

**ENTREPRENEURIAL ORIENTATION AND INNOVATION PERFORMANCE IN SMES: THE MODERATING ROLE OF INSTITUTIONAL SUPPORT****Anik Chanda**MBA in Supply Chain Management, Bangladesh University of Professionals  
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[susmitasaha9727@gmail.com](mailto:susmitasaha9727@gmail.com)**Corresponding Author:** Susmita Saha [susmitasaha9727@gmail.com](mailto:susmitasaha9727@gmail.com)**ABSTRACT**

Entrepreneurial orientation (EO) is a well-known strategic stance that allows small and medium-sized enterprises (SMEs) to improve the results of innovations and remain relevant to competitors in ever-changing circumstances. Yet, the quality of the EO-innovation performance relationship is gradually conceptualized as a context-dependent phenomenon, especially in institutional settings where policy reinforcement, regulatory systems, financing systems, and network systems influence the strategic actions of firms and access to resources. This paper builds up a conceptual view that supports innovation performance among SMEs due to the actions of opportunity seeking, strategic proactiveness, and risk-enabled experimentation that are enabled by EO and the moderating effect of institutional support in strengthening or limiting such effects. Based on the evidence accumulated today in the spheres of entrepreneurship, strategic management, and institutional theory, previous studies demonstrate that institutional support promotes legitimacy, lowering the levels of environmental uncertainty and increasing the innovation capabilities of the firms, especially in new and resource-limited environments (Yang and Yu, 2022; Ishaq et al., 2024; Xu et al., 2024). It is based on these understandings that this study puts forward a conceptual argument situated in context which argues that EO plays the biggest role in contributing to innovation performance when enabling ecosystems are established under institutional conditions to align resources, incentives and learning infrastructure towards developing SMEs. The article is an addition to the existing research on entrepreneurial orientation and innovation, as it aligns strategic entrepreneurship and institutional approaches, and the reasons why EO cannot be applied in equal contexts and why supportive institutions should be emphasized as the key moderators in forming the innovation performance of SMEs. The discussion provides a theoretical basis to a further empirical study and the practical application to SME leaders and policymakers who aim at enhancing the growth based on innovation using EO in institutionally-favoured environments.

**Keywords:**

Entrepreneurial Orientation, Innovation Performance, Small and Medium Enterprises (SMEs), Institutional Support, Moderating Effects, Strategic Entrepreneurship, Organizational Capabilities

## 1. INTRODUCTION

Entrepreneurial orientation (EO) has become a key construct in the study of how small and medium-sized enterprises (SMEs) can gain a competitive advantage and continue innovation in uncertainty-prone, technologically disruptive, and institutionally complex environments. EO represents the strategic stance aspect of innovativeness, proactiveness and risk-taking of a firm, allowing organizations to see the opportunity and react dynamically to the various market and technological contexts (Hughes et al., 2021; Tajeddini et al., 2023). With the rise of digital transformation in the modern business landscape, its associated turbulence and intensified competition, EO is becoming an important catalyst of innovation performance, influencing the capabilities of firms to create new products, processes, and business models that enable them to create long term value (Cheng et al., 2025; Hughes et al., 2021).

SMEs, however, have had different structural and resource limitations that render the achievement of innovation results highly contingent on both internal strategic capacity as well as the Western environmental factors. Although internally developed resources like entrepreneurial behavior, learning orientation and strategic responsiveness are required to spur innovation, institutional environments that confer legitimacy, resource access, market infrastructure and facilitating regulatory frameworks play a critical role in SMEs (Adam and Alarifi, 2021; Karuppiah et al., 2023). This reliance is especially acute during the time of external shock, as in the COVID-19 crisis, institutional sources of support, including financial relief, advisory programs and innovation support systems, have a decisive effect on the existence of firms and innovation (Adam and Alarifi, 2021).

The existing literature shows that institutional support has an impact on entrepreneurship and the performance of firms in terms of their ability to access of firms to the market, financing, and networks of technology and knowledge. Facilitating institutional settings also contributes to entrepreneurial confidence and increases engagement in the innovation ecosystems, and generates favourable exploitation of opportunities and development of capabilities (Fox et al., 2023; Mata et al., 2021; Simarasl et al., 2024). Conversely, ineffective or inefficient institutions may restrict entrepreneurial activities and make innovation programs less effective, especially in emerging and resource-starved environments with structural obstacles to the growth and competitiveness of SMEs (Simarasl et al., 2024; Karuppiah et al., 2023).

