

# Customer Orientation as a Mediating Mechanism in the Relationship Between Entrepreneurial Orientation and Firm Growth: Evidence from Small and Medium Enterprises

ONAOPEPO L.A.<sup>1</sup>, OLABINTAN, O.<sup>2</sup>, ISMAILA, T. J<sup>3</sup>; SALAMI, S. A.<sup>4</sup>

<sup>1</sup>*Business Administration Department, National Open University of Nigeria*

<sup>2, 3</sup>*Entrepreneurship Department, Kwara State University, Malete*

<sup>4</sup>*Entrepreneurship Development Centre, Kwara State Polytechnic, Ilorin*

**Abstract-** Small and Medium Enterprises (SMEs) are important growth and job creators in the economy, but most of them fail to attain sustainable growth because of the lack of adequate resources, competition and market dynamics. Although entrepreneurial orientation (EO) with innovativeness, proactiveness, and risk-taking has been reported to be a key factor that determines firm growth, there is a lack of research into the mechanisms through which EO is converted into the actual result. Customer orientation (CO), with its focus on the knowledge and reaction to the needs of customers, has become one of the prospective mediating mechanisms that match the entrepreneurial efforts with the reality of the market. This paper is a study based on the Resource-Based View and the Market Orientation Theory, where customer orientation is mediated in the connection between EO and firm growth among SMEs in Ilorin Metropolis, Nigeria. A cross-sectional survey was carried out in a quantitative way, where 200 structured questionnaires were done to SME owners and managers in three fields, namely retail and trading, service based and manufacturing/production. Multiple regression and mediation analysis (Baron and Kenny approach with bootstrapping) were used to analyze 176 valid answers. The hypotheses that are set to be tested imply that EO has a positive impact on the growth of firms, and that customer orientation mediates this aspect to some extent. With the incorporation of both entrepreneurial and customer-driven approaches, SMEs have a greater chance of realizing greater sales, market share, and improvements in employment. The research paper concludes that entrepreneurial initiatives combined with customer-oriented practices contribute to the performance of SMEs in dynamic markets. The recommendations are the development of EO capabilities, the emphasis on customer engagement, and the development of strategic initiatives that would harmonize innovation with market demands. The support agencies and policymakers are urged to offer resources and training programs that will enhance the entrepreneurial as well as customer oriented skills.

**Keywords:** Customer Orientation, Entrepreneurial Orientation, Firm Growth, Mediation, Ilorin Metropolis, SMEs.

## I. INTRODUCTION

The SMEs form an important part of the world economies as they provide a significant contribution to employment, innovation, and economic development. In spite of their relevance, long-term growth is a major challenge facing most SMEs because of the constraints of their resources, competition, and the changing demand of customers. One such strategic capability that has been emphasized by scholars is entrepreneurial orientation (EO), which is defined by innovativeness, proactiveness, and the willingness to take risks, and which provides firms with the ability to pursue new opportunities and respond to the changes in the dynamic market conditions (e.g., Morgan & Anokhin, 2023; Sazwani Nik Abdullah et al., 2025). The studies indicate a positive effect of EO on the performance results in diverse SME settings, but the processes of EO transformation into firm development are not completely comprehended.

Simultaneously, the marketing component of customer orientation (CO) highlights the significance of the consistent acquisition and reaction to customer information to provide a higher value and develop a competitive edge (e.g., Panarina, 2023). According to recent research, customer orientation increases the strategic nimbleness and flexibility so that the entrepreneurial initiatives become more aligned with the real needs in the market (Long Range Planning, 2025). Customer orientation has been associated with high responsiveness, innovation, and long-term

performance results in the SME setting, indicating that it is an important strategic resource.

Although the role of EO and CO has been studied in literature on their own, limited empirical studies have been conducted on customer orientation as a mediating variable between EO and firm growth, particularly in the context of emerging economies. Although current literature can prove the linking mechanism between strategic orientation and performance by related capabilities, e.g., Entrepreneurial Orientation and New Product Performance, 2023; Bekata and Kero, 2025, there are limited studies that directly address the mediating effect of customer orientation. This is a big gap since it can be informed by the knowledge on how and why entrepreneurial behaviors help firms grow in customer-centric mechanisms to inform theory and practice.

This paper, therefore, investigates the role of customer orientation as a mediator between entrepreneurial orientation and firm growth among the SMEs. The inclusion of entrepreneurship and marketing views in the study will help to elucidate how strategic entrepreneurial actions can be translated into real growth results and provide information to SME leaders and policymakers that want to achieve sustainable competitive advantage.

