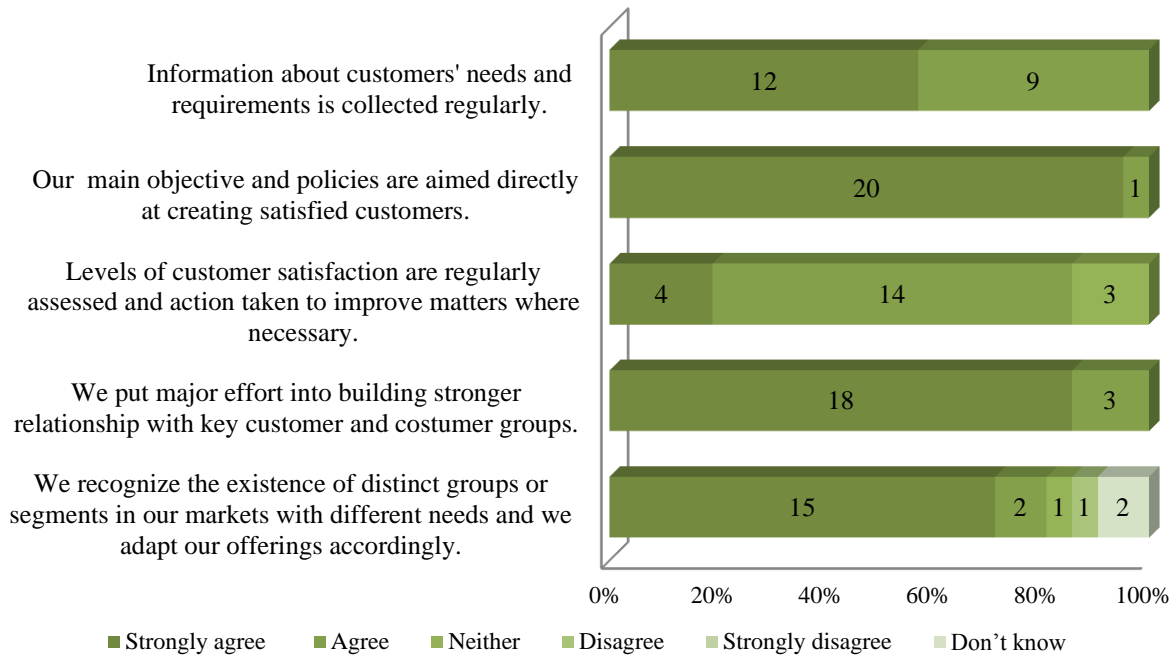
Although, customer component items were evaluated with either strongly agree or agree by majority of enterprises, improvements are still needed. Concerning regular measurement of customer satisfaction, three enterprises were neutral, whereas four enterprises have not segmented their market. It might well be that some entrepreneurs do not segment their market because they invest in just one offer and make changes based on new ideas and technology in production and not based on customer' needs and requirements. This suggestion is in line with the comments of one of the entrepreneurs: "...it goes well like this…we always have the best value for money… based on new ideas and technology we use in production… who needs buy and everyone has a need...we do not ask customers … although if we ask them, they do not know… so we ask experts and just produce the best for them…".

Answers from open questions show that small and micro enterprises act differently from medium and large enterprises regarding to market research. **Special agencies for market research** are considered useful only from few enterprises (4 medium and 2 small), but others considered that they are too expensive for their output. International agencies are perceived as more trustful than domestic ones.

On the other hand, **direct contact with customers** (individually or with groups) is considered the most appropriate way for gathering information for customers' needs and requirements, their level of satisfaction with existing products, and information for competitors, as well as, for creating long relationship with customers (especially micro and small enterprises). One of the entrepreneurs commented "…in our successes the key roles play both direct communications with our customers and the quality of our products... we try to be in touch with customers in different way but direct communication is the most important…information from them help us to satisfy their needs and to improve ourselves".

For them it is considered an easy way because as researched literature suggests, small enterprises have fewer customers, simpler organizational structure and they are more adaptable to the marketplace (Pelham & Wilson, 1999). Moreover, **direct contact with customers** is ranked as top important factor to the enterprise success in recent years (2010-2013), followed by **improvement of existing products** and **creating new products based on their target market.**

Competitor orientation component was less achieved by enterprises (15.75 of 20 total score or 78 percent) compared to customer component (91 percent), (See Figure 12 and 13).

Figure 13. Competitor orientation component and SMEs in Kosovo
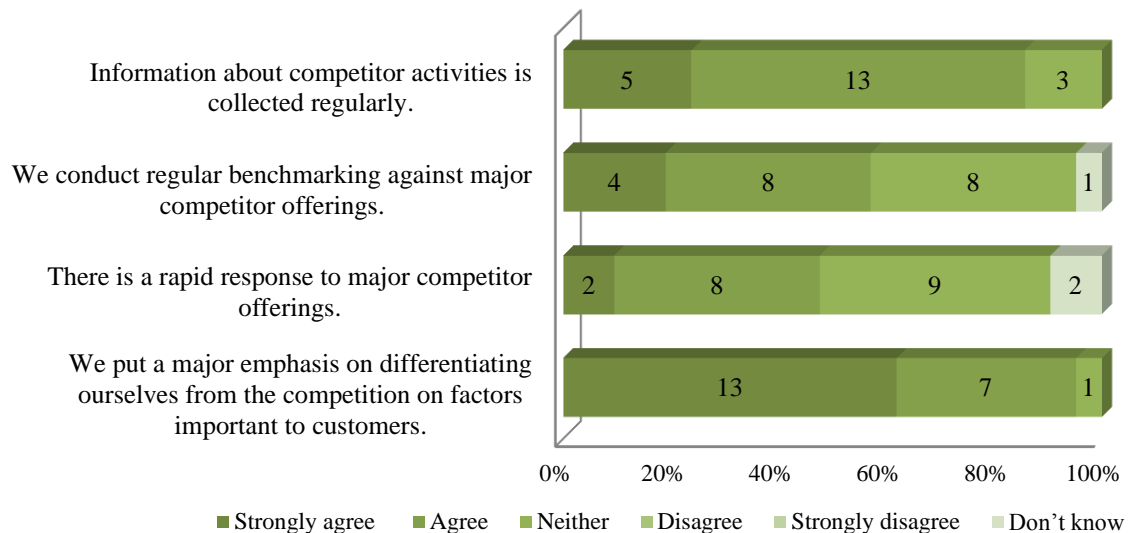
Figure 13 shows that the majority of enterprises try to differentiate their self from competitors (13 strongly agree, 7 agree) based on information that they collect regularly for competitors (5 strongly agree, 13 agree). However, owners complained about difficulties to come to information for competitors, lack of available data for both industries and enterprises. Personal contact networks, observation and information from their customers remain the most important way for getting information for competitors. More than half of enterprises conduced regular benchmarking against major competitor (4 strongly agree, 8 agree) and less than half of enterprises were able to respond rapidly to major competitor offerings (2 strongly agree, 8 agree).

