

# The Impact of Entrepreneurial Orientation of SME CEOs on Firm Performance

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**Abstract:** Small and medium-sized enterprises (SMEs) hold significant positions in global economic development, yet their high failure rates have garnered widespread attention. Enhancing business performance is crucial for the survival and growth of SMEs. In recent years, academia has increasingly focused on the entrepreneurial orientation of CEOs and its impact on business performance. Entrepreneurial orientation encompasses dimensions such as innovativeness, risk-taking propensity, and proactiveness, which significantly influence a firm's market competitiveness and overall performance. This review synthesizes relevant literature, examining the specific effects of CEO entrepreneurial orientation on SME performance, analyzing the primary challenges involved, and proposing effective measures to enhance entrepreneurial orientation. By delving into these issues, the aim is to provide theoretical support and practical guidance for SME development, aiding them in achieving better performance amidst intense market competition.

**Keywords:** SMEs, Entrepreneurial orientation, Business performance, Impact.

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## 1. Introduction

Small and medium-sized enterprises (SMEs), as crucial components of the economic system, play an irreplaceable role in fostering innovation, creating employment, and driving economic growth. However, these enterprises are often beset by challenges such as resource scarcity, intense market competition, and insufficient management experience, which render their survival and development fraught with difficulties. To endure and achieve sustainable growth in such a demanding environment, SMEs must rely on robust leadership and a clear strategic direction, with the entrepreneurial orientation of the CEO emerging as a critical factor. Entrepreneurial orientation is a strategic stance characterized by a propensity for innovation, risk-taking, and proactiveness. CEOs with a high entrepreneurial orientation are inclined to actively seek new opportunities, embrace risks in uncertain environments, and take proactive measures to propel innovation and market expansion. Research indicates that entrepreneurial orientation not only enhances a firm's innovation capabilities and market responsiveness but also significantly improves overall performance. Nonetheless, implementing an entrepreneurial orientation in SMEs also faces numerous challenges, such as resource constraints, rapid market changes, and internal management complexities. This study aims to systematically review the impact of CEO entrepreneurial orientation on SME performance, analyzing existing literature to explore the specific dimensions of entrepreneurial orientation and their mechanisms affecting performance, identifying the main challenges SMEs encounter in adopting an entrepreneurial orientation, and proposing practical improvements. This not only deepens the understanding of the role of entrepreneurial orientation in business management but also offers valuable insights for the practical operation of SMEs.

## 2. Theoretical Foundations

### 2.1. Definition of Entrepreneurial Orientation

Entrepreneurial orientation refers to the executive leadership's inclination towards innovation, risk-taking, and proactive attitudes in strategic decision-making. It not only embodies a management philosophy but also serves as a pivotal driver for enterprises to establish and thrive in markets. The impact of entrepreneurial orientation by CEOs of small and medium-sized enterprises on business performance is particularly significant. In situations of limited resources, fostering innovation and a spirit of adventure helps enterprises seize market opportunities and achieve rapid growth. CEOs with a strong entrepreneurial orientation typically possess keen market insights, adept at identifying potential business opportunities, and are willing to undertake bold ventures amidst uncertainties. This leadership style stimulates creativity and initiative among employees, cultivating an open, inclusive culture that encourages innovation, thereby propelling enterprises to stand out in fiercely competitive markets. In practice, entrepreneurial orientation manifests not only in innovative products and services but also in continual innovation of business operational models and management approaches. CEOs must continuously learn and embrace new knowledge and technologies to sustain competitive advantages. Simultaneously, adapting flexibly to market changes and swiftly adjusting strategic directions are vital facets of entrepreneurial orientation. Effective implementation of entrepreneurial orientation requires meticulous risk management and resource allocation. Rigorous risk assessment and management measures ensure enterprises avoid unnecessary losses while pursuing innovation and growth, thus achieving stable development. In conclusion, entrepreneurial orientation serves as a crucial driver for small and medium-sized enterprises to achieve long-term sustainable development, maintaining vitality and competitiveness amidst complex and dynamic business

environments.

