

Abstract. *The literature in the field has shown that high levels of entrepreneurial orientation allow a company to develop the ability to innovate, to react quickly to changes in the environment and even to initiate change (Naman and Slevin, 1993). Carneiro (2000) considers organizational learning as an antecedent of innovation. In this paper we explore the impact of entrepreneurial orientation and market-based organizational learning on the strategic innovation capability of companies in the West side of Romania. These relationships were studied using a sample of 61 companies from Timiș, Caraș-Severin, Arad, Maramureș, Satu Mare and Sibiu. These sampled companies operate in the field of production as well as in that of services. In order to proceed with the statistical data analysis we followed these steps: verifying the scale's reliability; determining factor loadings and research hypotheses testing. Testing the research hypotheses led to the result that entrepreneurial orientation and market-based organizational learning have a positive impact on the strategic innovation capability of a company. Compared to previous research, the contributions of this paper are the conceptual model and the development of the research hypotheses based on the literature review.*

Keywords: marketing, entrepreneurial orientation, market-based organizational learning capability, strategic innovation capability, firm.

THE INFLUENCE OF ENTREPRENEURIAL ORIENTATION AND MARKET- BASED ORGANIZATIONAL LEARNING ON THE FIRM'S STRATEGIC INNOVATION CAPABILITY

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1. Introduction

In a turbulent economic environment characterized by radical changes in a short time, the company's ability to develop and play a different game is essential. Developing a unique strategy requires high levels of innovation, proactivity, calculated risk-taking and learning through analysis of changes taking place in customer preferences and competitors' behavior.

Shane and Venkataraman (2000) define entrepreneurship as the process of identification, evaluation and exploitation of opportunities. These authors argue that entrepreneurship involves the (1) study of sources of opportunities, (2) the processes of discovery, evaluation and exploitation of opportunities and (3) the set of individuals who discover, evaluate and exploit these opportunities. Fisher's research (2012) provides a critical examination of how effectuation, causation and bricolage in entrepreneurial research translate into individual behavior and whether such behavior is evident in creation and development of new ventures. Entrepreneurial orientation is a strategic orientation of the firm which reflects the priority that the firm applies in identifying and exploiting market opportunities. Entrepreneurial firms own the ability to innovate and initiate change (Naman and Slevin, 1993).

An organization must understand both its customers' needs and the strengths, weaknesses, capabilities and long-term strategies of current and potential competitors. Thus, the company can identify new product ideas to satisfy needs at a higher level or launch new products and brands ahead of the competition. Market-based organizational learning is focused on learning processes from external sources, being a subset of the overall organizational learning activity. The market-based organizational learning capability is related to changes in customer preferences and competitors' actions (Weerawardena, 2003). Organizations must constantly identify opportunities in the external environment in order to satisfy customers. Generating new ideas for products and services through the collection and dissemination of market information is the starting point for developing the innovation process.

Weerawardena (2003) defines innovation as the implementation of new ideas in order to create value either directly for the firm or indirectly for its customer, whether novelty and added value is embodied in products, processes, organizational systems, or marketing systems. Strategic innovation is innovation in the formulation and implementation process of strategy. Strategic innovation involves exploring the unknown in order to create new knowledge, new markets and new competitive spaces. This concept focuses on areas such as: value chain design, conceptualization of customer value and identification of potential customers. The redesigning of the value chain and reconceptualization of customer value can be achieved by the process of identification, evaluation and exploitation of opportunities and by generating new ideas through the collection and dissemination of market information.

In this paper we explore the impact of entrepreneurial orientation and market-based organizational learning on the strategic innovation capability of companies in the West part of Romania. In the first section we will present a review of the literature

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regarding entrepreneurial orientation, market-based organizational learning and strategic innovation. The next sections describe the research hypotheses, the conceptual model and research methodology. In the last section we highlighted the research results, theoretical and managerial implications, limitations and future research directions.

2. Entrepreneurial orientation, market-based organizational learning and strategic innovation

In the context of a turbulent environment, entrepreneurship has a high relevance because the manager must act as an innovator, entrepreneur and agent of change (Morris et al., 2002). Entrepreneurial orientation and market orientation are strategic orientations of the firm. Entrepreneurial orientation reflects the priority that the firm puts on identifying and exploiting opportunities from the external environment (Shane and Venkatraman, 2000). Market orientation enables a company to focus on gathering information about customer needs and competitors' capabilities. Hitt et al. (2001) noted that firms with high level of entrepreneurial orientation have the ability to make environmental uncertainties occur in their favor.