Inter-functional coordination component was highly achieved by SMEs (18.24 out of 20 score or 91 percent). It seems that SMEs have integrated all necessary enterprises resource in a cohesive way to create value for target customers (See Figure 14). The majority of enterprises agree that information for customers was widely circulated and communicated throughout the enterprises (16 strongly agree, 5 agree). Different departments/employees worked together effectively (13 strongly agree, 8 agree) without tensions and rivalries (7 strongly agree, 8 agree) in order to serve customers effectively. They were flexible to enable opportunities to be sized effectively rather than constrained hierarchically (13 strongly agree, 7 agree).

Figure 14. Inter-functional coordination and SMEs in Kosovo
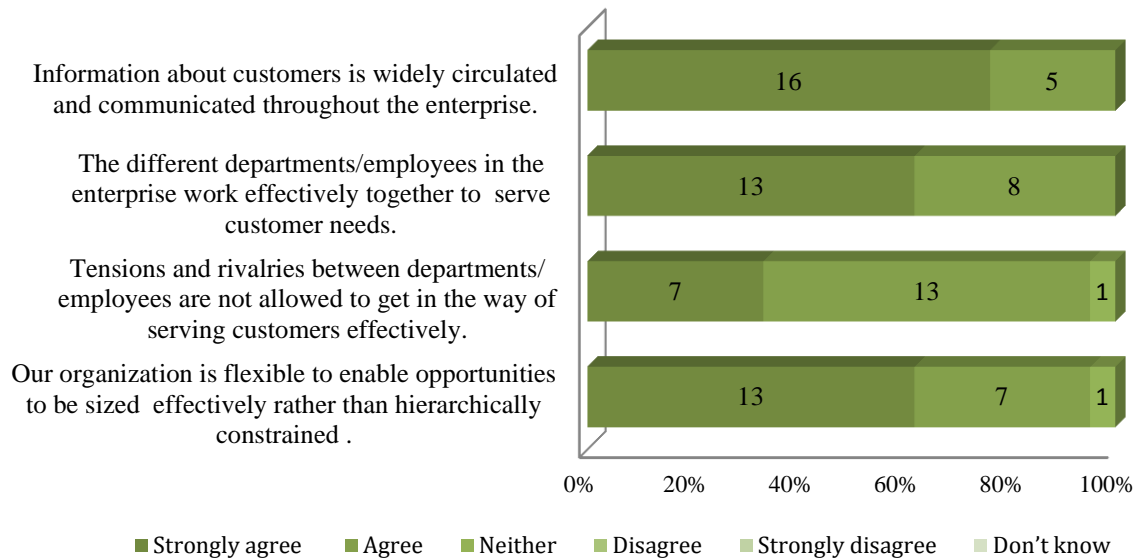
The most of enterprises have simple organizational structure that helps high achievement of inter functional coordination component, although in some cases owner has the highest influence. For example, marketing related activities in seven enterprises are managed by the marketing manager in cooperation with the owner and employees while and in ten enterprises are managed by the owner in cooperation with managers and employees. In four micro enterprises, owners who have strong influence in all decisions related to market implementation activities, although they do corporate with employees, mainly manage these activities. A small number of entrepreneurs also complain that in Kosovo is hard to find employees who have customer and competitor focus, and who work for the benefit of both sides' customers and enterprise.

In term of **organizational culture,** the majority of enterprises agree (14 strongly agree, 6 agree) that all of their employees recognize their role in helping to create satisfied end customers. Senior management gives top importance in this regard (See Figure 15). However, for the most of enterprises reward structures are not closely related to external market performance and customer satisfaction. Some of owners stated that still is not necessary to be closely related because **employees are satisfied to have a good job and salary as unemployment rate in Kosovo is the highest in the region**. On the other hand, few enterprises (2 strongly agree, 3 agree) agree that their reward structure is related to external market performance and customers satisfactions. Their owners stated that **it is accompanied with higher employee commitment to achieve higher performance and customer satisfaction, and as a more important it turns to higher customer satisfaction.** The satisfied customers will become loyal and will bring new customers because **word-of-mouth** plays a significant role. As one of them said "…a satisfied employee makes a satisfied customer…a satisfied customers always brings new customers… the word-of - mouth remains the most powerful weapon…" Like researched literature suggests word-of-mouth, and market orientation is likely to lead to higher customer satisfaction, job satisfaction and employee commitment (See section 2.2 and 2.3).

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Figure 15. Organizational culture and SMEs in Kosovo
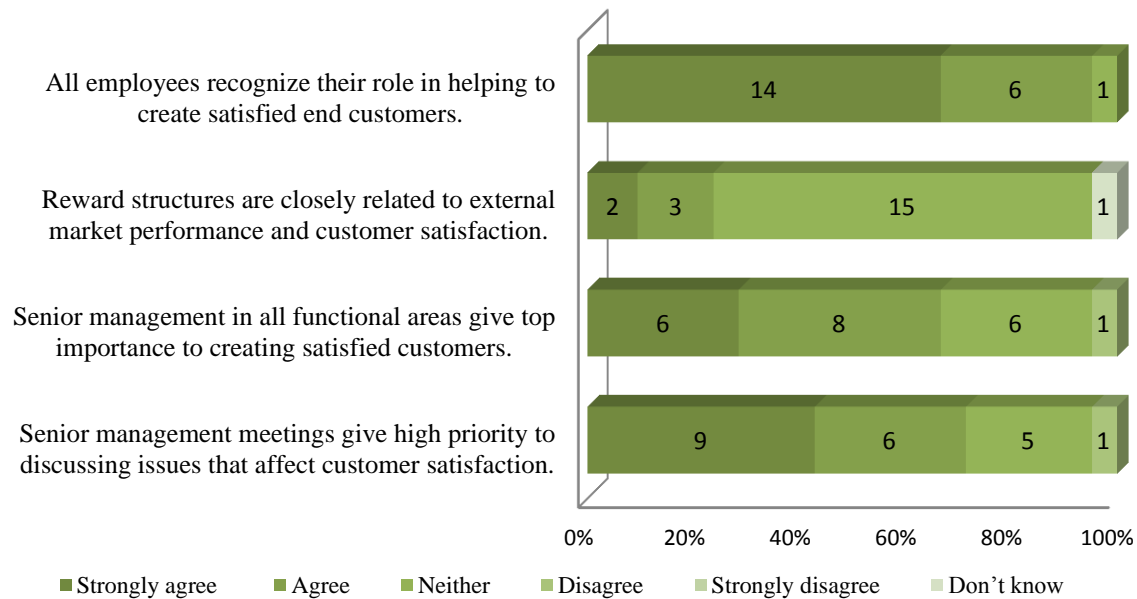
Additionally to three behavioral components findings for **long-term perspective** (long-term focus and profitability), results show that more than half of enterprises placed greater priority on long-term market share than on short term profit (10 strongly agree, 5 agree). Their decision were guided by long-term rather short-run expediency (5 strongly agree, 11 agree), although some of them were neutral. Less than half of enterprises (4 strongly agree, 6 agree) put greater emphasis on improving their market performance than on improving internal efficiencies. Other enterprises were neutral in this regard. Among them, improvement of internal efficiencies will first help improving market performance, so six owners mentioned that their first priority was to increase workers skills to do a better job and for others increase workers skills is a second priority after products improvement (Figure 16).

