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Innovation Capability Model by Integrating Entrepreneurial Orientation, Market Orientation, Empowerment and SME Business Performance

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Abstract: The rapidly changing business environment, requires companies to maintain their performance through sustainable competitive advantage through effective resource utilization. The aim of this study is to explain for the necessity of developing the innovation capability model by integrating entrepreneurial orientation, market orientation, empowerment and business performance at levels of the SME business model. The paper is conceptual in approach. A keyword-based approach was used to select relevant articles from major journals to collect evidences and develop a conceptual model. The paper describes the innovation capability model by integrating entrepreneurial orientation, market orientation, empowerment and business performance. This has several implications for analysis of the innovation capability-business performance relationship.

Keywords: Innovation Capability, Market Orientation, Entrepreneurial Orientation, Business Performance.

INTRODUCTION

The rapid change in the business environment with increasingly competitive competition makes companies have to maintain their performance through their competitive advantages in a sustainable manner with effective use of resources (Shrivastava, 2018). The key to the company's success in achieving this is to innovate sustainably. The company has the potential to create an effective innovation climate because of the innovation capabilities in the company. The importance of innovation resources and capabilities for corporate performance is documented in many studies, most of which focus on large corporations. SMEs are mostly overlooked because they are considered lacking in both, due to a very limited understanding of how key resources and capabilities affect the performance of SMEs (Fang et al., 2022). Empirical studies show that there is a significant positive influence between innovation capabilities on SME business performance (Oura et al., 2016; Sulistyo, 2016).

Strategic issues related to the contribution of SMEs to the economy are related to the orientation of business strategies. Research related to strategic orientation has been done a lot,

because it is related to organizational performance. Improving the performance of SMEs can be done by implementing strategic orientations such as entrepreneurship orientation (Altinay et al., 2016). Market orientation is an actual implementation of the marketing concept, something important for companies in line with increasing global competition and changes in customer needs where companies realize that they must always be close to their market. In its development, many researchers have linked market orientation to innovation capabilities and business performance (Aydin, 2021; Zehir et al., 2015). Unlike large-scale companies, effective use of resources is important, due to the limited resources in innovating. Empirical research shows that empowerment is positively related to innovation in the company and can improve innovation capabilities (Gozukara et al., 2016). The results of the study show that empowerment also affects the business performance of SMEs (Tarore, 2016; Junaidi & Choerudin, 2024).

Based on these considerations, this study aims to explore the results of previous research that are still inconsistent and build a conceptual framework for the relationship between innovation capabilities and business performance by integrating them into entrepreneurship orientation, market orientation and empowerment. The company is able to maintain a continuous competitive advantage through continuous innovation and leveraging the company's capabilities. Dynamic capabilities and resource-based research (RBV) provide a comprehensive explanation of the theory of competitive advantage and how companies can gain advantages through its resources and capabilities. Innovation capabilities are the potential in creating economic value for companies, so that they can increase profits, improve performance and help maintain the company's position in the market (Jin & Choi, 2019; Rajapathirana & Hui, 2018). Innovation capabilities areclosely related to entrepreneurship, because innovative skills are the foundation, tips, and resources to find opportunities for success.

Innovative is one dimension in entrepreneurial orientation, in addition to proactive risk-taking, autonomy and aggressiveness (DeepaBabu & Manalel, 2016). Research on companies that adopt and implement a strong entrepreneurial orientation within the company, can improve performance and sustainable competitive advantage (Elgarhy & Abou-Shouk, 2023). The development of previous research results is related to the model of the relationship between innovation capability and business performance which is integrated with the variables of entrepreneurship orientation, market orientation and empowerment.

METHODS

This article is a conceptual study aimed at developing an innovation capability model by integrating entrepreneurial orientation, market orientation, empowerment, and their impact on small and medium enterprises (SMEs) business performance. The research employs a systematic literature review approach, focusing on five core keywords: innovation capability, entrepreneurial orientation, market orientation, empowerment, and business performance. Data were collected from reputable indexed journals published between 2010 and 2024 (Abdulsamad et al., 2025; Lakoff, 2023).

The selected articles were analyzed to identify significant variables, analytical methods used in each study, and the direction and strength of the relationships among variables. The synthesis of this information is presented in Table 1 to map patterns and highlight the direction of influence. Based on this comprehensive review, a conceptual model was developed, serving as a theoretical foundation for future empirical research.

