

Importance of Innovation Resources for Market Orientation – Financial Performance Link: Mediating Role of Proactive Market Orientation

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Abstract

The purpose of this paper is to explore the relationship between market orientation, innovation resources and companies' financial performance. Focus is put on the mediator role of proactive market orientation (PMO) in the relationship between reactive market orientation (RMO), innovation resources and financial performance in the context of Central and Eastern European (CEE) countries. Research builds on reliable scales. Four hundred and fifteen usable questionnaires were collected from companies in Slovenia with more than 20 employees. The results show a strong and positive relationship between RMO and PMO. The impact of RMO on innovativeness as an element of organisational culture is both positive and stronger than the impact of PMO. PMO proved to have a significant positive influence on the capacity to innovate. While innovativeness alone does not directly influence financial performance, the results do confirm the positive impact of an organisational capacity to innovate on financial performance. The finding of our paper is that when PMO was included as a mediator between RMO and the capacity to innovate, the result was that this indirect impact proved to be one of the strongest in the model. Also, it proves that in CEE countries, it is important to stress the influence of market and market orientation in building innovation resources and consequently financial performance. The limitation of the current study is that we considered the relationship only among few marketing resources and organisational performance. In future research, additional measures of market performance may be introduced as mediators between innovation resources and financial performance.

Keywords: proactive market orientation, responsive market orientation, innovativeness, capacity to innovate, financial performance

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Introduction

As this transition process is still happening on country level, many companies in Central and Eastern European (CEE) countries still lack experience in foreign markets and are, in comparison with developed countries, even more affected by the challenges of the new market conditions. However, some of them seem to have a greater ability to withstand the challenges of operating under the new economic conditions. Hence, present research explores one of the possible reasons for the better performance of such companies from the resource-based perspective, which is based on the premise that companies can use rare resources and capabilities to manage turbulent economic conditions, perform better (e.g. Barney, 1991; Grewal & Tansuhaj, 2001; Belak, 2013; Vrečko & Lebe, 2013), understand consumer needs more quickly and transform market knowledge to adapt to a changing environment (Breznik, Lahovnik, & Dimovski, 2019).

Hence, the purpose of this study is to explore the role of responsive and proactive market orientation and innovation resources in regard to financial performance in one of the developing CEE countries. As such, the experiences of a developing CEE country can serve as a good benchmark for other CEE countries in this transition process. In this process, market orientation becomes important especially when observed together with innovation resources and linked to performance.

Authors (e.g. Hurley & Hult, 1998; Narver, Slater, & MacLachlan, 2004; Bodlaj, Coenders, & Žabkar, 2012) suggest that responsive market orientation (RMO), proactive market orientation (PMO) and innovation resources could positively contribute to company performance and market success. Due to the historical socio-economic heritage in CEE settings, research on RMO and especially PMO in relation to innovation resources and company performance, with rare exceptions, has been neglected (Bodlaj et al., 2012) or has just focused on relating environmental proactiveness to company performance (Martin & Grbac, 1998). Also, in developed economies, studies that have simultaneously examined both types of market orientation in relation to product success as the outcome of capacity to innovate are limited (e.g. Narver et al., 2004; Atuahene-Gima, Slater, & Olson, 2005; Tsai, Chou, & Kuo, 2008; Reid & de Brentani, 2010; Zhang & Duan, 2010).

To date, research concerning the relationship between RMO and innovation resources has produced mixed results. Although the majority of studies show that the relationship is positive (e.g. Lado & Maydeu-Olivares, 2001; Matsuno, Mentzer, & Özsomer, 2002; Baker & Sinkula, 2005), some authors claim that the impact of RMO on innovation success

is not direct (e.g. Ozkaya, Droge, Hult, Calantone, & Ozkaya, 2015). Others have raised doubts about RMO's positive impact on innovation, suggesting that RMO may undermine innovativeness (Berthon, Hulbert, & Pitt, 1999) or it may lead companies to short-sighted new product research and development (Frosch, 1996). Consequently, RMO solely by itself also doesn't prove to be sufficient predictor of an organization's financial performance.

These mixed results may be due to limited understanding of market orientation solely as RMO and neglecting its PMO perspective (Narver et al., 2004). Studies (e.g. Zhang & Duan, 2010; Wong & Tong, 2012) show that the relationship between organizational performance and market orientation is stronger when PMO is also present. However, in the context of CEE countries, research regarding the interrelationship between RMO and PMO and their influences on the innovation-performance link is still scarce. Namely, authors in similar research usually include PMO and RMO as predecessors of innovation resources and do not investigate the PMO role as a mediator in the relationship between RMO and the innovation-performance link.

This research is an attempt to bridge this gap by proposing and testing a conceptual model exploring the influence of RMO on financial performance, by simultaneously examining the mediating role of PMO and innovation resources. Our expectation is that inclusion of PMO as mediator in the model will augment the influence of RMO on financial performance.

