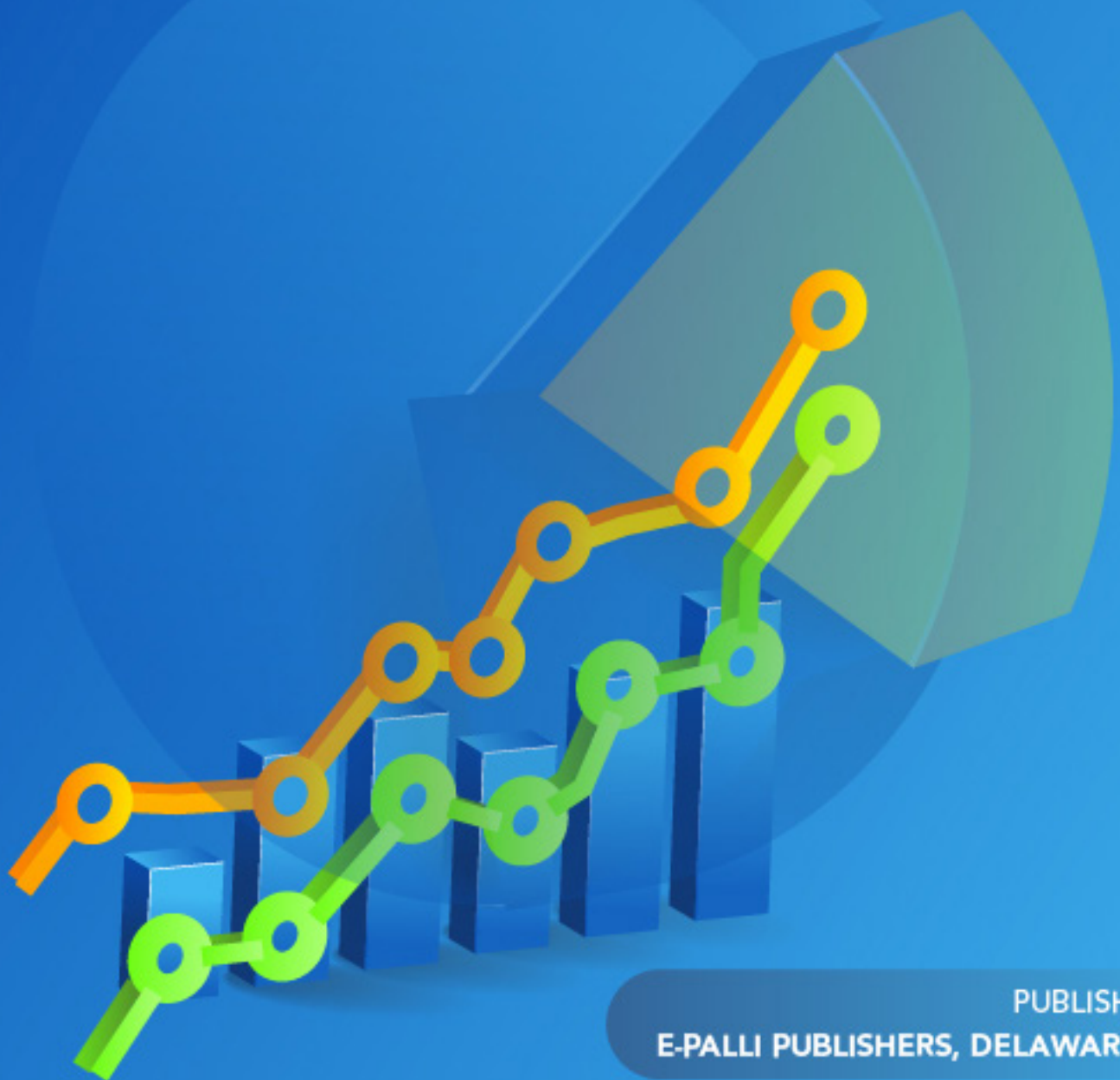




American Journal of Applied Statistics and Economics (AJASE)

