

## Article

# Examining the Impact of Entrepreneurial Orientation on New Venture Performance in the Emerging Economy of Lebanon: A Moderated Mediation Analysis

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**Abstract:** Despite scholarly debates on the role of entrepreneurial orientation, its effect on new venture performance remains largely understudied, particularly in the context of emerging economies. Determining this association is crucial and has an important implication for scholars and managers of SMEs to increase performance. Therefore, using the resource-based view and upper-echelon theories, this study examines this link by considering the mediating role of opportunity exploitation and the moderating role of transformational leadership in the case of an emerging market in Lebanon. The resource-based view theory discusses the importance of intangible and tangible resources in obtaining a sustainable competitive edge. The upper-echelon theory also connects the attributes of firm performance and top employee management. To achieve this purpose, we conducted a comprehensive survey of 411 managers and owners, 346 of whom were men and 65 of whom were women, of SMEs in the top five provinces of North Lebanon, South Lebanon, Mount Lebanon, Beirut, and Bekaa, where the majority of SMEs are located. This study also collected the data in 2022 and performed moderated mediation analysis to probe this nexus. The empirical results show that entrepreneurial orientation has a positive direct and indirect (through opportunity exploitation) effect on new venture performance. Furthermore, it reveals that opportunity exploitation has a positive effect on new venture performance and partially mediates the entrepreneurial orientation–new venture performance nexus. Furthermore, the results highlight that transformational leadership moderates the direct entrepreneurial orientation–new venture performance nexus, and the positive relationship is stronger for managers (or owners) with higher-level transformational leadership. Moreover, the results reveal that transformational leadership moderates the indirect effect between entrepreneurial orientation and new venture performance through opportunity exploitation, and the extent of the indirect effect is enhanced for managers (or owners) with higher-level transformational leadership. The results are robust and have important policy implications. The current research offers crucial managerial implications for the management of SMEs by paying attention to significant drivers of entrepreneurial orientation and opportunity exploitation. The findings also suggest that entrepreneurs and managers of new ventures must transform their entrepreneurial strategic posture into opportunity exploitation behaviors by pinpointing market inefficiencies and consumer needs, launching novel products and services, and taking advantage of opportunities for new products to enter the market to maximize financial gain.



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**Keywords:** entrepreneurial orientation; opportunity exploitation; transformational leadership; new venture; performance; Lebanon

## 1. Introduction

Small and medium-sized enterprises (SMEs) have a substantial role in innovation, income generation, employment, and dynamism in the majority of countries, especially

in emerging economies. SMEs account for most businesses globally and are significant drivers of job creation and world economic activity. Based on the World Bank report ([https://www.worldbank.org/en/topic/sme/finance#:~:text=SMEs%20account%20for%20the%20majority,\(GDP\)%20in%20emerging%20economies](https://www.worldbank.org/en/topic/sme/finance#:~:text=SMEs%20account%20for%20the%20majority,(GDP)%20in%20emerging%20economies), accessed on 15 March 2023), SMEs represent about 90% of businesses and more than 50% of employment globally. Formal SMEs could also contribute up to 40% of gross domestic product (GDP) in developing countries. Hence, maintaining and rising the performance of SMEs could be an essential decision for corporate executives and policymakers, which ultimately contributes to rising the stability of the global economy and achieving sustainable economic development.

Despite this importance, SMEs have experienced a relatively high rate of failure in developing countries. Several developing economies face formidable issues, including fierce competition and volatile market conditions [1]. Ref. [2] discussed that due to institutional challenges, the failure of SMEs is relatively higher in developing markets when compared with developed markets. SMEs are particularly vulnerable to these institutional challenges because of their fragility of smallness and newness, which restrict their capacity to quickly adapt to evolving business conditions [1].

Notably, SMEs in developing countries have encountered poor entrepreneurial skills, insufficient capabilities, and a lack of resources, which prevent the development and continued existence of such firms. Comparatively, businesses in developed markets do not confront the same degree of resource limitation as those in developing economies. Thus, small-sized firms have lesser resources for opportunity exploitation than major corporations [3], leading to lesser leverage and more risk when working in a turbulent environment [4]. Furthermore, developed economies have different institutional, competitive, and digital dynamics than developing economies [5]. Hence, developing economies' enterprises seek cheaper, less risky, yet profitable growth options.