## **2.2. The Concept of Enterprise Performance**

Corporate performance is a crucial metric for assessing the operational outcomes and effectiveness of an enterprise over a specific period. It encompasses both financial and non-financial dimensions. Financial performance includes traditional indicators such as profitability, revenue growth rate, and return on investment. Non-financial performance, on the other hand, involves factors like customer satisfaction, market share, employee satisfaction, and innovation capability. For small and medium-sized enterprises (SMEs), the concept of performance is particularly significant as it directly relates to their survival and growth prospects. In today's business environment, corporate performance not only reflects current operational conditions but also serves as a critical basis for predicting future development potential. SME CEOs should emphasize comprehensive and dynamic performance evaluations in management, avoiding reliance solely on singular financial metrics. This holistic approach enables a more accurate reflection of actual business conditions, facilitating the timely identification of potential issues and adjustment of strategies. Effective enhancement of corporate performance requires systematic management and continuous improvement. SMEs can foster maximum employee potential by setting clear performance objectives and establishing a scientific evaluation framework. Concurrently, regular market research and competitive analysis help maintain acute insights into industry trends and customer demands, thereby contributing to improved corporate performance. High-performing enterprises often exhibit strong market adaptability and innovation capabilities, allowing them to maintain a leading position amidst intense competition. Thus, elevating corporate performance hinges not only on internal management optimization but also on effective utilization of external environments and rational allocation of strategic resources.

## **3. Impact of Entrepreneurial Orientation on Firm Performance**

### **3.1. The Impact of Innovativeness on Firm Performance**

Creativity stands as a cornerstone in entrepreneurial pursuits, exerting profound impacts on corporate performance. Beyond mere differentiation of products and services, creativity enhances market competitiveness. The innovative mindset of small and medium enterprise CEOs drives continuous exploration of new business opportunities, meeting evolving market dynamics and customer demands through technological advancements and product upgrades. Innovation manifests across every facet of business operations, from research and development to marketing, each instance potentially catalyzing corporate growth. Enterprises characterized by strong innovation adapt swiftly to market changes, seize new opportunities, and evade stagnation amid market saturation. Particularly in this era of rapid technological advancement, sustained innovation empowers enterprises to assert leadership in fierce market competition. Practical recommendations include establishing dedicated innovation departments or funds, fostering employee-generated innovative ideas, and providing essential resources and support. Collaborations with universities and research institutions leverage external intellectual resources

to enhance innovation capabilities. Furthermore, regular innovation training enhances employees' awareness and abilities, crucially promoting corporate innovation. Through systematic innovation management, small and medium enterprises achieve sustainable long-term development, continuously elevating corporate performance. In conclusion, creativity not only sustains market vitality but also serves as a pivotal driver in enhancing corporate performance [1].

### **3.2. The Impact of Risk-Taking on Firm Performance**

Risk-taking is an indispensable facet of entrepreneurial orientation, with evident implications for enterprise performance. The risk tolerance of SME CEOs directly correlates with the market positioning and strategic decisions of their enterprises. Risk-taking entails not only daring to venture into uncharted territories but also decisively making choices amidst uncertainty, thereby driving innovation and development. Throughout operational endeavors, risk-taking manifests in various forms: actively exploring new markets, launching innovative products, and experimenting with novel business models. Enterprises with a high propensity for risk-taking often seize opportunities swiftly, achieving rapid growth in the marketplace. Conversely, overly conservative enterprises may gradually lose competitiveness by missing out on market opportunities. Profound risk-taking does not advocate recklessness but rather necessitates a foundation built upon scientific risk assessment and management. SMEs can fortify themselves by constructing robust risk management frameworks to comprehensively evaluate and preempt potential risks, thereby engaging in prudent risk-taking within acceptable bounds. Simultaneously, CEOs require acute market insight and adaptive capabilities to swiftly recalibrate strategies and mitigate crises when risks materialize. Practically, enterprises can diversify and mitigate risks by establishing venture capital funds, diversifying product lines, and broadening market channels. Regular internal audits and external consultations aid in promptly identifying and rectifying latent issues, thereby maintaining a steady growth trajectory. Through these methods, enterprises not only stand to gain substantial returns amidst high risks but also sustain competitive advantages in dynamic market environments.

