

# EXPLORING THE NEXUS OF ENTREPRENEURIAL ORIENTATION AND MARKET ORIENTATION ON BUSINESS PERFORMANCE AND THE ROLE OF INNOVATION AMONG THE MSMEs IN SRI LANKA

Aliyar Lebbe Mohamed Abdul Shameem, South Eastern University of Sri Lanka

Mohamed Cassim Abdul Nazar, South Eastern University of Sri Lanka

Mohamed Ismail Mujahid Hilal, South Eastern University of Sri Lanka

## ABSTRACT

*This paper is aimed to investigate the impact of entrepreneurial orientation (EO) and market orientation (MO) business performance (BP) and to explore the role of innovation (IN) to enhance the business performance of the micro small and medium enterprises (MSMEs) in Sri Lanka. The sample size of 441 owners/managers of MSMEs. Survey methodology was implemented for this study. Hypotheses are tested using SmartPLS. Findings suggests that significant positive relationship exist between the relationship of EO and BP, MO and BP, EO-IN-BP, MO-IN-BP. Findings also reveal that innovation is complementary mediator on the relationship of EO and BP, and of MO and BP. This study focus on EO and MO. There are other variables under the strategic orientation and that need to be incorporated for further studies. EO and MO are important factors to determine the business performance of micro small and medium enterprises. When innovation is added between the relationship of EO and BP, and of MO and BP, innovation is mediating the relationships. Hence, MSMEs can focus on more the innovation and it will help them to enjoy the competitive advantage. The study of this nature has not been done in the Sri Lankan context with MSMEs in Sri Lanka. This study provides unique contribution to the existing literature.*

**Keywords:** Entrepreneurial Orientation, Market Orientation, Sri Lanka, MSMEs, Business Performance.

## INTRODUCTION

Strategic orientation consisting of entrepreneurial orientation (Wiklund & Shepherd, 2003) and market orientation are vital for the success of small and medium enterprises. Researchers and academics have now paid their attention in exploring these elements of the strategic orientation and its relationship with innovation and business performance among SMEs (Sahi et al., 2020). Entrepreneurial orientation has positive impact on the business performance (Tajeddini et al., 2020). The importance of entrepreneurial orientation has been felt and helps succeed their micro small and medium enterprises. Firm's strategic orientation consists of entrepreneurial orientation which depends mostly on the innovation and market entry decisions (Lumpkin & Dess, 1996). It has also been found by researchers that EO is an attitude directing the firm towards innovation, productivity and taking risks with the implementation of strategies (Covin & Lumpkin, 2011; Hoskisson et al., 2011). Methods and practices during the business operations, and styles of decision making by managers are also represented in the entrepreneurial orientation (Lumpkin &

Dess, 1996). Entrepreneurial orientation is also well connected to the innovation as it is an approach through market driven. Hence, it brings about newness to the market (Chen et al., 2012).

Market orientation is considered to be a business culture where employees of the firm are committed to create customer superior value (Narver et al., 1998). Market orientation also provides firms with an opportunity to create competitive advantage with the nexus of innovation and financial performance (Candemir & Zalluhglu, 2013). Market orientation is significant to study for MSMEs to understand the creation of the firm value as market orientation is contributing to the co-creation of the value for the firm (Chuang, 2018). Marketorientation of an organization helps build up a business performance model in organizations comprising customer service and customer retention (Chen & Quester, 2009). Market orientation is also helping firms at different economic conditions. When a firm faces with a situation where the firm moves from upturn to downturn, there would be significant increase in interfunctional coordination and the competitor orientation could be on average and it may even go negative (Frosen et al., 2016). Entrepreneurial orientation is not only enough to have good performance but organizations need market-oriented culture in the organization to achieve positive results (Vazquez et al., 2016). Market orientation helps organizations create customers' bonds and keep customer requirement in the middle of organizations' operation. MO also helps to get continuous feedback from the customers (Qu, 2014). According to Newman et al. (2016) market orientation motivates analyzing the dynamic external environment and monitoring competitors within the industry. Further, it helps predict the marketing opportunities and customer needs by which the organization will grow (Chang et al., 2014; Tang, 2014).