ISSN: 2992-927X (ONLINE)

VOLUME 5 ISSUE 2 (2026)



PUBLISHED BY
E-PALLI PUBLISHERS, DELAWARE, USA

Entrepreneurial Orientation and Financial Performance of Small and Medium Enterprises: A Literature Review and a Conceptual Model for the Moroccan Context

Adil KAMEL^{1*}

Article Information

Received: June 09, 2026

Accepted: August 17, 2025

Published: October 09, 2026

Keywords

*Entrepreneurial Orientation,
Financial Performance, Innovation,
Proactiveness, Risk-Taking*

ABSTRACT

This paper reviews the literature on the relationship between entrepreneurial orientation (EO) and the financial performance of small and medium enterprises (SMEs). Drawing on foundational conceptual frameworks, the paper examines the three classical dimensions of EO -- risk-taking, proactiveness and innovation -- and their association with four indicators of financial performance: revenue growth, profitability, liquidity and leverage. The synthesis of empirical work reveals mixed findings, particularly a non-linear relationship between risk-taking and performance, and highlights the role of contingency factors such as firm size, industry and environmental turbulence. Building on this review, the paper proposes a conceptual model and a set of research hypotheses tailored to the study of Moroccan SMEs, a context that remains underexplored in the literature. The paper concludes by identifying avenues for future empirical research on the perceived entrepreneurial competencies of founders/managers and their influence on firm financial performance.

INTRODUCTION

In an economic environment characterized by intensifying competition and rapid technological change, the survival and growth of small and medium enterprises (SMEs) depend largely on their ability to identify and exploit business opportunities. The concept of entrepreneurial orientation (EO), which refers to the strategic style through which managers take risks, innovate and act proactively, has occupied a central place in the strategic management and entrepreneurship literature for four decades.

Although the relationship between EO and organizational performance has been the subject of a considerable body of research, the nature of this relationship remains debated: some studies report a direct positive effect, others a curvilinear relationship, and some even find no significant effect depending on the institutional and sectoral context under consideration. This is particularly salient for SMEs in emerging economies, for which the available evidence remains limited compared with the North American or European context.

This paper pursues two objectives: first, to provide a critical synthesis of the literature on EO, its constituent dimensions, and its links with firm financial performance; second, to formulate, on the basis of this synthesis, a conceptual model and research hypotheses adapted to the study of Moroccan SMEs. The remainder of the paper is organized as follows: the Literature Review section presents the conceptual framework of EO, its three constituent dimensions, the usual measures of SME financial performance, and a synthesis of empirical findings on the EO-performance relationship; the Materials and Methods section describes the review approach; the Results and Discussion section presents the proposed conceptual model, the research hypotheses, and a discussion of the specificities of the Moroccan context; and the final section concludes.

LITERATURE REVIEW

Conceptual framework of entrepreneurial orientation

The concept of entrepreneurship is rooted in Schumpeter's work, which describes the entrepreneur as an agent of innovation and creative destruction serving economic development. It was not until the 1980s, however, that strategic management research began to conceptualize entrepreneurial orientation as an organizational property distinct from the entrepreneurial act itself (Miller, 1983; Miller & Friesen, 1982).

Miller (1983) defines EO through the entrepreneurial style of top management, observable in the firm's strategic choices and operating management philosophy. Covin and Slevin (1989), building on the earlier work of Khandwalla (1976) and Miller and Friesen (1982), operationalize EO along three dimensions -- innovativeness, risk-taking and proactiveness -- regarded as the fundamental components of an entrepreneurial strategic posture. Lumpkin and Dess (1996) extend this framework with two additional dimensions, autonomy and competitive aggressiveness, while opening a still ongoing debate on the uni- or multidimensional nature of the construct: whereas Covin and Slevin (1989) conceive of EO as a single overarching continuum, Lumpkin and Dess (1996) argue that its dimensions can vary independently of one another depending on firm context.