Figure 16. Long-term perspective and SMEs in Kosovo
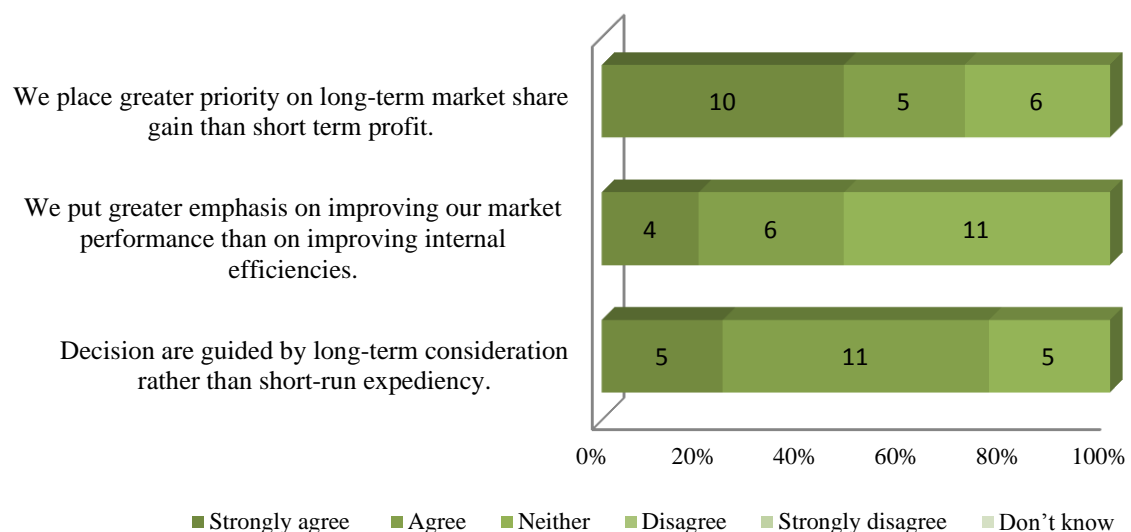
Furthermore, SMEs in Kosovo are presented from few studies as enterprises that do neglect marketing implementation, as well as, they tend to perceive term "marketing" as advertising

and it is the only marketing activity that they perform (Bajrami, 2011; SME's Support Agency, 2011). In this regard, when the author have mentioned **marketing implementation** at the beginning of the interviews, five of SME owner/mangers (5 of 21) who understand the term 'marketing' as advertising did not hesitate to answer that **they do not implement marketing because it is too expensive for them**. However, four of them do not make advertisements (in electronic media) but they do implement more marketing related strategies without acknowledging it as a marketing related activity, mainly due to limited economic or marketing knowledge. Findings are in line with the SME research literature suggestions that SME owner/managers tend to perceive marketing implementation in different way, because they are less aware of principals of customer orientation, marketing strategy and intelligence gathering (Kohli & Jaworski, 1990, Stock & Wilson, 2006).

A part of the interview with a small enterprise owner is presented in the following part of this section. When the author opened discussion on marketing implementation and innovation activities, his first answer was "no we do not implement marketing". Although in more simple way they go through of all marketing implementation steps without acknowledge it as marketing. After his first respond "no… implementation of marketing is too expensive for us…I don't have what to talk about it ….but regarding to innovation yeah… we have innovations, some new and successful products in this period …" then the author asked the owner to describe their innovations from the development of ideas to final product development and the response was:

> Most of the time I spent with my customers and the ideas for new products always come from them. As an example, last year when I asked some of my customers what they would like to have that we do not offer, they told me about a new product that one of my competitors is offering…then…I went to my competitor I bought that product… also went to different competitor to understand if they have similar product… with some of my employees we searched for information about ingredients, price… so we took as much information as we could than brought the product to my other employees…..discussed with them for all information that we got from consumers and in the market… then we made a plan and took the decision how to develop that product that our consumers like….we developed it and it looks and tastes better compared to the product of our competitor…. but we need to know what consumer thinks…do they like it what they would suggest….so one busy day, we invited consumer and wrote an information table that we have new product that consumers can take for free… customers from whom we got the idea were satisfied… from some others we got some different suggestions for different taste…so then we offer three types of that product for three different group of customer ….we got more new customers just for that… so I told you we work like this…. we can't afford to implement marketing…TV is too expensive… new customers came just based on what my regular customers talk to others not because they see our products in TV or…. Now I have more employees, more products, higher revenues…we use this strategy for long times because it brings success...

Overall findings show that enterprises on average have high level of market orientation, although improvements are needed as long as the market orientation level is under the maximal score. This is especially relevant for competitor orientation component, as on average, compared to inter-functional and customer components which are highly achieved

by SMEs (on average more than 91 percent), it is the least achieved component. Findings are in line with studies of Ledwith and O'Dwyer (2009) who show that small enterprises report significantly lower engagement on competitor orientation component compared to customer orientation or inter-functional coordination components.

Moreover, like Stoke and Wilson (2006) suggested, Kosovo enterprises (especially micro and small enterprises) tend to perceive implementation of marketing in different ways because they are less aware of marketing principals, but they do implement more marketing related strategies without acknowledge as marketing implementation. In general, the results of the research suggest that findings of SME's Support Agency (2011, p. 52), that half of SME do not apply marketing in Kosovo are more questionable. Finding of this research indicate that SMEs owner/manager might understand the term "marketing" differently for example as advertising, and their first answer regarding to implementation of marketing in their business would be "…no…we do not implement marketing…no it is too expensive…no..". However, they do implement more marketing related strategies which they acknowledge under another related term such as strategies that brings success in their enterprises.

4.2.1 Innovation findings

Research findings suggest that SMEs were very active in innovation activities in period 2010-2012. Except for one enterprise, all other (20 enterprises) introduced at least one type of innovation, and almost all of them (19 enterprises) had undertaken research and development activities for creation or significant modification of products or processes (Table 12).

Table 12. Innovation activities and SMEs in Kosovo

No.	Items for research and innovation activities	YES	NO
1	Over the past three years the enterprise has undertaken research and development activities for creation or significant modification of products or processes.	19	2
2	Over the past three years the enterprise has significantly improved the existing products or introduced new ones.	20	1
3	Over the past three years the enterprise has significantly improved the existing processes or introduced new ones.	18	3

In terms of innovation types (product, process, organizational, and/or marketing innovations), 15 of 21 enterprises have introduced all types of innovations. The most important type of innovation was improving existing products significantly, which it is considered as well as a future focus by most of the respondents.

