

A Conceptual Framework of Strategic Capability Alignment in Smes: Integrating Entrepreneurial Orientation, Market Orientation, and Leadership Qualities

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Abstract: Small and Medium Enterprises (SMEs) are fundamental drivers of economic growth, innovation, and employment, particularly in emerging economies such as Malaysia. Despite their importance, SME performance remains highly heterogeneous. While Entrepreneurial Orientation (EO) and Market Orientation (MO) are widely recognized as strategic drivers of firm performance, empirical findings increasingly indicate that EO does not exert a uniform direct effect on organizational performance (OP). Instead, its influence is frequently mediated by complementary strategic capabilities and moderated by managerial quality.

Grounded in the Resource-Based View (RBV), this paper develops an integrated strategic capability alignment framework positioning EO as an opportunity-generation capability, MO as a market-alignment capability, and Leadership Qualities (LQ) as a higher-order orchestration capability that moderates the MO-performance relationship. By synthesizing recent empirical findings from Malaysian and international SME research, this study clarifies the indirect mechanism through which EO influences performance and extends RBV by incorporating capability complementarity and managerial orchestration logic. The paper proposes four testable hypotheses and outlines an empirical testing approach using PLS-SEM.

Keywords: Entrepreneurial Orientation, Market Orientation, Leadership Qualities, Organizational Performance, Resource-Based View

I. Introduction

SMEs constitute the backbone of most developing and emerging economies. In Malaysia, SMEs contribute substantially to GDP, employment, and sectoral diversification (Department of Statistics Malaysia, 2024). However, performance disparities among SMEs remain significant. Firms operating under similar market conditions demonstrate markedly different innovation outcomes, growth trajectories, and survival rates.

Strategic orientation theory suggests that internal capabilities explain much of this heterogeneity. Entrepreneurial Orientation (EO) reflects a firm's innovativeness, proactiveness, and risk-taking posture (Lumpkin & Dess, 1996). Market Orientation (MO), in contrast, represents the firm's capability to generate, disseminate, and respond to market intelligence (Narver & Slater, 1990; Sciascia et al., 2006). While both orientations are positively associated with performance, empirical inconsistencies persist regarding EO's direct effect (Wales et al., 2013; D'Souza & Fan, 2022).

Recent studies suggest that EO influences performance indirectly through mediating capabilities such as MO, innovation capability, and marketing systems (Cho & Lee, 2020; Cruz Rincon et al., 2023; Allammari et al., 2025). Simultaneously, leadership quality has emerged as a contextual amplifier shaping how effectively strategic orientations are executed (Mohd Mokhtar et al., 2015; Raimi et al., 2025).

Despite this growing evidence, research remains fragmented. Few studies integrate EO, MO, and leadership within a unified RBV-based capability framework. This paper addresses this gap by proposing a structured strategic capability alignment model explaining SME performance.

II. Theoretical Foundation: Resource-Based View and Capability Alignment

The Resource-Based View (RBV) posits that sustainable competitive advantage derives from valuable, rare, inimitable, and non-substitutable resources (Münter, 2025). In SME contexts, intangible capabilities—innovation competence, managerial expertise, organizational learning, and networking—are particularly critical.

In Malaysia, empirical evidence supports RBV logic. Organizational capabilities mediate the relationship between strategy and innovation performance (Mohamed et al., 2021). Innovation capabilities significantly enhance the performance of agricultural SMEs, especially when complemented by alliances (Kamalrulzaman et al., 2021). Financial readiness, absorptive capacity, and operational alignment further strengthen SME sustainability outcomes (Ahmed et al., 2025).

RBV therefore, provides a strong foundation for conceptualizing EO, MO, and Leadership Qualities (LQ) as interdependent capabilities rather than isolated orientations.

This paper adopts a capability alignment perspective:

- EO = opportunity-generation capability
- MO = market-alignment capability
- LQ = orchestration capability

III. Entrepreneurial Orientation as Opportunity-Generation Capability

EO reflects a firm's strategic posture characterized by innovativeness, proactiveness, and risk-taking (Lumpkin & Dess, 1996; Cvijić Čović et al., 2023). EO enables SMEs to explore emerging opportunities and adapt in turbulent environments.