Responsive and Proactive Market Orientation

Market orientation as such has gained the attention of different researchers (e.g. Narver & Slater, 1990; Kohli & Jaworski, 1990; Narver et al., 2004; Augusto & Coelho, 2009; Zhang & Duan, 2010). But not all researchers approach market orientation as consisting of RMO and PMO. The RMO perspective focuses on understanding and satisfying customers' expressed needs, while the PMO perspective focuses their latent ones. The RMO represents, for a company, a key differentiating resource and consequently influences company performance (Atuahene-Gima et al., 2005; Jaworski & Kohli, 1993; Narver & Slater, 1990). Focus on RMO provides joint organizational focus for all the employees that is manifested in increased organizational commitment and better satisfaction of customer needs (Kohli & Jaworski, 1990). A strong RMO manifests itself through market-oriented learning (Day, 1994; Kohli & Jaworski, 1990; Slater & Narver, 1995; Liu, Luo, & Shi, 2003). RMO includes customer orientation, competitor orientation, and interfunctional coordination (Narver & Slater, 1990) if it is

approached as business philosophy; and if approached as behavioural dimension (Kohli & Jaworski, 1990; Deshpande & Farley, 2004) it includes organization-wide intelligence generation, intelligence dissemination across departments, and organization-wide responsiveness to market information.

Numerous authors (e.g. Berthon et al., 1999; Christensen & Bower, 1996; Narver et al., 2004; Blocker, Flint, Myers, & Slater, 2011; Voola & O’Cass, 2010) have criticized the benefits of RMO. Consequently, exclusive focus on RMO might lead to a deception that finding new ways to satisfy customer needs is less attractive (Cohen & Levinthal, 1990; Levinthal & March, 1993) and companies fall in a trap of perfectly satisfying expressed needs. But on the long run this can hamper company success.

Taking into account all positive and negative dimensions of RMO, some studies suggest that proactive understanding and addressing of customers’ latent and future needs may influence company value-creating processes (e.g. Beverland, Farrelly, & Woodhatch, 2007; Tuli, Kohli, & Bharadwaj, 2007). Besides dealing with customers’ expressed needs, PMO focuses on discovering and satisfying the latent, unarticulated needs of customers. Companies that implement PMO take several actions to discover that latent customer’s needs like observing customer behaviour, working with lead users, undertaking market experiments, and cannibalising the sales of existing products (Narver et al., 2004; Atuahene-Gima et al, 2005; Jaworski, Kohli, & Sahay, 2000). Thus, PMO leads to organizational commitment in providing innovations to the market (Zhang & Duan, 2010). Authors (Lamore, Berkowitz, & Farrington 2013) claim that RMO is characterized by a market-driven approach, while PMO is considered more research-driven and focused on discovering unexpressed and latent customer needs and providing products and services to satisfy those needs.

Nevertheless, PMO has several deficiencies (Levinthal & March, 1993), such as focus on unfamiliar information and knowledge as well as information overload related to latent customer needs. However, according to Narver et al. (2004), the potential advantages of PMO clearly exceed its deficiencies. Therefore, a challenge for companies is to develop the capability to initiate generative learning processes and the associated elements in a proactive manner rather than as a response to external or internal challenges (Akgun, Lynn, & Byrne, 2006; Baker & Sinkula, 2007).

Innovativeness and Capacity to Innovate

Menguc and Auh (2006) differentiated between innovativeness and innovation, stating that innovativeness measures

the inclination of a company towards innovative behaviour, and is not the result but the means of achieving innovation. Similarly, Hurley and Hult (1998) introduced two constructs of innovation: (a) innovativeness, which reflects openness to new ideas and is an aspect of organisational culture, and (b) the capacity to innovate, which refers to the ability of a company to successfully accept and implement new ideas, processes or products.

Hence, innovativeness is a cultural aspect of the creation, acceptance and introduction of new ideas, processes and products. In other words, it refers to a company’s proclivity, receptivity, and inclination to adopt ideas that depart from the usual way of approaching business (Zaltman, Duncan, & Holbek, 1973; Hurley & Hult, 1998) and implies a willingness to forgo old habits and try untested ideas (Menguc & Auh, 2006).

From the marketing point of view being market-oriented means a long-term commitment to understanding customer needs and at the same time to developing innovative solutions that produce superior customer value (Slater & Narver, 1998). As such, innovativeness could be understood as almost necessary part of market orientation.

In our conceptualisation, innovativeness includes organisational learning as the central mechanism by which organisations develop capabilities and adapt to their environments. According to Cahill (1996) innovativeness strongly motivates the capacity to innovate but only when combined with resources and other organisational characteristics (Hurley & Hult, 1998).

