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The Moderating Impact of Entrepreneurial Orientation between Market Orientation and Performance of SMEs in the Post-Conflict Northern Province of Sri Lanka

S. Vaikunthavasan[a] ✉

[a]*Department of Marketing, University of Jaffna, Sri Lanka*

Abstract

This study explores how market orientation influences SME performance, with entrepreneurial orientation as a moderating factor. This relationship remains underexplored in the context of SMEs in post-conflict emerging economic regions. Furthermore, conflicting findings in the current literature highlight the need for further investigation. This study applied a quantitative research methodology. A survey was conducted to collect data from respondents. The result revealed a significant positive impact of market orientation on performance, and entrepreneurial orientation strengthens the relationship between market orientation and performance. This framework highlights the importance of SMEs adopting a market-oriented approach while fostering an entrepreneurial culture. This study adds value by empirically validating a conceptual framework that emphasises the synergistic role of market and entrepreneurial orientations in enhancing SME performance in post-conflict emerging economies.

***Keywords*:** Entrepreneurial Orientation, Market Orientation, Performance, Post-conflict, SMEs

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✉ vsathana@univ.jfn.ac.lk https://orcid.org/0000-0001-6914-5708

Introduction

Small and Medium Enterprises (SMEs) play a vital role in contributing to GDP, providing employment opportunities, reducing poverty, and generating income. At the same time, SMEs have struggled to sustain their businesses in a competitive environment. SMEs in emerging markets such as Sri Lanka often face unique challenges, such as limited access to resources, institutional voids, and intense competition (Madhavika et al., 2024). SMEs in the Northern Province of Sri Lanka possess unique characteristics shaped by the region's socio-political history, cultural fabric, and post-conflict economic development (Balendran, 2025). The Northern Province endured decades of civil conflict. SMEs here are often engaged in reconstruction, rehabilitation, and livelihood restoration. Many enterprises were either restarted or newly formed after 2009, driven by war-affected individuals, especially widows, youth, and ex-combatants. SMEs in such post-conflict contexts are often micro in scale but vital for household incomes. They also face special challenges, including poor roads in remote areas, limited access to banking and e-commerce platforms, and unreliable electricity or internet (Wijekoon et al., 2024). This constrains their ability to scale, diversify, or perform.

Building on the Resource-Based Theory, researchers have explored how the presence of Entrepreneurial Orientation (EO) through the deployment of Market Orientation (MO) into the market drives firm performance. This research aims to identify the impact of MO on the performance of SMEs and the moderating role of EO on the relationship between MO and SMEs. Grounded in Resource-Based Theory, integrating strong MO as an intangible resource with high EO as a dynamic capability forms a distinctive and inimitable competitive advantage that significantly contributes to enhanced SME performance.

MO is critical in the face of increasing global competition and evolving consumer needs, prompting businesses to remain closely aligned with their markets (Wasim et al., 2024). Similar to the significance of an effective competitive strategy for survival in a competitive landscape, MO holds relevance for organisations. MO is especially vital for SMEs, given their typically limited resources and reliance on agility to compete effectively in their respective markets. MO enables them to survive in a challenging environment and stay responsive to dynamic consumer needs and competitive pressures. By aligning their operations with market demands, SMEs can enhance customer satisfaction, improve service quality, and build stronger relationships with their target audience (Nakos et al., 2019). MO is particularly impactful for SMEs due to its reliance on customer relationships in

niche markets (Yadav et al., 2019). Market-oriented SMEs tend to achieve better financial and non-financial outcomes, such as increased sales, profitability, customer loyalty, and market share (Bamfo & Kraa, 2019). However, the strength of this relationship may vary depending on other factors such as EO (Li et al., 2008).

SMEs often operate in environments of high uncertainty and limited resources. EO plays a decisive role in SMEs capitalising on market-oriented strategies to navigate these challenges and achieve better performance (Calabro et al., 2021). The EO of an organisation can significantly moderate the relationship between MO and performance (Li et al., 2008). The moderating effect of EO is particularly evident in dynamic or uncertain environments such as post-conflict environments, where firms with high EO are better equipped to adapt and thrive; firms with low EO may struggle to fully capitalise on the benefits of MO, limiting its positive impact on performance (Li et al., 2008). Morgan and Anokhin (2023) emphasised the need for EO in shaping organisational outcomes. This highlights the importance of fostering MO and EO to achieve optimal performance outcomes. Understanding EO's moderating role enables SMEs to align their strategic focus effectively.

Prior studies have researched the effect of MO on performance in SMEs (Bamfo & Kraa, 2019; Gaur et al., 2011; Wasim et al., 2024). SMEs, especially in emerging economies, face resource constraints, necessitating a deeper understanding of how MO can improve performance. Research on the moderator role of EO in the relationship between MO and performance was conducted by Li et al. (2008). Scholars argue that understanding the moderator role of EO requires a more profound exploration of the factors that influence the translation of MO into superior performance (Baker & Sinkula, 2009; Covin & Lumpkin, 2011; Kollmann & Stockmann, 2014). EO is acknowledged as a critical determinant of SME success, but its interaction with MO remains underexplored. There remains a key contradiction in the literature regarding the moderating role between EO and MO in influencing performance: while Li et al. (2008) argue that EO moderates the relationship between MO and Performance. Hussain et al. (2017) suggest that MO moderated the EO and performance relationship. Thus, the dynamics between these variables need further exploration.