Innovation activities for significant improvement of existing products are followed with other type of innovations activities such as marketing innovation, process innovation and lastly organizational innovation in which enterprises were less engaged.

Followed are presented the level of achievement by enterprises for each type of innovation activities combined with notes from in-depth interviews.

Figure 17. Introducing new products (good or service)
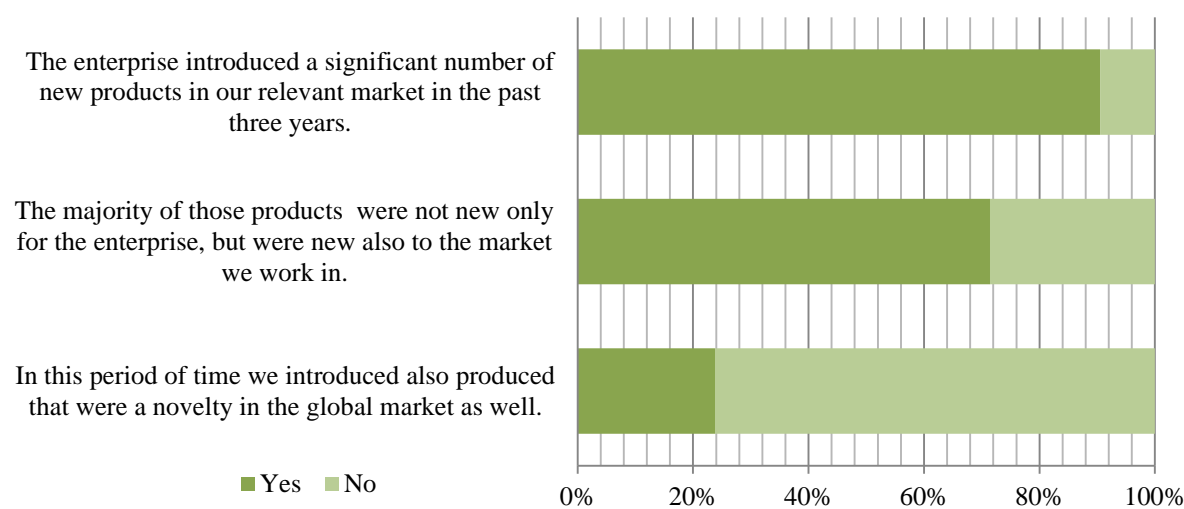
Figure 17 shows that SMEs were very active in **introducing new products** (good or service). Almost all of enterprises (19 enterprises) have introduced a significant number of new products that were new to the enterprises. Fifteen enterprises considered that their new products were new to the market, and five of them considered that their new products represent novelty in the global market as well.

Figure 18. New products and competitors
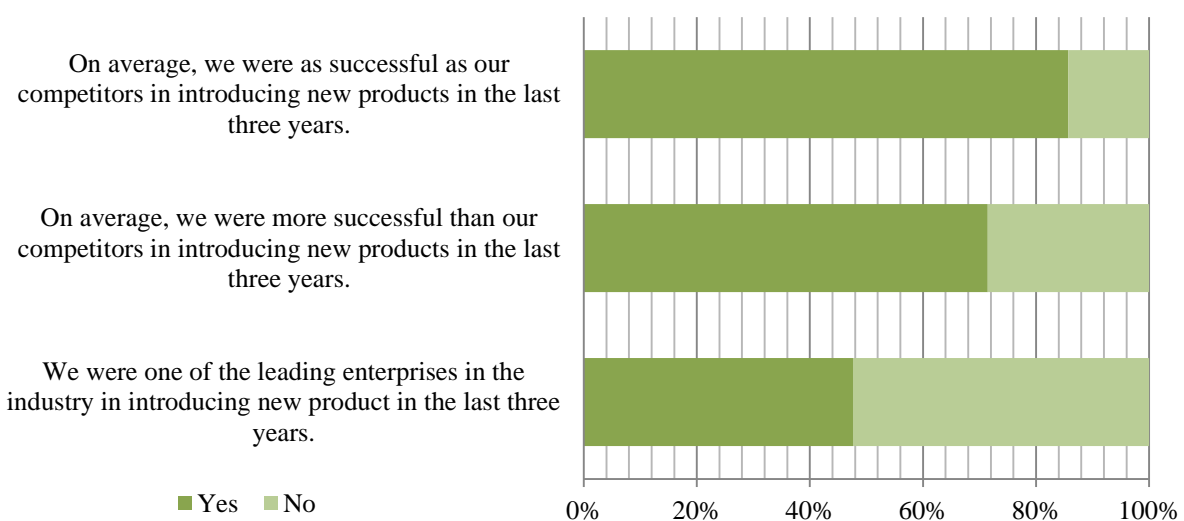
In terms of introducing **new products (good or service)**, on average only two enterprises considered themselves less successful then their competitors. Three enterprises perceive to be as successful as their competitors. From 21 enterprises, 15 consider being more successful than their competitors and 10 of them perceive themselves as one of leading enterprises in the industry (Figure 18).

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Kosovo SMEs were also very active in introducing **process innovation** (See Table 12 and Figure 19). From 21 enterprises, 18 have significantly improved the existing processes or introduced new ones over the past three years. They have implemented a new or significantly improved production methods (techniques, equipment or software) used to produce goods or services, and the logistic (delivery, distribution of inputs and outputs). As well as, 16 of enterprises have significantly improved their support services (maintenance, sales, IT, accounting and other processes).

Figure 19. Process Innovations
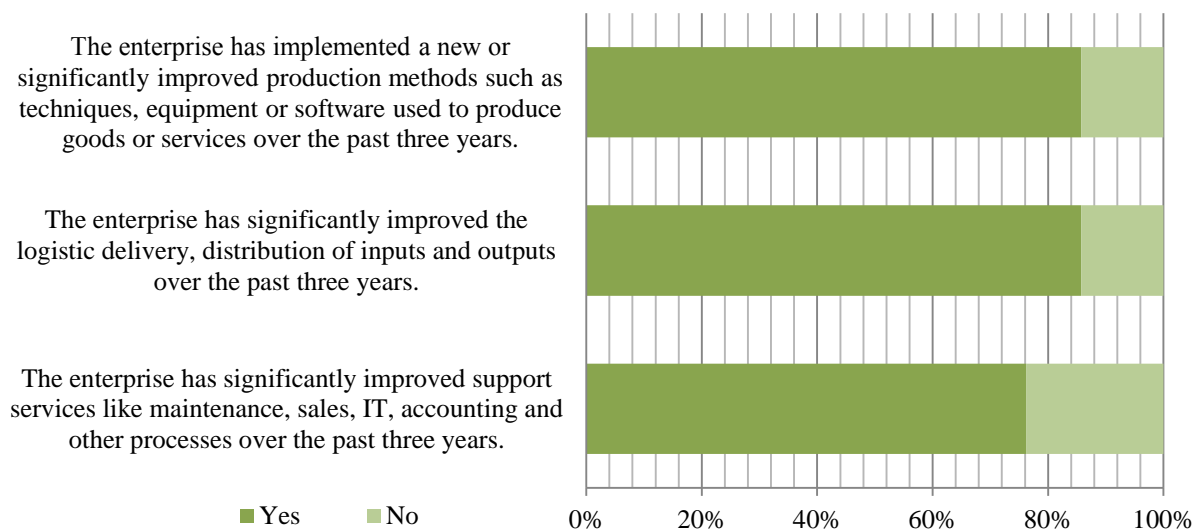
Regarding **organizational innovation,** 14 enterprises have modified or made a total change, on organizational structure over the past three years. Slightly more (15 enterprises) have improved the managerial approach or have used a new management approach, while almost all of them improved working conditions and skills of the workforce (Figure 20).