The definition of the capacity to innovate underscores the emphasis on what Rogers (1983) referred to as the prediffusion aspect of innovation, that is, the early production or adoption of innovation by a company (Hurley & Hult, 1998). As we can learn from some authors (e.g. Han, Kim, & Srivastava, 1998; Menguc & Auh, 2006), in the present economic situation with the growth of competition intensity and uncertainty, the company’s capacity to innovate is important for achieving competitive advantage. We assume that companies with a greater capacity to innovate are better at developing and launching successful new products and services in comparison with their competitors but with the necessary precondition of RMO and PMO existence.

In general, authors (e.g. Hurley & Hult 1998; Han et al., 1998; Prajogo & Ahmed, 2006) agreed that innovativeness and the capacity to innovate are recognized as critical assets that generate value in the marketplace and in the stock market and are therefore among the most important factors that impact business performance.

Development of Hypotheses

Responsive market-oriented behaviour is characterised by proximity, refinement, efficiency and implementation, which reflect exploitation (Cohen & Levinthal, 1990; Levinthal & March, 1993), whereas proactive market-oriented behaviour is characterised by discovery, variation, innovation and risk-taking. The former deepens existing competence, and the latter broadens existing competence (Tsai et al., 2007). According to Atuahene-Gima et al. (2005), RMO augments the impact of PMO by encouraging realism in the company's attempt to foray into new and distant customer needs. Thus, it ensures the effectiveness of PMO by safeguarding against undue risk-taking (see Jaworski et al., 2000; Narver et al., 2004; Slater & Narver, 1998). Despite Narver et al.'s (2004) argument that in order to develop and maintain a competitive advantage, companies should increasingly complement RMO with PMO, to date there is, to our knowledge, still no evidence of how RMO and PMO are related. This leads to the first hypothesis:

H1: A responsive market orientation (RMO) is positively related to proactive market orientation (PMO).

The very essence of innovativeness as a cultural predisposition for developing new processes and products clearly indicates its connection with RMO. Narver and Slater (1990) emphasised that RMO refers to a culture that places a high priority on creating buyer value while also considering other stakeholders and emphasising responsiveness to market information. Companies with a strong RMO are likely to devise and adapt products, services and processes that continue to meet the needs of the evolving market. Accordingly, it is likely that innovativeness naturally flows out of a focus on being responsively market-oriented (Hult, Hurley, & Knight, 2004). Jaworski and Kohli (1993, p. 56) have argued that 'as a market orientation essentially involves doing something new or different in response to market conditions, it may be viewed as a form of innovative behaviour.' Studies indicate that RMO is an important predecessor of innovativeness regardless of the industry in which the company is active (e.g. Atuahene-Gima, 1996; Han et al., 1998; Ngo & O'Cass, 2012; Tsai et al., 2008). According to Deshpande and Farley (2004), innovativeness is the most important consequence of RMO, and the concepts should complement each other (Hurley & Hult, 1998; Han et al., 1998). Thus:

H2: Responsive market orientation (RMO) is positively related to innovativeness.

A market orientation, whether RMO or PMO, should be the foundation for a business's innovation efforts (Narver et al. 2004). PMO enables the companies to work closely

with lead users, which is linked to innovative developments (Lilien, Morrison, Searls, Sonnack, & Hippel, 2002). PMO is by its definition linked with innovativeness, which is a cultural aspect of the creation, acceptance, and introduction of new ideas, processes, and products. The empirical evidence of Narver et al. (2004) suggests that PMO increases the explanatory power of RMO well beyond that obtained by RMO alone. The same study also revealed that PMO is significantly and positively related to innovation orientation as the dimension of organisational culture. Some research even found that PMO has a greater impact on innovativeness than RMO (Li et al., 2008; Zhang & Duan, 2010). Since PMO is an evolutionary consequence of RMO and complements it from the perspective of latent needs, it should have the potential to mediate the PMO – innovativeness relationship. Accordingly, we formulate the following hypotheses:

H3: Proactive market orientation (PMO) is positively related to innovativeness.

H4: Proactive market orientation (PMO) mediates the relationship between responsive market orientation (RMO) and innovativeness.

There has been extensive research concerning the relationship between RMO and new product success, confirming a positive relationship (e.g. Lado & Maydeu-Olivares, 2001; Matsuno et al., 2002) between the concepts. As assumed, companies with a greater capacity to innovate are better at developing and launching successful new products (Prajogo & Ahmed, 2006). Companies with a strong RMO are more likely to identify and respond to new product opportunities than companies with weaker market orientations (Baker & Sinkula, 2005; Hooley, Greenley, Cadogan, & Fahy, 2005) and are also more likely to be the first to market with new generations of existing products and services (Day, 1994). RMO may reduce risks in the product development process and enhance the likelihood of new product success (Atuahene-Gima et al., 2005; Jaworski et al., 2000; Lukas & Ferrell, 2000; Narver et al., 2004). Thus, we propose the following:

H5: Responsive market orientation (RMO) is positively related to the capacity to innovate.