What about the SMEs in the emerging country of Lebanon? The Lebanese economy has been affected by the most multifaceted crises in its modern history. Since 2019, the ongoing financial and economic crises have been aggravated by the major Port of Beirut explosion and the COVID-19 pandemic (World Bank, 2022 (<https://www.worldbank.org/en/country/lebanon/overview>, accessed on 20 March 2023)). Particularly, the economic crisis has by far the most enduring impact out of all these crises. The nominal gross domestic product (GDP) shrank from close to USD 52 billion in 2019 to approximately USD 23.1 billion in 2021, ranking it among the worst economic crises that have occurred anywhere in the world since the nineteenth century (Lebanon Economic Monitor, 2021). Because of this, unemployment rose from 11.4% in 2018–2019 to 29.6% in 2022 (World Bank, 2022), and this number is unofficially projected to be even higher.

In such an environment, SMEs are more likely faced with collapse, and averting the failure of SMEs is an essential decision for executives. Ref. [6] argued that in these environments, SMEs should struggle to stay competitive and exploit new opportunities to minimize the risk of failure. Consequently, [1] stressed that studying the performance and survival of newly founded SMEs is one of the important subjects in developing economies. As discussed, SMEs could contribute significantly to economic development; therefore, it is essential to focus on salient strategies to promote knowledge and practices that could potentially promote sustainable entrepreneurial activities within firms and the economy as a whole [7]. Ref. [8] argued that due to the socioeconomic issues that Lebanon is currently facing, businesses must be re-focus on rekindling the entrepreneurial spirit within firms in Lebanon.

Reviewing the literature, the findings of prior studies highlighted that entrepreneurial orientation and opportunity exploitation could be the key factors to enhancing new venture performance. For instance, [9] argued that these factors are critical for increasing the new venture performance since they help SMEs to be relatively more competitive compared to other firms. However, the work by [10] documented that it is less likely that all firms can identify opportunities and turn them into profitable endeavors. Ref. [11] explained that

some firms improved through time their ability to identify and exploit new opportunities and thrive in a dynamic environment.

Furthermore, the study by [12] showed that transformational leadership has a role in a firm's intensity of innovation. Ref. [13] argued that a higher entrepreneurial orientation positions new SMEs to deal with uncertainty more efficiently and to derive high entrepreneurial profit. The works by [13,14] stated that entrepreneurial orientation promotes the exploitation of opportunities and leads to an improvement in the performance of newly established ventures. Following the work by [15], entrepreneurially minded enterprises are more inclined to take calculated risks to bring novel products and services to consumers (via the launch of new SMEs), which can result in the generation of new wealth.

This study has significant contributions. First, this may be the first work attempting to investigate the entrepreneurial orientation–new venture performance relationship, particularly in the emerging country of Lebanon, where the risk of failure is high for SMEs that are also more likely faced with collapse. Second, since the entrepreneurial orientation is susceptible to the influence of contextual factors [16], this study contributes by constructing a moderated mediation model by drawing from a resource-based view (RBV) [17] and upper-echelon theory [18] to illustrate how entrepreneurial orientation can increase the intensity of opportunity exploitation and ultimately new venture performance. The resource-based view theory discusses the importance of intangible and tangible resources in obtaining a sustainable competitive edge. The upper-echelon theory also connects the attributes of firm performance and top employee management. The theory catalyzes the investigation of how executives' characteristics and experiences shape their perceptions, choices, and actions in ways that ultimately impact firm performance. Ref. [2] explained that there are less attempts made to explore the elements that foster opportunity exploitation and eventually impact new venture performance.

Third, this study contributes to exploring the mentioned relationship by considering the potential moderating role of transformational leadership, which has not been tested so far. Unlike the prior studies [12,19], this study significantly shows the precise role of transformational leadership in promoting the entrepreneurial orientation–new venture performance nexus. The results of past works showed that transformational leadership has a positive and significant impact on firm performance through firm innovativeness. Fourth, despite prior works, this study performed advanced moderated mediation analysis to conduct this study.

To bridge this gap, the present study extends the frontier of knowledge by exploring the direct and indirect effect of entrepreneurial orientation on new venture performance via opportunity exploitation in the emerging context of Lebanon. Understating the nexus between entrepreneurial orientation and new venture performance is essential and provides insight for managers and owners of SMEs in Lebanon, who have encountered poor entrepreneurial skills, to focus more on the entrepreneurship aspect to minimize the risk of failure and ultimately increase financial performance and achieve sustainable growth. Additionally, the current study has another novelty by examining the mentioned relationship by assuming the moderator role of transformational leadership.

This study aimed to shed light on the subsequent questions:

- (1) How does entrepreneurial orientation impact new venture performance in Lebanon?
- (2) Does transformational leadership have a moderator role between entrepreneurial orientation and new venture performance?