Ireland et al. (2001) point out that entrepreneurship is a process of creating value by combining a unique set of resources for the exploitation of market opportunities. Covin and Miles (1999) define entrepreneurship as the exploitation of opportunities in order to renew and rejuvenate the company. Entrepreneurship is seen as a mechanism that promotes the identification of competitive advantages through product, process and market innovation. In this context, we consider that entrepreneurship is a mechanism that promotes the identification of competitive advantage through innovation in the formulation and the implementation process of strategy. This competitive advantage is obtained by making the competition irrelevant. Thus, companies can provide a new and superior value in existing markets.

In the literature, five dimensions have been used to characterize the entrepreneurial orientation of the firm. These dimensions are: autonomy, innovativeness, risk taking, proactivity and competitive aggressiveness (Lumpkin and Dess, 1996). Autonomy refers to the freedom granted to employees or teams of employees to act in accordance with their beliefs. Innovativeness reflects the tendency of firms to promote and support new ideas, experimentation and creative processes that may result in new products, services and processes. Risk-taking is the extent to which managers are willing to commit significant resources into action with a high degree of uncertainty. Venkatraman (1989) considers that proactivity is a key element of entrepreneurship. He defines proactivity as identifying opportunities, which may or may not be related to the actual business of the company. Competitive aggressiveness refers to the firm's propensity to challenge directly and intense their competitors to achieve a better competitive position and superior performance.

Learning about changes taking place in the market is an important source of innovation conducting to high level of performance (Day, 1994a, 1994b; Kohli and

Jaworski, 1990; Slater and Narver, 1995). The starting point of the innovation process is the generation of innovative ideas through the collection and dissemination of market knowledge (Foxall and Fawn, 1992).

Shrivastava (1983) has asserted that organizational learning is rooted in individual learning process. Organizational learning does not require summing individual learning processes (Argyris and Schon, 1978 cited in Baker and Sinkula, 1999). Organizational learning is defined as a dynamic and continuous process based on knowledge, as it moves between different levels of action (Huber, 1991; Crossan et al., 1999). Action levels are represented by the individual, the group and the organization. Organizational learning is the process of developing new knowledge and insights derived from common experiences of individuals within the organization, with the potential to influence the behaviors of individuals and improve business capabilities (Huber, 1991; Slater and Narver, 1995). Members of the organization adapt themselves according to the requirements to which they are subjected (Brătianu and Vasilache, 2007).

Within the firm there can be identified two types of learning: adaptive learning and generative learning (Senge, 1990 cited in Baker and Sinkula, 1999). Adaptive learning (identified in the literature under the name "single-loop learning", Argyris, 1977) is a method of training by which those deviations from the expected results are identified and corrected without verifying the assumptions that led to the decision made. Generative learning (called "double-loop learning", idem) occurs when the organization is willing to question the assumptions about its mission, customers, capabilities and strategy.

Organizational learning includes four processes: knowledge generation, dissemination, interpretation and organizational memory (Huber, 1991). Knowledge generation is the starting point of organizational learning, the process by which knowledge can be obtained (Sinkula, 1994). Knowledge dissemination is the process by which knowledge is shared within the organization. Knowledge interpretation is the process by which information is given meaning. Organizational memory is the means by which knowledge is stored for future use (Sinkula, 1994).

Organizational learning is not enough in a turbulent environment. Learning processes must be translated into the acquisition of managerial competencies. These managerial competencies allow the organization to be more efficient than its competitors. According to March (1991), the sources of organizational learning are external (exploration) and internal (exploitation). Market-based organizational learning is one of the learning activities from external sources. It is an integral part of all organizational learning activities. The market-based organizational learning capability incorporates learning activities related to changes in customer preferences and competitors' actions (Weerawardena, 2003). The organizations obtain knowledge about changes in customer preferences and competitor's action. This knowledge from different sources is shared within the organization and is given many interpretations. Organizational memory is the means by which knowledge about customers and competitors are stored to their use in the future. This stored knowledge is used to

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identify market opportunities and to provide a new and superior value for customer ahead of the competition.