Innovation within the context of organizations is also playing very important role in shaping the nexus among market orientation, entrepreneurial orientation and business performance. Innovation capability is generating, accepting and implementing innovative ideas, processes, products or services to the market (Ngo & O'Cass, 2013). The innovation can be developed by having research and development (Laursen & Salter, 2006), through getting knowledge from organizations' stakeholders, adopting market oriented culture and by inducing knowledgesharing in the organizations (Arnet & Wittmann, 2014).

Small and medium enterprises in Sri Lanka account for 80 per cent of the economy and contributes 35 per cent of the generation of employment in the country according to the Human Resources and Employment Policy of Sri Lanka. Developing countries are facingtransformations which in turn provide opportunities for entrepreneurs to grow their businesses. This paves the way to the businesses to modify their management styles on the creation of customer value and delivery of the same (Boso et al., 2013). In this context of Sri Lanka's business environment, exploring the entrepreneurial orientation and market orientation has also been necessitated helping to enjoy competitive advantages. Business performance includes marketing and financial performance of the organizations. Marketing performance means achievement of sales, market share and competitive advantage of the firm. It is paramount forsmall and medium enterprises to explore entrepreneurial orientation, market orientation and how these contribute to the innovation of the SMEs. Subsequently, it may be important to get insights into how the innovation leads to the business performance of the firms.

In spite of the fact that a positive relationship among the strategic orientation consisting of MO and EO, business performance with the mediation of marketing capability in the Ampara district of Sri Lanka (Hilal, 2016), the study does not address the innovation as a mediating variable and how it influences the business performance of MSMEs. Researchers empirically

prove that the two factors such as entrepreneurial orientation and market orientation impacts on the business performance (Harris & Ogbonna, 2001; Uncles, 2011; Hilal, 2016). However, there is very few literature in in the context of Sri Lanka on how the EO and MO impacts on business performance of MSMEs. Further, literature also lacks on the mediating effect of innovation between the nexus of entrepreneurial orientation and market orientation and business performance of MSMEs in Sri Lanka. This study is also helping MSMEs to explore the nexus of entrepreneurial orientation, market orientation, innovation and business performance. Moreover, the study also helps managers to undertake any measures to improve these EO, MO, innovation to enjoy the competitive advantage. Thus, in order to attain the objectives, this research paper is done in the following line. Firstly, the paper addresses the background of the study and to what extent the study important. Secondly, the paper explains the review of literature and development of hypotheses. Thirdly, it provides clearly the methodology adopted for the study. Fourthly, the paper gives the results and discussion and finally, provides the conclusion and managerial implication of the study.

## **LITERATURE REVIEW**

### **Entrepreneurial Orientation and Business Performance**

Miller (2011) defines entrepreneurial orientation as “*A way in which entrepreneurs behave in creating their new entry*”. The critical role played by the entrepreneurial orientation with the involvement of market orientation led to internationalization and performance of innovation. When the entrepreneurial orientation is added as a mediator, internationalization is influencing positively the innovativeness (Genc et al., 2019). In the case of new ventures, entrepreneurial orientation has a significant impact on the enhancement of the performance of organizations. Donbesuur et al (2020) find that opportunity discovery of entrepreneurship influence positively the relationship between entrepreneurial orientation and performance of new ventures in Africa. EO exert an influence the business model innovation that developed value creation, value proposition and capturing the value (Ciampi et al., 2021). There is a positive relationship found between entrepreneurial orientation and organizational performance. For example, a study conducted by Tajedini et al. (2020) suggest that entrepreneurial orientation positively affects the business performance when the firm is with strong social networking. Further, this study also stipulates that firm is having larger entrepreneurial orientation, when small firms are with innovation and risk-taking attitude. Despite the fact that the relationship between entrepreneurship orientation and businessperformance is not yet conclusive (Jiang et al., 2018), Baker and Sinkula (2009) concludes that both entrepreneurial orientation and market orientation work in complement to enhance the profitability of the firm. Further, a study was conducted among Chinese e-commerce enterprises to analyze the market performance and find that entrepreneurial orientation positively affects the market performance (Niu et al., 2020). Thus, researchers propose that;

*H<sub>1</sub>: Entrepreneurial orientation in MSMEs in Sri Lanka positively contributes to the business performance.*