Table 1. The development of research in the last 14 years on the relationship between EO, MO, E, IC and BP

Researchers	EO	MO	E	IC	BP	Sample	Technical	Result
Çakar & Ertürk, (2010)	–	–	√	√	–	93 SMEs in Turkey	SEM-AMOS	(+) sig. E → IC
(Abu Hassim et al., 2011)	√	√	–	–	√	398 SMEs in Malaysia	PLS	(+) sig. EO → BP; (–) sig. MO → BP
(Merrilees et al., 2011)	–	√	–	√	√	367 SMEs in Australia	SEM-AMOS	(+) sig. MO → IC; (+) sig. E → IC
(Oly Ndubisi & Iftikhar, 2012)	√	–	–	–	√	124 SMEs in Turkey	PLS	(+) sig. EO → BP
Setyanti et al., (2013)	√	–	–	√	√	125 SMEs in Indonesia	PLS	(+) sig. EO → BP; (+) sig. IC → BP; IC full mediation
Yeşil et al., (2013)	–	–	–	√	√	61 SMEs in Turkey	PLS	(+) sig. IC → BP
Ngo & O'Cass, (2012)	–	√	–	√	√	163 SMEs in Finland	PLS	(+) sig. MO → BP; (+) sig. IC → BP; IC full mediation
Gunduz, ((ÇEKMECELI OĞLU & ÖZBAĞ, 2014)	–	–	√	√	–	181 SMEs in Turkey	PLS	(+) sig. IC → BP
(Huhtala et al., 2014)	√	–	–	√	√	258 SMEs in Finland	PLS	(+) sig. MO → BP; (+) sig. MO → IC; IC full mediation
(Oly Ndubisi & Agarwal, 2014)	–	√	–	–	√	134 SMEs in Pakistan	Multiple Reg.	(+) sig. MO → BP
(Bukhamsin, 2015)	–	–	–	√	√	250 SMEs in Ireland	Multiple Reg.	(+) non-sig. IC → BP
(Kajalo & Lindblom, 2015)	√	√	–	–	√	202 SMEs in Finland	SEM-LISREL	(+) non-sig. MO → BP; (+) sig. EO → BP
(Haddoud et al., 2018)	√	–	–	√	√	474 SMEs in Turkey	SEM-AMOS	(+) sig. EO → BP; (+) sig. IC → BP; IC full mediation
(Muafi, 2015)	–	–	√	–	√	102 SMEs in Indonesia	PLS	(+) sig. E → IC
(Zehir et al., 2015)	√	√	–	√	√	186 SMEs in Turkey	SEM-AMOS	(+) sig. MO → BP; (+) sig. MO → IC; IC full mediation
(Amin et al., 2016)	√	√	–	–	√	117 SMEs in Malaysia	SmartPLS	(+) sig. EO → MO; (+) sig. MO → BP; MO partial mediation
(Omar et al., 2016)	√	–	–	√	√	188 SMEs in Malaysia	SmartPLS	(+) sig. EO → BP; (+) sig. IC → BP
(Tarore, 2016)	–	–	√	–	√	354 SMEs in Indonesia	SEM	(+) sig. E → BP
Sulistyo & Ayuni, (2020)	–	–	√	√	√	120 SMEs in Indonesia	PLS	(+) sig. IC → BP; (+) sig. E → BP; (+) sig. E → IC
(Diharto, 2017)	–	–	–	√	√	237 SMEs in Indonesia	PLS	(+) sig. IC → BP
(Ribau et al., 2017)	√	–	–	√	√	147 SMEs in Portugal	SmartPLS	(+) non-sig. IC → BP; (+) sig. IC → EO; EO full mediation
(Saboor et al., 2017)	–	–	√	√	–	200 SMEs	PLS	(+) sig. E → IC
(Herman, 2018)	–	√	–	–	√	153 SMEs in Indonesia	SEM	(+) sig. MO → BP

(Udriyah et al., 2019)	–	√	–	–	√	158 SMEs in Malaysia	SEM	(+) sig. MO → BP
(Christa et al., 2020)	–	√	–	√	√	250 SMEs in Kalimantan	SEM-PLS	(+) sig. MO → IC; (+) sig. MO → BP
(Sulistyo & Ayuni, 2020)	√	–	–	√	√	254 SMEs in Central Java	AMOS	(+) sig. EO → IC; (+) sig. EO → BP; IC full mediation
(Savitri et al., 2021)	√	–	–	–	√	115 SMEs in Indonesia	PLS	(+) sig. EO → BP
Wahyuni et al., (2021)	√	√	–	√	√	70 SMEs in Bali	PLS	(+) sig. EO → BP; (+) sig. MO → BP
(Somwethee et al., 2023)	–	–	–	√	√	359 SMEs in Thailand	PLS	(+) sig. IC → BP
Yaqub et al., (2024)	√	√	–	–	√	400 SMEs in Pakistan	PLS	(+) sig. EO → BP; (+) sig. MO → BP