It is on this basis that there has been more and more scholarly focus on the fact that the relationship between EO and innovation performance is situational and not universal. Institutional support can act as a moderating force that reinforces – or in other instances predetermines – the degree to which EO leads to tangible innovation deliverables by affecting the mobilization of resources, the tolerance of risk, and the interactions of learning and strategic alliances (Yang and Yu, 2022; Ishaq et al., 2024; Xu et al., 2024). Indications also indicate that in instances where institutions offer enabling infrastructures, policy incentives and network platforms, EO-oriented firms are in a better position to transform entrepreneurial initiatives into performance gains of innovations (Yang and Yu, 2022; Ishaq et al., 2024).

The article is able to enter into this scholarly discourse because it formulates a conceptual view of the relationship between entrepreneurship orientation and innovation performance within SMEs, particularly, the moderating role of institutional support. The article would contribute to a more contextual explanation of why EO fails to produce comparable innovation results in diverse contexts and why institutional systems are a vital boundary condition in innovation pathways of SMEs by synthesizing information provided by entrepreneurship, innovation and institutional theory. The arguments formulated here attempt to enlighten the scholarly and policy debate on enhancing innovation-based growth among the SMEs by institutionally backed entrepreneurial policies.

## 2. CONCEPTUAL FOUNDATIONS AND THEORETICAL PERSPECTIVES

To appreciate the association between the entrepreneurial orientation (EO), innovation performance, and institutional support in SMEs, I had to interact with a number of philosophical views that are complementary. Such views are useful to understand why EO spurs innovation, firms translating entrepreneurial behavior into performance outcomes, and under what conditions in the contexts, such relationships are stronger or weaker.

From the perspective of strategic entrepreneurship, EO is considered one of the basic strategic positions that allows firms to focus on both opportunity-seeking and advantage-seeking activities (Ireland et al., 2023; Ziyae and Sadeghi, 2021). Strategic entrepreneurship focuses on the capacity of firms to combine entrepreneurial activities, like

experimentation, innovation, and proactive opportunities exploration, with the strategic use of resources so as to attain sustainable competitive results. In this perspective, companies that have good EO have increased chances of having proactive market positioning strategies, risks calculatedly taken, and they make innovation initiatives that create new value propositions and performance advantages. EO is thus not only a behavioral tendency, but a strategic logic according to which firms are looking after opportunities and match internal resources to tap those (Ireland et al., 2023; Ziyae and Sadeghi, 2021).

The second relevant lens is the lens of organizational capabilities, which helps to understand how a company builds and marshals internal resources to enable innovation and strategic renewal. Knowledge management, learning, collaboration, and adaptive routines are some of the organizational capabilities that allow companies to turn entrepreneurial initiatives into performance gains and innovation output (Gold et al., 2001; Hinasah and Nuryakin, 2020). According to this view, EO offers the entrepreneurial will and strategic direction, whereas organizational capabilities offer the vehicle on which the innovation is indeed brought into being. The current conceptual literature underlines that capability development is particularly essential within an environment with the features of digitalization, technological change, and strategic transformation when a firm needs to constantly change the structure and processes to facilitate innovation (Konopik et al., 2022). Therefore, the interplay between EO and organizational capabilities is self-reinforcing: the former provokes innovation initiatives, whereas the latter is what defines the possibility of implementing and maintaining such initiatives.

The third point of view is based on the institutional theory, which emphasizes the role of the external environmental structures, such as the regulatory systems, cultural norms, support programs, and network infrastructures that affect the organizational behavior and performance. The institutional environments that prevail in most SME settings dictate how firms are either able to access resources, seek legitimacy, enter into partnerships, and participate in innovation approaches, particularly in uncertain or constrained settings (Simarasl et al., 2024; Cheng et al., 2025). The environmental uncertainty can be mitigated by institutional support, sending information of credibility to the market actors, and establishing avenues of capability building, which can affect the strength with which EO is translated into innovation performance. On the other hand, poor or disjointed institutional contexts can tend to restrain operationalization of entrepreneurial behavior by firms despite the presence of EO.

On the individual level and the organizational level, EO is associated with orientations and psychological inclinations that encourage proactive and innovative behavior. According to prior research, EO is associated with autonomy, proactiveness, creativity, confidence, and opportunity-driven orientations in managers and employees, which in combination trigger experimentation, strategic initiative, and innovation action (Astuti et al., 2024; Bernoster et al., 2020; Bagis, 2022). These orientations define the interpretation of opportunities by decision-makers and resource allocation and interaction with risk, thus affecting innovation pathways in SMEs.

