

**Relationship between Market Orientation, Entrepreneurial Orientation, and Firm Performance in Thai SMEs:  
The Mediating Role of Marketing Capabilities**

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**Abstract**

This research investigates the firm performance predictors of Thai SMEs, examining the relationships among market orientation (MO), entrepreneurial orientation (EO), and firm performance (FP) through a sample of 405 SMEs operating in the service and retail industries. Specifically, we test the mediation effects on the relationships between MO, EO, and FP by marketing capabilities. Results indicate that MO has both direct and indirect impacts on FP, whereas EO has only a significant indirect impact on FP through the mediation of marketing capabilities. EO can predict MO, while marketing capabilities can predict marketing performance through financial outcomes. This study does provide evidence for best practice for SMEs in that MO and EO as constructs may not contribute to superior performance, organizations may require organizational capability resources, such as marketing capabilities, to attain superior business results.

*Keywords:* market orientation; entrepreneurial orientation; marketing capabilities; firm performance; SMEs; Thailand

*JEL classification:* L25; L26; M31

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**1. Introduction**

Small- and medium-sized enterprises (SMEs) play an important role in economic

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growth, innovation, and job creation, because they dominate global economies in terms of employment creation and number of firms (Katua, 2014). They represent over 95% of all companies around the world and account for about 50% of value-added and 60%-70% of total employment in most countries (International Trade Centre, 2015). Thus, SMEs' impact on the economic future of a nation cannot be understated, thus bringing forth increasing attention among governments, policymakers, and researchers (International Trade Centre, 2015). According to Gellynck et al. (2012), supportive policy changes have the potential to offer growth opportunities for innovative SMEs. Small firms have the potential competitive advantage to grow as they are close to their customers and can implement a market-oriented approach (Kajalo and Lindblom, 2015). SMEs have greater flexibility and are able to respond "to market changes in a much more agile way than large firms" (Gellynck et al., 2012).

Many countries (e.g. Australia, U.S., UK, South Korea, India, and China) have recently focused on innovation strategies as new engines of domestic economic growth. Thailand also has launched a new policy to transform its economic structure into becoming a value-based and innovation-driven economy. It aims to change from producing commodities to value-added goods and services and from a production-based to a service-based economy. Based on gross domestic product (GDP), the Thai economy has grown consistently between 7% and 8% annually over the period 1957-1993. However, from 1994 onwards, its GDP growth rate has decreased to between 3% to 5% per year, with many believing that the country has slid into the so-called Middle-Income Trap (Jimenez et al., 2012; Jitsuchon, 2012; Phasuk and Wann, 2013).<sup>1</sup> This implies that the country cannot develop its economy further to become a higher-income country, based on the World Bank's (2015b) gross national income (GNI) measurements. The ideal solution for Thailand to spring out of the Middle-Income Trap is to move up the economic value chain from labor-intensive to technology-intensive and service industries (Neill et al., 2014). To this end, Johnson et al. (2008), for example, illustrate how Taiwan is able to compete in the global market with its advanced, technology-intensive, information technology (IT) products. To enable such a policy, the Thai government generally focuses on promoting technology, creativity, and innovation in targeted industries, but given SMEs' prominence in the economy, the target upon this industry sector is rather critical.

The rest of the paper is structured as follows. It begins with SMEs' contribution to the Thai economy, followed by the literature review on topics incorporating the entrepreneurial orientation (EO)-firm performance nexus, the market orientation (MO)-firm performance nexus, and marketing capabilities as the mediating construct. This is followed by the hypotheses' development, the conceptual model, research method, analysis, and results. Finally, the study highlights the conclusions herein and their contribution to the literature, as well as implications for practice, limitations, and recommendation for future study.

## **2. SMEs' Contribution to Thailand's Economic Growth**

In Thailand, SMEs are a very important part of the economy as they comprise the majority of companies and are the main sources of job creation. They represent 99.73% of all enterprises and 80.30% of total employment (The OSMEP, 2015). Of the SMEs, small enterprises comprise the highest proportion of all enterprises at 72.83%. Regarding employment by sector, the service and retail sectors contribute 76.34% of overall employment, of which the service sector has the highest proportion at 44.77% of employment, followed by the retail sector at 31.57% of employment. In financial terms, SMEs contribute to 39.6% of GDP, of which small enterprises account for 27.8% and medium enterprises account for 11.8%. The SMEs' overall export contribution to the Thai economy is relatively high at 26.25% of total export value. The service sector is the most significant contributor to the Thai economy at 38.8% of total GDP.

Though they have strong potential to contribute to national growth, due to growth in competition and dramatic changes in consumer needs, Thai SMEs face difficulties of remaining in their markets and surviving (International Trade Centre, 2015; Sakolnakorn, 2010). In this paper we assert that in order to stay competitive and relevant, SMEs can benefit from the development of market opportunities by embracing market-oriented (MO) and entrepreneurial-oriented (EO) strategies (Gellynck et al., 2012; Kajalo and Lindblom, 2015; Neill et al., 2014). Both MO and EO strategies are known to generate improved firm performance (Baker and Sinkula, 2009; Lekmat and Chelliah, 2014). However, as mentioned earlier, more empirical research is necessary to support a direct relationship between MO and EO with firm performance. We shall test these two measurement constructs in the context of Thailand.

## **3. Entrepreneurship Orientation – Firm Performance Nexus**

The extant literature presents inconclusive evidence that entrepreneurship dimensions are direct antecedents of a company's performance, either from financial, marketing viewpoints or from other standards, particularly in developing Asian countries (Mthanti and Ojah, 2017; Gruber-Muecke and Hofer, 2015; Kajalo and Lindblom, 2015). Linton and Kask (2017) associate EO configurations of risk-taking, proactiveness, and innovativeness with a high-performance competitive strategy among 67 small firms in Sweden. They find two ideal types of competitive strategies associated with high firm performance: a differentiation strategy associated with innovativeness and proactiveness and a mixed strategy associated with risk aversion, reactivity, and low innovations. Mthanti and Ojah (2017), however, report that most studies on the entrepreneurship-growth performance nexus base their research on entry density when testing the EO's effect on economic growth. In their study of 93 countries over the period 1980-2008, they apply macro-level aggregated EO, risk-taking, innovativeness, and proactiveness and find EO to be positively correlated with economic growth, across all levels of development. This study suggests that nations

seeking to influence economic growth should foster entry of high EO firms and those with superior EO behaviors in existing firms.