### **3.3. The Impact of Initiative on Enterprise Performance**

Proactivity, as a vital component of entrepreneurial orientation, profoundly impacts business performance. The proactivity of small and medium enterprise (SME) CEOs is manifested not only in actively pursuing market opportunities but also in strategic foresight and proactive planning. Proactivity enables enterprises to seize opportunities in competitive market environments, respond swiftly to market changes, and thereby enhance overall business performance. In business operations, proactivity entails continual exploration of new market demands and commercial opportunities. Enterprises that are proactive often introduce innovative products or services before markets become saturated, thereby gaining a first-mover advantage. Through market research and data analysis, businesses can timely capture consumer preferences and industry trends, adjust their strategies accordingly, and maintain a favorable position amidst market dynamics. In management practice, proactivity is also reflected in optimizing internal processes and adjusting

organizational structures. SMEs can establish flexible management mechanisms and efficient decision-making processes to swiftly adapt to external changes. A proactive corporate culture and innovative atmosphere can inspire employee initiative, thereby enhancing overall efficiency and creativity. Practical recommendations include CEOs regularly engaging in strategic discussions with core teams to forecast future market trends and devise forward-looking plans. Introducing advanced management tools and technologies such as big data analytics and artificial intelligence can assist in decision-making and improve market forecasting accuracy. Establishing specialized projects and fostering cross-departmental collaboration can drive internal innovation and improvement, continually enhancing organizational responsiveness and adaptability [2]. Proactivity not only involves proactive actions in seizing opportunities but also represents a sustained state in daily operations. Enterprises with high proactivity often demonstrate stronger market adaptability and higher customer satisfaction by adjusting products and services in response to evolving market demands. Such enterprises can continually improve their performance and maintain competitive advantage over the long term. In conclusion, proactivity significantly enhances business performance. SME CEOs should prioritize cultivating proactivity in strategic planning, employing scientific management and forward-thinking strategies to sustain competitiveness in rapidly changing markets and achieve long-term development. Proactivity is not only key to business success but also a fundamental embodiment of corporate culture and management philosophy.

#### **4. Challenges and Problems of CEO Entrepreneurial Orientation in SMEs**

Small and medium-sized enterprise (SME) CEOs encounter numerous challenges and issues in driving entrepreneurial initiatives within their companies. Firstly, the constraint of resources stands out as a significant hurdle. SMEs often find themselves constrained in critical resources such as capital, talent, and technology, limiting their ability to invest in and experiment with entrepreneurial innovations. For these enterprises, the capability to acquire and effectively utilize resources becomes pivotal in determining their success in implementing entrepreneurial initiatives. However, due to intense market competition, SMEs frequently struggle to attract top-tier innovation talent and secure sufficient financial support, thereby complicating their strategic execution processes. Furthermore, shaping and transforming corporate culture represent another crucial challenge faced by SME CEOs. Entrepreneurial orientation demands an open, inclusive, and innovation-inspiring corporate culture, which contrasts markedly with the conservative and risk-averse cultural atmospheres prevalent in traditional SMEs. CEOs must nurture and guide entrepreneurial spirit and innovative thinking among employees while maintaining stability in current business operations. This undertaking not only demands time but also requires CEOs to possess exceptional leadership and communication skills to mitigate employee resistance and drive cultural change. Market risk management during the implementation of entrepreneurial orientation is also a challenge that cannot be overlooked. Entrepreneurial activities inherently entail high risks and potential rewards,

and SMEs, compared to larger enterprises, possess weaker risk tolerance. Changes in the market environment can lead to significant setbacks for innovation projects, thereby severely impacting overall business operations [3]. Therefore, finding a balance between fostering innovation and managing risks becomes a critical issue that SME CEOs must address. Establishing robust risk assessment mechanisms and flexible market response strategies becomes imperative for CEOs in advancing the entrepreneurial orientation process. Maintaining strategic resilience is another issue warranting attention. SMEs in rapidly changing market environments are prone to wavering from established entrepreneurial strategic directions due to short-term gains or external pressures. CEOs need long-term strategic vision and steadfast determination to uphold strategic resilience in the face of various temptations and challenges, ensuring steady progress along the path of innovation. Lastly, SME CEOs must contend with the uncertainty of the policy environment while promoting entrepreneurial orientation. Despite governments worldwide introducing policies to support SME innovation, the actual implementation and sustainability of these policies remain subject to considerable variability. SMEs need to adapt flexibly to policy changes, harnessing policy dividends while preparing for potential policy adjustments. This necessitates CEOs to stay vigilant about policy trends, adjust corporate strategies promptly, and maintain competitiveness and innovation vitality.