### **Entrepreneurial Orientation & Innovation**

The innovation orientation of a firm is also derived from knowledge creation caused by the market sensing capability. However, when a firm has higher entrepreneurial orientation, the

favourable relationship between market sensing capability and knowledge creation become weaker due to the moderating effect of the entrepreneurial orientation (Alshanty & Emeagwali, 2019). In a study among 218 industrial firms, entrepreneurial orientation is integrated with external network ties positively affect the innovation performance. It is also found that a positive nexus exists among business ties, entrepreneurial orientation and innovation performance (Zhang et al., 2020). Learning orientation is also mediating between entrepreneurial orientation and innovativeness. Consequently, this positively affects the performance of the organization (Rhee et al., 2010). Thus, it is likely that EO will have an impact on the innovation of the firm. Therefore, we propose that;

*H<sub>1a</sub>: Entrepreneurial orientation in MSMEs in Sri Lanka positively leads to innovation.*

## **Marketing Orientation and Business Performance**

Market orientation is applying the marketing concept while making marketing decisions in organizations strategically and tactically (Jaworski & Kohli, 1993). Market orientation is now one of the strategic concepts in the literature of marketing and is spoken widely by academics for last two decade (Hagen et al., 2017; Boso et al., 2013). According to Narver and Slater (1990), market orientation is explained in a cultural perspective as “*the organization culture that most effectively and efficiently creates the necessary behavior for the creation of superior value for buyers and, thus continuous superior performance for the business*”. Hence, with the agreement on the definition, researchers propose the market orientation consists of customer orientation, competitor orientation and inter functional coordination. Market orientation for any organization is vital for their success. This is due to the fact that the firm with market orientation will have data collected systematically which they use it for measuring their performance (Beverland & Lindgreen, 2007). Further, researchers have empirically proved that positive relationship exists between market orientation and firms’ performance (For example, Balodi, 2014; Laukkanen et al., 2013). Market orientation is affecting customer satisfaction, sales, quality perception, market shares and evolution of the business which are considered to be a performance of the organizations (Acosta et al., 2018). However, the relationship is also mediated by marketing capabilities adopted in the organization (Kamboj & Rahman, 2017). Performance of cooperative alliances is also enhanced by the market orientation. In a study of 246 cooperative alliances of high-tech industries find that market orientation of the alliances has a crucial play in improving the performance (Bicen et al., 2021). Therefore, it is obvious that market orientation is well connected to the business performance of the organization. Thus, we hypothesize that;

*H<sub>2</sub>: Market orientation in MSMEs in Sri Lanka positively affects to the business performance*

## **Market Orientation and Innovation**

The relationship between market orientation and innovation have been proved by many researchers in the world. For example, see Atuahene-Gima, (1995); Nasution et al. (2011). Market orientation includes customer and competitor orientation as components which influence the innovation positively (Grinstein, 2008). Further, market orientation also helps in developing new product (Atuahene-Gima, 2005) which is also considered as innovation. In addition, customer and competitor orientation is also positively influencing innovation with incremental and radical nature in firms (Newman et al., 2016). A very recent study on exploring market orientation,

innovation and financial performance in agricultural value chain reveals that the elements of market orientation such as customer orientation, competitor orientation and inter functional coordination are related to innovation orientation (Ho et al., 2018). Moreover, researchers find that market orientation positively influence the innovativeness through learning orientation of the organizations and in turn exerts a positive effect on performance of the firm (For instant see Rhee et al., 2010). Besides, innovation is also functioning as a mediator in the nexus of the market orientation and business performance within the firm (Altunatas et al., 2013). In a study, it is found that product innovativeness is fully mediating the relationship between market orientation and business performance (Sandvik & Sandvik, 2003). Here, the product innovativeness is new to the market. Therefore, we propose that;

*H<sub>2a</sub>: Market orientation in MSMEs in Sri Lanka positively leads to innovation.*

### **Innovation and Business Performance**

The guidance of an organization is innovation orientation that helps make strategies and its implementation enabling the organizations to improve the innovativeness (Siguaw et al., 2006). A strong brand of an organization will also shape the innovation orientation of the firm (Andonova & Otolara, 2020). Innovation orientation consists of philosophical learning, strategic direction and transfunctional beliefs of the organization fueling the competences that motivates the outcome of the innovation (Siguaw et al., 2006). This helps organization to realize the new product development and in turn enjoy the competitive advantage and financial performance (Stock & Zacharias, 2011). Innovation orientation is also considered as a factor inducing benefits for customers and competitive advantage thereby is used as strategy for value creation (Dobni, 2011). Further, it is found that the critical determining factor of business performance is innovativeness for any organization. However, the organization should have the capacity for such innovation (Cooper, 2000).