EO is positively associated with SME performance (Penna & Brito, 2026; Adams et al., 2017). However, several studies demonstrate that this relationship is indirect. Strategy formulation mediates EO-performance relationships (Budiaty et al., 2022). Innovation capability mediates

EO effects in developing contexts (Arshad et al., 2024).

Contextual factors such as competitive intensity (Selver Ruzgar et al., 2015), absorptive capacity (Engelen et al., 2014), and organizational structure (Gutiérrez et al., 2008) further shape EO's impact.

Importantly, EO frequently operates through MO.

H1: Entrepreneurial Orientation positively influences Market Orientation.

IV. Market Orientation as Market-Alignment Capability

MO enhances performance by aligning organizational decisions with customer and competitor intelligence (Narver & Slater, 1990; Sciascia et al., 2006). Empirical evidence consistently supports MO's positive impact on SME performance across contexts (Dubihlela & Dhurup, 2014; Beneke et al., 2016; Mokhtar et al., 2014). MO improves responsiveness, customer satisfaction, and innovation positioning (Hong Nguyen et al., 2022).

MO also mediates EO-performance relationships (Amin et al., 2016; Moraru et al., 2017; Maldonado-Guzmán, 2025). Sequential mediation through learning orientation further supports this pathway (Allammari et al., 2024; Allammari et al., 2025).

However, MO effectiveness depends on internal enablers such as supply chain integration (Didonet et al., 2014), green supply chain practices (Butt et al., 2021), and AI-enabled intelligence quality (Ha et al., 2025). Hence;

H2: Market Orientation positively influences Organizational Performance.

H3: Market Orientation mediates the relationship between Entrepreneurial Orientation and Organizational Performance.

V. Leadership Qualities as Orchestration Capability

Leadership quality determines how effectively strategic orientations are executed.

Leadership moderates MO-performance relationships (Mohd Mokhtar et al., 2015; Mohd Mokhtar et al., 2016). Entrepreneurial leadership enhances adaptive capability under turbulence (Raimi et al., 2025) and strengthens performance outcomes (Djalil et al., 2023).

Leadership aligns strategic orientation with environmental conditions (Bhuiyan & Habib, 2005) and balances exploration-exploitation tensions (Kim & Hur, 2024).

Leaders create organizational climates that nurture innovation (Huang & Wang, 2011; Veidal & Korneliussen, 2013). Therefore,

H4: Leadership Qualities positively moderate the relationship between Market Orientation and Organizational Performance.

VI. Proposed Conceptual Model

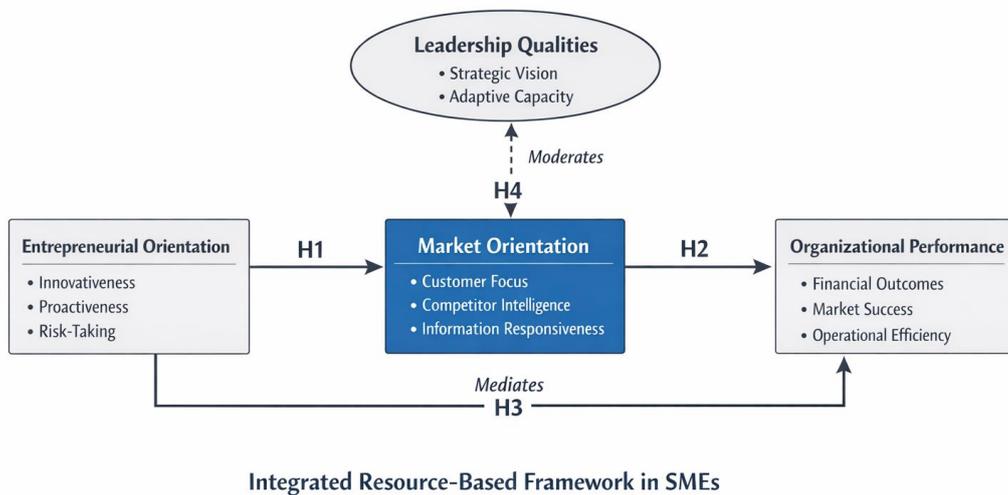


Figure 1.0 The Proposed Conceptual Model

The proposed model adopts a moderated mediation structure in which Entrepreneurial Orientation (EO) influences Organizational Performance indirectly through Market Orientation (MO). In this framework, EO functions as the opportunity-generating strategic capability that stimulates proactive market behaviors, while MO operates as the mediating mechanism that translates entrepreneurial initiatives into market-aligned outcomes. Organizational performance is therefore not assumed to result directly from entrepreneurial posture alone, but from the firm’s ability to align entrepreneurial activities with customer needs and competitive intelligence through effective market orientation practices.