### **5. Measures to Enhance CEO Entrepreneurial Orientation in SMEs**

#### **5.1. Government Support**

The government plays a pivotal role in fostering entrepreneurial leadership among CEOs of small and medium-sized enterprises (SMEs), serving as a crucial driver of business innovation and growth. Effective policies and support measures not only ignite the entrepreneurial spirit but also provide a solid foundation for business development. Tax incentives represent a significant method of governmental support. By reducing tax burdens, the government can free up additional funds for research and market expansion, enhancing both the financial capability of enterprises and encouraging more entrepreneurs to venture into innovative fields, thereby advancing the entire industry. Tax exemptions are particularly critical in the initial stages of business, significantly lowering operational costs, increasing survival rates, and aiding enterprises through crucial early development phases. Furthermore, the government can address capital shortages for SMEs by establishing diversified financing channels. Initiatives such as dedicated entrepreneurial funds, favorable bank loan policies, and support for venture capital development are crucial steps in enhancing enterprises' financing capabilities. Diversified financial support allows businesses to focus more on innovation and market expansion without being constrained by inadequate funding, thereby not only addressing immediate financial needs but also laying a foundation for long-term growth. Technical assistance and training represent another vital form of government support. Through organizing entrepreneurship training programs, technical forums, and providing professional consulting services, the government helps entrepreneurs grasp the latest industry trends and management skills, thereby enhancing their

entrepreneurial and innovative capabilities. Technical support not only boosts production efficiency but also promotes competitiveness in the market. Moreover, the government should intensify policy promotion and information dissemination to ensure that SMEs are promptly informed about and fully utilize various support policies. By establishing information platforms and regularly hosting policy briefings, the government can assist businesses in understanding the latest support measures and market dynamics, enabling them to formulate better development strategies. Government support should also extend to infrastructure development. By improving transportation, communication, and logistics infrastructures, the government can create a more conducive environment for the growth of SMEs. Such support not only reduces operational costs but also enhances market responsiveness and service quality. In conclusion, governmental support plays a crucial role in enhancing the entrepreneurial leadership of SME CEOs. Through measures like tax incentives, financing support, technical training, and infrastructure development, the government can create a favorable environment for SMEs, stimulating entrepreneurs' enthusiasm for innovation, and enhancing business performance and long-term development. Governmental proactive support not only facilitates the growth of individual enterprises but also promotes overall economic prosperity and stability [4].

## 5.2. Resource Integration

Effective resource integration not only enhances a company's competitive edge but also fosters innovation and sustainable development. Small and medium-sized enterprises (SMEs) often grapple with limited resources, yet through the strategic optimization of these resources, they can maximize their existing assets' value. In the process of resource integration, firms should focus on the internal optimization of resources. Firstly, there is a need to fully leverage the human resources within the company. By forming diverse teams and encouraging cross-departmental collaboration and knowledge sharing, the comprehensive capabilities and creativity of employees can be significantly elevated. Through judicious training and motivational mechanisms, the potential of employees can be ignited, enabling them to play pivotal roles in innovative projects. Equally vital is the integration of external resources. SMEs can establish strategic alliances with other businesses, research institutions, and universities to share technological and market resources. Such collaborations not only reduce R&D costs but also expedite the commercialization of innovative outcomes. By working closely with partners in the supply chain, firms can optimize procurement and production processes, enhancing operational efficiency and product quality. Government and industry associations can also play crucial roles in resource integration. Governments can create resource-sharing platforms for SMEs, offering policy advice, technical support, and market information to help businesses acquire necessary resources. Industry associations can facilitate inter-company exchanges and collaborations, promoting information sharing and experience exchange to bolster the industry's overall competitiveness. In the digital age, the integration of information resources becomes particularly significant. SMEs can harness big data and artificial intelligence technologies to streamline business processes and improve the accuracy of market forecasting and decision-making. By establishing customer relationship