This study further contributes to the SME literature by exploring these dynamics in a post-conflict, emerging economy, namely, the Northern Province of Sri Lanka. SMEs in emerging markets often face unique challenges, such as limited

access to resources, institutional voids, and intense competition (Madhavika et al., 2024). These conditions are exacerbated in post-conflict situations. SMEs in Sri Lanka's Northern Province face distinct challenges due to its post-conflict context, such as limited access to finance, weak infrastructure, and a lack of entrepreneurial skills, which hinder growth and competitiveness (Vijayakumar et al., 2022). While MO helps Sri Lankan SMEs align with immediate customer expectations in a post-conflict setting, the EO required for transformative growth is often constrained by fear of failure and resource scarcity (De Mel et al., 2010; Abeygunasekera et al., 2020). In post-conflict Sri Lanka, SMEs often adopt a strong MO to quickly re-establish customer relationships. However, limited access to finance and infrastructure hinders their entrepreneurial initiatives, such as innovation and risk-taking (Wijesekara et al., 2016). These contextual characteristics indicate the suitability of this region for exploring the dynamics between these variables. By focusing on SMEs in the Northern Province of Sri Lanka, this study addresses a critical gap in the literature, thereby contributing to a more comprehensive understanding of SME dynamics.

This research paper is structured with a review of the literature on organisational performance, followed by MO, the relationship between MO and performance, and finally, the combined influence of MO and EO on organisational performance. The remainder of the paper comprises the methodology section outlining the research design, followed by key findings, including confirmatory factor analysis, results of the measurement model, and hypotheses testing. The final sections of the paper present the discussion of findings, followed by the conclusion, practical implications, and acknowledged limitations of the study.

Literature Review

Organisational Performance

Performance refers to how effectively and efficiently an institution achieves its goals and objectives (Wolff et al., 2015). It is a multidimensional concept that assesses various aspects of the organisation, including financial results, operational processes, market standing, and overall impact (Calabro et al., 2021). Key dimensions of organisational performance are financial, operational, and market (Gupta et al., 2020). The performance of an organisation is often measured using a combination of qualitative and quantitative metrics, depending on the industry and strategic objectives. Abbu and Gopalakrishnan (2021) described that financial performance includes revenue, profit, return on investment (ROI), and cost management; it evaluates the financial health and profitability of the organisation.

Operational performance includes efficiency, productivity, and quality of processes; it examines the internal processes and the organisation's ability to deliver products or services effectively. Market performance deals with the market share, customer satisfaction, customer retention, and brand equity; it assesses the organisation's competitiveness and position in the market. Performance measurement for SMEs is often customised based on the enterprise's industry, size, and goals (Morgan & Anokhin, 2023). SME Performance refers to how effectively and efficiently SMEs achieve their business objectives. In this study, due to their unique characteristics of limited resources, SME performance is measured by profitability, sales, return on investment (ROI), and customer retention. The profitability of SMEs refers to their ability to generate earnings relative to their expenses and other costs over a specific period (Wasim et al., 2024). The sales of SMEs refer to the total revenue generated from the goods and services sold within a given period, serving as a key indicator of business performance and market activity (Wasim et al., 2024). The return on investment (ROI) of SMEs is calculated as the ratio of net profit to the initial investment cost (Yadav et al., 2019). Customer retention of SMEs refers to the ability of small and medium-sized enterprises to maintain long-term relationships with existing customers by consistently meeting their needs and delivering value, thereby ensuring repeat business and sustained revenue (Yadav et al., 2019). While many factors could improve the performance of SMEs, the focus of this paper is on MO.

Market Orientation *(MO)*

Marketing is often regarded as a paradoxical concept within management studies (Day, 1994). This paradox is also evident in MO, a concept rooted in the broader marketing framework (Cake et al., 2020). MO highlights a firm's ability to gain a competitive edge by accurately identifying and fulfilling customer needs and preferences (Lonial & Carter, 2015). Narver and Slater (1990) defined MO as an organisational culture that fosters behaviours essential for delivering superior value to customers, ultimately driving sustained business success. They identified three core components of MO: Customer orientation, Competitor orientation, and Inter-functional coordination. Customer orientation means understanding and meeting the needs and wants of customers by creating superior value for them; Competitor orientation means awareness of competitors' strengths, weaknesses, strategies, and activities to stay ahead in the market; and Inter-functional coordination means collaboration and information sharing across all departments within an organisation to deliver value effectively. These definitions highlight MO as a cultural foundation that drives organisations to prioritise customer value and maintain a competitive edge. It plays a critical role in fostering long-term business success.

Kohli and Jaworski (1990) conceptualised MO as the practical application of the marketing concept, emphasising three fundamental activities: the Generation of market intelligence, Dissemination of market intelligence, and Responsiveness to market intelligence. The generation of market intelligence involves systematically gathering and analysing data on customers' current and future needs, as well as external factors such as competitors and market trends. Dissemination of market intelligence refers to the effective sharing of this information across all organisational departments to ensure cohesion and informed decision-making. The responsiveness to market intelligence entails taking strategic and operational actions based on the insights obtained, enabling the organisation to address customer needs and capitalise on market opportunities effectively. Their approach emphasises the organisation's behavioural processes to ensure they remain attuned to market dynamics and customer demands, fostering responsiveness and adaptability to changes in the external environment.