Figure 20. Organizational Innovations
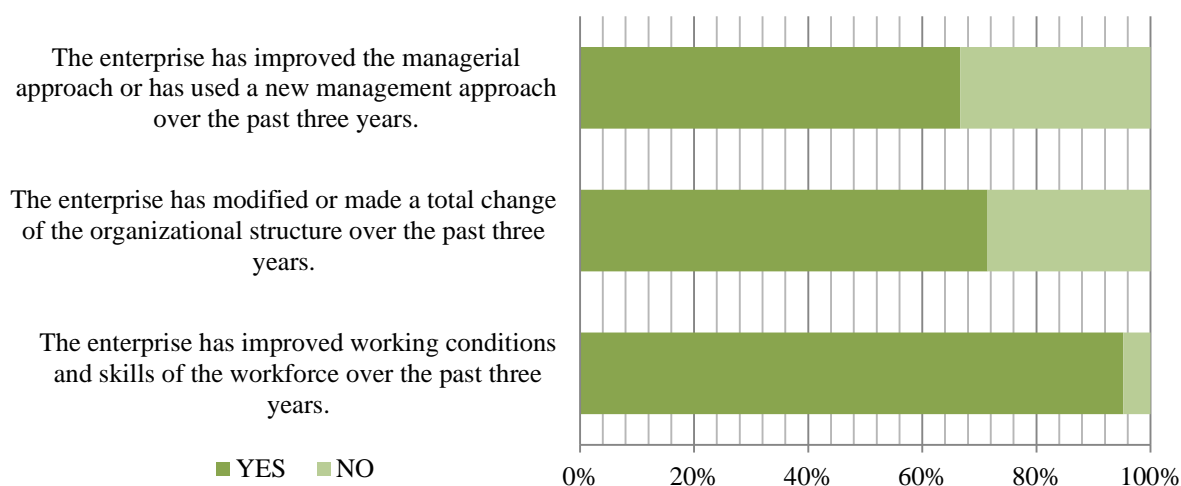
In term of **marketing innovation,** almost all enterprises (20 enterprises) have implemented a new marketing method that has brought significant changes of product design or packaging

over the past three years (See Figure 21). From them, 15 enterprises have made also significant changes of product placement, promotion or pricing by implementing new marketing methods. While, three enterprises considered that marketing innovations introduced by them represented novelty to the global market.

Figure 21. Marketing Innovations
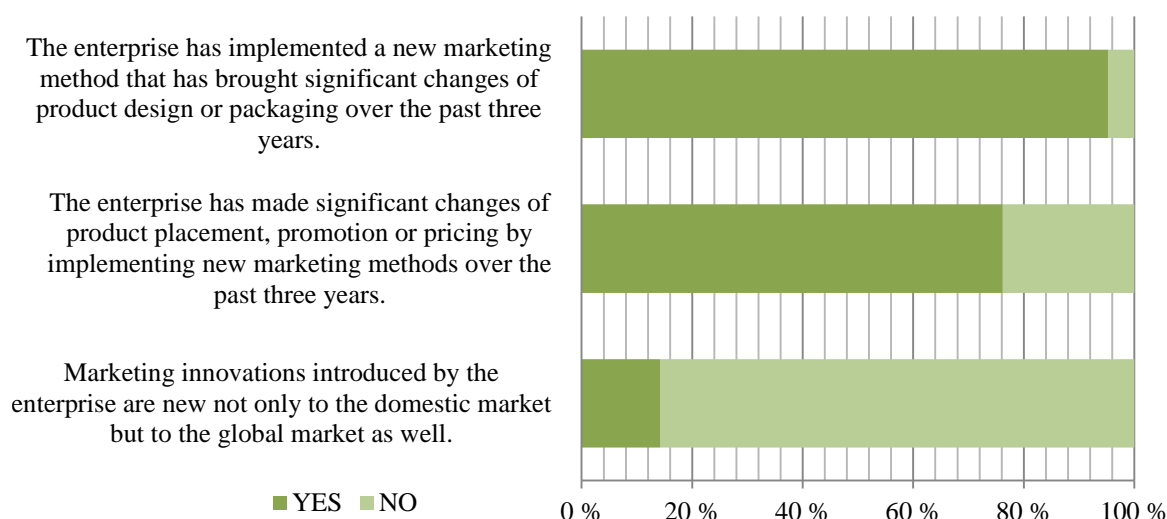
Moreover, ideas for innovation mainly came from owners and employees (20 enterprises), which are based on information that they got from customers, suppliers or internet research. Some of them (7 enterprises) generated ideas also based on contacts with other enterprises, academic institutions, research agencies and individual experts (national and especially international).

Exchange of the best practices with international experts or enterprises is considered very useful for SMEs' owners/managers, especially, from manufacturing SMEs. However, it is costly especially for small and micro enterprises (which find difficulties in obtaining external founds) and in the most of their cases were granted from international monetary funds as a donation for helping development SMEs.

Overall, innovation findings lead to conclusion that SMEs were very active on innovation activities such as product, process and marketing innovation, and slightly less active on organizational innovation during 2010-2012. From 21 enterprises, 15 have introduced products that were new to the market and from them five enterprises considered that their new products represented novelty in the global market as well. Nevertheless, BSCK(2011) and OECD (2013a) reports presented that innovation performance of Kosovo's SMEs is sparse but compared to them results on this research shows that that innovation performance of Kosovo's SMEs is more abundant. However, the fact that the sample in this research is composed with the majority of best performing SMEs in Kosovo during 2011, results should be interpreted with caution when generalization of results is considered.

4.2.2 Some of enterprise characteristics and obstacles that affect market orientation and innovation

This section presents some of enterprise characteristics that have impact on both market orientation and innovation based on correlation analysis. External factors that have negative impact on both market orientation and innovation mentioned form SME owner/managers on interviews. As well as, some recommendations based on research findings, limitations and issues for future research.

Table 13 shows that enterprise market orientation and innovation levels were significantly different across some of enterprise characteristics such as age, size (based on employee number: micro, small, medium), owner/manager education level (primary, secondary, university, MSc, PhD), and owner/manager marketing knowledge (marketing education background, marketing courses, marketing trainings, personal marketing expert).

