

Entrepreneurial Orientation and SME Growth in Emerging Markets: Evidence from Pakistan

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ABSTRACT

Small and Medium Enterprises (SMEs) constitute the backbone of Pakistan's economy, contributing approximately 40% to GDP and generating up to 80% of non-agricultural employment. In this volatile emerging-market context, Entrepreneurial Orientation (EO) encompassing innovativeness, proactiveness, risk-taking, autonomy, and competitive aggressiveness has been identified as a critical strategic posture that drives SME growth and survival. This review synthesizes theoretical foundations (Miller's unidimensional model, Lumpkin & Dess's multidimensional framework, and the Resource-Based View) with empirical evidence from Pakistan, demonstrating that higher EO consistently correlates with superior financial performance (ROE, sales growth), export success, and resilience, particularly in manufacturing clusters such as Sialkot. However, the positive EO-performance relationship is moderated by severe structural barriers, including a \$4.8 billion finance gap, high interest rates (22%), information asymmetry, and a pronounced digital divide. Emerging themes such as Green Entrepreneurial Orientation (GEO) and digital capability further shape long-term sustainability and international competitiveness. The analysis highlights policy progress under the National SME Policy 2021 and the 5Es framework, while underscoring the need for targeted interventions in access to finance, digital infrastructure, entrepreneurial training, and green technology adoption. Strengthening EO through institutional support is essential for transforming Pakistan's SME sector into a resilient engine of inclusive economic growth and sustainable development.

Keywords: Entrepreneurial Orientation, Sme Growth, Pakistan, Emerging Markets, Innovativeness, Proactiveness, Risk-Taking, Resource-Based View, Green Entrepreneurial Orientation, Digital Transformation, Structural Barriers, SME Policy