Market Orientation *and* Performance

A central tenet of the resource-based theory (RBT) is that a firm's competitive advantage stems from its possession and effective utilisation of strategic resources and capabilities (Peteraf, 1993). According to Barney (1991), resources that confer a sustained competitive advantage must exhibit four key attributes: valuable, rare, imperfectly imitable, and non-substitutable. Valuable resources enable a firm to capitalise on opportunities and mitigate environmental threats, enhancing its strategic positioning (Barney, 1991). Furthermore, such resources support the development and execution of strategies that improve organisational efficiency and effectiveness (Capron & Hulland, 1999). MO is a unique, precise, and inimitable resource that drives superior performance by enhancing the organisation's competitive advantage (Wasim et al., 2024). MO plays a critical role in shaping the performance of SMEs. By focusing on understanding customer needs, monitoring competitors, and fostering internal coordination, market-oriented SMEs are better positioned to adapt to changes in the external environment (Qu & Mardani, 2023). This adaptability enables them to offer products and services that align closely with market demands, improving customer satisfaction, loyalty, and better financial outcomes. Moreover, MO encourages innovation, as businesses constantly seek new ways to meet evolving customer expectations and differentiate themselves from competitors. For SMEs, which often operate with limited resources, MO can be a strategic asset that enhances operational efficiency and long-term sustainability (Kim & Hur, 2024). It enables them to make informed decisions, respond quickly to market shifts, and build stronger stakeholder relationships. Research indicates a

positive correlation between MO and performance indicators such as profitability, sales growth, and customer retention. Thus, cultivating a market-oriented culture is beneficial and essential for SMEs aiming to thrive in competitive and dynamic markets.

Prior researchers reveal that the relationship between MO and firm performance is positive (Bamfo & Kraa, 2019; Gaur et al., 2011; Wasim et al., 2024). The relationship between MO and performance has been empirically tested for service firms (Agarwal et al., 2003), hotels (Dabrowski et al., 2019) and SMEs (Bamfo & Kraa, 2019; Fikri et al., 2022). Overall, market-oriented firms demonstrate a strong ability to achieve high performance in SMEs, and MO plays a crucial role in enhancing their performance. A strong MO characterised by understanding customer needs, keeping an eye on competitors, and responding swiftly to market changes helps SMEs create greater value for their customers (Fikri et al., 2022). This customer-focused approach increases customer satisfaction, loyalty, and ultimately, higher sales and profitability. Moreover, market-oriented SMEs are better equipped to anticipate market trends, innovate their offerings, and make strategic decisions that strengthen their competitive advantage (Yadav et al., 2019). Research consistently shows that a well-developed MO positively influences various aspects of SME performance, including growth, market share, and overall financial success (Sok et al., 2017). Thus, MO is a strategic resource supporting SMEs in building sustainable performance over time.

In particular, MO fosters innovation, adaptability, and strategic decision-making, which are crucial for survival and growth in an unstable environment (Naidoo, 2010). SMEs in post-conflict emerging markets encounter unstable environments of this type, often facing structural challenges such as institutional voids, insecurity, and disrupted value chains (Buultjens et al., 2016; Martín-Consuegra et al., 2008). These enterprises often struggle to rebuild trust among stakeholders and reestablish the supply chain disrupted by conflict (Hearth et al., 2022). However, the significance and influence of MO have not been adequately examined within the context of SMEs operating in post-conflict contexts of emerging markets. Based on the above arguments, the hypothesis was developed as:

H_1: MO has a positive impact on the performance of SMEs

Market Orientation, Entrepreneurial Orientation and Performance

A strong MO enables firms to understand customer needs, monitor competitor actions, and respond effectively to market changes, thereby improving performance outcomes. However, the strength of the relationship between MO and performance

may not be uniform across all firms; it can be influenced by other strategic orientations, particularly EO (Li et al., 2008).

EO reflects a firm's strategic posture toward innovativeness, risk-taking, proactiveness, autonomy, and competitive aggressiveness (Sok et al., 2017; Avlonitis & Salavou, 2007). EO drives the organisational pursuit of entrepreneurial activities (Covin & Wales, 2012). EO reflects a firm's inclination toward embracing entrepreneurial practices, processes, and decision-making (Zhu & Matsuno, 2016). It is characterised by the key dimensions, innovativeness, autonomy, competitive aggressiveness, proactiveness and risk-taking, that support the pursuit of new opportunities (Sok et al., 2017). Innovativeness makes changes and brings new things to our products, does new things for our customers, makes changes to our business operations and seeks ways of doing things. Risk-taking in SMEs involves the willingness to commit significant resources to opportunities with uncertain outcomes. Proactiveness in SMEs reflects their forward-looking perspective and ability to anticipate and act on future market demands, trends, and opportunities ahead of competitors. Competitive aggressiveness is the extent to which they directly and intensely challenge competitors to achieve entry or improve their position in the market. Autonomy refers to the independent actions of individuals or teams in bringing forth ideas and carrying them through to completion without being overly constrained by organisational norms or structures.

Entrepreneurial firms engage in bold and frequent innovation while taking significant risks in their product-market strategies (Kim & Hur, 2024). Sok et al. (2017) argue that pursuing substantial innovation necessitates heightened risk-taking and proactiveness within firms. In support of this perspective, Khan and Manopichetwattana (1989) provide empirical evidence indicating that firms classified as highly innovative demonstrate significantly greater tendencies toward risk-taking and proactive market engagement when compared to their less innovative counterparts. EO differs from direct participation in entrepreneurial activities, as it reflects a firm's readiness to engage in entrepreneurial initiatives and its development of policies and practices that support entrepreneurial decision-making and actions (Rauch et al., 2009). Recognised as a vital strategic posture, particularly for SMEs, EO is linked to enhanced performance by emphasising the anticipation of market demands and the proactive pursuit of continuous service improvement, often leading to favourable outcomes (Altinay et al., 2016). Rather than being a singular event, this strategic posture is deeply embedded within a firm's culture. It focuses on creating value by utilising a unique combination of resources to seize opportunities. The nexus between EO and performance has been established in previous research (Altinay et al., 2016; Avlonitis & Salavou, 2007; Kollmann & Stockmann, 2014; Rauch et al., 2009; Wiklund & Shepherd, 2005).