Table 13. Correlation analysis for factors that affect market orientation and innovation

Spearman's rho		MO	INN	EA	ES	OEL	OMK
Market Orientation (MO)	Correlation Coefficient	1	.854**	-.546*	.784**	.486*	.435*
	Sig. (2-tailed)		0.000	0.010	0.000	0.025	0.049
	N	21	21	21	21	21	21
Innovation (INN)	Correlation Coefficient	.854**	1	-.611**	.712**	.707**	.568**
	Sig. (2-tailed)	0.000		0.003	0.000	0.000	0.007
	N	21	21	21	21	21	21
Enterprise Age (EA)	Correlation Coefficient	-.546*	-.611**	1	-0.348	-.459*	-.505*
	Sig. (2-tailed)	0.010	0.003		0.122	0.036	0.020
	N	21	21	21	21	21	21
Enterprise Size (ES)	Correlation Coefficient	.784**	.712**	-0.348	1	.634**	0.276
	Sig. (2-tailed)	0.000	0.000	.122		0.002	0.225
	N	21	21	21	21	21	21
Owner Education Level (OEL)	Correlation Coefficient	.486*	.707**	-.459*	.634**	1	0.429
	Sig. (2-tailed)	0.025	0.000	0.036	0.002		0.052
	N	21	21	21	21	21	21
Owner Marketing Knowledge (OMK)	Correlation Coefficient	.435*	.568**	-.505*	0.276	0.429	1
	Sig. (2-tailed)	0.049	0.007	0.020	0.225	0.052	
	N	21	21	21	21	21	21
** Correlation is significant at the 0.01 level (2-tailed)							
* Correlation is significant at the 0.05 level (2-tailed)							

The correlation analysis shows that on average younger enterprises have higher market orientation and innovation levels than older ones. Correlation coefficient between market orientation and enterprise age is negative and significantly correlated (rho = - 0.546*, p=0.010). As well as, correlation coefficient between innovation and enterprise age is negative and significantly correlated (rho= - 0.611**, p=0.003).

Enterprise size within SME sector is found to have strong positive and significant correlation with both market orientation and innovation (rho=0.784**, p=0.000 and rho=0.712**, p=0.000, respectively). As the enterprise size increased from micro enterprises with less than 9 employees to small and medium enterprises, the market orientation and innovation levels increased as well. This findings are in line with Becherer et al. (2001, p. 8) results who suggest that the market orientation increases significantly (p=0.000) with the increase of SME size (measured by the number of employees).

Other characteristics such as education level and marketing knowledge of owner/manager have a significant and positive impact on both market orientation and innovation as they are correlated to both market orientation (rho=0.486*, p=0.025; rho=0.435, p=0.049, respectively) and innovation (rho=0.707**, p=0.000; rho=0.568**, p=0.007, respectively) levels.

Although, almost all of the SME owners recognize the significant role of marketing implementation and innovation, most of them (especially from micro and small enterprises) argue that they have difficulties to access resources. Consequently, it has negative impact on both market orientation and innovation activities compared to medium or large enterprises. From their point of view, medium and large enterprises have advantage as they have better access to resources, which enable them to be more aware of the importance of both marketing and innovation activities. In this regards, one of entrepreneurs used a quote "….marketing and innovation are like aviation in the war while other activities like infantry, which unfortunately both are truncated because of the high financial cost… is very difficult to get bank loan although with high interest rate.... lack of cash in the market… business to business-delaying payments…it is not easy to do business anywhere but in Kosovo it is really difficult…"

Access to finance is ranked from owners/managers as the biggest constrain that hampered both marketing implementation and innovation activities, as well as doing business in general. Especially owners/managers of small and micro enterprises argued for disproportionate barriers to finance compared to large enterprises. In line with the reviewed literature indications, also almost all of entrepreneurs suggested that having a marketing expert in their enterprises and employing research agencies might lead to better performance, it is very difficult for micro and small enterprises to afford employing them because of financing constrain. Instead, they mostly depend on owner's skills (Stock & Wilson, 2006).

Finance constrains such as lack of external funding sources, high administrative costs, high collateral requirements, high interest rate, which are mentioned as serious barriers for access to finance, are followed by other obstacles ranked by interviewers such as **strong and unfair competition, delaying payments** (debt collection problem especially for business to business transaction), **high taxes for raw materials** (which makes domestic products more expensive than those from imports), **corruption, informal economy etc**. Findings of obstacles on doing business in this research are in line with obstacles presented by Gërgjaliu-Thaçi (2012) and BSCK (2011) studies, making their results more robust.

Although some examples of good practice are found in this research, SMEs sector still needs to overcome many enterprise internal limitations and obstacles deriving from external factors that affect both their market orientation and innovation activities. Based on findings from this research, SMEs in Kosovo several **recommendations** have been drawn such as:

First, SMEs in Kosovo must develop market oriented strategies (such as customer orientation, competitor orientation and inter-functional coordination) and innovation activities, to be able to be more competitive compared to domestic and global competition (although the majority of SMEs operate only in domestic market, still the competition coming from everywhere) and increase their performance. As results shows, best performing SMEs in Kosovo have high level of market orientation, which was accompanied with high level of innovation, and performance growth.

Second, to build market oriented philosophy in their enterprises, SMEs must be dedicated to understand both the expressed and latent needs of their customers, and the competencies and plans of their competitors through regular processes of obtaining and evaluating market information. Further, by sharing the knowledge broadly with all departments/employees and by acting in a coordinated and focused manner it will lead to the introduction of products with a higher customer value (Slater & Narver, 1998, pp. 1001-1003).

Third, SMEs must engage in innovation activities as one of core factors to their enterprise growth. In order to develop products based on expressed and latent needs of their target market and to achieve higher innovation performance SMEs should build a market oriented philosophy in their enterprises. Furthermore, SMEs in Kosovo should increase their knowledge base through co-operation with other enterprises, academic organizations such as research institutes, public and private faculties, and/or sharing and following best practices from similar enterprises in other countries in exchanging.,

Fourth, in terms of institutional factors, the Kosovo institutions should be determined in improving the business environment in Kosovo in order to facilitate SMEs growth. In a more favorable business environment, one of the expected effects is that the cost of financing would eventually decrease and enable better financing conditions for SMEs. Supportive institutional environment should favor an increase of the capacity of research institutions to

perform greater market-oriented and applied research. To achieve this goal, the Government can provide subsidies on innovation activities which would support a more intensive co-operation between academic organizations, SMEs and local government.

Considering the size of the SMEs sector in Kosovo, it is an imperative for the Kosovo institutions to create a supportive institutional framework which will be in the function of the SMEs growth as a significant factor on decreasing unemployment rate and stabilizing trade balance as main macroeconomic problems for the national economy.

Lastly, this research has some **limitations** because it is drawn on data from interviews with a small sample, as well as, the majority of sample enterprises are best practice enterprises. Consequently, the results of the study cannot be generalized. In order to enable the generalization of results a further research with a representative SME sample is suggested.