Entrepreneurial orientation (EO) as a positive uni-dimensional determinant of firm performance has received substantial attention among scholars in the entrepreneurship literature in the last two decades (Gruber-Muecke and Hofer, 2015; Kajalo and Lindblom, 2015; Linton and Kask, 2017), as it captures unique combinations of firm characteristics, comprising risk-taking, innovation, and proactiveness (Covin and Slevin, 1989; Javalgi and Todd, 2011). Lumpkin and Dess (1996) suggest that EO is a multidimensional construct, adding autonomy and competitive aggressiveness to its concept. In support of Covin and Slevin's (1989) argument, empirical findings confirm that unidimensional EO "provide[s] more precise explanations of entrepreneurship as a firm-level phenomenon as well as greater insights into the relationship of entrepreneurial orientation and performance" (Kollmann and Stockmann, 2008).

Since EO supports firms to enhance their marketing performances by offering innovative products in developing markets that fulfill customers' latent needs (Gruber-Muecke and Hofer, 2015), studies widely suggest that EO tends to have positive business outcomes for a firm. Toward this end, Wu and Lin (2018) illustrate the importance of developing a culture of innovation orientation in firms in order to offer superior products that effectively satisfy customer needs, thus enhancing firm performance. One may argue a higher level of EO results in a firm's strong innovative capability, leading to higher marketing performance. However, a large amount of empirical research has focused on the direct link between EO and its consequences, while neglecting the indirect effect of EO on a firm's rents (Lekmat and Chelliah, 2011; Madsen et al., 2007). Likewise, EO studies do not generally consider how internal firm characteristics moderate and mediate the EO-FP association (Wiklund and Shephard, 2005; Kajalo and Lindblom, 2015; Lekmat and Chelliah, 2014). Zahra (1991) points out that results of the EO-FP link should be taken with caution. Some studies report that not all EO endeavors lead to improved performance (Hart, 1992; Soininen et al., 2012; Yu et al., 2016). Financial and non-financial measures can be useful in assessing EO performance at different points in time (Carton and Hofer, 2006). Non-financial dimensions may also lead to financial performance and vice versa (Gentry and Shen, 2010; Lekmat and Chelliah, 2011; Venkatraman and Ramanujam, 1986). Prior research reports that financial and non-financial measures complement each other, thus influencing a firm to invest in its future growth (Gentry and Shen, 2010). Thus, this study measures EO's contribution to firm performance through a firm's marketing performance and financial performance.

#### **4. Marketing Orientation – Firm Performance Nexus**

Market orientation (MO) refers to a firm's ability to create customer value based on customer and competitor intelligence (Kajalo and Lindblom, 2015; Ngo and O'Cass, 2012). The strategy literature considers MO as a critical concept to increase performance (Yu et al., 2016). Through some case studies, De Villiers and Coleman

(2017) show the importance of developing marketing competencies, capabilities, and capacities within the firm so as to achieve superior performance. Gellynck et al. (2012) argue that MO can lead to increased profitability. On the other hand, entrepreneurial orientation (EO) is also a firm's ability to pursue new opportunities (Wiklund and Shepherd, 2005; Yu et al., 2016).

While MO is viewed as a basis of marketing thought (Kirca et al., 2005), it is also an organizational process under which a firm acquires and utilizes market-based information and disseminates it throughout the organization (Yu et al., 2016). A firm that uses MO can attain a competitive advantage and higher business performance (Gruber-Muecke and Hofer, 2015). Scholars widely recognize two conceptualizations of MO developed by Narver and Slater (1990) and Kohli and Jaworski (1990) (Kajalo and Lindblom, 2015). Narver and Slater (1990) define the MO concept as an organizational culture that cultivates the required behaviors for superior customer value and then leads to higher firm performance. Narver and Slater (1990) suggest three key behavioral elements of MO: customer orientation, competitor orientation, and inter-functional coordination. In contrast, Kohli and Jaworski (1990) describe the MO concept as a behavioral viewpoint that constitutes three main aspects: market intelligence generation, dissemination, and responsiveness to market information. Although there is increasing empirical evidence from both the U.S. and Europe that suggests MO to be positively related to firm performance, such an association according to Gruber-Muecke and Hofer (2015) "is mediated by a number of variables such as strategy, economic volatility, supplier relationship and innovation" (p. 561). Mediation effects are important in establishing the link between MO and firm performance and thus require further investigation. This paper shall address both the unidimensional and multidimensional approaches in order to study EO-MO and EO-FP relationships in the context of SMEs in Thailand. This paper considers the multidimensional viewpoint of EO-MO and EO-FP and these relationships' mediating influences.

## **5. Marketing Capabilities as the Mediating Construct**

As the most comprehensive marketing leadership study conducted with in-depth contributions from over 350 CEOs, CMOs, and thought leaders, Marketing2020 identifies building marketing capabilities as the most important strategic lever to drive a competitive advantage (De Swaan Arons, 2015). Increasing convergent forces, such as digital marketing, globalization, and consumer expectations, tend to reiterate the importance of marketing capabilities as an important driver of firm performance. Thus, the importance of knowing how a firm's marketing function leads to better firm performance has never been greater.

Marketing capabilities refer to an improvement in the internal organizational processes designed to achieve firm growth. This is achieved through a sharper focus on the utilization of "shared knowledge, skills and resources of a company to meet the market needs, increase value to its goods and services, adjust to market environments, exploit market opportunities and confront competitive pressures" (Kajalo and

Lindblom, 2015). Moreover, marketing capabilities can be enhancing good marketing processes and practices through an effective implementation of marketing mix, research, and management (Merrillees et al., 2011). Empirical research findings (Kajalo and Lindblom, 2015; Perez-Cabanero et al., 2012; Shin and Aiken, 2012) confirm the positive impact that marketing capabilities have on firm performance and that marketing capabilities can positively increase a firm's overall outcomes. Moreover, according to Neil et al. (2014), the role of marketing capabilities and its influence on firm performance have been adequately explored in the western, developed country context, but more research needs to look at developing countries. In the following section, a brief discussion based on the arguments already provided will form the thrust of the hypotheses developed herein.