Regarding the dynamics between EO and MO, firms with high EO are more likely to aggressively exploit the market intelligence aggressively gathered through their MO. Such firms do not merely react to customer needs or competitor moves; instead, they proactively shape markets, take calculated risks to pursue new opportunities, and introduce aggressive approach-based solutions Wijesekara et al., 2016). In this way, EO can strengthen the effect of MO by enhancing a firm's ability to act on performance in a bold and forward-thinking manner (Li et al., 2008). Matsuno et al. (2002) found that entrepreneurial firms are more effective at integrating their market-oriented activities into superior performance outcomes. Similarly, Wales et al. (2013) argue that EO serves as a moderator that strengthens the insights gained through MO into proactive and competitive actions that improve firm performance. Prior studies have also shown that the performance benefits of MO are limited in the absence of corresponding entrepreneurial activities (Altinay et al., 2016; Kollmann & Stockmann, 2014).

In light of this, drawing on the resource-based view (RBV) and focusing specifically on marketing functions, it is proposed that EO is a corresponding entrepreneurial behaviour that moderates the relationship between MO and performance (Li et al., 2008). EO positively moderates the relationship between MO and the performance of SMEs, such that the positive effect of MO on performance is stronger when EO is high. Based on Resource-Based Theory, the combination of strong MO (an intangible resource) with high EO (a dynamic capability) creates a unique, inimitable competitive advantage that enhances SME performance. EO is also crucial for SMEs in a post-conflict setting. EO enables SMEs in post-conflict settings to navigate uncertainty, rebuild operations, and seize new market opportunities in unstable environments (Aldairany et al., 2018). EO fosters resilience by encouraging SMEs to innovate, adapt quickly to changing conditions, and differentiate themselves in recovering markets. Without a potent EO, SMEs may struggle to overcome the structural challenges inherent in fragile, post-conflict economies (Djip, 2014). Thus, EO empowers SMEs to respond proactively to market needs. In this context, EO acts as a strategic resource that enhances a firm's ability to exploit market-oriented strategies more effectively (Covin & Wales, 2012).

The dynamics between MO, EO and performance are far from clear in the literature. Prior researchers have studied the complementary effects of MO and EO on the performance of SMEs (Baker & Sinkula, 2009; Boso et al., 2013). However, it should be noted that Kim and Hur (2024) identified conflicting effects of MO and

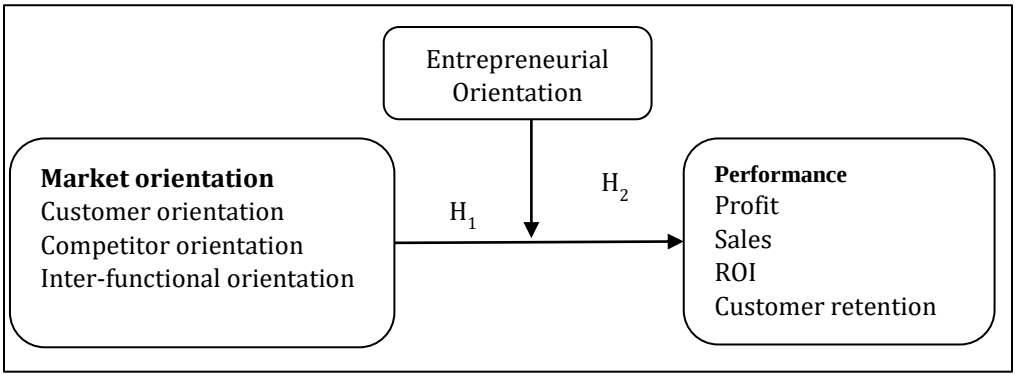
EO on the performance of manufacturing SMEs. Whether EO or MO performs the moderating role is also unclear. While Hussain et al. (2017) identified a moderating role of MO in the relationship between EO and the performance of SMEs, Li et al. (2008) identified a moderating role of EO in the relationship between MO and the performance of SMEs.

Previous researchers have investigated the MO and EO as critical factors for the performance of SMEs. While prior research also highlights the strategic value of combining MO and EO to boost SME performance, there is a noticeable lack of empirical investigation into this relationship within a post-conflict, resource-constrained environment. Further, there is a contradiction about whether EO is a moderator in the MO and performance relationship (Li et al., 2008) or whether MO is a moderator in the EO and performance relationship (Hussain et al., 2017). As previously noted, it is also argued that MO and EO can act as contradictory forces that affect performance. All these ambiguities in the literature necessitate further examination of the dynamics between MO, EO and firm performance. Thus, based on greater theoretical and literature evidence, the researcher developed a hypothesis as follows:

H_2: EO strengthens the relationship between MO and the performance of SMEs.

Figure 1 presents the conceptual model depicting the above hypotheses.

Figure 1: Conceptual Model



Methodology

The study aims to identify the influence of MO on the performance of SMEs, as well as the moderating role of EO on the relationship between MO and the performance of SMEs. From the extant theoretical foundations, namely, the

resource-based theory and literature, hypotheses (causal relationships) were developed. From these hypotheses, a conclusion needs to be drawn and generalised for the Northern Province of Sri Lankan SMEs. Therefore, the positivistic paradigm is most suitable for this study, since, as Wilson (2014) suggested, a deductive approach based on prior logical reasoning was adopted for this study.