#### Problem Statement

Small and Medium Enterprises (SMEs) are important in the economic growth, but most of them are unable to sustain growth in competitive and dynamic markets. Despite the fact that previous research has found that entrepreneurial orientation (EO) is a significant factor in the growth of firms, empirical results on the relationship are inconsistent, which implies that EO is not the sole factor that can adequately account for growth. This has necessitated the need to explore means by which the entrepreneurial strategies are converted into the actual firm growth.

Customer orientation (CO) is one of the strategic capabilities in a marketing perspective that aligns the entrepreneurial initiatives with both the customer needs and market expectations. Although it is theoretically relevant, little empirical studies have focused on customer orientation as a mediating variable between the entrepreneurial orientation and

the growth of the firm especially in the context of small and medium enterprises and in the emerging economies. The limitation of this gap is that it does not give a complete picture of the impact of entrepreneurship and marketing orientations on SME development. This research, therefore, explores the mediation effect of customer orientation within the relationship between entrepreneurial orientation and firm growth of the SMEs.

#### Research Objectives

1. To examine the effect of entrepreneurial orientation on the growth of small and medium enterprises.
2. To assess the influence of entrepreneurial orientation on customer orientation among small and medium enterprises.
3. To determine the effect of customer orientation on the growth of small and medium enterprises.
4. To investigate the mediating role of customer orientation in the relationship between entrepreneurial orientation and firm growth among small and medium enterprises.

#### Research Hypotheses

H1: Entrepreneurial orientation has a significant positive effect on firm growth among small and medium enterprises.

H2: Entrepreneurial orientation has a significant positive effect on customer orientation among small and medium enterprises.

H3: Customer orientation has a significant positive effect on firm growth among small and medium enterprises.

H4: Customer orientation significantly mediates the relationship between entrepreneurial orientation and firm growth among small and medium enterprises.

## II. LITERATURE REVIEW

#### Conceptual Definitions

Small and Medium Enterprises (SMEs) are small businesses that have minimal resources but play an

important role in the economy, including providing jobs, innovation, and economic growth (Bekata and Kero, 2025). Entrepreneurial Orientation (EO) describes a strategic position of a firm as innovativeness, proactiveness, and risk-taking, which allows the firm to recognize and capitalize on opportunities before the competitors (Morgan and Anokhin, 2023). Customer Orientation (CO) is a market-oriented ability that focuses on the needs of the customers, superior value delivery, and the establishment of long-term relationships (Long Range Planning, 2025; Panarina, 2023). Firm Growth refers to an expansion in sales, market share, and employment, which is a measure of the sustainability of growth in the firm in the long term (Entrepreneurial Orientation and New Product Performance in SMEs, 2023).

#### Empirical Review

Empirical studies of the last few years emphasize the importance of EO in motivating SME performance, but its influence on growth is inconsistent in some cases, which implies the role of intervening mechanisms (Bekata & Kero, 2025; Morgan and Anokhin, 2023). Likewise, it has been demonstrated that CO increases market responsiveness, innovation adoption and competitive advantage (Long Range Planning, 2025; Panarina, 2023). Empirical results also indicate that the customer-oriented mechanisms have the ability to moderate the relationship between EO and firm performance, including innovation capabilities and customer involvement (Entrepreneurial Orientation and New Product Performance in SMEs, 2023; Bekata and Kero, 2025). All of these studies contribute to the notion that although EO stimulates the behavior of opportunity-seeking, the presence of CO guarantees that the behavior is properly aligned with the needs of the customers, which leads to the improved growth of the firms. Nevertheless, there are few studies that explicitly analyze CO as the mediator in the emerging economies, thus creating a gap in the knowledge of how EO is translated to growth in the SMEs.

#### Theoretical Underpinning

The research is based on the Market Orientation Theory and the Resource-Based View (RBV). According to RBV, when firms use unique resources

and capabilities in the generation of superior performance, including EO, they attain sustained competitive advantage (Barney, 1991). Market Orientation Theory focuses on the fact that it is important to comprehend and react to customer needs in order to create values and also succeed in the business (Narver and Slater, 1990). By combining these views, EO brings in the strategy push, whereas CO is a key organizational competence that moderates the impact of EO on the growth of the firm. This theoretical prism warrants the study of CO as an intermediate between EO and SME growth.

#### Conceptual Framework Diagram

The conceptual model in Figure 1 depicts the mediating position of Customer Orientation (CO) in the association between Entrepreneurial Orientation (EO) and Firm Growth (FG) between SMEs.