Latent customer needs, which are the very essence of PMO, are frequently linked to the capacity to innovate (Lilien et al., 2002). Focusing on latent market needs may alert the company to new market and technology developments as well as ideas that challenge existing cause-effect relationships. Such an orientation increases the company's ability to add new variants of market information in product development, which results in radical products with unique benefits (Levinthal & March, 1993).

Some studies, focused on the relationships among RMO, PMO and new product success, confirm that both RMO and PMO have a positive effect on new product success (Narver et al., 2004; Atuahene-Gima et al., 2005; Tsai et al. 2008; Zhang & Duan, 2010). However, the results of three meta-analyses concerning the relationship between an RMO and new product success are not uniform (Henard & Szymanski, 2001). This may be because in these studies, PMO and the capacity to innovate were not included as mediators of the relationship between RMO and performance. This leads to the following hypotheses:

H6: Proactive market orientation (PMO) is positively related to the capacity to innovate.

H7: Proactive market orientation (PMO) mediates the relationship between responsive market orientation and the capacity to innovate.

An innovative organisational culture may stimulate the capacity to innovate when other aspects of a market-oriented culture are also present. As already stated, combining innovativeness as an aspect of organisational culture with resources and other organisational characteristics, creates a greater capacity to innovate. Hurley and Hult (1998) empirically show the positive impact of innovativeness on a capacity to innovate, using this result as an argument for the inclusion of both concepts in market orientation-organisational performance relationship models. Innovativeness is expected to have a mediating power only when combined with a capacity to innovate. This leads to our eight hypotheses.

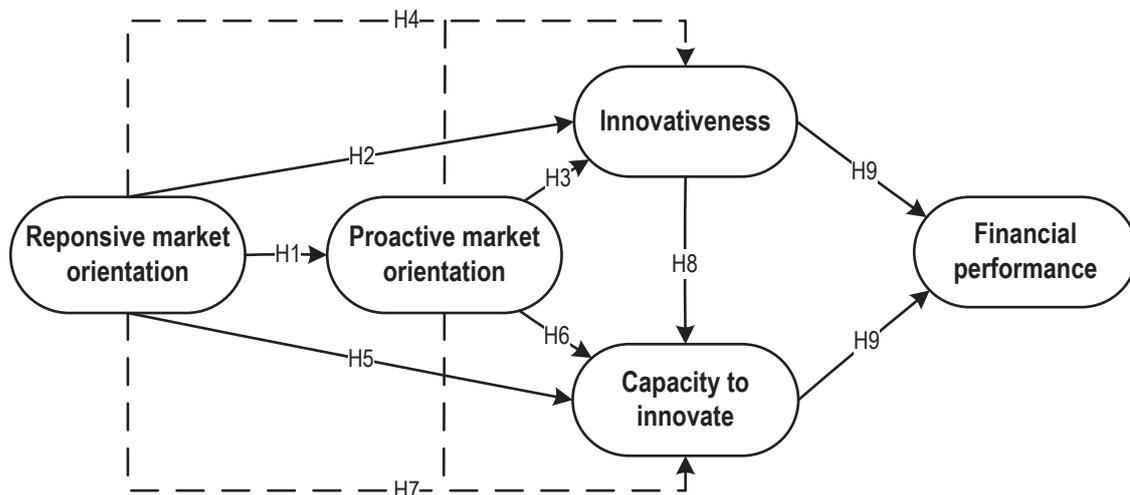
H8: Innovativeness is positively related to capacity to innovate.

Innovativeness and the capacity to innovate have the potential to satisfy the different or changing demands of customers and to accommodate uncertainties. In their seminal work, Zaltman et al. (1973) proposed that innovativeness is the medium for business success in the wake of appropriate intelligence gathering and decision making (e.g. Hurley & Hult, 1998). Research in marketing indicates that innovativeness has positive consequences for various financial performance outcomes (e.g. Rubera & Kirca, 2012; Vega-Vazquez, Cossío-Silva, & Martín-Ruiz, 2012). Also, companies with a greater capacity to innovate can develop a competitive advantage and achieve higher levels of performance. Both innovation resources are impetuses of competitive advantages (e.g. Prosenak, Mulej, & Snoj, 2008) and important organisational performance differentiating factors (e.g. Fagerberg & Godinho, 2005; Davila, Epstein, & Shelton, 2006).

Concerning the fact that financial indicators are the ultimate judge of organisational performance and, from an economic point of view, also reflect the values of all other non-financial indicators (such as market performance indicators, internal organisational performance indicators, and broader social performance indicators), they represent the outcome of our conceptual model. This leads to our final hypothesis.

H9: Innovativeness and capacity to innovate are positively related to financial performance.