Different countries apply various definitions for SMEs based on different criteria. The commonly applied yardsticks are total investment, annual turnover, and total number of employees. In Sri Lanka, the National Policy Framework explains that SMEs are based on annual turnover and the number of employees (Ministry of Industry and Commerce, 2017). The category of SMEs comprises enterprises that employ fewer than 300 employees and have an annual turnover of not more than USD 2.5 million. Furthermore, the Department of Census and Statistics uses the number of employees as the yardstick to define micro, small, medium, and large-scale enterprises. Accordingly, industry and construction firms employing fewer than 200 employees, trade firms employing fewer than 35 employees, and service firms employing fewer than 75 employees are considered SMEs (Department of Census and Statistics, 2014). These SMEs operate in various sectors, including food production, palmyra-based products, coconut-based products, leather, construction, hospitality, and healthcare.

Table 1: Sample Characteristics

	No. of respondents	**%**
Location		
Jaffna	91	54
Killinochchi	20	12
Mullaitivu	12	7
Vavuniya	28	17
Mannar	16	10
Ownership		
Sole proprietor	16	10
Family Business	53	32
Institutional ownership	98	58
Education of Owners		
Ordinary level	9	5.4
Advanced level	26	15.6
Graduate	25	15
Post graduate	34	20.5
Professional	73	43.5

Since many Sri Lankan SMEs operate within the unorganised sector, multiple sources were used to identify participants. The primary respondents were the owners or owner-managers of the SMEs, as they typically make key decisions and often assume managerial roles in unorganised sector businesses. The study employed an empirical research design approach, focusing on a population of SME owner-managers operating in the manufacturing and service sectors. A sample of 250 SMEs was selected using the convenience sampling technique. Data was collected by using questionnaires from July to October 2024. The researcher conducted field visits across five districts in the Northern Province to engage with respondents and administer the questionnaires. On average, each respondent required approximately 30 minutes to complete the questionnaire. A total of 172 completed questionnaires were collected; however, five were excluded from the analysis due to incomplete or insufficient information. Data was collected from 167 respondents, with a response rate of 66.8%. The descriptive information of the sample, comprising the location of the business, ownership, and education level of owners, is presented in Table 1.

A structured questionnaire was developed to collect data for MO, performance, and EO variables. MO, encompassing customer orientation, competitor orientation, and inter-functional coordination, was assessed using the MKTOR scale developed by Aydin (2021). The performance of SMEs was measured by the variables sales, profits, ROI, and customer retention by using a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree (Wasim et al., 2024; Yadav et al., 2019). EO was measured using five dimensions: innovativeness, risk-taking, proactiveness, competitive aggressiveness, and autonomy using a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree (Sok et al., 2017). The data were manually entered into SPSS for preliminary processing. Subsequently, AMOS version 24 was utilised to perform the data analysis. Structural Equation Modelling (SEM) was the primary analytical technique to examine the study's direct impacts and moderating effects.

Key Findings

Confirmatory Factor Analysis

Confirmatory Factor Analysis (CFA) was initially conducted separately for each independent, dependent, and moderator variable, following the guidelines of Hair et al. (2010). Then the analysis evaluated measurement and structural estimates to assess the overall model fit, as recommended by Hair et al. (2010).

The Result of the Measurement Model

First-Order CFA Result

MO includes customer orientation, competitor orientation, and inter-functional orientation. The performance of SMEs is typically measured by sales, profit, ROI, and customer retention. EO is measured by innovativeness, risk-taking, proactiveness, competitive aggressiveness and autonomy. Under the customer orientation, three items had low factor loadings (<0.5). They were deleted: 'a thorough knowledge about emerging customers and their needs', 'regularly use research techniques to gather customer information', and 'systematically process and analyse customer information'. Under the competitor orientation, one item had low factor loading: 'knowledge of current and potential competitors' strengths and weaknesses is very thorough'. Under the inter-functional orientation, two items had low factor loadings and were deleted; they are 'R&D and marketing and other functions regularly share market information about customers, technologies and competitors', and 'People from marketing, R&D and other functions play important roles in major strategic market decisions'. Under proactiveness, one item had low factor loading, namely, 'initiate actions to which other organisations respond'. Under competitive aggressiveness, one item had low factor loading: 'takes a bold or aggressive approach when competing'. Under autonomy, two items were deleted: 'employees are given authority and responsibility to act alone if they think it to be in the best interests of the business, and 'employees have access to all vital information'. The remaining MO, performance, and EO items are above the 0.5 threshold of the standardised regression weight (Table 2). The Cronbach alpha of all factors is above 0.70, ensuring all factors' reliability (Hair et al., 2010).

Table 2: First Order of CFA

Items		SRW	Cronbach alpha
MO			
Customer orientation			0.890
Meet customers to learn about their current and potential needs	CUO1	0.721	
Monitor and reinforce our understanding of the current and future needs	CUO2	0.711	
Integration of customer information into our plans and strategies	CUO3	0.833	
Relationships with customers and suppliers	CUO4	0.912	
Competitor orientation			0.888
Collect and integrate information about the products	COO1	0.874	