management systems, companies can gain deeper insights into customer needs, offer personalized services, and enhance customer satisfaction and loyalty. Successful resource integration demands that the CEO possess a broad vision and strategic foresight. Only with a profound understanding of both internal and external environments can a scientifically sound resource integration strategy be devised. Regular resource assessment and adjustments are also essential to ensure that resource allocation aligns with the company's developmental goals and market changes [5].

## 5.3. Training and Development

The role of training and development in enhancing the entrepreneurial orientation of small and medium-sized enterprise (SME) CEOs cannot be overstated. Effective training and development initiatives not only elevate entrepreneurs' professional competencies but also ignite their innovative spirit, thereby driving improved business performance. Systematic training enables SME CEOs to grasp the latest market trends and management techniques, crucial in rapidly evolving market environments. By organizing regular management courses, industry seminars, and exchange activities, CEOs stay abreast of contemporary business models and management philosophies, enhancing their decision-making abilities and strategic vision. Moreover, such training programs facilitate understanding and application of emerging technologies, enhancing firms' capabilities in technological innovation and market competitiveness. Personalized development plans tailored to each CEO's unique traits and needs form a critical component of enterprise training. These customized approaches not only enhance learning outcomes but also foster CEOs' autonomy in learning and innovation, thereby fueling their entrepreneurial passion. In this process, mentorship programs leverage seasoned industry experts to guide new CEOs, offering practical experience and strategic counsel for rapid growth. Beyond technical expertise, cultivating leadership and managerial capabilities is equally vital. Leadership training equips CEOs with skills to motivate teams and navigate complex business environments and challenges. Strengthening leadership not only bolsters internal cohesion but also enhances overall operational efficiency, laying a foundation for sustained enterprise development. International exchanges and learning opportunities play a pivotal role in enhancing CEOs' entrepreneurial orientation. Participation in global industry conferences, visits, and training programs broadens perspectives, offering insights into global market dynamics and advanced practices. Such international perspectives enable firms to better confront domestic market competition and guide international expansion strategies. Building a robust corporate culture through training activities disseminates innovation and core values, fostering a positive and entrepreneurial atmosphere that inspires creativity across the entire workforce. As stewards of corporate culture, CEOs lead by example, driving collective progress through continual learning and personal growth. In conclusion, training and development represent pivotal measures in enhancing the entrepreneurial orientation of SME CEOs. Through systematic, personalized, and diverse training approaches, CEOs continually enhance their professional skills, leadership capabilities, and innovative drive, positioning their enterprises to excel amidst intense market competition and achieve sustained performance improvement.

## 6. Conclusion

The entrepreneurial orientation of SME CEOs has profound implications for corporate performance. A detailed analysis across dimensions such as innovation, risk-taking, and proactiveness clearly reveals that CEOs with a strong entrepreneurial orientation effectively drive innovation and enhance market adaptability, thereby significantly boosting corporate performance. However, SMEs face resource constraints, market complexity, and internal management challenges in implementing entrepreneurial orientation. Addressing these challenges requires governmental support, resource integration, and executive training and development. Governments should provide necessary external resource assurances through policy and financial support to SMEs. Internally, optimizing resource allocation and integrating internal and external resources will enhance overall operational efficiency. By systematically training and developing CEOs and their management teams, awareness and capabilities in entrepreneurial orientation can be enhanced, enabling better adaptation to market changes and promoting innovative corporate development. Looking ahead, SMEs need to continuously explore and innovate while maintaining entrepreneurial orientation to navigate evolving market environments for sustained long-term growth. Elevating CEO entrepreneurial orientation will enable SMEs to discover unique advantages in competitive markets,

creating greater economic and social benefits. This contributes not only to their own development but also to economic prosperity and social progress.

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