## **6. Hypotheses' Development**

### *EO and Marketing Capabilities*

EO and marketing capabilities are the performance antecedents of firms (Martin and Javalgi, 2016). EO is a firm-level concept that focuses primarily on the direct relationship between EO and performance, but there is a lack of research on the link between organizational capabilities and EO (Madsen et al., 2007). In response, Kajalo and Lindblom (2015) study the relationship between EO and marketing capabilities and find that EO positively correlates to superior marketing capabilities. Chen et al.'s (2012) findings support that EO can increase two organizational value-creating capabilities in terms of exploitative and exploratory competencies. Martin and Javalgi (2016) demonstrate how the relation between a firm's EO and marketing capabilities can achieve superior performance than the simple relation between EO and firm performance. Through a study covering under-developed countries such as Fiji et al. (2014) find a positive relationship between EO and marketing capabilities. Therefore, we formulate the following hypothesis.

**Hypothesis 1.** In Thai SMEs, entrepreneurship orientation (EO) positively relates to marketing capabilities to enhance firm performance.

### *MO and Marketing Capabilities*

Kajalo and Lindblom (2015) suggest that though MO supports firm performance, it is more likely to support smaller retailers at developing effective marketing processes, focusing on their strategy and paying greater attention to store-level marketing mix. Similarly, Ngo and O'Cass (2012) claim that when smaller firms implement MO, they have a greater opportunity of developing their marketing capabilities. Moreover, in their study of SMEs Gellynck et al. (2012) find that firms with higher market-orientation levels tend to have distinctive marketing capabilities, particularly marketing management processes. Based on this understanding, we set up the next hypothesis for testing.

**Hypothesis 2.** In Thai SMEs, marketing orientation (MO) positively correlates to marketing capabilities to enhance firm performance.

#### *EO-MO Nexus*

There is generally limited research on MO and EO concepts as related to service and retailing sectors (Kajalo and Lindblom, 2015; Liao et al., 2011). Specifically, very few studies address these sectors from the context of Asia (Lekmat and Chelliah, 2014).

Kajalo and Lindblom (2015) point out that uni-dimensional studies of “MO and EO alone are not sufficient to generate improved results”. Ngo and O’Cass (2012) claim that “MO should complement with other firm resources and capabilities” which, in turn, contributes to improved firm performance. Murrey et al. (2011) find that marketing capabilities mediate the link between MO and performance. Similarly, there are also studies that do not find a significant association between EO and firm performance (Soininen et al., 2012; Yu et al., 2016). Overall, there is no definitive study linking MO to EO as firm performance measures. We address this here and offer the following hypothesis to be tested.

**Hypothesis 3.** In Thai SMEs, marketing orientation (MO) positively correlates to entrepreneurship orientation (EO) to enhance firm performance.

#### *Marketing Capabilities (MC) and Firm Performance*

The impacts of both strategic orientations, EO and MO, on business performance for retail firms are critical issues requiring further research, because the two alone are not enough to promote strong business performance (Kajalo and Lindblom, 2015; Ngo and O’Cass, 2012; Shin and Aiken, 2012). A firm can only enhance its competitive advantage and profitability through the use of MO and EO when developing its marketing capabilities (Kajalo and Lindblom, 2015; Lin et al., 2015; Ngo and O’Cass, 2012; Shin and Aiken, 2012). Therefore, marketing capabilities play a critical driving role for implementing (1) financial performance measures and (2) marketing performance with regard to activities and opportunities that can transform organizational capability into better customer satisfaction and profitability. This study thus proposes that marketing capabilities can enhance a firm’s outcomes in two different performance measures: marketing and finance. Hence, we formulate the following hypotheses for testing.

**Hypothesis 4.** In Thai SMEs, marketing capabilities positively correlate to financial performance.

**Hypothesis 5.** In Thai SMEs, marketing capabilities positively correlate to market performance.

#### *Relationship between Entrepreneurship Orientation (EO), Market Orientation (MO), and Firm Performance in Thai SMEs*

It appears that empirical studies on the relationship between these four variables; EO, MO, MC, and FP, are still limited. However, some scholars highlight the need to consider the complementary effects of both EO and MO on market capabilities and performance (Kajalo and Lindblom, 2015). While previous studies consider partial relationships between these variables, others examine the association between MO,

EO, and performance, but do not include market capabilities in their models (Gonzalez-Benito et al., 2009; Gruber-Muecke and Hofer, 2015; Kajalo and Lindblom, 2015; Todorovic and Ma, 2008; Yu et al., 2016). Likewise, some studies analyze only one type of strategic orientation, either MO or EO on performance (Jimenez-Jimenez et al., 2008; Kwon, 2010; Ndubisi and Ifikhar, 2012; Huhtata et al., 2014). The existing evidence is not completely consistent and even sometimes reports a non-significant relationship (Huhtata et al., 2014). Therefore, it is difficult to compare the influences of EO and MO on firm performance. As a result, it is not possible to conclude whether their impacts on firm performance are exclusive directly or indirectly, i.e. through their positive impact on market capabilities. Clarifying these complex relationships would benefit not only academia, but also practitioners, as it would help them to know how to cultivate market capabilities and performance. The appendix presents a review of prior literature on EO, MO, marketing capabilities, and firm performance.

This paper thus looks to fill the research gap in the literature. Particularly, we aim to empirically study the relationship between EO, MO, market capabilities, and firm performance in a single model. In addition, we employ multiple measures of performance, including financial and non-financial indicators. Given that the extant literature suggests that the EO-MO relationship to firm performance is both multidimensional and uni-dimensional, and that marketing capabilities are viewed as a mediating construct in this relationship, we put forward the following hypothesis for testing.