In the last two decades, in the literature, the concept of innovation has begun to be applied in the context of corporate strategy (Krinsky and Jenkins, 1997), giving rise to a new concept namely strategic innovation. Schlegelmilch et al. (2003) believe that strategic innovation is the fundamental reconceptualization of the business model and the reshaping of existing markets by breaking the rules and changing the nature of competition to achieve dramatic value improvements for customers and high growth for companies. Fundamental reconceptualization of the business model highlights the need for strategic innovators to ask the following questions: “What business are we in?”, “Who are the customers?” and “How do we achieve value?” (Schlegelmilch et al., 2003, p. 119). Finding the answers force managers to question the tacit rules and assumptions about market that underlie their business model (Geroski, 1998; Hamel, 1998a; Markides, 1997, 1998). Strategic innovators want to change these rules and to reshape existing markets by changing the nature of competition (John, 1992). Conventional strategic logic focuses on the battle for market share in existing markets and adapting to external trends, while strategic innovation involves inventing a new market space (Hamel, 1996; Kim and Mauborgne, 1999, Seurat, 1999).

Strategic innovation involves the development of radical innovations or quantum leaps in the process of customer value creation (Hamel, 1998b; Kim and Mauborgne, 1997, 1999; Peters, 1990). This strong emphasis on value places the customer at the center of strategic thinking. Strategic innovation can identify new products and services (Seurat, 1999; Prahalad, 1993; Peters, 1990), which have the ability to make competition irrelevant. Swatch has shown that success can only result from proactive market interpretation. This company has changed the habits of individuals. Swatch makes competition irrelevant by making its watches fashion accessories.

Jacobs and Heracleous (2005) have proposed an evolutionary approach and a revolutionary approach to strategic innovation. In the evolutionary approach, the market-driven strategic innovation refers to the introduction of new products and services within an existing strategic paradigm and an existing business model. In the revolutionary approach, strategic innovation involves providing a radically improved value within a strategic paradigm and a completely new business model.

3. Research methodology

3.1. Research hypotheses

A high level of entrepreneurial orientation allows the company to develop the ability to innovate, to react quickly to changes in the environment and even to initiate change (Naman and Slevin, 1993). The entrepreneurial orientation is conceptualized as the firm behavior characterized by innovativeness, proactiveness and a risk taking propensity in its decision-making process at the strategic level (Weerawardena, 2003).

Perez-Luno et al. (2011) argued that entrepreneurial orientation literature has studied the relationship between innovation and entrepreneurial orientation. A high level of innovation is associated with a high level of proactivity and risk-taking. The proactive behavior of firms involves continuous environmental scanning to identify market opportunities and initiating certain actions for changing environmental trends. These actions can manifest themselves in the introduction of new products or services, new processes or new strategies ahead of the competition. Perez-Luno et al. (2011) demonstrated that proactivity and risk taking are positively associated with the number of innovations generated by a firm.

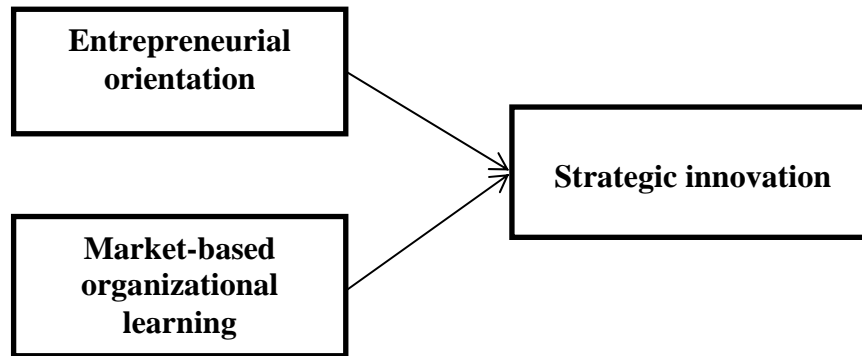
Risk-taking is also positively associated with proactivity (Wiklund and Shepherd, 2003). Thus, firms that are willing to take risk focus their efforts on pursuing new market opportunities. A high level of risk-taking is associated with radical innovations. Strategic innovation is a radical innovation (Jacobs and Heracleous, 2005). Fundamental reconceptualization of the business model and the reshaping of existing markets by breaking the rules and changing the nature of competition involve a high level of risk-taking. Thus, a high level of innovativeness, proactivity and risk taking can lead to a fundamental reconceptualization of business models and a reshaping of existing markets by abandoning the rules and changing the nature of competition in order to bring about improvements for consumers and organizational development. Based on this idea we formulated the following hypothesis:

H1: There is a positive relationship between entrepreneurial orientation and the strategic innovation capability of the firm.