Items		SRW	Cronbach alpha
and strategies of our competitors			
Collect and analyse information about competitor activities	COO2	0.840	
Sharing information about competitors	COO3	0.863	
Inter-functional coordination			0.914
Integrated cross-functional teams in the product development processes	IFO1	0.816	
Coordinated activities of functional units	IFO2	0.825	
Cooperation and coordination among functional units	IFO3	0.897	
Promotes communication and cooperation	IFO4	0.868	
Performance			0.884
Profit	PER1	0.769	
Sales	PER2	0.859	
ROI	PER3	0.778	
Customer retention	PER4	0.839	
EO			
Innovativeness			0.899
Actively introduces improvements and innovations	INN1	0.809	
Creative in its methods of operation	INN2	0.895	
Seeks out new ways to do things	INN3	0.795	
Risk-taking			0.872
The term "risk taker" is considered a positive attribute for people in our business	RT1	0.834	
People in our business are encouraged to take calculated risks with new ideas	RT2	0.816	
Our business emphasises both exploration and experimentation for opportunities	RT3	0.818	
Proactiveness			0.764
We always try to take the initiative in every situation (e.g. against competitors)	PRO1	0.683	
We excel at identifying opportunities	PRO2	0.899	
Competitive aggressiveness			0.740
Our business is intensely competitive	CA1	0.549	
Try to out-do and out-manoeuvre the competition as best as we can	CA2	0.825	
Autonomy			0.857
Employees are encouraged to act and think without interference	AU1	0.682	
Employees perform jobs that allow them to make and instigate changes in the way they perform their work tasks	AU2	0.713	
Employees are given freedom and independence to decide on their own how to go about doing their work	AU3	0.655	
Employees are given freedom to communicate without interference	AU4	0.591	

AVE should be higher than or equal to 0.5 (Hair et al., 2010). The AVEs of customer orientation, competitor orientation, inter-functional orientation, performance, innovativeness, risk-taking, proactiveness, competitive aggressiveness and autonomy are above 0.5 (Table 3). Construct reliability (CR) is expected to be 0.7 or higher, suggesting good validity and reliability between 0.6 and 0.7 may be acceptable (Hair et al., 2010). All factors' construct reliability (CR) value is above 0.70 (Table 3). These measures ensured the validity of the factors incorporated into the model. Discriminant validity is achieved when the square root of AVE (diagonal values in bold in Table 3) is higher than correlations between the variables (Hair et al., 2010), given in the cells below the diagonal in Table 3. All the factors have high discriminant validity.

Table 3: Validity of the Constructs

	CR	AVE	RT	CUO	IFO	PER	COO	INN	CA	PRO	AU
RT	0.876	0.702	**0.838**								
CUO	0.881	0.652	0.801	**0.807**							
IFO	0.914	0.726	0.665	0.805	**0.852**						
PER	0.885	0.658	0.713	0.720	0.761	**0.811**					
COO	0.891	0.733	0.829	0.743	0.739	0.733	**0.856**				
INN	0.900	0.693	0.755	0.728	0.641	0.773	0.658	**0.832**			
CA	0.709	0.553	0.787	0.713	0.682	0.666	0690	0.734	**0.743**		
PRO	0.785	0.651	0.760	0.708	0.726	0.634	0.631	0.676	0.696	**0.807**	
AU	0.756	0.537	0.418	0.392	0.391	0.500	0.375	0.451	0.405	0.365	**0.661**

Note: The diagonal in bold represents the square root of AVE and the values below represent the correlations between the variables.

Result of the Structural Model

The CMIN/df, CFI, GFI, RMSEA, and NFI values for the first-order measurement model MO, EO and Performance are 2.018, 0.948, 0.843, 0.078, and 0.903, respectively, showing a high model fit of the model (Hair et al., 2010). In addition, the result of the model fit of the structural model of MO, EO, and PER shows that the CMIN/df, CFI, GFI, RMSEA, and NFI values are 1.937, 0.952, 0.868, 0.075, and 0.907, respectively, showing a high model fit of the model (Hair et al., 2010).

Hypotheses Testing

The result of the study (Figure 2) shows that MO significantly influenced the performance of SMEs (SRW = 0.61). Hypothesis 1 is accepted.

The research examined the moderation effect of EO on the relationship between MO and the performance of SMEs. The results indicate that EO positively affects the relationship, as evidenced by the coefficient (β = 0.18, t = 1.676) (Table 4). The associated p-value of 0.034 falls below the conventional significance threshold of 0.05 (Fisher, 1925), suggesting that the effect is statistically significant. Although the analysis reveals that EO has a statistically significant moderating effect on the relationship, the relatively low beta coefficient suggests that the strength of this effect is modest. A β value of 0.18 implies that while EO contributes positively to the relationship between the variables under study, its influence is limited in magnitude (Figure 3). This small effect size indicates that EO enhances the relationship to some extent.