The performance of innovation in itself is a wide concept, as it includes product innovation, process innovation, technological progress, and sustainability-oriented innovation (Rauter et al., 2019; Ponta et al., 2021; Zhang et al., 2023). The current studies of innovation also focus on the idea that the performance of innovation is becoming more reliant on the digital transformation processes that are transforming the production systems, business models, and value-creation mechanisms (Costa Melo et al., 2023; Ding et al., 2024). Digital transformation increases the access of firms to information, learning, and a network of collaborators, capable of intensifying the impact of EO on the results of innovation. Meanwhile, the evolution of digital technology can also increase the uncertainty of the environment, which makes the ability to support institutional resources and align capabilities even more important to the innovative success continuity (Wang and Yan, 2023).

Combining these theoretical considerations helps to form the basis of learning about the EO-innovation relationship as a multidimensional, capability-driven, and situational process. EO gives the strategic direction of exploration of opportunities, organizational capabilities facilitate firms to translate the entrepreneurial intent into the outcomes of innovation, and institutional support predetermines the conditions in which the dynamics of these processes develop externally.

### **3. ENTREPRENEURIAL ORIENTATION AND INNOVATION PERFORMANCE IN SMES**

Entrepreneurial Orientation (EO) is a firm-level strategic stance that includes innovativeness, proactiveness, risk-taking, autonomy, and competitive aggressiveness. In SMEs, the role of EO is especially important due to insufficient resources, smaller size, and uncertainty of the environment, as the firms have to be more dependent on strategic

behavior and entrepreneurial responsiveness than on the advantages of scale (Hughes et al., 2021; Tajeddini et al., 2023). The SMEs with a stronger EO are inclined to create an attitude toward opportunity exploration, trial, and market responsiveness, which in turn facilitates a better performance in innovation.

EO promotes the performance of innovation by encouraging exploratory and exploitative innovation practices, and this allows SMEs to test new ideas at the same time as they optimize the existing operation, and this is what is also known as innovation ambidexterity (Hughes et al., 2021). Proactiveness makes the firms look forward to the new demands in the market, whereas innovativeness prompts the exploration of innovative ideas and technology-based opportunities. Innovation involves risks, and such risks are associated with making investments in unpredictable projects that can have long-term benefits, particularly in dynamic or digitally changing environments (Yang and Yu, 2022; Astuti et al., 2024).

Organizational learning and capability development are significant tools that ensure that EO is converted into innovative results. Companies that possess a good knowledge-sharing culture and absorptive capacity have an advantage in converting the entrepreneurial behaviors into realistic innovation products, such as products, processes, or sustainability-focused solutions (Hindasah and Nuryakin, 2020; Zhang et al., 2023; Gold et al., 2001). These traits allow SMEs to use EO as a behavioral orientation, as well as a source of continuous learning, teamwork, and formation of adaptive capabilities.

Furthermore, EO enhances the ability of SMEs to react to environmental turbulence in a strategic way, promoting bricolage and recombining resources, and experimenting on opportunities when formal resources are limited (Ireland et al., 2023; Ziyae and Sadeghi, 2021). With this kind of behavior, SMEs turn constraints into innovation and performance sustainability channels. Therefore, EO does not merely activate the innovation activity; it affects the organization of the internal and external resources, resilience, and competitive positioning of a firm in dynamic markets.



*Figure 1: Entrepreneurial orientation and innovation performance in smes***Table 1. Dimensions of Entrepreneurial Orientation and Expected Effects on Innovation Performance**

EO Dimension	Core Behavioral Emphasis	Expected Effect on SME Innovation Performance	Indicative Literature
Innovativeness	Commitment to creativity, experimentation, and technology adoption	Enhances product and process innovation; strengthens differentiation and learning-based innovation	Astuti et al., 2024; Hughes et al., 2021
Proactiveness	Anticipating market trends and acting ahead of competitors	Increases opportunity discovery and market-driven innovation outcomes	Tajeddini et al., 2023; Yang & Yu, 2022
Risk-Taking	Willingness to invest in uncertain or long-term innovation initiatives	Supports breakthrough innovation and exploratory innovation projects	Hughes et al., 2021; Yang & Yu, 2022
Autonomy	Decentralized decision-making and empowerment of employees or teams	Accelerates initiative-driven innovation and experimentation	Astuti et al., 2024; Tajeddini et al., 2023
Competitive Aggressiveness	Assertive strategic actions to outperform rivals	Encourages rapid innovation responses and strategic positioning through innovation	Hughes et al., 2021; Tajeddini et al., 2023