Innovation is regarded as one of the key factors for long-term success (Baker and Sinkula, 2002; Balkin et al., 2000; Darroch and McNaughton, 2002; Lyon and Ferrier, 2002). Companies that have the capacity to innovate can meet the challenges of the environment faster and better than other firms (Brown and Eisenhard, 1995; Miles and Snow, 1978). The management literature considers organizational learning as an antecedent of innovation (Carneiro, 2000). Jimenez-Jimenez et al. (2008) argue that innovation involves the transformation and exploitation of existing knowledge by internal sharing of information and knowledge. Organizational innovation is encouraged by the development, acquisition, transformation and exploitation of new knowledge. Jimenez-Jimenez et al. (2008) demonstrated that organizational learning is an antecedent of innovation. Jimenez-Jimenez and Sanz-Valle (2011) demonstrated that organizational learning has a positive effect on innovation. Yli-Renko et al. (2001) have studied the impact of knowledge acquisition on product innovation. Weerawardena (2003) demonstrated that there is a positive link between market-based organizational learning capability and organizational innovation orientation. Learning by analyzing the changes that take place in customer preferences and competitors behavior may contribute to innovation in the context of corporate strategy. Thus, we proposed the second research hypothesis:

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H2: There is a positive relationship between market-based organization learning capability and strategic innovation capability of the firm.



Source: Author's contribution own.

Figure 1. The conceptual model of research

3.2. Scale development

The entrepreneurial orientation scale captures the extent to which firm's managers are innovative, proactive and willing to take risks. To measure entrepreneurial orientation we used 9 items developed by Weerawardena (2003). Each variable is measured using a five-point scale. This scale expresses the degree to which the firm focuses on investments in R&D and innovation, offers many new products or services, initiates actions which competitors respond to and adopts a bold and aggressive approach to maximize potential opportunities.

To measure the market-based organizational learning capability we used 10 items adapted from Day (1994b). A high score on this scale indicates that the company has distinctive capabilities to generate knowledge about consumer preferences and competitors' behavior in terms of knowledge generation, knowledge dissemination, knowledge interpretation and organizational memory. Each variable is measured using a five-point scale. This scale reflects the degree to which the company collects information about the changes taking place in the market, looks for innovative ideas through market research, disseminates information about market changes and customer needs across departments and managerial levels within the firm, uses customer and competitor information in the innovation process and uses the services of specialized companies for market research.

The 14 items of the scale used to measure the strategic innovation capability were adapted from Preda (2012). Each variable is measured using a five-point Likert scale. The scale of strategic innovation capability shows the degree to which the firm has the capability to redefine its business, to identify the implications of a business redefinition, to identify new business strategies, to identify core competencies to

enable the implementation of new strategies, to create new market segments, and to identify and use basic skills necessary to create a new business model.

3.3. Sample and data collection

The investigated population is represented by firms from six Romanian counties: Timiș, Caraș-Severin, Arad, Maramureș, Satu Mare and Sibiu. We contacted all the companies where we were given the access to general manager or marketing manager as potential respondents. We asked those respondents to recommend other respondents who could answer the questionnaire, thus using a snowballing technique. Using this method we contacted 72 companies, of which 61 companies responded, providing a response rate of 84.72%. The questionnaire administration was conducted online at www.chestionar.hostmysite.ro/inovare. This address was communicated to potential respondents, after being contacted to answer the questionnaire.

The firms in the sample with a number of employees included in the interval “50 to 250 employees” represent 35.48%. Firms with a number of employees in the interval “2-9 employees” represent 33.87% of the total sample. Of the sampled companies, 17.74% have a number of employees in the interval “10 to 49 employees”. Companies with an employee represent 11.29%, and firms with over 250 employees represent 1.61%. Production firms represent 35.48% and services firms represent 64.52%.

Half of the companies in the sample (53.23%) had a turnover of less than EUR 500,000. Firms with a turnover in the range of 2,000,001 to 10,000,000 EUR represent 16.13%. A percentage of 14.52% of the firms have a turnover in the range of 500,001 to 1,000,000 EUR. Firms with turnover in the range of 10,000,001 to 50,000,000 EUR represent 9.68%, those with turnover in the range of 1,000,001 to 2,000,000 EUR represent 4.84%, and the firms with a turnover exceeding 50 million EUR represent 1.61% of the total sample.

4. Research results

For statistical data processing we used SPSS 17. The main objective of the statistical data analysis is the testing of research hypotheses.

In order to achieve the statistical data analysis process went through the following steps:

1. verifying the scale reliability;
2. determining factor loading;
3. research hypotheses testing.