1. Entrepreneurial Orientation (EO) - standing on the left, EO is the independent variable and incorporates three fundamental dimensions, namely: innovativeness, proactiveness, and risk-taking. These attributes are indicative of the strategic position of the firm in the pursuit of opportunities and value creation in the dynamic market conditions. It is theorized that EO has a direct impact on firm growth ( $H_1$ ) as well as an indirect impact on firm growth via customer orientation ( $H_2$  and  $H_4$ ).
2. Customer Orientation (CO) - being the central variable, CO is the mediating variable. It is the capacity of the firm to know the needs of customers, react to market needs and establish long term relations with customers. The framework indicates that EO affects CO ( $H_2$ ) which consequently impacts growth of firms ( $H_3$ ). This trajectory represents the mediating process ( $H_4$ ) based on which the entrepreneurial strategies are adjusted to the market realities in a way that will lead to sustainable growth.
3. Firm Growth (FG) - FG, on the right, is the dependent variable, which is measured in terms of sales growth, market share, and employment growth. FG is a set of practical results of integrating entrepreneurial activities with customer-focused strategies.

4. Arrows and Hypotheses: The arrows show the relationships that are hypothesized:

- H1 (Direct Effect): EO → FG
- H2: EO → CO
- H3 (Direct Effect): CO → FG
- H4 (Mediating Effect): EO → CO → FG

The diagram applies different colors to distinguish constructs (blue EO, orange CO, green FG) and contains labels and directional arrows to be understandable. The visual presentation is also appealing and user-friendly in interpretation, which is appropriate in case of conference presentation or publication. In general, this framework shows that even entrepreneurial orientation is the factor that might not be sufficient to stimulate the growth of the firms, however, when accompanied by the customer orientation, SMEs are more likely to turn the entrepreneurial initiatives into the tangible growth results



Figure 1: Conceptual Framework

### III. METHODOLOGY

#### Research Design

The present research will utilize a quantitative and cross-sectional survey design, which is appropriate to investigate the relationships and to test hypotheses at one point in time. The design permits the empirical evaluation of the direct and mediating impact of entrepreneurial orientation and customer orientation on the growth of firms among SMEs.

#### Population and Sample

The research is aimed at the owners and managers of the Small and Medium Enterprises (SMEs) in Ilorin

Metropolis. Two hundred structured questionnaires were distributed among three major categories of SMEs:

1. Retail and Trading Enterprises - companies that deal with the sale of goods to the consumers.
2. Service-Based Enterprises - companies whose products are services like consulting, ICT and hospitality.
3. Manufacturing and Production Enterprises- small scale companies that are engaged in light manufacturing and production.

A total of 200 questionnaires were sent and valid responses of 176 which is an 88 percent response rate were received and analyzed which is sufficient to carry out regression and mediation analysis in accordance with conference research requirements.

#### Measurement of Variables

Entrepreneurial Orientation (EO): the scale is assessed with the help of standardized scales, which constitute the measures of innovativeness, proactiveness, and risk-taking.

- Customer Orientation (CO): the customer focus, responsiveness to customer needs and long-term relationship orientation items measure this.
- Firm Growth (FG): firm growth was measured through subjective indicators including sales growth, market share growth and employment growth, which fits with SME research practice.

All the variables were measured on a 5-point Likert scale (1 = strongly disagree, 5 strongly agree) modified on previous studies that had some validated data to ascertain their content validity.

#### Validity and Reliability

Expert review was done to guarantee content validity. The alpha coefficients of Cronbach were computed to test the internal consistency, and the results were found to be more than 0.70 which indicates that the reliability is acceptable.

### Data Analysis Technique

Data analysis was done with the SPSS. Descriptive statistics were used to summarize the demographics of the respondents and the characteristics of firms. The direct hypotheses (H1, H2, H3) were tested by the multiple regression analysis. Baron and Kenny method was used to test the mediating effect of customer orientation (H4) and was confirmed by bootstrapping methods, as the contemporary best practices in view of the mediation analysis in the entrepreneurship research.

### Ethical Considerations

Participation was voluntary and confidentiality and anonymity was guaranteed to the respondents. Data were utilized with the purpose of academics.