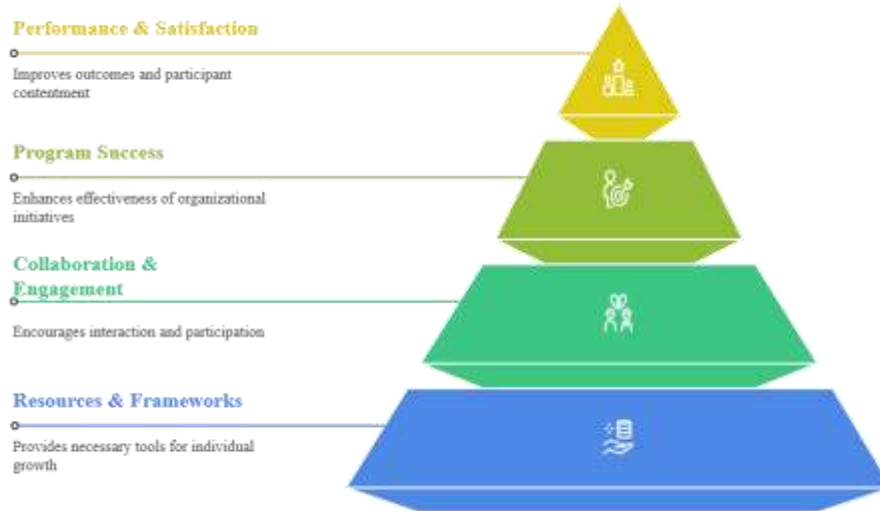
Table 1 streamlines the contribution of the core dimensions of Entrepreneurial Orientation, innovativeness, proactiveness, risk-taking, autonomy, and competitive aggressive nature to the innovation performance in SMEs. All the dimensions correspond to different behavioral dispositions that enable firms to identify opportunities, explore new ideas, and respond strategically to market changes. These orientations combined facilitate the development of product, process, and strategic innovations, as they promote learning, initiative-taking, and adaptive decision-making in resource-constrained settings. The table shows that EO is not effective in mediating innovation via one pathway, but its integrated dimensions interactively enhance the ability of SMEs to create and maintain innovative products.

#### 4. MODERATING ROLE OF INSTITUTIONAL SUPPORT.

Institutional support is a form of formal and informal organization that influences the way SMEs get access to resources, legitimacy, and how strategic orientations like EO are transformed into innovation results. Formal institutions comprise government policy, systems of financial support, innovation grants, regulatory systems, and infrastructure investments, which decrease uncertainty and lower risks of engaging in entrepreneurial activity. Such mechanisms offer financial resources to SMEs, technological infrastructure, training, and policy security so that firms focus EO-based initiatives into concrete output of innovation instead of discarding them because of the lack of resources or regulation.

On the same note, informal institutions (including social networks, cultural norms, professional communities, and industry associations) serve as a complementary factor as they help to create trust, share knowledge, and collaboratively learn. Relational networks and social capital give SMEs access to market information, partnership opportunities, and experiential know-how that boost opportunity recognition and experimentation. Informal institutions thus complement internal learning processes and capability development in which EO affects innovation performance.

The relationship between EO and innovation is moderated by the institutional support, as it is capable of increasing or limiting the impact of entrepreneurial action. With conducive institutional settings, EO-based firms are in a better position to experiment, take risks, and adopt proactive innovation strategies since external structures will minimize uncertainty and rationalize entrepreneurial actions. In contrast, poor institutional conditions, like regulatory obstacles, financial marginalization, or disjointed support institutions, can reduce the capacity of SMEs to transform EO into innovation outcomes, despite the presence of strong entrepreneurial intentions and capabilities. Therefore, institutional support is a contextual booster that determines the degree to which EO becomes sustainable innovation performance.



**Figure 2: Moderating role of institutional support.**

**Table 2. Types of Institutional Support Relevant to SMEs and Their Strategic Implications**

Type of Institutional Support	Key Components	Strategic Implications for SMEs
<b>Formal Institutional Support</b>	Public policies, tax incentives, innovation grants, financial programs, infrastructure, legal and regulatory frameworks	Lowers innovation risk, improves resource access, encourages investment in R&D and technology adoption, strengthens legitimacy and market entry
<b>Financial and Capital Support</b>	Credit schemes, microfinance, venture funding, loan guarantees	Enhances SMEs’ capacity to pursue risky or long-term innovation projects and scale innovative initiatives
<b>Innovation and Technical Support</b>	Research facilities, incubators, training programs, technology transfer centers	Strengthens learning capabilities, knowledge absorption, and experimentation in product and process innovation
<b>Informal Institutional Support</b>	Networks, social capital, business associations, community norms, relational trust	Facilitates collaboration, knowledge sharing, opportunity recognition, and adaptive innovation responses
<b>Industry and Professional Associations</b>	Cluster linkages, trade groups, peer learning platforms	Promotes benchmarking, cooperative innovation, and strategic alignment with industry trends