CONCLUSION

The aim of this research was to investigate the impact of market orientation and innovation on SME performance in Kosovo. Findings show that both market orientation and innovation are found to have a strong and positive impact on SME performance in developing economies like Kosovo.

The majorities of enterprises (15 enterprises) in a sample of 21 SMEs have achieved high level of market orientation and had undertaken all types of innovation during 2010 -2012. Results show that enterprises with higher level of market orientation and innovation were accompanied with higher growth. As well as, market orientation had positive impact on innovation. Findings of this research are in line with the reviewed literature which suggested that in both developing and developed economies market orientation and innovation are positively related to enterprise performance.

Moreover, like Stoke and Wilson (2006) suggested, some enterprises (micro and small) which lack marketing experts tend to perceive implementation of marketing activities in different ways as they are less aware of marketing principals. However, as this research was based on in-depth interviews with SME owners in their working place and a questioner has enabled to understand their perception on marketing activities, it appears that also these enterprises implement more marketing related strategies but they do not acknowledge them as marketing related activities but as a strategy that brings success in their business. This contradicts findings of SME's Support Agency (2011, p. 52) that half of Kosovo SME do not apply marketing activities. It is rather that the owner/manager do not acknowledge some of their marketing activities as marketing related.

According to owner/managers perception, implementation of market orientation leaded to high customer satisfaction, increase of new customers, and more intensive innovation

activities. These activities were based on customer needs and requirements, which leaded respective enterprises to higher revenues, profits and better enterprise performance in general. Ledwith and O'Dwyer (2009) have shown that small enterprises report significantly lower engagement on competitor orientation component compared to customer orientation or inter-functional coordination components. Research findings show that compared to other components competitor orientation was also the least achieved by Kosovo SMEs. Hence, improvements are needed as long as the market orientation level is under the maximal score (Mavondo, 2011).

In terms of innovation activities undertaken by SMEs, BSCK (2011) and OECD (2013a) reports present that innovation performance of Kosovo's SMEs is sparse. The number of innovations was small while the quality of those innovations was not satisfactory. However, this research found that SMEs were very active in innovation activities during the period 2010-2012. Except for one enterprise, all other (20 enterprises) introduced at least one type of innovation, two third of them introduced all innovation types. Fifteen enterprises introduced products that were new to the market; while among them over thirty percent considered that their new products were novel in the global market as well. SMEs were very active also in marketing innovation, while less engaged in organizational innovation. In general, majority of interviewed owners/mangers considered introducing an innovation as a key factor to outcome performance. However, since the sample of enterprises is composed with the majority of best performing SMEs in Kosovo during 2011, the results might be interpreted with caution when generalization of findings is considered

Financing is found to be the biggest constrain that hampered both implementation of market orientation and innovation in SMEs. Main limitation of SMEs is in affording services of research agencies and experts. Results show that investing in market orientation and innovation leads to higher growth. Enterprise growth is a crucial factor for national economic growth in all countries in general, and in developing and laggard economies such as Kosovo, in particular.

Overall, this research contributes to the literature on the impact of market orientation and innovation on SME performance by providing primary data results collected by the author, which mainly address previous limitations of studies drawing only on survey data. Market orientation strategies and implementation activities seem to be crucial for enterprise development. Kosovo entrepreneurs seem to recognize the importance of market orientation and innovation on their enterprise performance. However, since this research draws on data from interviews with a small sample of enterprises, a further research with a representative SME sample should be undertaken in order to enable generalization of results related to the impact of market orientation and innovation activities on SME performance in Kosovo.

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APPENDIXES

TABLE OF APPENDIXES

Appendix A: Interview Guide

"Dear owner of the enterprise, I want to thank you for agreeing for this interview about your enterprise's marketing implementation and innovation activities. I am conducting this research in order to meet the requirements of the International Full Master Programme in Business Administration at Faculty of Economics, University of Ljubljana. For master thesis topic "The Impact of Market Orientation and Innovation on SME Performance: The Case of Kosovo" prepared by me, Shqipe Reçica Sefa with a student ID. 19497601. The data will be provided through direct conversation. I assure you that the data will be used only for academic purposes, statistical analysis and with complete anonymity regarding your enterprise's name. My interview notes do not contain your name or the name of the enterprise. When I describe any of your cases in my thesis, I will focus on variables that are pertinent to my research and do my best not to include information that would enable the reader to identify your enterprise. If you agree I will use your words quoted but without any specification from whom."

1. General information on enterprise

a) **Enterprise size based on number of employees** (only SMEs - enterprises with less than 250 employees) Micro_____ Small_____ Medium_____

b) **Enterprise age** (only enterprises with 3 years or more) _____

c) **The main activity by sectors:**

- **Manufacturing** (Agriculture; Metals processing and electrical equipment; Construction material; Chemical industry, plastic and rubber; Textile industry, leather and footwear; Wood processing; Graphics and paper industry; Construction; Farmers; or other specific_____)

- **Trade** (Wholesale and retail trade) _____

- **Services** (Transportation; Financial; Hospitality and Tourism; Professional Training and Consultancy; Information Technology; or other specific_____)

d) **Owner:**

- His/her role in enterprise_____
- Education level (primary, secondary, university, MSc, PhD)
- Education background_____
- Knowledge on marketing_____ (marketing education background, courses, training, personal marketing expert, other specific_____)

e) **Enterprise during last three years**

		2010	2011	2012	Specific notes
1.	Number of employees				
2.	Profit				
3	Amount of annual turnover				

f) **Any other specification for enterprise**_____

2. Open-ended questions

a. Can you please specify who your customers are?
(Would you give me an example how you find information for needs and wants of your customers? How you use that information? What about specific groups of customers, communication and relationship with them? What makes your customers to be loyal to your enterprise? Is there anything else?)

b. Can you please specify who your competitors are?
(Would you give me an example how you find information for your current competitors? How you use that information for their competencies and plans? How you describe the competition is the market?)

c. Can you please explain how your enterprise is organized in order to serve the customers and to compete with competitors?
(Who is in charge? How the market knowledge is share between departments or employees or how they do act in this manner?)

d. Can you please explain what kind of products (good or service) do you offer?
(Which of them were new in last three years? Where do you get the idea for these products?)

e. Can you please give an example how you have developed a new product?
(Do you make your own research and development or corporate with different organizations, such as other enterprises, special institutes or agencies, public or private universities, individual experts or other?)

f. Can you please describe how you compare your products with similar products from your competitors in the market? (What about large enterprises?)

g. Can you please describe outcomes from marketing implementation and innovations in your enterprise?

h. Can you please specify the most important factors that made your enterprise successful? (Regarding to period 2010-2013)

i. What do you consider the most problematic factors that have hampered both implementation of marketing and innovation in your enterprise?

j. Can you please explain the future focus of your enterprise?