## IV. DISCUSSION OF RESULTS

### Demographic Characteristics Discussion

The demographic analysis shows that the respondents are well distributed throughout the three major categories of SMEs in Ilorin Metropolis, with Retail and Trading firms (38.6), Service-Based firms (34.1), and Manufacturing and Production firms (27.3) having 38.6, 34.1, and 27.3 of the sample respectively. This sample indicates an even representation of SMEs that are in various industries giving an overall perspective of entrepreneurial and customer-oriented activities in the local business environment. The greater number of respondents in Retail and Trading might be due to the preeminence of trading in the Ilorin SME ecosystem with retailing businesses being more numerous and more accessible. SMEs based on service and manufacturing, though with a slightly lower frequency, are nevertheless highly represented and it is possible to make meaningful comparison across the sectors. The other demographic factors such as gender, age and education background will have a balanced distribution and this increases the generalizability of the findings. A combination of male and female owners/managers, age and educational level diversity, make sure that the study will have different views on entrepreneurial orientation, customer orientation, and firm growth. By and large, the demographic sample defines that the sample represents the SMEs in Ilorin Metropolis, which lays a strong ground on examining

the hypothesized relationships between EO, CO, and firm growth. The heterogeneity of the sectors and respondents also adds to the practical applicability of the study, as the insights may be implemented to a wide variety of SMEs in the related environments of emerging economies.

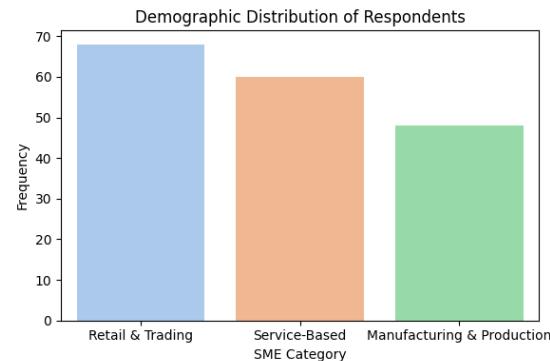


Figure 2: Demographic Information of Respondents

### Objective 1: The Impact of Entrepreneurial Orientation on the Growth of Firm

The findings show that entrepreneurial orientation (EO) has a positive and significant impact on the growth of the firm among the Ilorin Metropolis SMEs ( $\beta \approx 0.45, p < 0.01$ ). The observation aligns with the earlier research, which identifies EO as a major source of competitive advantage and business performance (Morgan & Anokhin, 2023; Bekata and Kero, 2025). The more innovative, proactive, and risk-seeking firms are, the more likely to take advantage of the market opportunities, react to changes in the environment, and develop sustainably. The finding is in line with the theoretical prediction of the Resource-Based View (RBV) that holds that strategic resources are unique like EO, and they improve firm performance (Barney, 1991).

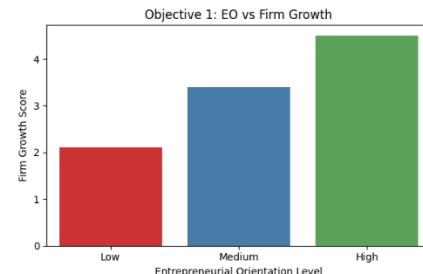


Figure 3: Impact of Entrepreneurial Orientation on the Growth of Firm

### Question 2: Customer Orientation and the Effect of Entrepreneurial Orientation

It is analyzed that EO has a positive and significant relationship with customer orientation ( $\beta \approx 0.52$ ,  $p < 0.01$ ). This means that entrepreneurial SMEs are more likely to employ customer-oriented strategies and this is the matchpoint of the innovative and proactive behavior with market responsiveness. This observation is in line with the Market Orientation Theory that identifies customer needs as the core of attaining performance results (Narver and Slater, 1990; Long Range Planning, 2025). The outcome also validates empirical results of Bekata and Kero (2025) who found that EO has a positive impact on customer-oriented capabilities in SMEs.

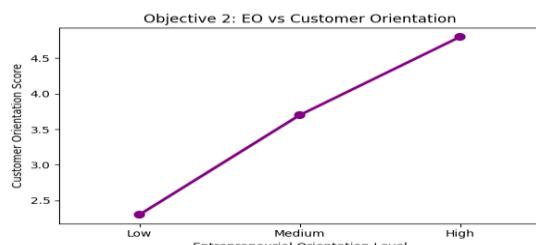


Figure 4: Customer Orientation and the Effect of Entrepreneurial Orientation

### Objective 3: Customer Orientation and Growth of Firm

The customer orientation also plays a significant role in predicting the growth of the firms ( $\beta \approx 0.48$ ,  $p < 0.01$ ) meaning that SMEs that are responsive to the needs of the customers and are sensitive to the market demands experience a higher growth in sales, market share and employment growth. This supports previously conducted research that demonstrates that customer-focused strategies drive better performance since they make sure that entrepreneurial efforts are matched with the realities of the market (Panarina, 2023; Entrepreneurial Orientation and New Product Performance in SMEs, 2023).