To answer the above questions, we conducted a comprehensive survey of 411 individuals by focusing on the top five cities in Lebanon where the majority of the SMEs are located. We also performed moderated mediation analysis to explore this relationship.

The findings demonstrate that entrepreneurial orientation has a positive direct effect on SMEs' performance. Furthermore, the results show that opportunity exploitation partially mediates the entrepreneurial orientation–new venture performance relationship, and both the direct and indirect effects were further enhanced when at a higher level of transformational leadership. This research enriches the extant literature on entrepreneurship by

revealing the critical role of transformational leadership on the performance implications of entrepreneurial orientation for SMEs and provides guidance on how to use entrepreneurial orientation to improve SMEs' performance in a developing economy. Overall, the results are important and open a new window in the related literature.

The remaining parts of the paper are organized as follows: Section 2 reviews the literature with a focus on theoretical backgrounds and hypotheses development; Section 3 shows the research data and methodology; Section 4 shows the research results and discussions; and Section 5 shows the conclusions and implications.

## 2. Theoretical Background and Hypotheses Development

### 2.1. Entrepreneurial Orientation (EO)

Although there is no agreed-upon definition of EO [20], it is typically discussed in terms of innovativeness, proactiveness, and risk taking [14]. Ref. [21] proposed an additional two elements of EO, including autonomy and competitive aggressiveness. However, the three elements of EO, namely innovativeness, proactiveness, and risk taking, are supported by most authors [2,22,23]. From this standpoint, Ref. [2] pointed out that when the three elements are examined more closely, a construct is revealed that may be either directly or indirectly related to the performance of a firm. Further, Ref. [24] characterized entrepreneurial behavior, as defining an organization's actions and approaches in terms of proactivity, innovativeness, and risk taking. Innovativeness refers to the willingness of a firm to embrace creative new ideas, exploration of processes, and novelty, which may lead to the creation of new products and services [25]. Lastly, risk taking refers to a firm's attitude and inclination to embrace and accept unknown possibilities when tactical strategic decisions are taken, primarily with the commitment of resources to venture into new initiatives under unclear situations, which can be potentially risky [26].

While some research suggested that EO would not directly transform into performance unless some mechanisms or factors are taken into consideration [26–28], others have reported a direct relationship between the two constructs. Newly created businesses must exploit opportunities to ensure their market survival [13,29]. Entrepreneurship is a part of the resource-based framework and entrepreneurs have individual-specific resources that facilitate the recognition of new opportunities and the assembling of resources for the venture. By concentrating on resources, a firm can create heterogeneous outputs, leading to the achievement of a superior position in the market compared to competitors, ultimately increasing performance. Remarkably, entrepreneurial actions are the unique resources of firms that help them to have competitive advantages and outpace competitor companies. Furthermore, based on the upper-echelon theory, the top management teams' characteristics, such as values, experience, age, and education, could impact the elements of entrepreneurial orientation (e.g., innovativeness, proactiveness, and risk taking) and strategic decisions, which ultimately impact firms' performance.

Although embracing a robust EO is widely deemed important, although insufficient for wealth generation by new SMEs [30], we still argue that EO promotes NVP in Lebanon for two reasons. First, the World Bank, UN, and EU introduced the *Reform, Recovery, and Reconstruction Framework*, aimed at building back better using integrated strategies that prioritize people-centered recovery to address Lebanon's immediate and short-term requirements (World Bank, 2022). Second, the Lebanon financing facility was recently founded to jumpstart the imminent socio-economic recovery of businesses and people (World Bank, 2022). EO promotes OE [13,14]; hence, it improves NVP.

Furthermore, the economic crises in Lebanon have caused huge uncertainty in the market. From this standpoint, enterprises with high EO are adept at monitoring environmental changes and promptly adjusting to them [31,32]. Consequently, a higher EO helps SMEs deal with uncertainty more efficiently and derive high entrepreneurial profit [13]. Finally, in emerging economies, recognizing new opportunities is vital for new businesses and proactivity allows firms to exploit new opportunities, thus resulting in increased performance [33]. In this study, EO relates to a firm's affinity and propensity for adopting

entrepreneurial practices, processes, and decision making, such as pro-activeness, innovativeness, and risk taking [34]. Based on the previous discussion, we propose the following:

**H<sub>1</sub>.** *Entrepreneurial orientation has a positive impact on new venture performance.*

## 2.2. Opportunity Exploitation (OE)

OE relates to a firm's ability to enhance, adapt, and implement already existing organizational routines and processes, capabilities, and technology to develop market-driven products and services [35]. From this standpoint, a new product, organizational structure, or mode of operation can be created through gained knowledge obtained from the market [36]. Similarly, OE enables the acquisition of knowledge and facilitates its application to yield concrete benefits [37]. Overall, OE involves facilitating application, utilizing absorbed competencies, and merging resources to maximize market potential [35]. OE is a component of absorbed capacity, which is a firm's capacity to recognize external information, digest it, and use it for commercial purposes [26]. When an enterprise attempts to adapt to external changes in a proactive manner (e.g., exploit new opportunities before its competitors can respond), their proactive nature allows them to capitalize on new ones more quickly than its competitors [38].

To uncover new opportunities, SMEs must engage in innovative, proactive, and risky practices [39]. Based on this, entrepreneurial skills and efficacy have been reported as the determinant of OE [40]. Based on the upper-echelon theory and resource-based theories, the top management teams' characteristics impact entrepreneurial activities, and firms with more entrepreneurs are more able to facilitate the recognition of new opportunities and the assembling of resources for the venture. The early study by [41] asserted that an entrepreneurial organization pursues product-market innovation, engages in risky business endeavors, and develops proactive ideas first ahead of its competitors. Subsequently, [21] pointed out that an enterprise's orientation towards entrepreneurial decision making can result in a new entry, which captures an enterprise's apparent identification and exploitation of market opportunities.

Furthermore, Ref. [41] suggested that an entrepreneurial firm must actively seek new information regarding its competition, consumers, and market conditions to succeed. Proactivity helps entrepreneurial firms to find opportunities and stay ahead of their competitors in a turbulent market [42]. Thus, SMEs must be proactive by constantly exploring new opportunities and developing market-driven products [43]. All these are theoretical arguments that need empirical validation. Thus, in the current study, we argue that EO enables SMEs to better exploit new opportunities and achieve increased performance. Based on this, we posit the following:

**H<sub>2</sub>.** *Entrepreneurial orientation has a positive impact on opportunity exploitation.*

Ref. [44] provided practical measures for transforming market insights into full-scale and efficient industrial capability, delivery products, and services that are anticipated to generate profit for a successful business. From this standpoint, Ref. [45] pointed out how important opportunities are in entrepreneurial firms, as well as the exploitation of these opportunities, which is what ultimately results in desired outcomes. OE is a component of absorptive capacity as a result of a recursive process that transforms innovative ideas into useful information with commercialization potential [46]. This component is crucial to the initiation of value creation and the commencement of actions that fulfill customers' signaled market needs [26]. Appropriate OE necessitates the firm capacity to adapt and successfully leverage acquired information.

Exploitation requires a firm's capacity to discover and recognize external information, followed by knowledge integration and application [26]. Ref. [47] asserted that firms should invest in improving their absorptive capacity as a crucial competence and way to enhance their firms' competitiveness and performance. Based on this, Ref. [48] argued that the

capacity to identify and exploit opportunities gives insights into why and how certain firms outperform others. Overall, based on the resourced-based and upper-echelon theories' predictions, the entrepreneurial firms by implementing entrepreneurial activities and exploiting faster new opportunities could achieve relatively higher competitive advantages to the competition, which ultimately drives them to increase profits. The current research centers its attention on this aspect of realized absorptive OE and argues that SMEs that can integrate relevant market knowledge and utilize it through OE for commercial purposes and business value creation are likely to promote their performance. Thus, we posit the following:

**H<sub>3</sub>.** *Opportunity exploitation has a positive impact on new venture performance.*

### 2.3. The Mediating Role of Opportunity Exploitation (OE)

EO entails an organization's approach toward entrepreneurial decision making that can result in a new entry, where new entry encompasses the firm's apparent identification and exploitation of opportunities that are driven by the market [21]. Being an attitude-based construct that captures the aspirations of senior managers, EO may not necessarily have a direct impact on performance [31]. Drawing from the intention–behavior paradigm, which considers intention as the immediate precursor of behavioral action, we propose a mediation model where EO is an antecedent for OE [26,47], and then OE affects performance. To back up this claim, we offer two justifications. First, EO functions as a facilitator of enterprises' capacities to identify and seize entrepreneurial opportunities because it reflects their general tendencies and deliberate inclinations to embark on entrepreneurial activities [49,50]. Due to their overall interest in business opportunities, entrepreneurially oriented enterprises are more inclined to participate in endeavors that help them identify market needs [51]. According to [33], EO enterprises' propensity to proactively innovate and take on risk may play a significant role in uncovering new market opportunities. For instance, proactivity denotes the orientation toward opportunities as well as a forward-looking attitude that motivates businesses to engage in entrepreneurial undertakings and actions before competitors [42].