Figure 1. Conceptual model



Methodology

Measurement Instrument Development

The measurement instrument for the verification of the empirical model was developed in three phases. In the first phase, items for the questionnaire regarding PMO and RMO, innovativeness and capacity to innovate were considered and adopted according to the relevant literature. For the measurement of PMO, we used the Narver et al. (2004) scale. RMO was measured using the twelve items adapted from Narver and Slater's (1990) 7-point rating scale. Previous studies indicated some potential problems with construct validity; therefore, some additional items were added to ensure a higher consistency of the scale. In the final questionnaire, four items assessing the customer satisfaction measurement (2), after sales service, and customer satisfaction objectives setting were used for measuring customer orientation. An additional four items related to competitor response, salesperson competitor information sharing, managers discussing competitor strategies and targeting opportunities for competitive advantage were used to assess competitor orientation. Items related to sharing information among functions, functions contributing to customer's value, functional integration of strategy and interfunctional information were used for evaluating interfunctional orientation construct of market orientation. The scales for the measurement of innovativeness and capacity to innovate were developed using items from the scales of Hurley and Hult (1998) and Calantone, Cavusgil, and Zhao (2002).

Following that, in-depth interviews were conducted with senior marketing executives in seventeen companies in Slovenia. The questionnaire was then examined in the third phase by expert judges (academics in the field of marketing and finance) to assess for content validity. Final questionnaire consisted of measurement scales for PMO (seven items), RMO (five items), innovativeness (five items), and capacity to innovate (two items). All items were measured on the 7-point Likert scale (from 1 'strongly disagree' to 7 'strongly agree'). Financial performance was finally measured on the 7-point scale from 'much worse' to 'much better' in comparison with their key competitors over the past three years. Market and technological turbulence were treated as control variables. They were assessed on the 7-point Likert scale adopted from Narver et al. (2004).

Sampling Frame and Data Collection

In every company, a respondent from a relevant position was identified in order to reduce the systematic error. The tendency was towards the informant with most knowledge about the research topic. Senior marketing and financial

executives in the position of CEO or a member of the Board of Directors seem to be generally reliable in their evaluations of organisational activities and performance (e.g., Venkatraman & Ramanujan, 1986). The questionnaire was mailed to 3,000 randomly selected companies in Slovenia with more than 20 employees. In total, 464 usable questionnaires were received, representing a response rate of 15.4%. Analysis of responses proved to be broadly representative in terms of industry classification and company size.

Non-Response Bias and Common Method Bias

Non-response bias was tested with the t-test. We compared the mean values of early and late respondents. T-test results showed that there were no statistically significant differences between early and late respondents. Since data for dependent and independent variables were collected by the same method, we additionally tested for common method bias with the Harman one-factor test (Podsakoff & Organ, 1986). The results of the factor analysis showed a six-factor solution accounting for 66.2% of the total variance, meaning that the chance for common method bias is rather low, since a single factor did not emerge, and Factor 1 did not explain most of the variance.

Construct Reliability and Validity

In order to assure convergent and discriminant validity and reliability of the measures, the dimensionality of the single constructs (PMO, RMO, innovativeness, capacity to innovate, and financial performance) was first assessed. Exploratory factor analysis (EFA) for RMO resulted in a three-factor solution consisting of customer orientation, competitor orientation and interfunctional coordination. Four items were omitted since they did not load significantly on their underlying factor. Confirmatory factor analyses (CFA) for the RMO revealed the same structure. The measurement model of RMO was first conceptualised as a unidimensional structure rather than as a multi-dimensional structure. The indices for the three-factor model were better, indicating that a three-factor model is more valid. Composite reliability indicators and average variance extracted were as follows: customer orientation (CR=0.77; AVE=0.53), competitor orientation (CR=0.78; AVE=0.55) and interfunctional coordination (CR=0.79; AVE=0.56). In order to gain as parsimonious a structure as possible, RMO was modelled as a second order construct and then included in the measurement and structural model. Therefore, single indicators mean values were calculated for the second-order indicators. Final constructs entering the structural model (as shown in Table 1) consisted of three

indicators for RMO, five indicators for PMO, three items for innovativeness, two items for capacity to innovate and three items for financial performance.

Factor loadings, component reliability and average variance extracted for the final measurement model are presented in Table 1. The reliability coefficient of the scale ranges from .64 to .92, which is higher than the recommended value of 0.6. Convergent validity was assessed with the average variance extracted coefficient. According to Fornell and Larcker (1981), convergent validity is established if the variance extracted value exceeds .50 for a factor. The CFA results show that in all the cases, with the exception of RMO, this criterion was met. Also, all items loaded significantly on their factors and were higher than .50.

In the next step, we tested the discriminant validity, to establish whether the measures of conceptually distinct constructs differ. This was assessed with Fornell and Larcker's (1981) test to see if the variance extracted estimates exceeded the square of the correlation between the factors making up each pair. The criterion was met in all cases.