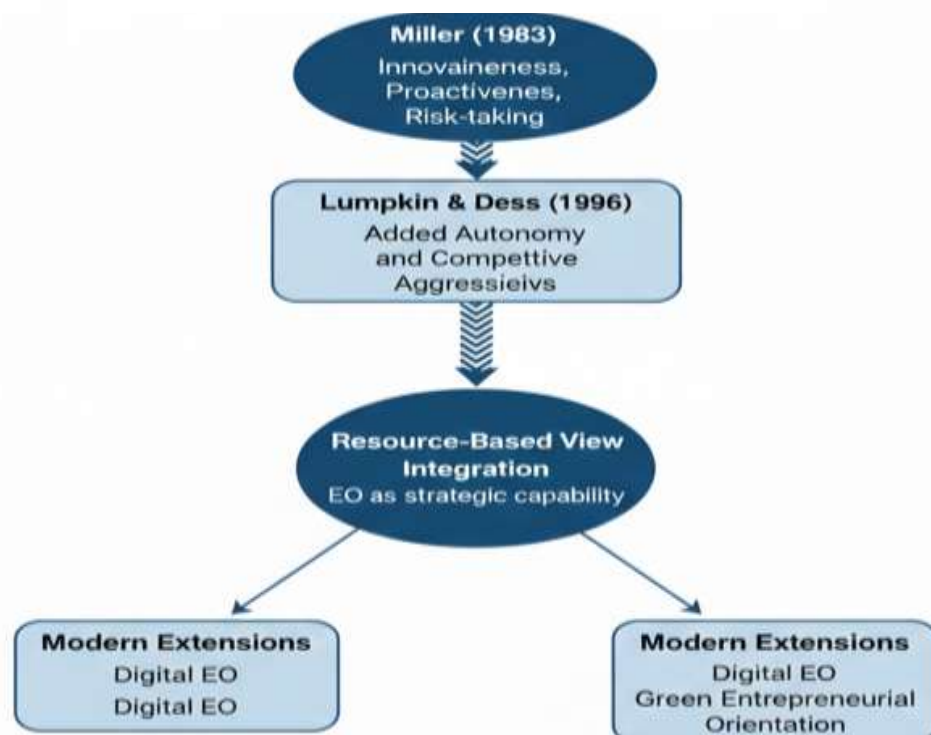
Introduction

Small and Medium Enterprises (SMEs) represent the most vital segment of Pakistan's economic landscape, serving as the primary engine for private sector activity and employment (Khowaja et al., 2021). In the face of increasing global competition and a volatile domestic environment, the strategic posture of these firms defined as Entrepreneurial Orientation (EO) has emerged as a critical determinant of their growth and survival (Aftab et al., 2022). This article reviews the theoretical foundations of EO, evaluates its impact on firm performance in Pakistan, and identifies the structural barriers that moderate this relationship (Reshi et al., 2025).

Theoretical Evolution and Conceptual Framework of Entrepreneurial Orientation

The academic discourse surrounding entrepreneurial orientation (EO) has undergone significant transformation, evolving from a measure of individual traits to a comprehensive firm-level strategic posture (Ali, 2020). In Pakistan, EO is conceptualized as the strategic process and decision-making style that drives a firm's entry into new markets and the revitalization of existing operations (Ahmed et al., 2023). This orientation represents an organization's proclivity toward innovation, proactive behavior, and risk-taking, which serves as a critical differentiator in economic landscapes where survival is as much about strategic agility as it is about resource endowment (Hanif & Irshad, 2018). The conceptualization of entrepreneurial orientation has evolved from a simple three-dimensional construct to a multidimensional strategic capability integrated with the Resource-Based View. Figure 1 illustrates the theoretical evolution of EO from its foundational model to contemporary extensions.

Figure 1: Evolution of Entrepreneurial Orientation Theory



The foundational definition provided by Miller (1983) posits that an entrepreneurial firm engages in product-market innovation, undertakes risky ventures, and acts as a first mover by proactively beating competitors (Hussain et al., 2014). While this unidimensional perspective comprising innovativeness, proactiveness, and risk-taking is dominant in research focusing on Pakistani SMEs, the multidimensional conceptualization expanded the construct to include autonomy and competitive aggressiveness (Tipu & Fantazy, 2023).

In emerging economies, EO is deeply rooted in the Resource-Based View (RBV) of the firm. According to the RBV, EO is a valuable, rare, and inimitable organizational capability that enables firms to achieve a sustained competitive advantage by effectively leveraging internal competencies (Sarsiti et al., 2024). This is particularly salient for Pakistani SMEs, which often lack the financial resources of larger corporations and must rely on strategic posture to reconfigure resources in response to market turbulence (Shaukat et al., 2024).

Table 1: Comparative Conceptualization of Entrepreneurial Orientation Dimensions

Dimension	Conceptual Focus	Pakistani Context Mechanism
Innovativeness	Propensity for creativity, R-and-D, and technological leadership.	Driving the transition from low-tech manufacturing to value-added exports (Hanif and Irshad, 2018).
Proactiveness	Opportunity-seeking, forward-looking perspective, and first-mover behavior.	Anticipating shifts in consumer demand and regulatory changes (Aftab et al., 2022).
Risk-taking	Willingness to commit significant resources to uncertain outcomes.	Committing capital to new markets despite high interest rates (Khan et al., 2024).
Autonomy	Independent action by individuals or teams to realize business concepts.	Fostering internal entrepreneurship in family-owned structures (Khan et al., 2024).
Competitive Aggressiveness	Intensity of effort to outperform rivals in the marketplace.	Maintaining market share in saturated domestic industrial clusters (Khan et al., 2024).

The Socioeconomic Significance of Pakistani SMEs

Pakistan's economic structure is fundamentally characterized as an SME-driven economy. These enterprises constitute over 90 percent of all economic establishments, playing a vital role in poverty reduction, employment generation, and industrial diversification (Shoaib et al., 2025). The SME sector contributes approximately 40 percent to the national Gross Domestic Product (GDP) and generates nearly 80 percent of the non-agricultural workforce employment (SMEDA, 2025). Despite this systemic importance, the sector remains under-documented, with a substantial portion operating in an informal economy estimated at 457 billion US dollars (Agu et al., 2020).