Source: compilation of articles year 2010-2024

RESULTS AND DISCUSSION

The Relationship between Entrepreneurial Orientation and Innovation Capabilities

Research by Parkman et al., (2012) found that entrepreneurial orientation has a positive and significant effect on innovation capabilities in a creative industry in the American west. Makhloufi et al., (2021), Anzules-Falcones & Novillo-Villegas, (2023) and Sawaean & Ali, (2020) also conducted research on entrepreneurs and found results that entrepreneurial orientation has a significant positive effect on the company's innovation capabilities and is able to have a positive impact on the economic growth of a country, especially for developing countries. Research from Taleb et al., (2023) conducted on MSMEs in Indonesia, shows the results that entrepreneurship has a positive and significant effect on innovation capabilities. The relationship between innovation capabilities in research is still inconsistent, especially in SME businesses (Purwati et al., 2021). Research from Hanaysha et al., (2022) analyzes the business performance of SMEs in Australia with innovation capabilities and entrepreneurial orientation as an antecedence. The result was that innovation capabilities had a positive relationship with business performance, but entrepreneurial orientation had no impact.

The Relationship of Entrepreneurial Orientation with Business Performance

The results of empirical research related to strategic marketing and entrepreneurship support the preposition that entrepreneurial orientation can improve business performance (Alegre & Chiva, 2013; Hakala, 2013; Hussain et al., 2017; Yu et al., 2016). Ndubisi & Iftikhar (2012), Savitri at al. (2021), Sulistyo, Ayuni (2020), Parkman et al. (2012), Wahyuni at al. (2021) and Yakub at al. (2024) found that entrepreneurial orientation is able to influence the business performance of SMEs. The role of entrepreneurship orientation to achieve increasing business performance and sustainable competitive advantage (Hussain et al., 2017). Several research results show the direct influence of entrepreneurial orientation on business performance. Altinay et al., (2015) conducted a study on 500 retail SMEs in Northern Cyprus and found a positive and significant influence of business performance on sales and market share growth. Research from Asiah, et al., (2016) also states that entrepreneurial orientation has an effect on the performance of SMEs in Malaysia.

The Relationship of Market Orientation with Innovation Capabilities

Market orientation is a key concept in the marketing literature that has an influence on innovation (Sprong et al., 2021; Newman et al., 2016). Research from Zehir et al., (2015) in Turkey, found that market orientation affects innovation capabilities. More in-depth, the

research findings are related to the dimensions of market orientation, namely: customer orientation, competitor orientation and coordination of internal functions have a positive and significant effect on innovation capabilities. Research from Huhtala et al. (2014) on companies in Finland found that market orientation affects innovation capabilities. Research from Ngo & O'Cass (2012), Wahyuni et al. (2021) also found results that market orientation affects innovation capabilities.

The Relationship of Market Orientation to Business Performance

Research from Herman et al. (2018), Udriyah et al., (2019), and Yakub et al. (2024) found that market orientation affects business performance. These results are supported by findings from Zehir et al., (2015), finding that market orientation affects the business performance of SMEs in Turkey. The results of the study show that the dimension of market orientation, namely: competitor orientation and coordination of internal functions have a positive and significant effect on the business performance of SMEs, while the dimension of customer orientation has a positive and insignificant effect on the business performance of SMEs. The implementation of market orientation in research has not always been proven to have a significant effect. Different findings from the research of Kajalo & Lindblom (2015), Puspaningrum (2020) show that market orientation has an insignificant effect on the performance of SMEs. The findings of the study show an insignificant relationship between these two constructions, that market orientation is not a predictor of SME performance. Similarly, research from Mokhtar et al. (2014) reported that indicators of market orientation, i.e., market intelligence and responsiveness, were not significantly related to the performance of SMEs in Malaysia.

The Relationship between Empowerment and Innovation Capabilities

Empowerment is an effort to provide opportunities and abilities for individuals to voice their opinions, ideas and capabilities related to concepts, methods, products, actions and others. Community empowerment is the process of increasing people's capabilities and attitudes of autonomy. The concept of empowerment is positively related to innovation in the organization and increases innovative capabilities. The concept of empowerment can promote innovative behavior (Helmy et al., 2019). Recent research from Sulistyo (2016) conducted on SMEs in Jepara, Indonesia, found that empowerment has a positive and significant effect on innovation capabilities. Research findings related to empowerment to innovation also have different results. Research from Zhu et al. (2019) which tested the empowerment variable with a psychological dimension on innovation, showed a non-significant influence.