Results

The structural model provides the basis for hypotheses testing (Figure 1). The fact that the model fit only the chi-square statistic indicated discrepancies between the data and the proposed model ($\chi^2=322.38 / df = 118; p < 0.05$).

Table 1. Items, standardised loadings, CR, and AVE for both groups

		Coefficients λ (loadings)	CR	AVE
RMO (second order construct)	Customer orientation	0.722	0.73	0.48
	Competitor orientation	0.710		
	Interfunctional orientation	0.647		
PMO	We help our customers anticipate developments in their markets.	0.731	0.84	0.52
	We continuously try to discover additional needs of our customers of which they are unaware.	0.790		
	We innovate even at the risk of making our own products obsolete.	0.659		
	We work closely with lead users who try to recognise customer needs months or even years before the majority of the market may recognise them.	0.699		
	We extrapolate key trends to gain insight into what users in a current market will need in the future.	0.679		
Innovativeness	Our company is creative in its methods of operation.	0.851	0.90	0.74
	Management actively seeks innovative ideas.	0.917		
	In our company, we are very open to innovations (e.g. related to products or processes).	0.820		
Capacity to innovate	Our company is often the first to market with new products and services.	0.838	0.76	0.61
	Our new product introduction has increased over the last 5 years.	0.721		
Financial performance	Overall profit levels achieved compared to competitors (EBIT).	0.882	0.92	0.79
	Return on investment compared to competitors (ROI).	0.924		
	Profit margins compared to competitors.	0.855		
Fit indices: $\chi^2/df=2.89$, RMSEA=0.06, CFI=0.96, GFI=0.93; NNFI=0.95, PNFI=0.73				
Control variables				
Technological turbulences	The technology in our markets is changing rapidly.	0.835	0.69	0.51
	Technological changes provide big opportunities in this market.	0.739		
	A large number of new products in this market have been made possible through technological breakthroughs.	0.722		
	Technological developments in this market are rather minor. (R)	0.726		
Market turbulences	In this market, customers' preferences change quite a bit over time.	0.557	0.79	0.56
	Customers in this market are very receptive to new-product ideas.	0.845		
Fit indices: $\chi^2/df=8.96$, RMSEA=0.02, CFI=0.99, GFI=0.99; NNFI=0.99, PNFI=0.52				

Table 2. Direct, indirect impacts and global fit indices of the model

Direct impact			Indirect impact		Total impact	
RMO - PMO	0.792	p<0.01	n.a.	n.a.	0.792	p<0.01
RMO - INNOV	0.453	p<0.01	0.179	p<.10	0.631	p<0.01
PMO - INNOV	0.226	p<0.10	n.a.	n.a.	0.226	p<0.10
RMO - CINNOV	-0.091	n.s.	0.702	p<.01	0.611	p<0.01
PMO-CINNOV	0.579	p<0.01	0.087	p<.10	0.666	p<0.01
INNOV - CINNOV	0.386	p<0.01	n.a.	n.a.	0.386	p<0.01
INNOV - PERF	0.045	n.s.	0.123	p<.01	0.168	p<0.01
CINNOV - PERF	0.319	p<0.01	n.a.	n.a.	0.319	p<0.01
RMO - PERF	n.a.	n.a.	0.223	p<.01	0.223	p<0.01
PMO - PERF	n.a.	n.a.	0.223	p<.01	0.223	p<0.01

Fit indices: $X^2/d.f.=2.74$, RMSEA=0.06, CFI=0.95, GFI=0.93; NNFI=0.94, PNFI=0.72

Notes: RMO – Responsive market orientation; PMO – proactive market orientation, INNOV – innovativeness; CINNOV – capacity to innovate; PERF – financial performance

However, other global fit statistics suggested an adequate fit of the model. The RMSEA index of the model was 0.06, which suggested a reasonable fit. Other fit indices were in the appropriate intervals and higher than 0.90 (Figure 1), suggesting that the data fits the model.

Direct Impacts

As expected, the relationship between RMO and PMO was strong and positive ($\gamma=0.79$; $p<0.01$), which provides full support for H1. As in previous studies, the direct impact of RMO on innovativeness was positive and statistically significant ($\gamma=0.45$; $p<0.01$), meaning that we can support H2. The same also holds true for the relationship between PMO and innovativeness although the relationship was weaker ($\gamma=.023$; $p<0.01$), which gives support for H3. H5 was not supported since the relationship between RMO and capacity to innovate was not statistically significant. As H6 predicted, PMO, on the other hand, strongly and significantly influences capacity to innovate ($\gamma=0.58$; $p<0.01$). H8 was also fully supported since innovativeness and capacity to innovate are positively related ($\gamma=0.38$; $p<0.01$). Despite the non-significant direct relationship between innovativeness and financial performance, and the positive and significant relationship between capacity to innovate and financial performance ($\beta=0.028$; $p<0.01$), we can give support for H9, since there exists a positive indirect relationship between innovativeness and financial performance ($\beta=0.12$; $p<0.01$).