While innovation in any organization enjoy competitive advantage (Covin & Miles, 1999) innovation help get rid of competition in pricing, assist in accessing new market by creating new demand and motivate business performance of the organization (Gupta & Zeithaml, 2006). According to Porter (1980), innovation also help curtailing competitors entering into the market. A study conducted within an agricultural value chains indicate that knowledge about the customers is transmitted to the members of the value chain in order to innovate business and it positively impacts on the financial performance (Ho et al., 2018). A study examined the innovation and export performance among Chinese exporters and find that innovation capacity enhances the export performance (Hughes et al., 2019). The discussion on the previous literature confirms that there is a positive relationship between innovation of the firms and business performance. Therefore, we hypothesize that;

*H<sub>3</sub>: Innovation in MSMEs in Sri Lanka positively leads to business performance of MSMEs in Sri Lanka.*

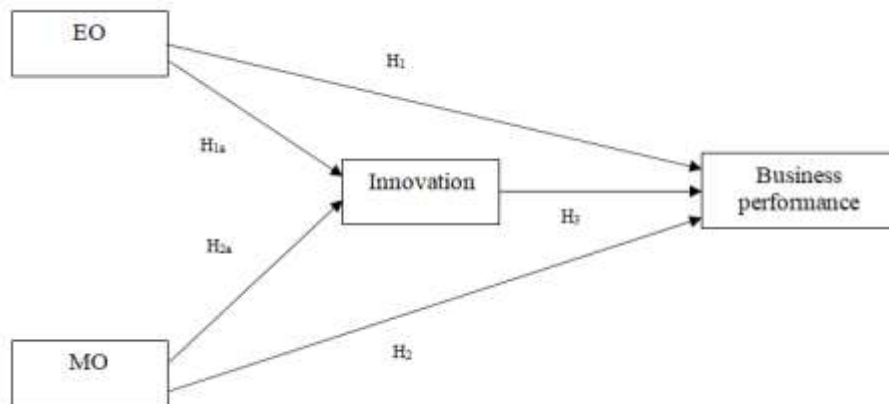
Literature suggests that EO is contributing to the business performance of the organizations. MO is also positively related to the business performance according to the review of literature. Further, these two factors are also contributing to the innovation of the organization. Literature further stipulates that there is a positive relationship between innovation and business performance. Thus, we propose the following hypotheses with regard to the mediating effect of innovation.

**H<sub>1b</sub>:** Innovation is mediating between the relationship of EO and BP of the MSMEs in Sri Lanka

**H<sub>2b</sub>:** Innovation is mediating between the relationship of MO and BP of the MSMEs in Sri Lanka.

**METHODOLOGY**

The study was conducted to examine the nexus of MO, EO and business performance of small and medium enterprises in Sri Lanka and to investigate the mediating effect of innovation between strategic orientation consisting of MO and EO, and business performance. The study was quantitative in nature. A comprehensive review of literature was done and the following research model was developed (Figure 1).



**FIGURE 1  
CONCEPTUAL MODEL**

**Survey Instrument**

The survey instrument has been developed for this study was adopted from previous studies. The questionnaire was prepared including demographical profile of the respondents and statements for variables such as entrepreneurial orientation, market orientation, innovation and business performance were given ranging from strongly disagree (1) to strongly agree (7) likert scale. The items used for the study is given in Table 1.

Table 1 ITEMS USED FOR THE VARIABLES		
Variables	No. items	Adapted from
Entrepreneurial Orientation	EO1 – Approach to problem solving with new ways more than conventional wisdom	Matsuno et al. (2002)
	EO2 – Encourage innovative marketing strategies and some may fail	
	EO3 – Believing a positive opportunity if changes in the market place	
	EO4 – Talking about opportunities than problems	Jantunen et al. (2005)
	EO5 – Implementing innovative production process and practice	
	EO6 – Recognizing changes in technology affecting the business	