Wiklund and Shepherd (2003, 2005) apply this framework specifically to SMEs, showing that EO constitutes a strategic resource that can be combined with other organizational resources (knowledge, capital, networks) to generate competitive advantage. This body of work forms the conceptual foundation of the present review.

Dimensions of entrepreneurial orientation

Risk-taking refers to a firm's willingness to engage in actions with uncertain outcomes, such as entering

¹ Mohammed V University, Morocco

* Corresponding author's e-mail: adil.kamel@gmail.com

new markets or committing substantial resources to unproven projects (Cantillon, 1730; Knight, 1921). Knight (1921) draws a foundational distinction between risk, whose outcome probabilities are quantifiable, and uncertainty, where such probabilities remain unknown -- a distinction that illuminates the specific nature of entrepreneurial risk. This propensity for risk-taking is further shaped by individual traits of the manager (self-confidence, tolerance for ambiguity) and by organizational culture, with organizations that value experimentation and learning from failure being more inclined to take calculated risks (Kreiser *et al.*, 2002).

Proactiveness denotes an organization's capacity to anticipate future market needs, to introduce new products ahead of competitors, and to take initiative rather than merely react to events (Lumpkin & Dess, 1996; Bateman & Crant, 1993). It differs from competitive aggressiveness in that it concerns the creation of demand rather than a reaction to existing market trends (Lumpkin & Dess, 2001). Frese and Fay (2001) and Parker *et al.* (2010) show that proactiveness rests on intrinsic motivation and self-efficacy, and that it is positively correlated with individual and organizational performance.

Innovativeness constitutes the third pillar of EO and refers to a firm's propensity to support new ideas, experimentation and creative processes that may lead to new products, services or production methods (Miller & Friesen, 1982; Khandwalla, 1987). Christensen's (1997) work on disruptive innovation and Chesbrough's (2003) work on open innovation have since enriched this perspective by showing that innovative capacity can also rest on collaboration with external partners, a dimension particularly relevant for resource-constrained SMEs.

Measures of SME financial performance

Financial performance is generally assessed through four families of indicators. Revenue and sales growth reflect a firm's ability to expand its market share (Kaplan & Norton, 1992). Profitability, measured through profit margin, return on investment (ROI) or return on assets (ROA), captures the efficiency with which a firm converts its resources into profit (Ittner & Larcker, 1998). Liquidity, assessed through current, quick and operating liquidity ratios, measures a firm's ability to meet its short-term obligations (Lewellen & Lewellen, 2016). Finally, leverage, captured through debt-to-capital and debt-to-asset ratios, indicates the firm's financing structure and level of financial risk (Brealey, Myers, & Allen, 2017).

These indicators are particularly important for SMEs, whose limited access to capital markets and frequent reliance on bank debt or self-financing heighten the sensitivity of financial performance to managers' strategic choices. It is precisely in this context that EO is likely to play a decisive role, by shaping how a firm identifies new revenue sources, optimizes its resources, and balances financial prudence against risk-taking.

Entrepreneurial orientation and financial performance: synthesis of empirical findings

The meta-analysis by Rauch, Wiklund, Lumpkin and Frese (2009), covering more than fifty studies, concludes that there is a positive and statistically significant relationship between EO and firm performance, while also highlighting substantial heterogeneity in effect sizes depending on firm size, industry and cultural context. This heterogeneity calls for examining each dimension of EO separately rather than treating the construct as a homogeneous whole.

Regarding risk-taking, empirical work suggests a curvilinear relationship with performance: moderate, well-managed risk-taking is associated with better financial outcomes, whereas excessive or poorly managed risk-taking increases the likelihood of substantial losses (Eisenhardt & Schoonhoven, 1990; Miller & Le Breton-Miller, 2005). Kraus, Harms and Schwarz (2012) show that firms with structured risk assessment and management processes are better able to convert risk-taking into sustained financial performance.