Table 2 provides an overview of the key types of institutional support that affect the ways in which SMEs seek and maintain innovation in recognition of both formal and informal support systems. Formal support - policies, financing schemes, infrastructure, and regulatory structures eliminates uncertainty, enhances access to resources, and stimulates investment of SMEs in innovation and development of capabilities. In addition to this, networks, social capital, industry associations, and professional communities provide informal support that helps in collaboration, sharing of knowledge, and recognizing opportunities. Combining these institutional mechanisms determines the strategic behavior of SMEs, either by facilitating or inhibiting their skill in converting Entrepreneurial Orientation into effective innovation deliverables.

## 5. A CONCEPTUAL FRAMEWORK AND PROPOSITIONAL ARGUMENTS

This paper builds upon a conceptual framework that describes the role played by Entrepreneurial Orientation (EO) in the performance of innovation in SMEs, and the role played by institutional support in reinforcing or diluting this relationship. Instead of testing the hypotheses empirically, the framework integrates previous studies to come up with propositions that can inform future research and theory building by being logically based.

Fundamentally, EO is a strategic behavioral orientation that allows the SMEs to see opportunities, experiment, and invest in innovation in the enterprise. More innovative, proactive, and risk-taking firms can be better-placed to implement new products, processes, and technologies, especially in uncertain or highly dynamic environments. It is the assumption of this baseline relationship that EO stimulates learning, discovery, and capacity-building processes in which firms convert entrepreneurial intentions into the outcome of innovation. In this respect, the framework conceptualizes EO as a major force behind the performance of SME innovation.

Nevertheless, the performance of EO-based innovation is not entirely within the firm, but it is incorporated into the larger institutional structures. Institutional support entails the policies, financial mechanisms, infrastructure, social networks, and industry associations that give the external enabling conditions that determine how SMEs organize resources, seek legitimacy, and experiment with new ideas. Favorable institutional conditions minimize risk, accessibility of funding/knowledge, and legitimization of entrepreneurship activities enhance the degree to which EO is converted to innovation performance. On the other hand, the presence of weak or disaggregated institutional support may limit entrepreneurial actions at the firm level, and hence, innovation potential would not be achieved even in the presence of high levels of EO.

In this view, institutional support is defined as a moderator of the situational nature as opposed to an independent alternative to EO. In other words, it is the institutional mechanisms that do not necessarily bring about innovation, but rather they enhance or dampen the strategic behaviours relating to EO. The framework hypothesizes in this respect that SMEs that operate in a setting where institutional support is high are better able to transform EO-initiatives into longer-term innovation projects, whereas firms in less institutional settings have a less robust or less stable EO-innovation relationship.

According to this line of thinking, the framework proposes a series of propositional claims that ought to be applied in conducting future theoretical and empirical research:

**Proposition 1:** The stronger the Entrepreneurial Orientation of SMEs, the higher the chances of demonstrating excellent innovation performance since EO leads to identifying opportunities, exploring them, and learning to respond to them.

**Proposition 2:** It is expected that institutional support positively mediates the relationship between Entrepreneurial Orientation and innovation performance, i.e., the EO-innovation relationship should be stronger in situations when the level of institutional support, be it formal or informal, is high.

**Proposition 3:** Various types of institutional support (e.g., financial support, regulatory stability, network-based support, and technological infrastructure) have a differentiating positive effect on the coordinating mechanisms by which EO can lead to innovation performance.

**Proposition 4:** The positive relationships between EO and innovation performance are expected to decrease in settings marked by low or unstable institutional support because companies are exposed to more resource limitations, legitimacy threats, and risks.

These propositions combine to form a conceptual channel in which EO is the behavioral basis of the strategic behavior of SME innovation, and institutional support is a contextual enhancer that modulates the intensity and reliability of innovation results.