Market Orientation	MO1–Responding to the competitive actions immediately MO2 - Top management is discussing firm's strengths continuously MO3– Formulating business objectives based on satisfaction of the customers. MO4–Competitive advantage is based on the understanding customers' needs. MO5-Business strategies formulated to increase the customers' value MO6 – Practicing sharing information within the firm with regard to competitors	Jaworski & Kohli (1993)
	IN2 – Encouragement by the top management to develop innovative product and services	
	IN3– Introduction of new products and services create competition against new competitors IN4 – Develop new product in accordance with market demand quickly IN5– Dealing with customers' complaints and suggestions urgently	Skerlavaj et al.(2010)
Business Performance	BP1 – Growth of the revenue BP2 – Growth of the market share BP3 – Increased net profit	Li & Zhang (2007)
	BP4 – Increased sales compared with competitors and last year BP5 – Confidence about sales in the next year	Niu et al. (2013)

The measures used for the study, we obtained from the review of literature for each dimension such as entrepreneurial orientation, market orientation, innovation and business performance. Based on the previous literature stated in Table 2, the structured questionnaire was developed.

### Sampling and Data Collection

The study was conducted using primary data collected from 441 owners or managers of small and medium enterprises located in Sri Lanka. The distribution of owners or managers of the SMEs are as follows;

<b>Industries</b>	<b>No. of owners / managers</b>
Textile	47
Restaurants	42
Hotels	36
Agriculture	41
Consultation	34
Transport	28
Retail stores	65
Manufacturing	48
Footwear	26
Private Hospitals	29
Apparel	45
<b>Total</b>	<b>441</b>

441 owners or managers of the small and medium enterprises were surveyed for the study. Researcher administered a well-structured questionnaire which included measures for all four variables under study. As MSMEs contribute significantly to the economy of Sri Lanka, MSMEs in major cities which include Colombo, Ampara, Batticaloa, Kalmunai, Trincomalee, Kurunagal, Kandy, Ratmalana and Gampaha were selected for data collection. MSMEs are defined based on the number of employees and annual turnover. Hence, MSMEs are categorized with the number of persons employed 10 or less and annual turnover of Rs. 15 million or less. Micro SMEs were selected for this study because, it contributes 52% to the GDP and it represents 90% of the small and medium enterprises in Sri Lanka. The major sectors in the MSMEs are tourism, apparel and footwear and leather. Questionnaires were distributed via email, post, google forms and by telephone calls. Difficulties were also experienced by the owners or managers from various businesses and the researchers were able to manage them effectively.

Four variables namely EO, MO, innovation and business performance were used for this study. The constructs used for measuring the variables required a greater understanding among the respondents as it involves jargons. Consequently, we conducted interviews among twenty respondents with three languages to examine whether the instrument developed for the study is understandable. Accordingly, we amended the constructs with words and languages enabling the respondents to easily understand and grasp the meaning.

### **Method of Analysis**

Smart PLS 3.0 was used to analyze the data. The data was fed into the MS Excel and used for the analysis in SMART PLS. Construct Reliability and Validity comprising Cronbach's Alpha values, rho A, Composite reliability, average variance extracted were calculated using the SMART PLS. Model was also evaluated using Fornell and Larcker Criterion, factor loadings, Q Square value, R Square values were also calculated and final conclusion was derived.

## **RESULTS AND DISCUSSION**

### **Demographic Profile of the Sample**

In the case of demographical profile of the respondents, 64.6% represents male and 35.4% represents female in the micro small and medium enterprises. 23.1% of the respondents are between the age of 25 – 40. 39% of the respondents were in the age group of 41–60 and the rest of the respondents 37.9% were in the group of above 60 years of age. As far as educational qualifications are concerned, 16.5% of the respondents were with GCE Ordinary Level qualifications and 27.9% of the respondents were with GCE Advanced Level. Of the total respondents, 21.3% were graduates and 17% of them were with qualification of postgraduates. 17.3% of the respondents held other qualifications. In addition, 24.5% of the respondents were the owners or proprietors of the business and 75.5% were the managers who are working in the MSMEs.

### **Assessing the Reliability and Validity of the Measures**

SmartPLS 3.0 was used to test the structural model. In order to test the structural model, Cronbach's Alpha, Composite reliability and average variance extracted were calculated. The construct reliability and validity are given in Table 3.



<b>Variables</b>	<b>Cronbach's Alpha</b>	<b>rho A</b>	<b>Composite Reliability</b>	<b>Average Variance Extracted (AVE)</b>
Business performance (BP)	0.828	0.832	0.921	0.853
Eentrepneurial orientation (EO)	0.708	1.003	0.794	0.500
Innovation (IN)	0.782	0.855	0.870	0.694
Market Orientation (MO)	0.731	0.770	0.816	0.528

CA for all constructs ranges between 0.70 to 0.82 and hence, it exceeded the recommended level of 0.70. The composite reliability is also measured and it also ranges between 0.79 to

0.82. This is also above the threshold level of 0.70. The average variance extracted is also above the threshold level of 0.50. Thus, the results of the study reveal that all items for each construct well represented and shows the sufficient reliability. This confirms the convergent validity of the constructs.