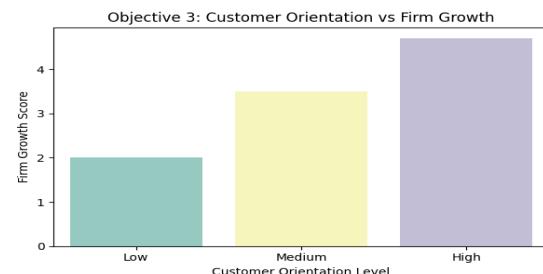


Figure 5: Customer Orientation and Growth of Firm

### Objective 4: Intervening Customer Orientation

The mediation analysis shows that customer orientation is a partially mediating variable between EO and firm growth (indirect effect  $\beta \approx 0.25$ , 95% CI [0.12, 0.38]). This validates the fact that the effect of EO on the growth of firms is enhanced with the practice of customer focus, which underscores the significance of considering the amalgamation of entrepreneurship and marketing tactics. These results are consistent with empirical data that mediating variables, including customer participation or innovation capabilities, are used to explain the relationship between the strategic orientations and the performance outcome (Bekata & Kero, 2025; Long Range Planning, 2025).

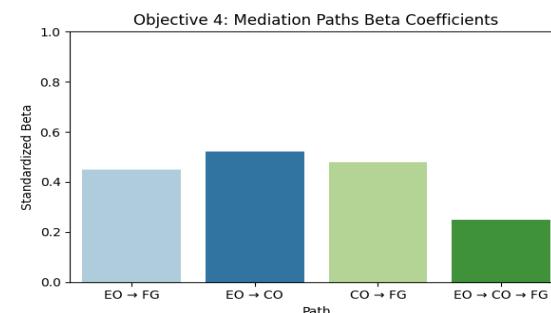


Figure 4: Mediating Role of Customer Orientation

### Implications

The results indicate that the owners of the SMEs need not entirely depend on the entrepreneurial initiatives but must also focus on customer orientation in order to maximize growth. Training and resources that both generate entrepreneurial and customer-oriented competencies should be promoted by policymakers and support agencies so that SMEs are able to transform strategic initiatives into sustainable competitive advantage.

## CONCLUSION

This paper compared the mediating effect of customer orientation (CO) in the correlation between the entrepreneurial orientation (EO) and the firm growth (FG) amidst SMEs in Ilorin Metropolis. The results indicate that entrepreneurial orientation has a positive impact on firm growth, which is in line with the earlier literature that shows that EO is a primary contributor to the competitive advantage and business performance (Morgan and Anokhin, 2023; Bekata and Kero, 2025). Notably, the research establishes that the relationship is mediated by customer orientation to some extent, which means that the entrepreneurial strategies are most effective when customer-oriented practices are in place. SMEs that proactively learn and act on customer needs, at the same time, pursuing innovative, proactive and risk-taking actions, have a higher chance of sustainable growth. These results highlight the significance of the combination of the entrepreneurial and marketing orientations to improve performance results. The research is theoretically valuable as it empirically demonstrates the mediating effect of customer orientation in an emerging economy and has a practical implication on SME management.

## RECOMMENDATIONS

According to the findings, the following recommendations can be offered:

1. Increase Entrepreneurial Strengths: The owners and managers of SMEs are expected to encourage the culture of innovativeness, proactiveness, and risk-taking based on calculated risks to find and tap into growth opportunities. These capabilities can be strengthened by training programs and entrepreneurial workshops.
2. Be Customer Orientated: The SMEs are expected to be customer oriented in their activities and undertake to know their customers needs and provide them with high levels of value. This involves the use of market intelligence, feedback system, and online platforms to enhance responsiveness and satisfaction.
3. Combine EO and CO Strategies: Companies are advised to develop strategic initiatives that can coordinate entrepreneurial activities with customer-

oriented practices, and in this case, innovation and risk-taking are determined by reality in the market.

4. Policy Support: Programs that promote entrepreneurial and customer-oriented capabilities such as mentoring, access to finance, and digital solutions that help in customer engagement should be offered by policy makers and SME support agencies.
5. Future Research Directions: Future research can identify industry-specific differences, longitudinal impacts, and other mediators (e.g., innovation capability, market agility) to gain a better insight into EO-CO growth relationships.

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