Proactiveness appears to be one of the EO dimensions most consistently associated with performance in the literature (Kreiser, Marino, & Weaver, 2002; Tang *et al.*, 2008). Jantunen, Puumalainen, Saarenketo and Kylaheiko (2005), using an international sample, show that proactive firms exhibit stronger export performance and higher profitability, particularly when proactiveness is combined with dynamic adaptive capabilities.

Innovativeness is robustly associated with improved financial performance through differentiation, cost reduction and the creation of new markets (Damanpour, 1991). This relationship is nonetheless moderated by resource availability: in SMEs, where resources devoted to research and development are limited, the effect of innovativeness on performance depends closely on a firm's ability to mobilize complementary resources, including through external collaborations (Chesbrough, 2003).

MATERIALS AND METHODS

This paper adopts a narrative literature review approach rather than a systematic review protocol. Relevant sources were identified through combinations of the keywords 'entrepreneurial orientation', 'risk-taking', 'proactiveness', 'innovativeness', 'financial performance' and 'SME performance' across major management and entrepreneurship databases and journals, including Strategic Management Journal, Journal of Business Venturing, Academy of Management Review and Entrepreneurship Theory and Practice. Priority was given to foundational conceptual contributions (e.g., Miller, 1983; Covin & Slevin, 1989; Lumpkin & Dess, 1996) and to meta-analytic and empirical studies addressing the EO-performance relationship. The selected literature was then organized thematically around the three classical EO dimensions and the four financial performance indicators

identified above, and was used as the basis for developing the conceptual model presented in the following section.

RESULTS AND DISCUSSION

Building on the literature synthesis above, this paper proposes a conceptual model in which the three dimensions of EO -- risk-taking, proactiveness, and innovativeness -- constitute independent explanatory variables of the financial performance of Moroccan SMEs, the latter being measured through a composite indicator integrating growth, profitability, liquidity, and leverage. The entrepreneurial experience of the founder/manager is included as a moderating variable of this relationship, consistent with prior work emphasizing the role of entrepreneurial human capital in translating strategic behaviors into financial outcomes.

This model leads to the following hypotheses

H1: The manager's perceived risk-taking is curvilinearly (inverted U-shaped) associated with SME financial performance.

H2: The manager's perceived proactiveness is positively associated with SME financial performance.

H3: The manager's perceived innovativeness is positively associated with SME financial performance.

H4: The manager's entrepreneurial experience positively moderates the relationship between entrepreneurial orientation and SME financial performance.

The large majority of the studies reviewed here concern North American or European settings, or large technology firms whose dynamics differ substantially from those of SMEs in emerging economies. Moroccan SMEs, however, operate within a specific institutional environment, characterized by sometimes restricted access to bank financing, a strong prevalence of family governance structures, and varying degrees of exposure to international competition across sectors. These specificities raise questions about the external validity of findings obtained in other contexts and justify the need for dedicated empirical investigation.

Future research would benefit from using panel data on Moroccan SMEs to test the temporal stability of the EO-performance relationship, from more closely examining the moderating role of industry and governance structure, and from further developing perceptual measures of EO from the standpoint of managers themselves, rather than relying exclusively on objective performance indicators.

CONCLUSION

This literature review confirms the central role of entrepreneurial orientation in explaining firm financial performance, while underscoring the need to qualify this relationship according to the dimension considered and the context of application. The conceptual model proposed here, centered on Moroccan SMEs and incorporating entrepreneurial experience as a moderating variable, provides a basis for future empirical investigations aimed at better understanding the mechanisms through

which managers' perceived entrepreneurial competencies influence the financial performance of their firms.