Figure 2: MO and Performance

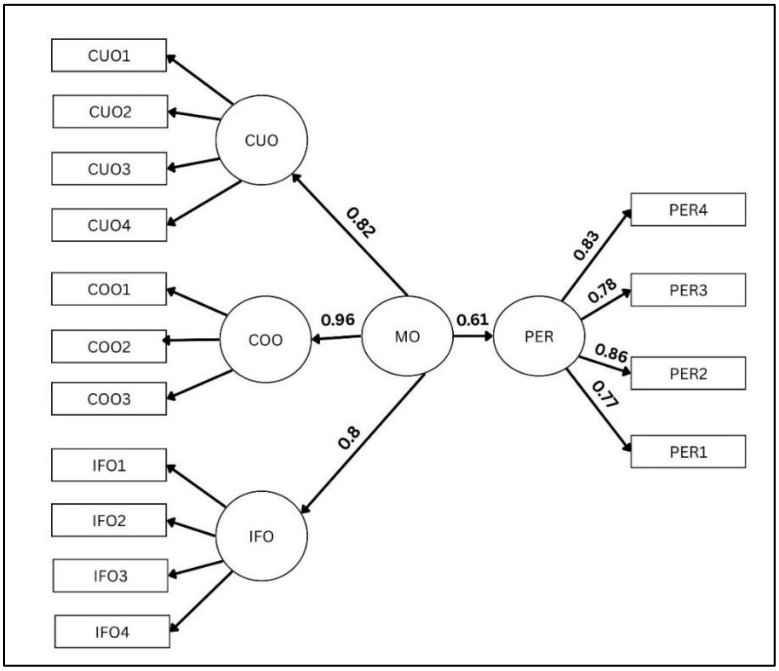


Figure 3: Moderation Analysis Model of EO

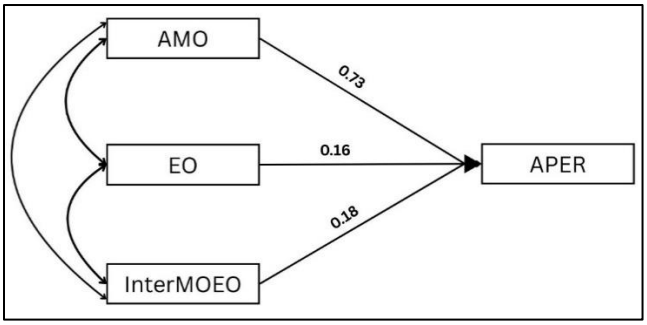


Table 4: The Moderating Role of EO

Relationship	Estimate (Beta)	C.R	*p*-value
AMO-APER	0.73	14.992	0.000
EO- APER	0.16	3.313	0.000
InterMOEO	0.18	1.976	0.034

The moderating role is explained with a simple slope. The line is steeper for high EO and less steep for low EO, indicating that high EO amplifies the positive effect of MO on performance (Figure 4). The result revealed that EO increases the strength of the MO-performance relationship of SMEs. In brief, the level of EO increased, and the strength of the relationship between MO and Performance increased.

Figure 4: Moderation Effect of EO

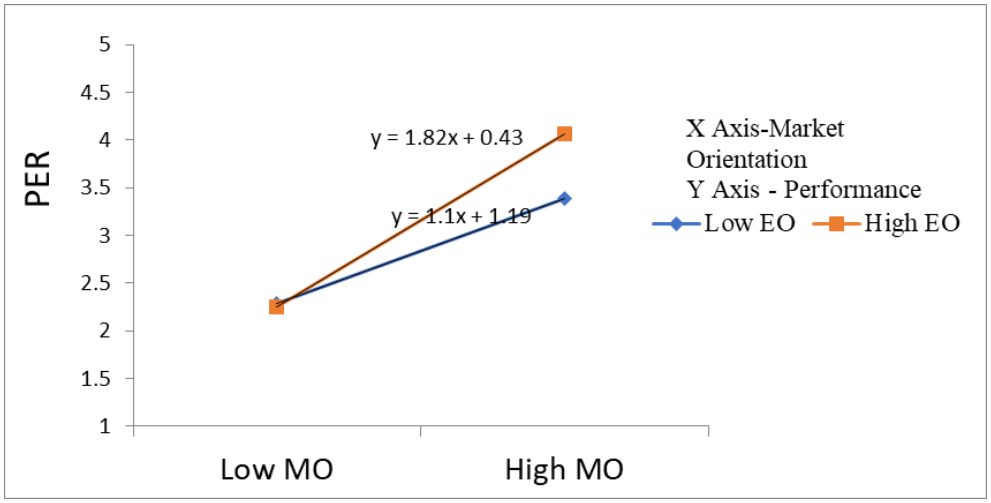


Table 5: Summary of Hypothesis Testing

Hypothesis	RW	Sig.
H_1: MO has a positive impact on the performance of SMEs.	0.61	0.000
H_2: EO strengthens the relationship between the MO and the performance of SMEs.	0.18	0.034

The findings provide empirical support for H_1, which posits that MO positively impacts SMEs' performance. The path coefficient ($\beta = 0.61$, $p < 0.001$) indicates a strong and statistically significant positive relationship, affirming that firms with a higher degree of MO tend to exhibit superior performance outcomes (Table 5).

The results support H_2 by revealing that EO moderates the relationship between MO and SME performance. The interaction term is positive and statistically significant ($\beta = 0.18$, $p = 0.034$), suggesting that EO strengthens MO's positive impact on performance (Table 5). However, while significant, the effect size of the moderation is relatively small.

Discussion

The findings revealed that MO has a significant impact on the performance of SMEs. The findings underscore MO's critical role in enhancing SMEs' performance in Northern Province, Sri Lanka. This significant impact highlights the importance of adopting a customer-centric, competitor-aware, and inter-functionally coordinated approach in SME operations (Kim & Hur, 2024). Given the competitive landscape and the challenges SMEs face in the region, particularly in the unorganised sector, MO emerges as a strategic imperative for improving business outcomes. Prior studies validated the positive relationship between MO and SME performance; Market-oriented SMEs report higher profitability, sales growth, and market share (Wasim et al., 2024). SMEs face resource limitations, affecting how much they can implement MO (Rezaei & Ortt, 2018). Studies in emerging economies like Sri Lanka suggest that SMEs benefit significantly from MO due to limited formal market structures and intense competition. SMEs that prioritise understanding and meeting customer needs are better positioned to attract and retain clients, which directly influences customer satisfaction and retention rates. This customer-focused approach aligns with the findings, which indicate improved sales, profits, and ROI for SMEs demonstrating strong MO practices. Awareness of competitors and their strategies allows SMEs to adapt and innovate, fostering a competitive edge. In the context of the Northern Province, where market dynamics may vary due to regional constraints and opportunities, this orientation enables

SMEs to remain relevant and resilient. Effective collaboration across different functions within an SME facilitates seamless decision-making and the execution of strategies. In fragile economies, SMEs with a strong customer orientation and awareness of their competitors tend to outperform others (Samanta et al., 2020). Naidoo (2010) noted that understanding shifting customer expectations in post-conflict areas enables businesses to rebuild trust and loyalty, while a competitor-oriented approach facilitates niche exploitation and strategic differentiation. This study supports those observations.