**Hypothesis 6.** In Thai SMEs, the positive relationships for MO-firm performance, EO-firm performance, finance performance, and marketing performance are mediated by marketing capabilities.

## **7. Conceptual Model**

Based on the set of hypothetical relationships described above, we present the conceptual model of the study as follows (Figure 1). We test this model with empirical data and explain this process in the next section.

## **8. Research Methodology**

Given the importance of SME development to the prosperity of the Thai economy, this paper explores the SME performance dynamics as they impact the retail, wholesale, and service sectors. Rooted in objective research paradigm, this research applies a survey-based quantitative technique. Survey questionnaires were distributed to CEOs and marketing managers of 600 SMEs. In total, 435 questionnaires were returned of which 405 were usable, producing a response rate of 68%. These SMEs represent several retail/wholesale and service industries located across all regions of Thailand. Table 1 lists the respondent characteristics.



Figure 1. Conceptual Model of the Study

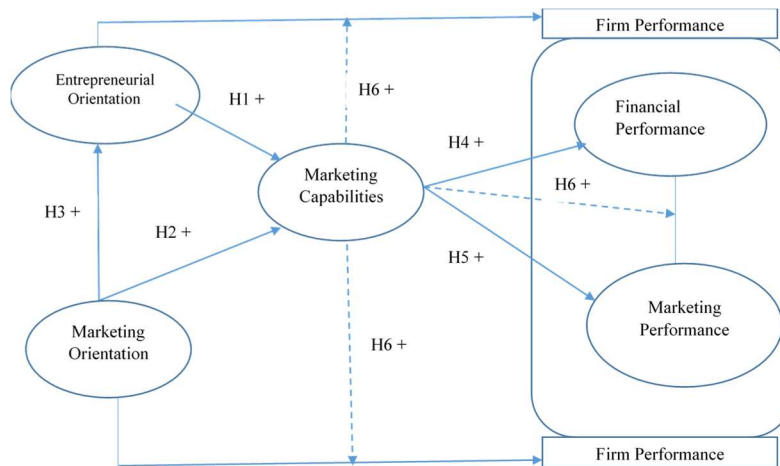


Table 1. Demographic Characteristics of the Respondents (N = 405)

Description	%
<b>Gender of respondents</b>	
Male	30.6
Female	69.4
<b>Age of respondents</b>	
35 years or less	29.4
36-45 years	26.4
46-55 years	31.1
Over 55 years	13.1
<b>Position of respondents</b>	
President/Owner	31.1
MD	49.1
Manager	19.8
<b>Firm age</b>	
0-5	15.5
6-10	23.7
11-20	43.0
> 20	17.8
<b>Firm size</b>	
0-15	71.1
16-25	12.8
26-50	9.6
51-200	5.7
<b>Business type</b>	
Service	55.3
Retail/Wholesale	44.7
<b>Industry classification of firms</b>	
Agricultural Product	16.0
Apparel	32.9
Consumer Products	10.6
Food and Beverage	14.4
Gems and Jewelry	6.4
Hotel	10.3
Health and Beauty Products	9.4

We evaluate non-response bias by dividing the respondents into early and late respondents. We then perform the *t*-test procedure on market capabilities and firm performance variables and find no significant difference ( $p < 0.5$ ). Therefore, the non-response bias does not indicate a problem in the dataset responses.

#### *Measures*

All items are measured on a five-point Likert scale, with the items measuring MO adopted from Kajalo and Lindblom (2015) based on Narver and Slater (1990) and Kohli et al. (1990) scales since “both had been previously tested and found to have acceptable measurement properties, particularly for developing economies” (Gruber-Muecke and Hofer, 2015). The items comprise three behavioral perspectives, mainly involving customer orientation, competitor orientation, and coordination among departments.

The items for EO are developed based on the items from Covin and Slevin (1989) and Kajalo and Lindblom (2015). The items consist of three dimensions, primarily relating to the top management’s decision making and action towards product/market innovation, risk-taking, and proactiveness. The items for marketing capabilities are adopted from Kajalo and Lindblom (2015). To capture different characteristics of firm performance, the items for financial and marketing aspects are adapted from Carton and Hofer (2006), Kajalo and Lindblom (2015), and Lekmat and Chelliah (2014).

## **9. Analysis and Results**

We employ structural equation modeling (SEM) to test the proposed theoretical model where factor analysis and multiple regression are combined in a single statistical procedure (Hair et al., 2006). We use a two-step SEM approach following the suggestions of Anderson and Gerbing (1988). First, confirmatory factor analysis (CFA) assesses the validity of the measurement models and the discriminant validity of each construct. Second, we utilize a structural model to test the hypotheses.

#### *Measurement Model Analyses*

We conduct confirmatory factor analysis (CFA) to evaluate the reliability, the convergent validity, and the discriminant validity of the constructs. We then assess the reliability of each construct by Cronbach’s alpha. All constructs exceed the suggested level of 0.70 (ranging from 0.75 to 0.84), signifying that the constructs have acceptable internal consistency as shown in Table 2. In addition, all factor loadings are statistically significant at  $p < 0.01$  and range from a low of 0.51 to a high of 0.93, supporting convergent validity as seen in Table 2.

We evaluate discriminant validity for each construct following Fornell and Larcker (1981). We examine the average variance extracted (AVE) and show that the AVE scores of all concepts ranging from 0.64 to 0.83 are higher than 0.50 (see Table 3). This confirms discriminant validity between the constructs (Tajeddini, 2010).