To determine the scale reliability we used the Cronbach-alpha coefficient. Nunnally (1978) considers that the scale is reliable when the Cronbach-alpha coefficient is greater than 0.7. As a result of confirmatory factor analysis, items with a factor loading less than 0.5 were eliminated. Research hypotheses testing was performed using linear regression. Thus the following elements were analyzed: the

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unstandardized value of the regression coefficient (β), the calculated value of the t test and significance level (p). The research hypotheses are valid if the significance level is lower than 0.05.

Scales used to measure the level of entrepreneurial orientation, the market-based organizational learning capability and strategic innovation capability obtained a Cronbach-alpha coefficients of 0.777, 0.851 and 0.938 respectively (see Tables 1, 2 and 3), which indicates reliable scales according to Nunnally (1978).

Table 1

The results of scale reliability and factor analysis in the case of the entrepreneurial orientation construct

Constructs/Items	Cronbach-alpha	Cronbach-alpha recalculated	Factor loading
Entrepreneurial orientation	0.777	0.807	
1.Focus on investments in R&D and innovation			0.535
2.Our company has marketed many new products or services			0.824
3.Changes in the products and services have been substantial			0.763
6.Our company has a very competitive "beat-the-competitors" posture			0.631
7.A strong tendency for high risk investments (likely to get a very high rate of return)			0.535
9.Adopt a bold and aggressive approach to maximize the potential opportunities			0.565

The item 8 (A growth policy mainly financed from external sources/A growth policy mainly financed from internally funds) of the entrepreneurial orientation scale has been removed because it reduced the overall scale reliability. The Cronbach-alpha recalculated for this scale is 0.807. As a result of the confirmatory factor analysis, items 4 (Typically initiates actions which competitors respond to/Typically responds to actions initiated by competitors) and 5 (Is often the first company to introduce new products or administrative methods/Rarely is the first company that introduces new products or administrative methods) of the Entrepreneurial orientation construct were also eliminated. These items obtained a factor loading less than 0.5.

Table 2

The results of scale reliability and factor analysis in the case of the market-based organizational learning capability construct

Constructs/Items	Cronbach-alpha	Factor loading
Market-based organizational learning capability	0.851	
1.The company collects information about the changes taking place in the market		0.903
2. The company collects information about the changes taking place in the market		0.863
3.The company looking for innovative ideas through market research		0.570
5.The extent of the company's knowledge about market segments		0.750
6. The extent of the company's knowledge about its competition		0.635
8.The extent to which the company uses customer and competitor information in the innovation process		0.663

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As a result of the confirmatory factor analysis, items 4 (How often do the staff who are not directly involved in sales/marketing (e.g. production) meet with customers to learn to serve them better?), 7 (To what extent do you disseminate information about market changes and customer needs across departments and managerial levels within the firm?), 9 (To what extent does your company initiates a revision of unsuccessful market research programs and communicate the findings for improvement within the company?) and 10 (To what extent does your company use the services of specialized companies for market research?) of the Market-based organization learning capability construct were eliminated. These items obtained a factor loading less than 0.5.

Table 3

The results of scale reliability and factor analysis in the case of the strategic innovation capability construct

Constructs/Items	Cronbach-alpha	Factor loading
Strategic innovation capability	0.938	
1. Capability to redefine business.		0.817
2. Capability to identify the implications of a possible redefinition of the business.		0.613
3. Capability to identify new business strategies required for redefine the business.		0.794
4. Capability to identify core competencies to enable the implementation of new strategies.		0.838
5. Capability to identify developing market segments.		0.776
6. Capability to identify existing market segments that have been neglected by other competitors.		0.667
7. Capability to create new market segments.		0.625
8. Capability to stimulate the emergence of new customer needs.		0.826
9. Capability to identify current customer needs that were not satisfied yet.		0.700
10. Capability to identify emerging customer needs.		0.614
11. Capability to redesign the product and delivery system to be in compliance with the requirements identified new market segment.		0.703
12. Capability to develop new products that address latent needs.		0.693
13. Capability to identify and use basic skills necessary to create a new business model.		0.769
14. Capability to create a new business model, totally different from that of main competitors.		0.689

In the case of the strategic innovation capability construct no item was dismissed following the verification of the scale reliability and the determination of the factor loading.

The research hypotheses testing was performed using linear regression. The analysis results were summarized in Table 4.