Additionally, this research examined the moderating effect of EO on the relationship between MO and the performance of SMEs. Empirical research supports the idea that EO amplifies the impact of MO on performance. The findings indicate that EO not only complements MO but significantly amplifies its impact on performance, highlighting the synergistic effect of these strategic orientations. EO, characterised by innovativeness, risk-taking, proactiveness, autonomy, and competitive aggressiveness, strengthens the relationship between MO and performance (Kim & Hur, 2024). This implies that SMEs with higher EO are better equipped to leverage their market-oriented strategies for improved performance outcomes. Calabro et al. (2021) found that firms with higher EO experienced a stronger positive relationship between MO and financial performance. Li et al. (2008) demonstrated that EO enables firms to exploit better market opportunities identified through MO, thereby improving growth and profitability. SMEs willing to take calculated risks are more likely to invest in innovative solutions and enter new markets, maximising the advantages of their market-oriented strategies (Morgan & Anokhin, 2023). Proactive SMEs anticipate market trends and customer needs, enabling them to act on market-oriented insights more effectively and remain ahead of competitors. Aggressive strategies to outperform competitors further enhance the impact of MO by driving bold and decisive actions that capture market share and improve profitability.

Conclusion

This study aimed to investigate the impact of MO on the performance of SMEs. Additionally, this study examined the moderating role of EO on the relationship between MO and performance. The study examined SMEs in a Northern province of Sri Lanka. Since many Sri Lankan SMEs operate in the unorganised sector, owners or owner-managers, responsible for key decisions, were the primary respondents. The findings revealed that MO has a significant impact on the

performance of SMEs and a significant positive effect of EO on the relationship between MO and the performance of SMEs. However, while significant, the effect size of the moderation is relatively small. This implies that although EO enhances the MO-performance relationship, its influence is incremental rather than transformative. The result underscores EO as a complementary strategic orientation that can reinforce the benefits of MO in driving performance, particularly when combined with other organisational capabilities.

Implications

This study underscores the need for firms to adopt a market-oriented approach and foster an entrepreneurial culture. Firms that strategically integrate these elements can achieve superior performance, especially in dynamic or competitive markets. This research encourages governments and institutions to create policies that encourage market-oriented practices, such as funding for market research, which can enhance SME competitiveness. In addition, this study suggests that SME owners should participate in training and capacity-building programs; entrepreneurship training programs can help SME leaders develop the skills needed to align market-oriented strategies. To foster higher MO in SMEs, this study advises the government to provide financial incentives, and grants to SMEs. Policymakers and SME leaders should prioritise investments in R&D, employee training, and technology adoption to enhance marketing capabilities.

The research contributes to the theoretical understanding of MO by reinforcing its role as a critical determinant of SME performance, particularly in underdeveloped and post-conflict regions like the Northern Province of Sri Lanka. It extends existing MO knowledge by demonstrating that core components such as customer orientation, competitor orientation, and inter-functional coordination drive performance in stable markets and serve as adaptive mechanisms in challenging environments. The findings suggest that MO fosters organisational success, thereby validating and enriching the theoretical framework in contexts marked by resource limitations, challenging environments and evolving consumer needs.

Finally, the study supports previous research suggesting that EO moderates the impact of MO, thereby reducing some of the confusion surrounding the dynamics between the two concepts as demonstrated in the literature. The research adds to current knowledge by identifying EO as a significant positive moderator in the relationship between MO and SME performance in the Northern Province of Sri Lanka. It extends existing knowledge by demonstrating that when SMEs exhibit

high levels of EO, the positive impact of MO on performance is amplified. This suggests that EO enhances the ability of market-oriented firms to respond more creatively and aggressively to market information, enabling them to exploit opportunities better and navigate environmental challenges. Thus, the study enriches the theoretical discourse by highlighting the synergistic effect of combining MO with EO, particularly in resource-constrained, post-conflict settings.

Limitations

The study has been conducted in a specific geographical or cultural context, namely, a single region. Market dynamics, cultural factors, and institutional frameworks vary globally, potentially limiting the generalizability of findings. Due to resource access and market condition variations, SMEs in developing economies may exhibit different behaviours than those in developed economies. The cross-sectional design of many studies limits the ability to infer causality. Relationships between MO, EO, and performance might evolve, requiring longitudinal studies for more robust conclusions. In the context of SMEs in the Northern Province of Sri Lanka, the relationships between MO, EO, and performance will likely evolve due to the region's ongoing post-conflict recovery, shifting market conditions, and socio-economic development. While current findings indicate a positive link, these relationships may strengthen, weaken, or take new forms as SMEs mature, gain experience, and face new external challenges. For instance, EO's effectiveness in enhancing MO's impact on performance might vary across growth phases or economic cycles. Therefore, longitudinal studies are essential to track these dynamics over extended periods, allowing for a more comprehensive understanding of causality, outcomes sustainability, and contextual factors' influence. Such studies would provide robust evidence on how MO and EO interact over time to shape SMEs' long-term success and adaptability in this unique regional setting. EO is a multi-dimensional construct, comprising innovativeness, proactiveness, risk-taking, competitive aggressiveness and autonomy. The study did not examine how individual dimensions of EO differentially moderate the MO-performance nexus. External factors like market turbulence, competitive intensity, and technological advancements were possibly not adequately controlled. These factors could influence both MO and EO, thereby affecting SME performance. These are areas future research could focus on.

Declaration of Conflicting Interests

The author declared no potential conflicts of interest with respect to the research, authorship, and publication of this article.

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