**Table 3. Proposed Conceptual Relationships Between EO, Institutional Support, and Innovation Performance**

Conceptual Link	Theoretical Rationale	Expected Outcome
EO → Innovation Performance	EO stimulates opportunity recognition, experimentation, and learning-based capability development	Higher levels of product, process, and strategic innovation in SMEs
Institutional Support → Moderating Mechanism	External policies, finance, infrastructure, and networks reduce risk and enhance resource access	Stronger conversion of EO behaviors into innovation outcomes
EO × Institutional Support Interaction	Supportive institutional environments legitimize and reinforce entrepreneurial initiatives	Amplified and more consistent EO–innovation relationship
Weak Institutional Support Contexts	Resource constraints and regulatory barriers hinder entrepreneurial implementation	Weaker or unstable innovation outcomes despite EO presence

A synthesis of the conceptual relationships that were proposed is found in Table 3, highlighting the relationship between Entrepreneurial Orientation (EO), institutional support, and innovation performance in SMEs. According to the framework, EO, via its dimensions (e.g., innovativeness, proactiveness, and risk-taking), is one of the driving forces of the outcomes of innovation. The intensity of this relationship, however, depends on the degree of quality of institutional support that firms have. Institutional support enhances the positive effect of EO by increasing access to resources, increasing their legitimacy, and increasing learning opportunities when policies, financing mechanisms, networks, and supportive ecosystems are in place. On the other hand, institutional environments can be weak or unsupportive, which will limit the capacity of the SMEs to translate EO into actual innovation performance, indicating that it has a moderating effect that surrounds the model.

## 6. EO, INSTITUTIONAL SUPPORT, AND INNOVATION PERFORMANCE: CONCEPTUAL LINKAGES AND PROPOSITIONAL ARGUMENTS

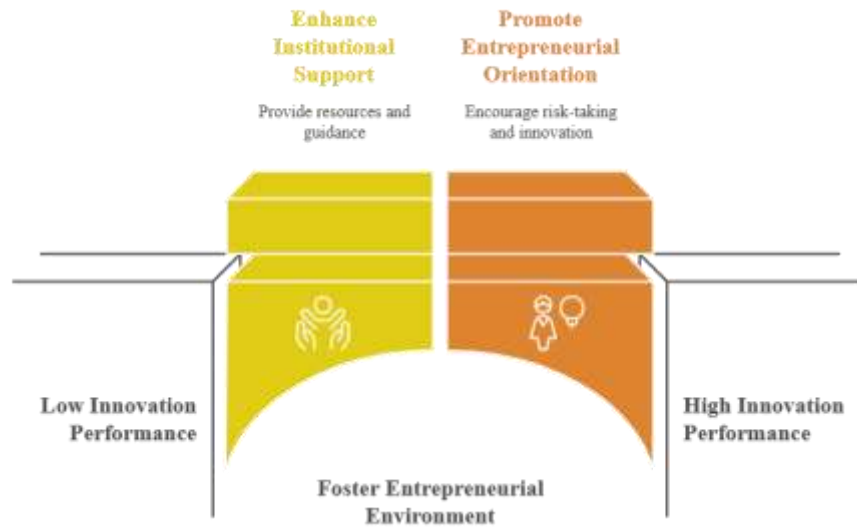
The theoretical rationale promoted by this paper assumes that Entrepreneurial Orientation (EO) is a strategic core position that activates innovation performance within SME by promoting the behavior of proactive, risk-taking, innovativeness, and opportunity-driven. EO allows firms to explore, test new skills, and innovate with creativity to address environmental problems, thus boosting the product, process, and sustainability-focused advances in innovation. Nevertheless, the extent to which EO can be translated into innovation performance depends on the institutional setting in which firms are located. Previous studies prove that the EO-innovation relationship can be enhanced or undermined by institutional support in the form of regulatory frameworks, financial support, infrastructure, networks, and collaborative platforms (Yang and Yu, 2022; Ishaq et al., 2024; Xu et al., 2024).

The institutional support is not only a source of background stability, but it is also a certain contextual modifier that increases the capacity of the firms in mobilizing the EO-related initiatives. Under such conditions where institutional support is high, the SME will be in a better position to utilize entrepreneurial opportunities, invest in activities that are related to innovations, and participate in collaborative learning. Emerging and developing countries have to think carefully about the setup of their institutions, such as their tax systems, administrative systems, and laws, when in the process of growth. Well-known cases from the Monotributo regime in Argentina show that how a nation burdens its small and medium-sized enterprises (SMEs) and how flexible their bureaucratic systems are, can seriously impact their ability to perform and innovate (Yacoubian, 2025). On the other hand, in low or disjointed institutional environments, the innovative effect of EO may be inhibited by a lack of resources, indeterminacy in policies, or restricted access to networks. It means that EO cannot achieve excellent results in terms of innovation without the support of enabling institutional mechanisms.