Having the investigated the convergent validity, it is paramount to understand the discriminant validity. In order to examine the discriminant validity, Fornel and Larker Criterion is given in Table 4.

<b>Variables</b>	<b>BP</b>	<b>EO</b>	<b>IN</b>	<b>MO</b>
Busines Performance	<b>0.924</b>			
Entrepreneurial orientation	0.377	<b>0.707</b>		
Innovation	0.613	0.338	<b>0.833</b>	
Market orientation	0.694	0.278	0.629	<b>0.727</b>

The discriminant validity was investigated comparing the value of the AVE of a construct with other constructs' correlation coefficient. Coefficients are not greater than the square root of the AVE. Thus, the discriminant validity is also confirmed (Fornell & Larcker, 1981). To confirm the convergent validity further, the indicators for each latent construct should have the loading greater than or equal to 0.50.

<b>Items</b>	<b>Factor Loadings</b>	<b>T Statistics</b>	<b>VIF</b>	<b>P Values</b>
BP1	0.917	105.717	1.998	0.000
BP2	0.930	146.429	1.998	0.000
EO1	0.572	7.530	1.241	0.000
EO2	0.888	28.459	1.462	0.000
EO3	0.736	15.426	1.989	0.000
EO4	0.583	9.256	1.660	0.000
II	0.875	63.582	2.107	0.000
I3	0.924	106.580	3.142	0.000
I5	0.679	18.709	1.748	0.000
MO1	0.523	10.992	1.371	0.000
MO3	0.742	25.188	1.697	0.000
MO4	0.560	10.257	1.382	0.000
MO5	0.824	42.873	1.949	0.000
MO6	0.757	33.888	1.574	0.000

When observing Table 5, all factor loadings falls between the range of 0.52 to 0.93 and  $t$  values are greater than 1.96 and hence, the convergent validity is also supported.

### Structural Model Analysis and Hypotheses Testing

Multicollinearity assessment was done in the SmartPLS. The VIF (Variance Inflation Factors) values should be less than 5 which is the threshold (Hair et al., 2013). It ranged from 1.24 to 3.14 (see Table 5) and hence, issue of multicollinearity is not connected to the exogenous variables of the study.

The structural model generated by the SmartPLS is given in Figure 2.  $R^2$  value are ranging from 0 to 1 and when we have higher values, accuracy of the predictive relevance is high.  $R^2$  values 0.75, 0.50 or 0.25 are considered for endogenous latent variables as substantial, moderate or weak (Hair et al., 2013).  $R^2$  value is 0.424 for the endogenous variable innovation, the predictive relevance of the EO and MO is weaker. However,  $R^2$  value is moderate (0.555) for business performance of MSMEs when the innovation is added as a mediating variable.

Bootstrap procedure was done. All path coefficients in the structural model are significant. Path coefficient,  $f^2$ ,  $t$  and  $p$  values are given in Table 6.