Appendix B: Questionnaire and Data

Table 1. Market orientation items and data

No.	Market orientation items	Score	Frequency	Percent
1	Information about customers' needs and requirements is collected regularly.	Strongly agree	12	57.10
		Agree	9	42.90
		Total	21	100.00
2	Our main (corporate) objective and policies are aimed directly at creating satisfied customers.	Strongly agree	20	95.20
		Agree	1	4.80
		Total	21	100.00
3	Levels of customer satisfaction are regularly assessed and action taken to improve matters where necessary.	Strongly agree	4	19.00
		Agree	14	66.70
		Neither	3	14.30
		Total	21	100.00
4	We put major effort into building stronger relationship with key customer and costumer groups.	Strongly agree	18	85.70
		Agree	3	14.30
		Total	21	100.00
5	We recognize the existence of distinct groups or segments in our markets with different needs and we adapt our offerings accordingly.	Strongly agree	15	71.43
		Agree	2	9.52
		Neither	1	4.76
		Disagree	1	4.76
		Don't know	2	9.52
		Total	21	100.00
6	Information about competitor activities is collected regularly.	Strongly agree	5	23.81
		Agree	13	61.90
		Neither	3	14.30
		Total	21	100.00
7	We conduct regular benchmarking against major competitor offerings.	Strongly agree	4	4.80
		Agree	8	38.10
		Neither	8	38.10
		Don't know	1	19.00
		Total	21	100.00
8	There is a rapid response to major competitor offerings.	Strongly agree	2	9.50
		Agree	8	38.10
		Neither	9	42.90
		Don't know	2	9.50
		Total	21	100.00
9	We put a major emphasis on differentiating ourselves from the competition on factors important to customers.	Strongly agree	13	61.90
		Agree	7	33.33
		Neither	1	4.76
		Total	21	100.00
10	Information about customers is widely circulated and communicated throughout the enterprise.	Strongly agree	16	23.80
		Agree	5	76.20
		Total	21	100.00
				table continues

continued				
No.	Market orientation items	Score	Frequency	Percent
11	The different departments/employees in the enterprise work effectively together to serve customer needs.	Strongly agree	13	61.9
		Agree	8	38.1
		Total	21	100
12	Tensions and rivalries between departments/ employees are not allowed to get in the way of serving customers effectively.	Strongly agree	7	33.3
		Agree	13	61.9
		Neither	1	4.8
		Total	21	100
13	Our organization is flexible to enable opportunities to be sized effectively rather than hierarchically constrained.	Strongly agree	13	61.9
		Agree	7	33.3
		Neither	1	4.8
		Total	21	100
14	We place greater priority on long-term market share gain than short term profit.	Strongly agree	10	47.6
		Agree	5	23.8
		Neither	6	28.6
		Total	21	100
15	We put greater emphasis on improving our market performance than on improving internal efficiencies.	Strongly agree	4	19
		Agree	6	28.6
		Neither	11	52.4
		Total	21	100
16	Decisions are guided by long-term consideration rather than short-run expediency.	Strongly agree	5	23.8
		Agree	11	52.4
		Neither	5	23.8
		Total	21	100
17	All employees recognize their role in helping to create satisfied end customers.	Strongly agree	14	66.7
		Agree	6	28.5
		Neither	1	4.8
		Total	21	100
18	Reward structures are closely related to external market performance and customer satisfaction.	Strongly agree	2	9.5
		Agree	3	14.3
		Neither	15	71.4
		Don't know	1	4.8
		Total	21	100
19	Senior management in all functional areas gives top importance to creating satisfied customers.	Strongly agree	6	28.5
		Agree	8	38.1
		Neither	6	28.6
		Disagree	1	4.8
		Total	21	100
20	Senior management meetings give high priority to discussing issues that affect customer satisfaction.	Strongly agree	9	42.9
		Agree	6	28.5
		Neither	5	23.8
		Disagree	1	4.8
		Total	21	100

Source: F. Mavondo, *The marketing concept and market orientation: Evolving definition of marketing,* 2011, pp. 50-52.

Table 2. Innovation items and data

No.	Innovation Items	YES	NO
1	Over the past three years the enterprise has undertaken research and development activities for creation or significant modification of products or processes.	19	2
2	Over the past three years the enterprise has significantly improved the existing products or introduced new ones.	20	1
3	Over the past three years the enterprise has significantly improved the existing processes or introduced new ones.	18	3
4	The enterprise introduced a significant number of new products in our relevant market in the past three years.	19	2
5	The majority of those products were not new only for the enterprise, but were new also to the market we work in.	15	6
6	In this period of time we introduced also produced that were a novelty in the global market as well.	5	16
7	On average, we were as successful as our competitors in introducing new products in the last three years.	18	3
8	On average, we were more successful than our competitors in introducing new products in the last three years.	15	6
9	We were one of the leading enterprises in the industry in introducing new product in the last three years.	10	11
10	The enterprise has implemented a new or significantly improved production methods such as techniques, equipment or software used to produce goods or services over the past three years.	18	3
11	The enterprise has significantly improved the logistic delivery, distribution of inputs and outputs over the past three years.	18	3
12	The enterprise has significantly improved support services like maintenance, sales, IT, accounting and other processes over the past three years.	16	5
13	The enterprise has modified or made a total change of the organizational structure over the past three years.	15	6
14	The enterprise has improved the managerial approach or has used a new management approach over the past three years.	14	7
15	The enterprise has improved working conditions and skills of the workforce over the past three years.	20	1
16	The enterprise has implemented a new marketing method that has brought significant changes of product design or packaging over the past three years.	20	1
17	The enterprise has made significant changes of product placement, promotion or pricing by implementing new marketing methods over the past three years.	16	5
18	Marketing innovations introduced by the enterprise are new not only to the domestic market but to the global market as well.	3	18

Source: J. Prašnikar, T. Redek, & F. Memaj, *Albania: The Role of Intangible Capital in Future Growth,* 2012; Business Support Centre Kosovo-BSCK, *Entrepreneurship and Small Business Development in Kosovo,* 2011.

Appendix 3: SPSS Statistics

Table 3. Descriptive Statistics

Descriptive Statistics		Enterprise Age	Number of employees in 2010	Number of employees in 2011	Number of employees in 2012	Growth Index	Market Orientation	Innovation
Valid	N	21	21	21	21	21	21	21
Missing	N	0	0	0	0	0.00	0.00	0.00
Mean		15	29	34	38	14.79	84.09	80.56
Median		13	18	21	25	9.72	85.00	87.50
Std. Deviation		12	37	43	43	14.52	9.43	18.37
Minimum		3	1	1	1	-1.20	59.00	37.50
Maximum		54	142	172	160	46.67	95.00	95.83
Sum		317	611	708	803	310.67	1766.00	1691.67

Table 4. Reliability statistics for market orientation and innovation items

Reliability statistics for all 20 market orientation items			Reliability statistics for all 18 Innovation items		
Cronbach's Alpha Market Orientation Items	Cronbach's Alpha Based on Standardized Items	Market Orientation Number of Items	Cronbach's Alpha Innovation Items	Cronbach's Alpha Based on Standardized Items	Innovation Number of Items
0.899	0.912	20	0.917	0.917	18