Table 2: Macroeconomic Profile and SME Contributions (2019-2025)

Indicator	Value/Status	Economic Implication
Total SMEs in Pakistan	3.3 Million to 5.2 Million	Engine of private sector economic activity (SMEDA, 2025).
GDP Contribution	40 percent	Critical for macroeconomic stability and national output (SMEDA, 2025).
Non-Agri Employment	78 percent to 80 percent	Essential for absorbing the youth population into the workforce (SMEDA, 2025).
Export Participation	25 percent to 31 percent	Significant in clusters such as Sialkot sports goods (SMEDA, 2025).
Failure Rate (Early Stage)	50 percent	Highlights the precarious nature of the startup ecosystem (Khan et al., 2024).

Empirical Findings on EO and Firm Performance

Empirical research conducted in Pakistan validates the positive relationship between entrepreneurial orientation and SME performance. Studies utilizing Structural Equation Modeling (SEM) show that firms with a strong posture toward innovation, proactiveness, and risk-taking achieve higher Return on Equity (ROE) and sales growth (Khan et al., 2024). For example, research on the electric fan industry and the sports goods sector in Sialkot demonstrates that EO is a crucial predictor of export success (Haider et al., 2017).

The impact of EO is not uniform across all dimensions. While innovativeness and proactiveness are almost universally positive, the impact of risk-taking can be nuanced. Extreme risk-taking in unstable environments without adequate financial buffers can lead to resource exhaustion (Corrêa et al., 2023).

Table 3: Dimension-Specific Performance Correlation

EO Dimension	Impact on Performance	Contextual Mechanism in Pakistan
Innovativeness	High Positive	Vital for product differentiation in crowded markets (Khan et al., 2024).
Proactiveness	High Positive	Enables firms to secure raw materials before inflationary spikes (Aftab et al., 2022).
Risk-taking	Moderate Positive	Facilitates entry into risky export markets (Khan et al., 2024).
Autonomy	Positive (Variable)	Encourages decentralized decision-making in high-tech SMEs (Khan et al., 2024).

Structural Barriers and Institutional Voids

The growth of Pakistani SMEs is constrained by structural barriers that moderate the relationship between EO and performance. The most significant is the financial credit gap, stemming from both supply and demand failures (Ali, 2020).

Table 4: Financial Inclusion Gap and Barriers

Financial Barrier	Economic Impact	Underlying Cause
4.8 billion US dollars Finance Gap	Stagnation of growth and inability to modernize.	Preference for government-backed investments by banks (SMEDA, 2025).
High Interest Rates (22 percent)	Increased cost of working capital and debt.	Monetary policy focused on controlling inflation (SMEDA, 2025).
Information Asymmetry	Difficulty in credit assessment and formal registration.	Lack of formal bookkeeping and fear of harassment (Ali, 2020).

The Digital Divide and Technological Adaptation

Digital transformation is a prerequisite for growth, yet Pakistani SMEs struggle with a "Digital Capability Gap" (Jabeen et al., 2024). While broadband access is high, digital adoption for business remains low, with only 15 percent of SMEs engaged in e-commerce (SMEDA, 2025). Digitally-enabled SMEs are significantly more resilient, with high web visibility firms reporting five times higher revenue growth than analog counterparts (Jamil, 2021). As illustrated in Figure 2, the relationship between entrepreneurial orientation and SME growth outcomes is influenced by moderating factors, including structural barriers, the digital capability gap, and green entrepreneurial orientation.

Figure 2: Conceptual Framework of Entrepreneurial Orientation and SME Growth.