Indirect Impacts

Indirect impacts were tested with a procedure proposed by Baron and Kenny (1986). Therefore, a series of mediation

tests were employed. The significance of indirect effects was assessed with bootstrapping, following the procedure of Preacher and Hayes (2008). As can be observed in Table 2, PMO mediates the relationship between RMO and innovativeness ($\gamma=0.58$; $p<0.10$). Despite the fact that this relationship was significant at a less conventional level of significance ($p<0.10$), we gave support for H4. Also, hypothesis H7 was supported since the indirect effect of RMO on capacity to innovate through PMO was strong and statistically significant ($\gamma=0.70$; $p<0.01$). This relationship, together with the RMO and PMO relationship, was one of the strongest in the structural model. Other indirect relationships presented in Table 2 were weaker but also statistically significant.

Control Variables

Two additional control variables were included (market and technological turbulence) in order to assess whether they have any significant impact on PMO, innovativeness, capacity to innovate and financial performance. The control variables did not influence innovativeness, capacity to innovate and financial performance. Also, market turbulence did not influence RMO, but there was significant influence of technological turbulence on RMO ($\beta=0.16$; $p<0.01$).

Discussion

In recent years market orientation, performance research has included a proactive market orientation dimension and has acknowledged the fact that researching this relationship market orientation should be conceived hand-in-hand

with innovation resources. This paper tries to integrate these concepts in the context of the companies from a CEE country. The results of our study contribute to the field of market orientation and innovation.

To date, few studies have examined the relationship between PMO/RMO and innovation resources in terms of their impact on financial performance in CEE countries. According to Atuahene-Gima et al. (2005), the basis for the two-dimensional conceptualization of PMO is that the productive capacity of RMO is enhanced through its interaction with PMO. The RMO component of market orientation should be the company resource that overcomes some limitations of the RMO, which include the lack of breakthrough learning, inability to adapt quickly to shifts in customer needs and market conditions, and concern for the expressed, rather than latent, needs of customers.

Our research indicates that RMO/PMO and innovativeness/capacity to innovate are related to the financial performance of companies, so we can better understand their impact on the performance of companies in a CEE economy is given.

The results of this research show a strong and positive relationship between RMO and PMO. This causal relationship demonstrates the necessity of an evolutionary path in accordance with which companies have to first develop an adequate level of RMO knowledge, which is a precondition for the successful development and implementation of productive levels of PMO knowledge.

By definition, RMO is a source of new ideas and motivates companies to respond to the needs and wants of their customers as well as to competitors' actions. RMO promotes a higher receptivity to innovation through higher innovativeness in an organisational culture. Since RMO and innovativeness are both aspects of organisational marketing culture, which is creative by its essence, it is not surprising that this study, as well as previous studies (e.g. Han et al., 1998; Hurley & Hult, 1998), has confirmed that the impact of RMO on innovativeness is positive. According to our results, PMO also proved to be the predecessor of innovativeness. This is in accordance with the findings of previous research on the relationship between these constructs (e.g. Narver et al., 2004) but with a weaker impact. Since the logic of the construct of innovativeness follows the logic of PMO, we found this result somewhat unexpected. Therefore, the alternative nested model in which innovativeness was introduced as a predecessor of both RMO and PMO was constructed. However, such a model did not prove to be more valid than the initial structural model. Therefore, these results warrant further investigation.

The second unexpected result was the non-significant relationship between RMO and capacity to innovate. This indicates that the presence of RMO alone may not be a sufficient condition for the operationalization of new product development and market launching. Among others, this finding can be attributed to the circumstances in which the researched companies in a transitional economy have operated in the past. Namely, the inertia concerning these companies' capacity to innovate could still be due to past circumstances of a more or less planned socio-economic system, which did not allow free market competition.

On the other hand, if we observe the importance of PMO through its relationship with the concept of capacity to innovate, we may find its real value since PMO has a strong positive influence on capacity to innovate. This was also proved by other authors (e.g. Bodlaj et al., 2012; Narver et al., 2004). Hence, in order to intensify the launching of new products, companies must devote special attention to the development of PMO. If they do not, the presence of RMO and an innovative culture (innovativeness) are not enough for organisations to perform successfully in highly competitive markets. When the PMO was included as a mediator between RMO and the capacity to innovate, the result was that this indirect impact proved to be one of the strongest in the model ($\beta=0.700$; $p<0.01$). This is the most important contribution of our research, since according to our knowledge, no other studies have proved it. This shows that companies that are very good at understanding and satisfying customers' expressed needs cannot be successful in the early diffusion of innovations if they are insufficient in discovering and satisfying the latent, unarticulated needs of customers.