**Table 2. Construct Measures and Validity Measurement**

Constructs and Measures	Std. loadings
<i>F1: Market orientation<sup>1</sup> (α = 0.77)</i>	
(MO1) We are able to respond rapidly to our competitors' actions <sup>a</sup>	
(MO2) Our competitive activities are driven by creating customer satisfaction	0.51
(MO3) We frequently assess customer satisfaction	0.78
(MO4) We actively assess our competitors' behavior	0.63
(MO5) We coordinate all our functions to maximize customer satisfaction	0.65
<i>F2: Entrepreneurial orientation<sup>1</sup> (α = 0.77)</i>	
(EO1) We are willing to take great risks to achieve growth	0.71
(EO2) We constantly introduce new products and services to achieve growth	0.74
(EO3) We constantly try to stay ahead of our competitors to achieve growth	0.66
<i>F3: Market capabilities<sup>1</sup> (α = 0.75)</i>	
(MC1) Ability to create and manage close customer relationships	0.62
(MC2) Ability to enhance assortments with new successful products	0.77
(MC3) Ability to set attractive retail prices	0.73
<i>F4: Financial performance<sup>2</sup> (α = 0.84)</i>	
(FP1) Sales growth	0.87
(FP2) Profitability level (ROA)	0.93
(FP3) Cash flow	0.64
(FP4) Profit margin	0.63
<i>F5: Marketing performance<sup>2</sup> (α = 0.83)</i>	
(MP1) Level of customer satisfaction	0.69
(MP2) Sales volume	0.84
(MP3) Market share	0.80
(MP4) Customer loyalty	0.71

Notes: <sup>1</sup>Please indicate how much you agree and disagree with each of the following statements. Five-point scale with 1 = "strongly disagree" to 5 = "strongly agree" as scale anchors; <sup>2</sup>please indicate how well your firm has performed compared to your competitors. Five-point scale with 1 = "very low" to 5 "very high."  
<sup>a</sup>Item deleted during the scale validation process.

**Table 3. Descriptive Statistics and Correlations**

	Mean	SD	Alpha	AVE	1	2	3	4	5
1. MO	4.27	0.50	0.77	0.64	1				
2. EO	4.39	0.55	0.77	0.83	0.57**	1			
3. MktCap	4.38	0.47	0.75	0.81	0.43**	0.53**	1		
4. Finance	3.73	0.64	0.84	0.77	0.18**	0.23**	0.27**	1	
5. Marketing	4.08	0.52	0.83	0.76	0.35**	0.36**	0.35**	0.61**	1

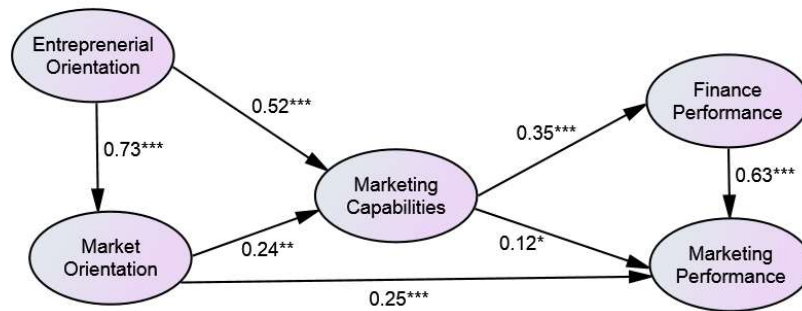
\*\* Correlation is significant at the 0.01 level (2-tailed).

*Testing of Hypotheses*

Following the establishment of measurement models, we now evaluate a full structural equation model, finding that it does not fit the data,  $\chi^2(6) = 312.82$ ,  $p = 0.00$ ,  $CMIN/DF = 52.14$ ,  $RMSEA = 0.36$ ,  $GFI = 0.80$ , and  $CFI = 0.46$ . An assessment of the modification indices based on theory validation proposes that

adding structural paths from ‘entrepreneurial orientation’ to ‘market orientation’, ‘market orientation’ to ‘marketing performance’, and ‘financial performance’ to ‘marketing performance’ could improve the model,  $\chi^2(3) = 3.09$ ,  $p = 0.38$ ,  $CMIN/DF = 1.03$ ,  $RMSEA = 0.01$ ,  $GFI = 0.99$ , and  $CFI = 1.00$ . Thus, the adjusted model presented in Figure 2 is considered acceptable.

Figure 2. Final Model of EO, MO, MC, and Performance



Note: \* significant at  $p > 0.05$ , \*\* significant at  $p > 0.01$ , \*\*\*significant at  $p < 0.001$ .

The arrows with supportive  $\beta$  coefficients shown at the center of each link in Figure 2 demonstrate that all hypotheses are supported (also see Table 3). This result shows that EO positively correlates to marketing capabilities ( $\beta = 0.52$ ,  $p < 0.001$ ), thereby supporting H1. In addition, MO has a positive effect on marketing capabilities ( $\beta = 0.24$ ,  $p < 0.001$ ), thereby supporting H2. Interestingly, EO has a strong impact on MO ( $\beta = 0.73$ ,  $p < 0.001$ ), suggesting that entrepreneurial orientation measures have a strong influence on the marketing orientation behaviors of the firm. Furthermore, marketing capabilities positively correlate with financial performance ( $\beta = 0.35$ ,  $p < 0.001$ ) and marketing performance ( $\beta = 0.12$ ,  $p < 0.001$ ), thereby supporting H4 and H5. Thus, given the significant relationships between marketing capabilities and MO, EO, and financial and marketing performances, as illustrated in the model fit in Figure 2, we can establish that marketing capabilities mediate between the SME constructs. This thus supports H6, for the mediating role of marketing capabilities in SME performance dynamics in Thailand.

Beyond the hypothesized model, the findings suggest MO has a weak effect on marketing performance ( $\beta = 0.25$ ,  $p < 0.001$ ) and financial performance has a strong effect on marketing performance ( $\beta = 0.63$ ,  $p < 0.001$ ). This study does not support a direct relationship between EO and FP, which is similar to Kajalo and Lindblom (2015) who find that the EO-FP relationship is mediated by marketing capabilities. Such a mediation relationship seems to vary across prior studies, because scholars focus mainly on the direct association between EO and FP with little attention on investigating the indirect performance influence of EO. Lastly, the  $R^2$  values indicate that the model explains 53% of MO and marketing capabilities and 12% and 61% of financial and marketing performances, respectively.