Furthermore, Leadership Qualities (LQ) are positioned as a moderating capability that strengthens the relationship between MO and performance. This implies that the effectiveness of market-oriented behaviors depends significantly on the quality of leadership guiding strategic implementation. Strong leadership enhances coordination, strategic discipline, and adaptive responsiveness, thereby amplifying the positive performance effects of market orientation.

Overall, the model reflects the Resource-Based View (RBV) logic of capability complementarity and orchestration, where performance advantages arise not from isolated capabilities, but from the aligned interaction of entrepreneurial posture, market alignment mechanisms, and leadership competence within SMEs.

VII. Theoretical Contributions

This study makes several important theoretical contributions to the strategic management and SME performance literature. First, it advances the understanding of the Entrepreneurial Orientation (EO)–performance relationship by clarifying its indirect nature. While early studies frequently assumed a direct positive association between EO and firm performance (Lumpkin & Dess, 1996; Penna & Brito, 2026), more recent empirical evidence suggests that EO often requires complementary mechanisms to generate measurable performance outcomes (D’Souza & Fan, 2022; Cho & Lee, 2020). By positioning Market Orientation (MO) as a mediating capability, this framework reconciles inconsistencies in prior findings and aligns with studies demonstrating that EO translates into performance primarily when aligned with market-responsive systems (Amin et al., 2016; Moraru et al., 2017; Cruz Rincon et al., 2023). The proposed model therefore shifts the theoretical emphasis from isolated strategic postures to capability integration.

Second, this study extends the Resource-Based View (RBV) by conceptualizing EO, MO, and Leadership Qualities (LQ) as interdependent strategic capabilities rather than standalone orientations. RBV emphasizes that sustainable competitive advantage derives from valuable and difficult-to-imitate resources (Münter, 2025). Empirical research in Malaysian SMEs supports the importance of organizational capabilities in shaping innovation and performance (Mohamed et al., 2021; Kamalrulzaman et al., 2021). However, existing RBV applications often treat capabilities independently. By proposing a structured capability-alignment mechanism—where EO generates opportunities, MO aligns them with market intelligence, and leadership orchestrates execution—this paper integrates RBV with strategic orientation theory and the logic of capability complementarity.

Third, the study contributes to leadership research by positioning Leadership Qualities as a higher-order orchestration capability that moderates the MO–performance relationship. Prior studies show that leadership quality enhances the effectiveness of market-driven strategies (Mohd Mokhtar et al., 2015; Mohd Mokhtar et al., 2016) and strengthens entrepreneurial responsiveness during environmental turbulence (Raimi et al., 2025). By embedding leadership within a moderated mediation structure, this framework integrates Upper Echelons logic with RBV capability alignment, demonstrating that leadership determines the effectiveness of strategic orientation implementation rather than merely influencing firm outcomes directly.

Finally, the framework synthesizes fragmented empirical findings across diverse contexts—including Malaysian SMEs (Afendi, 2024; Ahmed et al., 2025), emerging economies (Maldonado-Guzmán, 2025), and digital transformation environments (Ha et al., 2025)—into a coherent multi-capability explanation of SME performance. By integrating mediation, moderation, and capability orchestration into a unified model, the study advances strategic orientation research toward a more holistic, structured theoretical paradigm.

VIII. Managerial Implications

The findings of this conceptual framework offer important implications for SME owners, managers, and policymakers, particularly within emerging economies such as Malaysia. First, SME leaders should recognize that entrepreneurial behavior alone is insufficient to guarantee superior performance. While innovativeness and proactiveness are essential (Cvijić Čović et al., 2023), their effectiveness depends on systematic market validation. Firms must therefore institutionalize strong market orientation practices—such as structured customer intelligence gathering, competitor monitoring, and market-responsive planning—to ensure that entrepreneurial initiatives translate into commercial success (Dubihlela & Dhurup, 2014; Mokhtar et al., 2014; Amin et al., 2016).