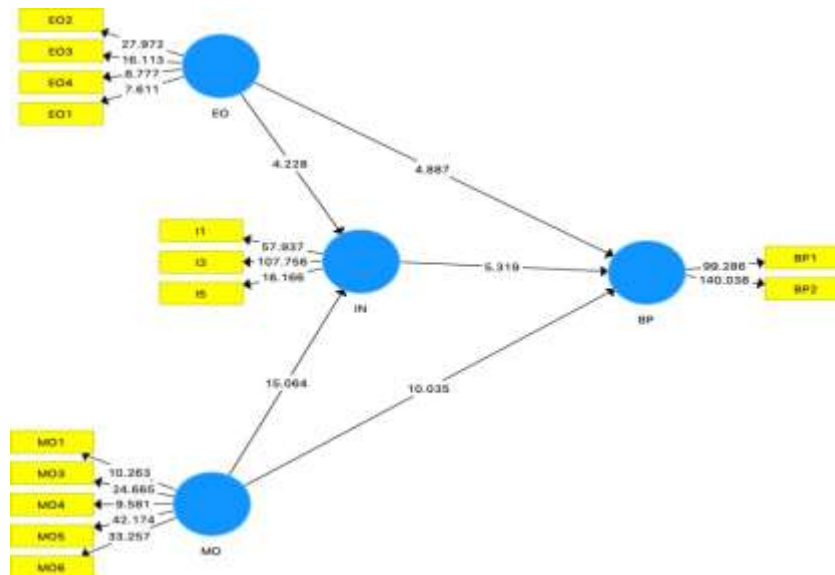
Direction	Path Coefficient	$f^2$	$t$	$p$
<b>H<sub>1</sub></b> : EO → BP	0.155	0.047	5.000	0.000
<b>H<sub>1a</sub></b> : EO → IN	0.177	0.050	4.294	0.000
<b>H<sub>3</sub></b> : IN → BP	0.251	0.081	5.071	0.000
<b>H<sub>2</sub></b> : MO → BP	0.493	0.328	9.947	0.000
<b>H<sub>2a</sub></b> : MO → IN	0.579	0.538	15.493	0.000
<b>H<sub>1b</sub></b> : EO → IN → BP			3.083	0.002
<b>H<sub>2b</sub></b> : MO → IN → BP			5.080	0.000

It is important to examine the effect size  $f^2$ . This provides an idea to what extent the exogenous variables contribute to the  $R^2$  values of the model. In the case of effect size criteria, the values 0.02, 0.15 and 0.35 are representing small, medium and large effects (Cohen, 1988). Accordingly, while effect size of EO on business performance is small, the effect size of MO is medium. On innovation of the MSMEs, the effect size of EO is small and MO provides a medium of effect size.

Blindfolding procedures were also done for the structural model for predictive relevance. The rule of thumb is when an endogenous variable has value more than 0, the dependent constructs have its predictive relevance.  $Q^2$  values for endogenous variables business performance and innovation are 0.465 and 0.279 which are greater than 0. Hence, path model EO and MO have predictive relevance to predict business performance and innovation.

Latent Variables	$q^2$
EO	0.209
Innovation	0.400
MO	0.239

In addition,  $q^2$  values of latent variables are given in Table 7.  $q^2$  explains to what extent the exogenous constructs contribute to the  $Q^2$  value of endogenous latent variable. EO and MO have its medium effect ( $q^2 > 0.15$ ) in predicting relevance of business performance of MSMEs in Sri Lanka. Innovation has larger effect size ( $q^2 > 0.35$ ) on the business performance of MSMEs in Sri Lanka.



**FIGURE 2**  
**STRUCTURAL MODEL**

With regard to the research hypotheses, the results of the analysis are given Table 6. The results reveal that EO and MO are significantly having positive impact on the business performance of MSMEs in Sri Lanka supporting  $H_1$  ( $t = 5.00$ ,  $p < 0.05$ ) and  $H_2$  ( $t = 9.95$ ,  $p < 0.05$ ). Moreover, the EO and MO are positively impacting the innovation of MSMEs thereby supporting to  $H_{1a}$  ( $t = 4.29$ ,  $p < 0.05$ ) and  $H_{2a}$  ( $t > 15.49$ ,  $p < 0.05$ ).

Regarding mediation analysis, the direct and indirect effects are significant and point in the same direction (Shows in Table 6). Hence, complementary mediation is existing in the structural model. Thus,  $H_{1b}$  ( $t = 3.083$ ,  $p < 0.05$ ) and  $H_{2b}$  ( $t = 5.080$ ,  $p < 0.05$ ) are supported. This infers that innovation positively mediate the relationship between EO and BP, and MO and BP.

### Discussion, Managerial Implication and Conclusion

EO and MO are important factors for micro SMEs to enjoy competitive advantage. In order to achieve the objectives stated, 441 owners or managers of the MSMEs were surveyed. Our results indicate that EO positively impact on the business performance of MSMEs in Sri Lanka. It further reveals that there is a positive relationship between MO and BP. Moreover, the analysis provides the evidence for innovation at MSMEs enhance the relationship among the nexus of EO, MO and BP. Comparatively, MO is more important for influencing the innovation and business performance for MSMEs in Sri Lanka.