The findings of this research suggest that marketing capabilities can be viewed as the link between ‘MO and performance.’ This reaffirms the results of prior studies (e.g. Kajalo and Lindblom, 2015; Murray et al., 2011; Ngo and O’Cass, 2012). Kajalo and Lindblom (2015) argue that “the relationship between MO and performance cannot be treated in isolation from marketing capabilities.” Thus, MO is required to complement marketing capabilities to improve business outcomes. Moreover, this study highlights the importance of the indirect effect of EO on performance. It suggests that EO increases performance through marketing capabilities. Therefore, it is essential to include marketing capabilities as an internal performance gauge when investigating the association between EO and firm performance (Kajalo and Lindblom, 2015)

**Table 4. EO, MO, and Firm Performance Supporting the Hypotheses**

Hypotheses	Testing	Status
<b>Hypothesis 1.</b> In Thai SMEs, entrepreneurship orientation (EO) positively correlates to marketing capabilities to enhance firm performance.	$\beta = 0.52, p < 0.001$	High support
<b>Hypothesis 2.</b> In Thai SMEs, marketing orientation (MO) positively correlates to marketing capabilities to enhance firm performance.	$\beta = 0.24, p < 0.001$	Support
<b>Hypothesis 3.</b> In Thai SMEs, marketing orientation (MO) positively correlates to entrepreneurship orientation (EO) to enhance firm performance.	$\beta = 0.73, p < 0.001$	Very high support
<b>Hypothesis 4.</b> In Thai SMEs, marketing capabilities (MC) positively correlate to financial performance (FP).	$\beta = 0.35, p < 0.001$	Support
<b>Hypothesis 5.</b> In Thai SMEs, marketing capabilities (MC) positively correlate to market performance (MP).	$\beta = 0.12, p < 0.001$	Support
<b>Hypothesis 6.</b> In Thai SMEs, the positive relationships for MO-firm performance, EO-firm performance, finance performance, and marketing performance are mediated by marketing capabilities.	$\chi^2(3) = 3.09, p = 0.38, CMIN/DF = 1.03, RMSEA = 0.01, GFI = 0.99$ and $CFI = 1.00$	Support

Based on the indirect impact of EO on MO via marketing capabilities, this study suggests that EO is highly influential in promoting superior MO, which in return has effective marketing capabilities. The results support the argument of Shin and Aiken (2012), stating that “these orientations are not mutually exclusive and that it is common for firms to engage in multiple sets of these strategic behaviors simultaneously.” Since the literature supports these orientations as distinct constructs, further research is needed to determine the different instruments and paths of relationships between these important concepts.

The findings lastly demonstrate that marketing capabilities have both direct and indirect impacts (through financial performance) on marketing performance. This

study hence suggests that an emphasis on the multidimensional performance measures would provide a clearer understanding of MO-performance and EO-performance relationships (Lekmat, 2009).

## **9. Conclusion**

The findings of this study suggest that both MO and EO, as uni-dimensional constructs, do improve SME performance, particularly in finance and marketing both directly and indirectly via marketing capabilities. This paper provides new insights into the MO-performance and EO-performance relationships among retail and service SMEs in Thailand. Thailand as an emerging economy is highly dependent upon SME growth. Though findings on the relationships between firm performance indices are mixed and in some way formative, this paper suggests that the two specific strategic orientations, EO and MO, could assist a firm at improving its allocation of critical resources and capabilities, thus enhancing overall SME performance in Thailand.

### *Contribution to the Literature*

This paper fills a research gap in the literature by inspecting the effects of MO and EO on firm performance among Thailand's SMEs in the service and retail sectors. The results of this research provide substantial contributions to the literature as follows. First, this study shows that MO impacts firm performance directly and indirectly through marketing capabilities. The direct impact of MO on performance is supported by other studies such as Gruber-Muecke (2015), Kwon (2010), and Yu et al. (2016). However, the finding of this paper runs contrary to the results of Kajalo and Lindblom (2015), who suggest that MO does not directly affect business performance in small firms. Furthermore, Murray et al. (2011) also report that MO has no direct influence on profitability. As a result of this contradiction, this study argues that MO may not always contribute to superior performance and may require organizational capability resources to attain superior business outcomes (Kajalo and Lindblom, 2015; Kwon, 2010; Ngo and O'Cass, 2012). This research thus highlights the indirect effect of MO on performance via market capabilities and argues that marketing capabilities can act as the link between MO and performance. It is therefore important to note that MO requires marketing capabilities as complementary resources to enhance higher performance of SMEs (Ngo and O'Cass, 2012).

Second, this study indicates that EO only has an indirect impact on firm performance. The finding is in line with previous studies (e.g. Lekmat and Chelliah, 2014). Thus, it is vital to highlight the indirect influence of EO on performance since empirical studies have emphasized largely on the direct association between EO and performance rather than investigating the indirect performance effect of EO. This paper suggests that EO improves performance through marketing capabilities, and this is supported by other studies (e.g. Kajalo and Lindblom, 2015; Neill et al., 2014). Therefore, it is important to include the internal organizational process, particularly marketing capabilities, when exploring the consequence of EO on the performances of SMEs (Kajalo and Lindblom, 2015).

It is important to note that EO can influence MO, which, in return, impacts

marketing capabilities. The finding of this research supports the argument of studies where EO is likely to correlate, but is different from MO (Abebe, 2014). Abebe (2014) claims that MO focuses on customer and competitor intelligence, whereas EO emphasizes on untapped market opportunities. Consequently, firms can engage in these strategic behaviors consecutively, which in turn contribute to a high level of market resources and strong marketing competences (Ngo and O’Cass, 2012; Shin and Aiken, 2012). Therefore, this study argues that EO acts as a stimulus to influence the relationship between MO and market capabilities.

Finally, it is interesting to highlight that marketing capabilities have both direct and indirect effects (through financial performance) on marketing performance. Hence, financial and non-financial aspects can be valuable when assessing the firm performance implications at different points in time (Carton and Hofer, 2006). Organizations that have higher marketing competence are likely to attain a higher level of financial outcome and also positive non-financial outcomes than organizations that are lower in marketing competence. Marketing competence is considered as one of the fundamentals for market performance (e.g. customer satisfaction, market expansion, and market growth) since higher profit, return on sales, and working capital can make significant influences on the realization of market goals (Gunday et al., 2011; Tahseen, 2012).