The results indicate that organisational innovativeness has a significant and positive effect on innovative capacity. Hence, when the organisational culture is characterised by more receptivity to new ideas and innovation, there is also a higher probability of the company having a greater capacity to innovate. As in other research (Hurley & Hult, 1998), an innovative culture can be an important construct for new product development and success. While innovativeness alone does not have a direct influence on financial performance, we confirmed the impact of organisational capacity to innovate on financial performance. In other words, innovativeness as the sole cultural element of companies without the capacity to innovate as the ability to successfully accept and implement new products, which stimulates the customers' adoption of innovations, is not enough. As can be seen from our results, the capacity to innovate is surely one of the important mediators between innovativeness and financial performance.

Market and technological turbulence did not influence PMO, innovativeness, capacity to innovate and financial

performance. We could speculate that the majority of the companies operating in turbulent markets and technological environments in the CEE markets are still not equipped with the entrepreneurial culture oriented towards finding new customers and satisfying their latent needs. However, this study shows a significant influence of technological turbulence on RMO. This could mean that the predominant nature of technological changes in CEE markets drives companies into the exploration of existing customer needs and transformation of the technology in order to satisfy these needs.

One of the major management implications of our study is that for companies, it is necessary to cultivate both types of market orientations in order to develop innovation resources and be successful in competitive environments. As in Zhang and Duan's (2010) study, we also established that the managers of companies can influence the market success of new product development by investing in programs that enhance the market-oriented culture of the company, especially by building strong PMO closely linked with innovativeness.

Limitations and Further Research

One limitation of the current study is that we considered the relationship only among four marketing resources (PMO,

RMO, innovativeness, capacity to innovate), and organisational performance. Future research in different socio-economic environments should include other mediators such as organisational learning, entrepreneurship orientation and relationship orientation to provide a better understanding of how organisational cultural and innovation resources can be used to yield superior performance. Additional measures of market performance may be introduced as mediators between innovation resources and financial performance. Also, the inclusion of additional control variables, such as company size, industry, buyer and supplier power, and market growth would allow for a better generalisation of the research results. In addition, also objective measures of performance could be collected and used in the structural model.

Our contribution also suggests that research on market orientation and performance may benefit from the incorporation of additional variables that have been suggested. Introducing PMO into models of market orientation and performance could possibly contribute to better knowledge of how marketing culture and innovation resources work together. Since our research represents one of the contributions dealing with PMO, we recommend an assessment of the generalisability of our findings in various markets, industries and economies.

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Pomembnost inovacijskih virov v povezavi z odnosom med tržno naravnostjo in finančno uspešnostjo: mediacijska vloga proaktivne tržne naravnosti

Izveček

Namen prispevka je raziskati povezavo med tržno naravnostjo, inovacijskimi viri in finančno uspešnostjo organizacij. V pričujočem prispevku se posebej osredotočamo na mediacijsko vlogo proaktivne tržne naravnosti v odnosu med inovacijskimi viri in uspešnostjo organizacij v srednje- in vzhodnoevropskih državah. V raziskavi smo uporabili preverjene merilne lestvice, podatke pa smo analizirali na podlagi 415 vrnjenih vprašalnikov, zbranih v podjetjih v Sloveniji z več kot 20 zaposlenimi. Rezultati kažejo močno in pozitivno povezavo med proaktivno in odzivno tržno naravnostjo. Vpliv odzivne tržne naravnosti na inovativnost je bolj pozitiven in tudi bolj močan kot vpliv proaktivne tržne naravnosti. Proaktivna tržna naravnost ima dokazano močan in statistično značilen vpliv na sposobnost inoviranja in sposobnost uspešnega uvajanja novih izdelkov na trg. Medtem, ko inovativnost sama po sebi nima neposrednega vpliva na finančno uspešnost, rezultati potrjujejo pozitiven vpliv sposobnosti organizacije za inoviranje na finančno uspešnost. Eden glavnih doprinosov tega prispevka je, da vključitev proaktivne tržne naravnosti kot mediatorja med reaktivno tržno naravnostjo in sposobnostjo za inoviranje pokaže, da gre za najmočnejšo povezavo v modelu. Tako rezultati predstavljajo pomemben prispevek k dosedanjim spoznanjem s področja tržne naravnosti in dokazujejo, da je v srednje- in vzhodnoevropskih državah treba poudarjati pomembnost vpliva tržne naravnosti na izgradnjo inovativnih virov in posledično finančne uspešnosti organizacij. Omejitev raziskave je upoštevanje nekaterih marketinških virov v povezavi s finančno uspešnostjo organizacij. V prihodnje bi lahko vključili tudi dodatna merila tržne uspešnosti in dodatne mediacijske spremenljivke.

Ključne besede: proaktivna tržna naravnost, odzivna tržna naravnost, inovativnost, sposobnost inoviranja, finančna uspešnost