Theoretical contribution of the study can be explained with the hypotheses that have been

tested in the study. As other previous researchers in the field (for example; Sahi et al., 2020), this study confirms in the context of Sri Lankan MSMEs that EO and MO are the most important factors that positively impact business performance of MSMEs in Sri Lanka. Further, innovation is also important for MSMEs in Sri Lanka as it is enhanced with EO and MO.  $H_1$  is supported by examining the relationship between EO and BP of MSMEs in Sri Lanka. These findings support the existing literature (Donbesuur et al., 2020; Tajeddini et al., 2020; Siren et al., 2012; Zhang et al., 2020). The positive relationship of the EO to the business performance and innovation shows that Sri Lankan MSMEs owners or managers showcase the characteristics that categorized in the entrepreneurial orientation. Findings reveal that top management of Sri Lankan micro SMEs provides supports in providing innovative solutions to solve the problems than focusing on the conventional insight and in making decisions related to marketing strategies. Despite the fact that some of the innovative marketing solution faces the failure in the world, top managers are engaging innovative marketing solution, which shows their risk taking in their entrepreneurial activities. Further, top management also attempts to implement product and process innovation in their business activities. In order to achieve the innovation, changes in the technology which affect their businesses being recognized early and be implemented in the business.

In the case of MO, contributes well to business performance of the MSMEs and hence, the  $H_2$  is supported. The positive and significant relationship between MO and BP is also supporting existing literature (Siren et al., 2012; Hughes et al., 2007; Balodi, 2017) in areas of the study.

Market orientation is implementing marketing concept in the business practices. MO explains the integration of marketing function within the all functions of the organizations. Customer satisfaction is primely considered when developing the business objectives of the MSMEs. According to the findings of the study, competitor's orientation is one of the important elements in the marketing orientation and it, in turn, leads to innovation. Monitoring competitors and understanding about them is one of the important and foremost tasks of any business. These MSMEs are vigilant on competitors' move and the information collected with regard to competition in the market is shared within the businesses too. The top management is also attempting to analyze the competitive information and discuss the strengths of the competitors. This helps formulate strategies to enjoy the competitive advantage over rivals in the market. These actions of the MSMEs leads to enhanced business performance.

Findings of the study further reveals that EO and MO of the MSMEs in Sri Lanka leads to innovation.  $H_{1a}$  and  $H_{2a}$  are supported. This is also support to the existing literature (Nasution et al., 2011; Grinstein, 2008; Ho et al., 2018, Zang et al., 2020, Rhee et al., 2010). Further, this supports the study of by adopting EO and MO, top management of MSMEs are supporting to new product or service development and consequently, they become first in introducing the new product or services to the market. MSMEs in Sri Lanka are also frontier in coping up with fulfilling the demands quickly. Further, it is found that these micro small and medium enterprises effectively deal with the customer suggestion and complaints which are also considered when developing new product or services to the market.

The tested research model of the study also stipulates that innovation materialized through EO and MO of the MSMEs in Sri Lanka, positively contributes to the business performance thereby  $H_2$  is supported. This also supports to the study of Stock & Zacharias (2011) and of Gupta & Zeithaml (2006). This also supports the study of Tajeddini (2010) by finding the nexus of market orientation, entrepreneurial orientation, innovation and business performance have positive relationship in MSMEs.

In conclusion, the objective of the study was to examine the nexus of EO, MO and BP of microsmall and medium enterprises in Sri Lanka and to explore the mediating role of innovation within the nexus. Entrepreneurial orientation and marketing orientation significantly contribute to the business performance of MSMEs in Sri Lanka. Further, when the innovation is added as a mediating variable, the relationships (EO BP and MO BP) are further strengthened among the MSMEs in Sri Lanka. Hence, this study contributes to the existing literature by examining the nexus among EO, MO, IN and BP in the Sri Lankan context.

### LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

This study has its own limitations. The study focuses on the nexus of EO, MO, Innovation and BP. There are other variables involved in the strategic orientation of an organization. This study has not addressed those variables. Therefore, it is important to extend this research with other variables such as marketing capabilities, technological orientation and learning orientation in the study.

Further, this study focuses on the main city in Sri Lanka. There are other cities where micro small and medium enterprises can be found. Hence, this study along with other strategic orientation variables which were not included in the study can be conducted. This will make the study more unbiased.

Lastly, this study considers only micro SMEs. However, there are many small and medium enterprises in the country. Thus, it is better to conduct a study of this nature and get the insights into the strategic orientation in Sri Lanka.

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