#### *Implications for Practice*

This paper also provides some managerial contributions. First, to improve organizational performance, SMEs should consider both strategic components, including marketing activities as well as opportunity pursuing behavior. In addition, this study suggests that focusing only on MO or EO or even on MO and EO alone may not be enough, but instead may require integrative organizational processes to fully achieve superior performance. Specifically, when marketing capabilities are enhanced, superior financial and marketing performance may be attained. Consequently, it is vital to search for new opportunities and thereby interpret and understand the markets to create distinctive value. Being proactive and risk taking would help firms to understand the capabilities of both key current and potential competitors and to use resources for providing better value for customers. An effective use of marketing processes involving marketing mix components and strategy would reveal the value creation effects of MO and EO. Therefore, firms are recommended to consider each element of strategic orientation individually - namely, market and entrepreneurial orientations - and assess the core capabilities together with marketing capabilities.

#### *Limitations and Recommendations for Further Study*

The following are some limitations of the study. First, the sample of this study includes SMEs in the retail and service sectors. It is therefore recommended that future research should be conducted covering other business fields and national settings in which the business environment and culture are different from developing countries. Previous research has found that the influence of EO on performance may be different in different environment conditions (eg., Lekmat and Chelliah, 2011; Wiklund and Shephard, 2005). Moreover, future research may want to consider a longitudinal study

to examine how MO and EO enable to provide strategic benefits to SMEs in a longer period of time. A long-term orientation is required to explore how MO and EO strategically influence the link between both strategic orientations and SME performance, particularly for retail and service sectors over time. Furthermore, qualitative empirical research would provide an in-depth understanding of the association between MO, EO, and performance in the context of small firms.

### Notes

1. According to the World Bank (2015), low-income countries are those with a gross national income (GNI) per capita of US\$1,045 or less in 2014; lower-middle-income countries are those with a GNI per capita of US\$1,046-\$4,125; upper-middle-income countries are those with a GNI per capita of US\$4,126-12,735; and higher-income countries are those with a GNI per capita of US\$12,736 or more.

### Appendix

**Table A. Review of Prior Literature on EO, MO, Marketing Capabilities, and Performance**

Author(s)	Theory/model	Key variables	Survey overview	Factors/major findings	Value added
Todorovic & Ma (2008)	Conceptual argument development of the relationship between EO and MO and their antecedents and consequences on FP in two different cultural contexts.	- EO (innovativeness, risk-taking, and proactiveness) - MO (customer and competitor orientations, and inter-functional coordination) - FP - Cultural contexts (individualism/collectivism and uncertainty avoidance)	Using Hofstede's data for triangulation purposes in comparison between 5 developed countries with highest GDP and 5 developing countries with lowest GDP	- EO and MO are correlated themselves and directly related to FP in western cultures. - Both EO and MO are related to FP in developing countries. - Entrepreneurial firms in collectivist cultures face lean resource environments and thus attain lower EO-MO correlation and lower FP.	- A pioneer study that considers the effect of the MO-EO correlation on FP and suggests they must both be simultaneously maximized in order to gain maximum effect on FP. - A pioneer study that examines the role of multicultural perspective and resource on MO-EO-FP relationship. - Expands the scope of the study to non-western countries.



Table A. (Cont'd)

Author(s)	Theory/model	Key variables	Survey overview	Factors/major findings	Value added
Jiménez-Jimenez et al. (2008)	Empirical study of the relationship of MO, organizational learning (OR), innovation, and FP.	- MO (intelligence generation, dissemination, and responsiveness) - OR - FP (share market, profitability, productivity, and customer satisfaction)	Survey ( <i>n</i> = 744) of Spanish companies (cover all firm sizes, across various industries)	- Both MO and OR affect innovation. - There is no direct link between MO and OR on FP. - The impact of MO and OR on FP is completely mediated by innovation.	- Highlights the significant effect of strategic orientations (MO, OR, but not including EO) on FP when another factor (innovation) is included.
Gonzalez-Benito et al. (2009)	Empirical evidence about the relationships between EO, MO, and FP.	- MO (intelligence generation, dissemination, and responsiveness), - EO (innovativeness, risk-taking, proactiveness), - FP (profitability, market response, market position value, and new product success)	Survey ( <i>n</i> = 183) of Spanish companies (cover all firm sizes, across various industries)	- There is a strong relationship between EO and MO. - Each orientation impacts on FP. - There is a positive interaction effect of EO and MO on both financial operational aspects (with the exception of market position value). - MO moderates the relationship between EO and FP (only for operational performance measures).	- Highlights the relationship between EO and MO. A higher degree of EO implies a higher degree of MO. - Highlights the joint role of EO and MO on FP and suggests that they share common elements and consequently facilitate each other's implementation. - Categorizes FP into both financial (short-term scope) and operational aspects (long-term scope).
Kwon (2010)	Empirically examines the effects of MO on FP, the interaction effects of MO and technology advantages on FP interaction effects of MO, and network relationships on FP.	- MO (customer and competitor orientations, and inter-functional coordination), - Technology advantages - Network relationships - FP (i.e. sales volume, sales growth, sales profitability, market share, and success of market entry)	Survey ( <i>n</i> = 168) of Korean MNC subsidiaries operating in emerging countries (China and India)	- MO impacts performance. - There is a positive effect of the interaction of MO and technology advantages on foreign subsidiaries' performance. - There is a positive effect of the interaction of MO and network relationships on foreign subsidiaries' performance.	- Highlights the stronger effect of MO on FP when other factors (technology advantages and network relationships) are included. - Emphasis on the multiple criteria of FP measures. - Pioneer study of MO in the context of MNC subsidiaries in emerging countries.