The relationships are further strengthened by emerging trends like digital transformation, being sustainable, and capacity building within an organization. Digitalization opens the channels of innovations, improving access to information, efficiency of processes, and technological readiness, especially through institutional efforts like policies of digital infrastructure and programs of incentives to innovations (Costa Melo et al., 2023; Ding et al., 2024). In a similar manner, institutional direction, industry standards, and policy incentives favor sustainability-oriented strategies and circular economy transitions to match the entrepreneurship activities with the outcome of environmental and social innovations (Maher et al., 2023; Zhou et al., 2023). The mediating factors include organizational capabilities

(learning systems, knowledge management, and strategic flexibility) that can be used to explain the manner in which firms can leverage institutional opportunities in converting EO into tangible performance of innovation (Nuseir and Refae, 2022).

This conceptual framework, formulated in this section, incorporates those insights by placing institutional support as a moderating process that conditionalises the severity of the EO-innovation relationship, and acknowledges the existence of complementary mediating processes, including the development of digital capability, alignment to sustainability, and enhancement of capabilities. The idea that institutional settings influence performance outcomes through the factor of organizational behavior and reactions to innovations is supported by evidence related to studies of moderating mechanisms such as policy, digitalization, and contextual uncertainty (Lin and Huang, 2023; Wang et al., 2023; Wang and Yan, 2023; Cheng et al., 2025). Collectively, these arguments promote a toned-down conceptual framework where EO is the most influential in promoting innovation performance in cases where institutional support is strong, strategic, and developmental.



*Figure 3: Eo, institutional support, and innovation performance: conceptual linkages and propositional arguments.*

*Table 3. Conceptual Relationships Among EO, Institutional Support, and Innovation Performance*

Conceptual Linkage	Theoretical Logic / Explanation	Expected Outcome for SMEs	Key Supporting Sources
<b>EO → Innovation Performance</b>	EO fosters proactiveness, risk-taking, innovativeness, and opportunity exploration that stimulate product, process, and sustainability-oriented innovation.	Higher innovation outputs, adaptability, and competitive positioning.	Yang & Yu (2022); Ishaq et al. (2024)
<b>Institutional Support → Enabling Context for EO</b>	Institutional mechanisms provide resources, legitimacy, knowledge networks, and regulatory stability that strengthen firms' ability to activate EO capabilities.	Greater capacity to pursue experimentation, collaboration, and innovation initiatives.	Xu et al. (2024); Yang & Yu (2022)
<b>Institutional Support × EO → Moderating Effect</b>	The strength of the EO–innovation relationship depends on the level and quality of institutional support; strong	EO has a stronger positive effect on innovation performance under high	Ishaq et al. (2024); Xu et al. (2024)

	support amplifies innovation outcomes, while weak support constrains them.	institutional support conditions.	
<b>Digital Transformation as a Complementary Mechanism</b>	Digital infrastructure, technological adoption, and data-driven processes enhance firms' ability to leverage EO for innovation, especially when supported by institutional initiatives.	Improved innovation efficiency, market responsiveness, and capability development.	Costa Melo et al. (2023); Ding et al. (2024)
<b>Organizational Capabilities as Mediating Processes</b>	Learning routines, knowledge management, and adaptive capabilities help SMEs convert EO and institutional opportunities into innovation outcomes.	Stronger internal alignment between entrepreneurial behavior and innovation performance.	Costa Melo et al. (2023); Ding et al. (2024)

### 7. MANAGERIAL, POLICY, AND PRACTICAL IMPLICATIONS

The conceptual relationships built in the paper bring out various significant implications to managers, policymakers, and stakeholders in the development of SMEs. Policymaking-wise, institutional collaboration platform and ecosystem-based support needs to be enhanced in order to enable SMEs to put Entrepreneurial Orientation (EO) into the system of sustained innovation results. Programs like SME innovation hubs, digitalization support programs, circular economy initiatives, and industry knowledge-sharing networks can increase the accessibility of resources, legitimacy, and strategic alliances to the firms, especially in the process of transition or a turbulent environment (Maher et al., 2023; Costa Melo et al., 2023; Karupiah et al., 2023). Financial, regulatory, and infrastructural mechanisms can also be designed by policymakers to decrease uncertainty and encourage experimentation and unlock EO potential, as well as innovatively enhance competitiveness in different sectors (Mata et al., 2021; Xu et al., 2024; Ishaq et al., 2024).

To managers, the results serve as a reminder that they should combine EO with company competencies and learning systems in order to maximize the gains of innovation. The creation of knowledge-management practices, digital capability, and responsive organizational processes assists SMEs to gain a better advantage of EO and transform entrepreneurial behavior into innovation performance and strategic growth (Gold et al., 2001; Konopik et al., 2022; Zhang et al., 2023). The managers are also encouraged to develop cultures that facilitate experimentation, teaming, and ongoing improvement as they take an active part in supportive institutional networks and programs. In general, the convergence of EO, internal competences, and external institutional support is a synergistic channel of innovation-based competitiveness and sustainable development of SMEs in the long term.