Second, SMEs should invest in organizational enablers that strengthen MO implementation. Empirical evidence suggests that supply chain integration (Didonet et al., 2014), green supply chain management practices (Butt et al., 2021), and AI-enabled market intelligence systems (Ha et al., 2025) significantly enhance the effectiveness of market-oriented strategies. By integrating digital tools and operational alignment mechanisms, SMEs can improve agility and responsiveness in increasingly competitive environments.

Third, leadership development must be treated as a strategic priority. Strong leadership qualities amplify the effectiveness of both EO and MO by ensuring strategic clarity, disciplined resource allocation, and coordinated execution (Mohd

Mokhtar et al., 2015; Djalil et al., 2023). In turbulent and uncertain environments, entrepreneurial leadership enhances adaptability and resilience (Raimi et al., 2025). SME leaders must therefore cultivate not only entrepreneurial thinking but also managerial discipline and strategic foresight to balance exploration and exploitation effectively.

Fourth, SMEs should leverage relational and networking capabilities to strengthen performance outcomes. Strategic alliances and networking capabilities have been shown to enhance innovation and sustainable growth (Kamalrulzaman et al., 2021; Yusoff et al., 2026). By embedding EO and MO within collaborative ecosystems, SMEs can overcome resource constraints and improve market reach.

In summary, SMEs seeking sustainable competitive advantage must move beyond isolated strategic orientations. Superior performance arises when entrepreneurial initiatives are systematically aligned with market intelligence systems and orchestrated by high-quality leadership. Capability alignment, rather than singular orientation strength, represents the core managerial imperative for long-term SME competitiveness.

IX. Conclusion

This study develops an integrated conceptual framework explaining SME performance through strategic capability alignment. Drawing upon the Resource-Based View (RBV), the paper positions Entrepreneurial Orientation (EO), Market Orientation (MO), and Leadership Qualities (LQ) as interdependent capabilities rather than isolated strategic postures. The framework clarifies that EO primarily functions as an opportunity-generation capability, stimulating innovation, proactiveness, and risk-taking behaviors. However, consistent with recent empirical findings, EO does not guarantee superior organizational performance in isolation (D'Souza & Fan, 2022; Cho & Lee, 2020). Instead, its performance effects are frequently indirect and contingent upon complementary organizational mechanisms.

Market Orientation emerges as a critical translation capability that aligns entrepreneurial initiatives with customer intelligence, competitive awareness, and structured responsiveness (Amin et al., 2016; Moraru et al., 2017). Without MO, entrepreneurial initiatives may lack strategic discipline and market validation. Conversely, MO without EO risks becoming reactive rather than innovative. The synergy between these orientations, therefore, represents a central determinant of SME competitiveness.

Furthermore, this study emphasizes the moderating role of Leadership Qualities. Leadership functions as a higher-order orchestration capability that determines how effectively EO and MO are implemented and integrated. Empirical evidence demonstrates that leadership enhances market planning effectiveness, strengthens entrepreneurial responsiveness under turbulence, and supports innovation execution (Mohd Mokhtar et al., 2015; Raimi et al., 2025). In SME contexts – where ownership and management are often centralized – leadership quality becomes particularly decisive.

By synthesizing fragmented empirical findings from Malaysian and international SME studies, this framework contributes theoretically by extending RBV into a capability alignment paradigm. Rather than viewing strategic orientations independently, the model conceptualizes SME performance as the outcome of disciplined capability integration.

Future research should empirically validate the proposed moderated mediation model using robust methodologies such as Partial Least Squares Structural Equation Modeling (PLS-SEM). Additional cross-country comparative studies could further test the generalizability of the capability alignment framework under varying institutional and environmental conditions.

Ultimately, this study argues that sustainable SME performance does not arise from entrepreneurial boldness alone, nor from market responsiveness in isolation. Instead, it emerges from the structured alignment of opportunity-generation capability, market-validation systems, and leadership orchestration capacity. Capability complementarity – not orientation intensity – defines long-term competitive advantage.

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Conflict of Interest Statement:

The authors declare that there is no conflict of interest regarding the publication of this study.

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