**Table A. (Cont'd)**

<b>Author(s)</b>	<b>Theory/model</b>	<b>Key variables</b>	<b>Survey overview</b>	<b>Factors/major findings</b>	<b>Value added</b>
Shin & Aiken (2012)	Empirically investigates the impact of strategic orientations on FP and the links between strategic orientations on FP via marketing capability (MC).	- Strategic orientations (learning, technology, customer, and competitor), - MC (marketing planning and implementation ability) - FP (customer satisfaction, market effectiveness, and profitability)	Survey ( $n = 198$ ) Korean Top 500 firms in terms of sales (across various industries)	- All orientations impact FP through MC (as a full or partial mediator). - MC has a direct effect on FP.	- Pioneer study arguing that MC is needed between strategic orientation and FP. - Recognizes the need for firms to engage in multiple sets of strategic behaviors simultaneously (but no MO & EO are included). - Extends geographic study to an Asian country (majority research in this field comes from western countries).
Gellynck et al. (2012)	Analyzes MO of SMEs by assessing MC.	- MO (intelligence generation, intelligence dissemination, and responsiveness) - MC (market research, market strategy, planning & implementation, control & evaluation, and innovativeness)	Survey ( $n = 118$ ) SMEs (traditional food producers) in the EU (i.e. Hungary, Belgium, and Italy)	- 4 clusters are classified with significantly different MC; firms are marketed oriented when they have good marketing management capabilities.	- Addresses MO and MC in SMEs. - Adds 3 variables connected to innovativeness into MC. - Identifies the critical points of marketing activities. - Categorizes firms into market oriented, intermediate market oriented, less market oriented, and not market oriented. - Addresses MO can lead to better performance.

Table A. (Cont'd)

Author(s)	Theory/model	Key variables	Survey overview	Factors/major findings	Value added
Perez-Cabanero et al. (2012)	Empirically investigates the impact of different MC on various measures of FP.	- MC (market planning, product differentiation, market information, communication, and pricing) - FP (financial: PBIT, NOPAT, ROA, and gross operating margin; stakeholder satisfaction: customer and employee satisfaction, and firm's contribution to society and its environment)	Survey ( $n = 391$ ) of Spanish family firms (manufacturing FSMEs)	- MC for product differentiation has a positive impact on stakeholders' satisfaction while other MC (marketing planning and pricing) have a positive impact on financial performance.	- Addresses different MC have different impacts on various measures of FP. - Emphasis on the multiple criteria of FP measures (financial and non-financial criteria). - Suggests the MC-FP relationship should be considered mediating variables such as strategic orientations.
Ndubisi & Iftikhar (2012)	Empirically investigates the relationship between EO, innovation, and FP.	- EO (risk-taking, proactiveness, and autonomy), - Innovation - FP (quality performance)	Survey ( $n = 124$ ) Pakistani SMEs (service sector)	- EO is significantly associated with innovation and quality performance. - Innovation is directly related to performance and mediates the EO-FP relationship.	- Highlights the direct and indirect effects of EO on performance.
Huhtata et al. (2014)	Empirically examines the relationship between MO, innovation capability, and FP.	- MO (customer and competitor orientations, and inter-functional coordination) - Innovation capability - FP (relative profit, ROI, and ROA)	Survey ( $n = 202$ ) Finnish companies (cover all firm sizes, across various industries)	- Innovation capability fully mediates the FP effects on MO during an economic upturn whereas the mediation is only partial during a downturn.	- Highlights the mediating role of innovation capability on individual MO and that the FP relationship varies along the economic cycle.

**Table A. (Cont'd)**

<b>Author(s)</b>	<b>Theory/model</b>	<b>Key variables</b>	<b>Survey overview</b>	<b>Factors/major findings</b>	<b>Value added</b>
Kajalo & Lindblom (2015)	Empirically investigates the impact of MO and EO on FP and the links between MO and EO on BP via MC.	- MO (customer and competitor orientations, and inter-functional coordination), - EO (innovativeness, risk-taking, and proactiveness) - MC (i.e. customer relationship management, assortment planning, and pricing) - FP (sales, profitability, and financial success)	Survey ( $n = 258$ ) of Finnish small non-food retail stores	- MO indirectly affects performance via MC. - EO has both direct and indirect impacts on FP. - MC has a strong impact on FP.	- Addresses MC as a link between MO-FP and EO-FP. - Highlights the need for studies in small retailers. - Only one study analyzes EO, MO, MC, and FP in a single model.
Gruber-Muecke & Hofer (2015)	Empirically examines the relationship between MO, EO, and international FP.	- MO (customer and competitor orientations, and inter-functional coordination), - EO (innovativeness, proactiveness and risk behavior, and management professionalization) - FP (financial and growth measures i.e. profitability, employee growth, and market share)	Survey ( $n = 170$ ) of Austrian manufacturing firms from various industries	- MO and EO are positively related to FP.	- New insights into the MO-EO-FP relationship in emerging markets. - Highlights international FP.

Table A. (Cont'd)

Author(s)	Theory/model	Key variables	Survey overview	Factors/major findings	Value added
Lin et al. (2015)	Empirically examines the impact of MC on MO and FP relationship.	- MO (intelligence generation, intelligence dissemination, and responsiveness), - MC (component and architectural competence) - FP (market knowledge creation, customer satisfaction, and profit performance)	Survey ( $n = 137$ ) of Taiwanese firms (cover all firm sizes, across various industries)	- The MO and FP nexus is confirmed. - The impact of MC on FP is partially supported. - MO and MC are positively related. - There is a complementary effect existing among MO, MC, and FP.	- Highlights the importance of MC as an object for improving FP by creating MO. - Suggests the complementary of MO and MC will drive greater performance.
Yu et al. (2016)	Empirically examines the mediating effect of IoT capability and alliance on EO and MO and innovations.	- IoT capability and alliance - EO (innovativeness, risk-taking, and proactiveness) - MO (customer and competitor orientations, and inter-functional coordination) - Innovation (product and process)	Survey ( $n = 207$ ) of Chinese high-tech firms	- Neither EO nor MO have significant effects on product and process innovations. - IoT capability and alliance mediate the links between EO and innovations as well as between MO and innovations	- Highlights the mediating effect of other variables (but not including MC) on EO-FP and MO-FP relationships.

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