Table 4 provides a summary of the combination of policy level and firm level efforts that can be used to maximize the innovative effect of the Entrepreneurial Orientation in SMEs. The mechanisms identified on the policy side in the table include institutional collaboration platforms, innovation financing schemes, regulatory and infrastructural support, and capability-building initiatives that provide an enabling environment of entrepreneurial experimentation and innovation. On the managerial front, the table highlights activities in SMEs, such as building organizational capabilities, reinforcing knowledge-management and learning systems, investing in digital and sustainable innovation practices, and being an active participant in institutional networks and support programs. These implications can be presented in a tabular format to highlight the complementarity between proactive managerial strategy and supportive institutions, as the table reflects that EO provides greater innovation performance when both the internal capabilities and external institutional support are closely matched.

### 8. FUTURE RESEARCH LIMITATIONS AND DIRECTIONS.

Although this article is a conceptual approach to the moderating function played by institutional support in the EO-innovation performance relationship between SMEs, a number of limitations can serve as fruitful areas of future scholarly research. To begin with, the framework is theoretical and not empirical, i.e., relationships postulated by it need to be verified with the help of rigorous quantitative, qualitative, or mixed-methods research design. These propositions can be examined in future research based on cross-country or multi-regional samples, as we find that institutional settings in developed, emerging, and constrained economic settings differ a lot. The comparative evidence

would further enhance the comprehension of the role institutional structures play in determining EO performance in various regulatory, cultural, and market contexts (Astuti et al., 2024; Ishaq et al., 2024).

Second, the empirical studies must also examine the dynamics that are sector-specific, with the understanding that the digital-intensive, manufacturing, sustainability-focused, and service-based SMEs might have different innovation patterns and institutional reliance. The longitudinal research designs would also help in understanding how EO, institutional support, and innovation performance change with the passage of time, especially when firms adjust to new technological changes, crises, or policy changes. Other projects to be developed in the future include emerging themes of digitalization and platform ecosystems, sustainability transitions, gender dynamics in entrepreneurship, and social or mission-driven entrepreneurial contexts, where institutional support can work differently or have differentiated outcomes of innovation (Fox et al., 2023; Maher et al., 2023).

Finally, the research may explore the mediating and conditional role of micro-level and behavioral processes in the mediating role of EO in innovation; these processes may include leadership cognition, entrepreneurial self-efficacy, organizational learning processes, and network embeddedness. A combination of these views with the institutional theory would allow more multi-level explanations of how the SMEs transform entrepreneurial orientation into innovation performance in various and changing environments.

### CONCLUSION

The article has formulated a conceptual approach of the relationship between Entrepreneurial Orientation (EO) and innovation performance in SMEs based on the moderating role of institutional support. Based on the findings of strategic entrepreneurship, organizational capability theory, and institutional approaches, the paper describes how EO promotes the proactive behavior, learning, experimentation, and capabilities building that, in their turn, contribute to the improvements of the innovation outcomes. As pointed out in the discussion, even when using EO alone does not necessarily ensure innovation success, its effectiveness requires the institutional circumstances that define access to resources, legitimacy, networks, and opportunity structures. The strength, capability, or limitation of EO in terms of performance into meaningful innovation in varied SME contexts can therefore be enhanced, empowered, or limited by institutional support, both formal and informal.

The primary contribution of the paper is the development of an integrated conceptual model in which EO, institutional support, and innovation performance are moderated to have a relationship. The framework expands the current knowledge of entrepreneurship and innovation literature by establishing the contextual amplification of institutional support as an independent entity, instead of viewing it as a background condition. The research is also theoretically significant as it promotes a multi-level perspective of innovation within SMEs, in which the entrepreneurial behavior is not independent in its operating environment but is in the interaction with organizational capabilities and institutional systems. This method emphasizes the need to synchronize internal strategic positions with external ecosystem forces in order to access innovation-based competitiveness and sustainable performance.

Conclusively, the paper reiterates the point that SMEs have been in complex and dynamic environments, which require entrepreneurial orientation to be supported by supportive institutional infrastructures to deliver better innovation results. The conceptual propositions herein lay a ground for future empirical studies and offer significance to the managers, policymakers, and ecosystem players who are interested in enhancing the ability of SMEs to innovate. In general, the paper highlights that innovation promotion among SMEs is not solely an issue of an internal entrepreneurial behavior but also a role of the institutional conditions that enable firms to convert entrepreneurial orientation into a long-term innovative value.

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