The Relationship of Empowerment to Business Performance

Research from Michna (2009) found that empowerment has a positive and significant effect on the performance of SMEs in Poland. The latest research findings from Tarore (2016) that empowerment affects the performance of SMEs in Indonesia. The findings of this study are supported by the latest research from Sulistyo (2016) conducted on MSMEs in Indonesia, finding that empowerment has a positive and significant effect on the performance of SMEs.

The Relationship of Innovation Capabilities to Business Performance

Arafat and Mohtar (2013) stated that innovation capabilities are a crucial factor in companies to survive and succeed from competition. Improving the performance of a business is encouraged by the innovation efforts that a business is able to do. Companies that are able to innovate are believed to be able to improve performance, but are also believed to be able to help a business in facing competition in an ever-evolving business environment. Innovation capabilities have a significant effect on the business performance of SMEs (Ali et al., 2020;

Maldonado-Guzmán et al., 2019; Purwati et al., 2021). The findings are different from Pulka et al. (2021) that innovation capabilities do not affect the performance of export-oriented SMEs. The results of previous research show the relationship between innovation capabilities, business performance, entrepreneurial orientation, market orientation and empowerment.

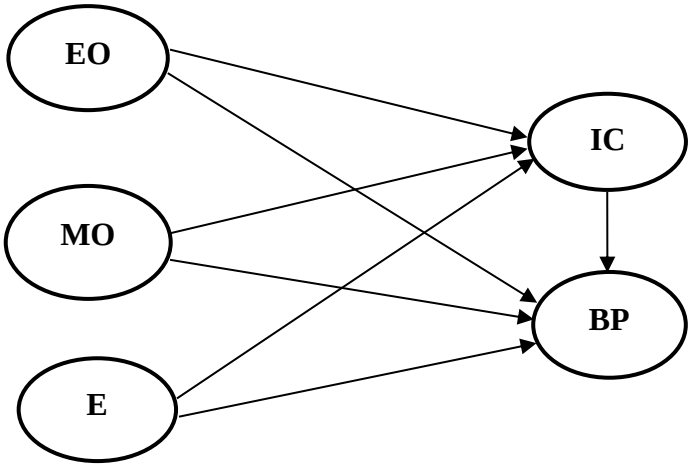


Figure 1. Conceptual Framework of IC, BP, EO, MO and E Relationships

Information:
EO = Entrepreneurial Orientation
MO = Market Orientation
E = Empowerment
IC = Innovation Capability
BP = Business Performance

Implications for future research

The conceptual framework is used for further research of the model of the relationship between innovation capabilities and business performance through integration with entrepreneurship orientation, market orientation, and empowerment, which is *an intangible resource* of SMEs. Constructing innovation capabilities as the main resource in improving business performance is important because it is valuable, rare, not easy to imitate and there is no substitution. Research that examines the mediating role of innovation capabilities on the influence between empowerment and business performance has not been conducted. Elaborating it with an entrepreneurial orientation and market orientation can strengthen innovation capabilities and improve SME business performance. Future research is suggested to add testing of *tangible resource factors* and competitive advantage variables in SMEs.

CONCLUSION

This study concludes that the innovation capability of small and medium-sized enterprises (SMEs) plays a critical mediating role in improving business performance. The results indicate that entrepreneurial orientation (EO), market orientation (MO), and empowerment (E) each have a significant and positive influence on innovation capability (IC), which in turn has a direct and substantial effect on SME business performance (BP). Entrepreneurial orientation contributes by fostering risk-taking, innovativeness, and proactiveness, which enhances a firm's ability to create novel solutions. Market orientation improves the firm’s ability to respond to customer needs and market dynamics, thus supporting innovative output. Empowerment strengthens internal organizational dynamics by giving employees the autonomy and motivation to engage in innovation initiatives.

The integration of EO, MO, and empowerment through innovation capability provides a comprehensive model for improving SME competitiveness in dynamic environments. These findings emphasize the importance of building innovation capabilities as a strategic resource and encourage SME managers and policymakers to focus on fostering an organizational culture that supports innovation, market responsiveness, and employee involvement. Future research can explore this model in different sectors and geographical settings, and consider longitudinal designs to capture the long-term impact of innovation capability on performance.

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