Table 5: Digital Transformation Indicators

Technology Adoption	Status/Percentage	Impact on Growth Potential
Mobile Broadband Access	148 Million Pakistanis	Provides infrastructure for a digital economy (SMEDA, 2025).
SME E-commerce Engagement	15 percent	Limits market access compared to regional peers (SMEDA, 2025).
AI Legal Support Adoption	Initial Stage (2025)	Aims to reduce legal compliance barriers (SMEDA, 2025).

Green Entrepreneurial Orientation (GEO) and Sustainability

As international buyers demand sustainable products, Green Entrepreneurial Orientation (GEO) has become a vital strategic imperative for Pakistani SMEs (Asad et al., 2023). GEO involves a firm's commitment to minimizing environmental consequences through green products and energy-efficient technologies. Firms adopting green practices are better positioned to meet international compliance standards like GSP+, which is critical for market access in the European Union (Ameer and Khan, 2022).

Table 6: Drivers and Moderators of GEO in Pakistan

Factor	Role	Mechanism of Action
Stakeholder Pressure	Primary Driver	International buyers demanding green compliance (Asad et al., 2023).
Green Tech Dynamism	Moderator	The speed of technological change influencing adoption (Asad et al., 2023).
Knowledge Transfer	Mediator	Integration of sustainable knowledge into firm processes (Asad et al., 2023).

Comparative Analysis: Pakistan vs. Regional Emerging Markets

A comparative perspective reveals shared challenges across South Asia, though institutional responses vary significantly. Pakistan's policy framework scores high on the "Access to Finance" framework due to the SME Bank, yet lags in entrepreneurial training infrastructure compared to India (Khandker, 2017).

Table 7: Institutional Support and Policy Index

Feature	Pakistan	India	Bangladesh
Governing Body	SMEDA (Autonomous)	Ministry of MSME	SME Foundation
Policy Detail	Level 4 out of 5	Level 5	Level 3
Training Infrastructure	Level 2 (Weak)	Level 4 (Strong)	Level 3 (Moderate)

Strategic Policy Interventions and Future Outlook

The Government of Pakistan's 5Es framework focusing on Exports, E-Pakistan, Environment, Energy, and Equity serves as the current strategic roadmap. The

National SME Policy 2021 established a 30 billion PKR SME Fund to support technology upgradation and market access (Javed et al., 2025).

Future research should explore:

Social Impact of EO: How entrepreneurial strategies contribute to Sustainable Development Goals (SDGs) (Khan et al., 2024).

Action Regulation Theory: Investigating the social skills of owners as a performance precursor (Shafi et al., 2024).

Digital Identity: Assessing the impact of national digital identity systems on unlocking formal financial services (SMEDA, 2025).

Conclusion

Entrepreneurial Orientation stands as a powerful strategic lever for unlocking growth and resilience among SMEs in Pakistan's challenging economic landscape. Empirical evidence consistently shows that firms exhibiting higher levels of innovativeness, proactiveness, and calculated risk-taking achieve superior financial performance, export competitiveness, and adaptive capacity. Yet the translation of EO into tangible outcomes is heavily moderated by deep-rooted institutional voids most notably chronic finance gaps, high borrowing costs, information asymmetry, and lagging digital infrastructure. The emergence of Green Entrepreneurial Orientation further signals that sustainability and international market access will increasingly define competitive advantage for the next generation of Pakistani SMEs. While the National SME Policy 2021 and the 5Es framework provide a promising policy foundation, their impact will remain limited without accelerated reforms in access to affordable credit, digital skilling, entrepreneurial education, and green technology incentives. Future research and policy action must focus on bridging these structural gaps, fostering high-quality Leader-Member Exchange within SMEs, and harnessing digital and green capabilities to amplify the returns on entrepreneurial posture. By systematically strengthening EO and its enabling ecosystem, Pakistan can convert its vast SME base into a dynamic, inclusive, and globally competitive growth engine, contributing meaningfully to poverty reduction, employment generation, and sustainable economic development in the years ahead.

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