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Table 4

Results of research hypotheses testing

Hypotheses	R ²	B	t	p	Results
H1: There is a positive relationship between entrepreneurial orientation and strategic innovation capability of the firm.	0.208	0.384	3.969	0.000	Valid
H2: There is a positive relationship between market-based organizational learning capability and strategic innovation capability of the firm.	0.401	0.555	6.332	0.000	Valid

We can conclude that there is a positive relationship between entrepreneurial orientation and strategic innovation capability of the firm, in the conditions of $\beta=0.384$, $t=3.969$ and $p=0.000$ (<0.05). The determination coefficient (R^2) reveals that 20.8% of the strategic innovation capability variation is explained by the level of entrepreneurial orientation. There is a positive relationship between market-based organizational learning capability and the strategic innovation capability of the firm, in the conditions of $\beta=0.555$, $t=6.332$ and $p=0.000$ (<0.05). The determination coefficient (R^2) reveals that 40.1% of strategic innovation capability variation is explained by the level of market-based organizational learning capability.

5. Conclusions

In this paper we investigated the impact of entrepreneurial orientation and market-based organizational learning on strategic innovation capability. Entrepreneurial orientation has a positive impact on strategic innovation capability. This result is in agreement with the findings made by Baker and Sinkula (2009) and Perez-Luno et al. (2011). Baker and Sinkula (2009) have demonstrated a positive link between entrepreneurial orientation and innovation success. Firms that exhibit a high level of entrepreneurial orientation have the ability to develop new product concepts that address latent customer needs. These companies must use their own resources and capabilities to transpose innovativeness, proactivity and risk-taking into tangible outcomes. In dynamic market environments, a high level of entrepreneurial orientation may be essential to success (Slater and Narver, 1995).

Market-based organizational learning capability has a positive impact on strategic innovation capability. This result is in accordance with the findings made by Weerawardena (2003), Jimenez-Jimenez et al. (2008) and Jimenez-Jimenez and Sanz-Valle (2011). He demonstrated that there is a positive link between market-based organizational learning capability and organizational innovation orientation. Learning from customer needs and competitor behavior provide valuable information to firm's innovation process. Past research has focused on technological innovation (product modification). Weerawardena (2003) demonstrated that the market-based organizational learning capability enables the firm to develop product, process,

marketing and organizational systems innovations. Companies that exhibit a high level of market-based organizational learning capability are able to monitor changing customer needs and competitor activity. Consequently, these companies have the ability to develop and commercialize products with superior value to their customers. Jimenez-Jimenez et al. (2008) demonstrated that organizational learning is an antecedent of innovation. Jimenez-Jimenez and Sanz-Valle (2011) demonstrated that organizational learning has a positive effect on innovation.

The first managerial implication is highlighted by validating the hypothesis H1. To develop strategic innovation capability, firms must to raise the level of innovativeness, proactiveness and risk-taking propensity. Therefore, these companies have the ability to reconceptualize their business model and to reshape existing markets by abandoning the rules and changing the nature of competition in order to bring improvements for customers and organizational development. A second managerial implication highlights that the implementation of a learning process within a company through analysis of changes occurring in customer preferences and competitors' behavior allows the development of the strategic innovation capability.

Developing the firm's strategic innovation capability requires a coherent managerial intervention plan of actions to raise the levels of firm's entrepreneurial orientation and market-based organizational learning capability. Attaining a higher level of entrepreneurial orientation requires organizing training programs and implementing reward systems that encourages employees to contribute at improving the degree of organizational innovativeness, proactiveness and risk-taking propensity. To develop market-based learning capability managers have to allocate the resources necessary to raise the frequency with which firms collect information pertaining to market dynamics and the level of knowledge about competition and market segments. Although the firm have the ability to sense the emergent and already existent market segments, customers' actual needs and the emergent ones, this is not enough to create and exploit new opportunities. Managers have to improve their ability to develop a new business model and new capabilities needed to create new markets.

The main limit of this research is represented by the sampling process. As sampling techniques, we used nonprobability samples (convenience sample based on a snowballing technique). The final sample size is low (61 companies). In these conditions, the research results cannot be extrapolated to the entire population. Because of the small sample size, it was not possible to perform a detailed analysis on sub-groups. Future lines of research are: using probability samples, a detailed analysis on sub-groups based on firm size, field of activity or strategic behavior (proactive and reactive) and introduction of other antecedents of strategic innovation capability within the conceptual model (e.g. managerial mental models, proactive market orientation and employees' creativity).

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