REFERENCES

- Bateman, T. S., & Crant, J. M. (1993). The proactive component of organizational behavior: A measure and correlates. *Journal of Organizational Behavior*, 14(2), 103–118.
- Brealey, R. A., Myers, S. C., & Allen, F. (2017). *Principles of corporate finance*. McGraw-Hill Education.
- Cantillon, R. (1730). *Essai sur la nature du commerce en général*. Fletcher Gyles.
- Chesbrough, H. (2003). *Open innovation: The new imperative for creating and profiting from technology*. Harvard Business School Press.
- Christensen, C. M. (1997). *The innovator's dilemma*. Harvard Business School Press.
- Covin, J. G., & Slevin, D. P. (1989). Strategic management of small firms in hostile and benign environments. *Strategic Management Journal*, 10(1), 75–87.
- Damanpour, F. (1991). Organizational innovation: A meta-analysis of effects of determinants and moderators. *Academy of Management Journal*, 34(3), 555–590.
- Eisenhardt, K. M., & Schoonhoven, C. B. (1990). Organizational growth: Linking founding team, strategy, environment, and growth among U.S. semiconductor ventures, 1978–1988. *Administrative Science Quarterly*, 35(3), 504–529.
- Frese, M., & Fay, D. (2001). Personal initiative: An active performance concept for work in the 21st century. *Research in Organizational Behavior*, 23, 133–187.
- Ittner, C. D., & Larcker, D. F. (1998). Innovations in performance measurement: Trends and research implications. *Journal of Management Accounting Research*, 10(1), 205–238.
- Jantunen, A., Puimalainen, K., Saarenketo, S., & Kylaheiko, K. (2005). Entrepreneurial orientation, dynamic capabilities and international performance. *Journal of International Marketing*, 13(3), 32–60.
- Kaplan, R. S., & Norton, D. P. (1992). The balanced scorecard: Measures that drive performance. *Harvard Business Review*, 70(1), 71–79.
- Khandwalla, P. N. (1976). Some top management styles, their context and performance. *Organization and Administrative Sciences*, 7(4), 21–51.
- Knight, F. H. (1921). Risk, uncertainty and profit. Houghton Mifflin.
- Kraus, S., Harms, R., & Schwarz, E. J. (2012). Entrepreneurial orientation and international business relationships. *International Business Review*, 21(4), 609–623.
- Kreiser, P. M., Marino, L. D., & Weaver, K. M. (2002). Assessing the psychometric properties of the entrepreneurial orientation scale. *Entrepreneurship Theory and Practice*, 26(4), 71–94.
- Lewellen, J., & Lewellen, W. (2016). Operating liquidity. *Journal of Financial Economics*, 121(2), 231–248.

- Lumpkin, G. T., & Dess, G. G. (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *Academy of Management Review*, 21(1), 135–172.
- Lumpkin, G. T., & Dess, G. G. (2001). Linking two dimensions of entrepreneurial orientation to firm performance. *Journal of Business Venturing*, 16(5), 429–451.
- Miller, D. (1983). The correlates of entrepreneurship in three types of firms. *Management Science*, 29(7), 770–791.
- Miller, D., & Friesen, P. H. (1982). Innovation in conservative and entrepreneurial firms. *Strategic Management Journal*, 3(1), 1–25.
- Miller, D., & Le Breton-Miller, I. (2005). *Managing for the long run*. Harvard Business School Press.
- Parker, S. K., Bindl, U. K., & Strauss, K. (2010). Making things happen: A model of proactive motivation. *Journal of Management*, 36(4), 827–856.
- Rauch, A., Wiklund, J., Lumpkin, G. T., & Frese, M. (2009). Entrepreneurial orientation and business performance: An assessment of past research and suggestions for the future. *Entrepreneurship Theory and Practice*, 33(3), 761–787.
- Tang, J., Tang, Z., Marino, L. D., Zhang, Y., & Li, Q. (2008). Exploring an inverted U-shape relationship between entrepreneurial orientation and performance in Chinese ventures. *Entrepreneurship Theory and Practice*, 32(1), 219–239.
- Wiklund, J., & Shepherd, D. (2003). Knowledge-based resources, entrepreneurial orientation, and the performance of small and medium-sized businesses. *Strategic Management Journal*, 24(13), 1307–1314.
- Wiklund, J., & Shepherd, D. (2005). Entrepreneurial orientation and small business performance: A configurational approach. *Journal of Business Venturing*, 20(1), 71–91.