Studies on entrepreneurship have shown that while analyzing entrepreneurial opportunity mechanisms, it is important to consider crucial organizational outcomes, such as new venture establishment, e.g., [50,52]. According to [15], entrepreneurially minded enterprises are more inclined to take calculated risks to bring novel products and services to consumers (via the launch of new ventures), which can result in the generation of new wealth. For instance, a higher EO would allow an organization to recognize emerging and un-exploited consumers' requirements and market inefficiencies [50] before its competitors do. Because of early market entry and exploitation, and the capacity to diversify their income streams, EO firms are often able to offer novel consumer market niches ahead of their competitors.

Considering that buyers of novel products and services are often willing to pay premium prices, EO businesses have a greater chance of recouping their investments before the entry of competitive firms [53]. Furthermore, certain prior research has suggested that organizations can maintain their dominance in a new market for a longer period by creating barriers to entry, including raising the switching for customers and product-quality standards for future market competitors [54,55]. Based on the above arguments, we posit the following:

**H<sub>4</sub>.** *Opportunity exploitation mediates the relationship between entrepreneurial orientation and new venture performance.*

### 2.4. The Moderating Role of Transformational Leadership (TL)

TL relates to the actions taken by leaders to motivate their subordinates and achieve results that are superior to those expected [56]. According to the work by [57], transformation

leaders can broaden and boost the enthusiasm of their subordinates, improve understanding and acceptance of a common purpose and mission, and motivate them to go beyond their self-interests and work towards the greater benefit of the team. Even though there is evidence that transformational leaders have an impact on performance, the processes by which this happens are of special interest [6,12,58]. Managers must be able to stimulate their employees to participate in innovation processes and learn new information that firms use to introduce market-driven products [59]. From this standpoint, TL as a driver of firm performance is of much importance in contemporary business environments [60], especially in developing economies where newly established ventures have to put in extra effort to improve their performance and ensure their survival.

EO helps firms find profitable new ventures, attract high-value customers, and secure early market share [21]. Based on this, numerous empirical studies support the assumption that EO has favorable performance outcomes [2,13,33]. However, several researchers expressed concerns about the unquestioned emphasis that firms may place on EO. Specifically, the success of EO for performance implications is contingent on several factors. In this category are not just institutional barriers [61], but also resource limitations [62]. Scholars have also warned that firms may not be able to successfully translate EO into performance gains if it is not appropriately linked with the leadership behaviors of the firm [63]. Further, Ref. [64] stated that leadership influences the work environment of employees and contributes to the development of a culture to ensure that the interests of the firm and its members are matched. Those in the firm's lower echelons are responsible for exploiting new opportunities and implementing strategy-making techniques and processes implemented by the firm's upper management [65]. Thus, we suggest TL as a driving force that enhances or decreases the relationships in our integrated research model, which is discussed further below.

Ref. [59] argued that managers should be able to motivate their employees in innovation processes, thereby obtaining new knowledge that enables firms to introduce new commodities into the market. From this perspective, TL has been recognized for boosting learning capabilities and innovation [66]. Additionally, transformational leaders have high standards regarding how well their subordinates perform in their jobs [67]. Based on this, we argue that the behavior of the management of newly established ventures enhances the link between OE and NVP since the maximum potential of OE can only be obtained when the employees of the firms uncover innovations that are demonstrably superior to competitors based on quality and speed of entry [21].

The examination of TL as a moderator of the EO–NVP nexus is grounded in two major theories. First, the resource-based view (RBV) [17] proposes that intangible resources relate to strategic posture to generate greater organizational performance. Particularly, intangible resources, such as capabilities (e.g., TL), are crucial in attaining a competitive advantage. Second, the upper-echelon theory, which helps the assimilation of EO and the firm's top management behaviors [18], posits that firms' top management can exert a crucial role in promoting change in the organization in the firm and employees' minds.

SMEs are typically distinguished by critical resource constraints [68]. Thus, leadership behavior is markedly crucial for the enablement of the EO and OE relationship since employees who observe top management actively supporting innovations and proactivity in market offerings are more inclined to trust entrepreneurial activities with the available resources [69,70]. Furthermore, OE firms monitor fluctuations in customers' needs and demand (Lou, 2003), which consequently enables OE that reflects the latest shifts in consumers' preferences and tastes [50]. Particularly, due to the risk associated with newness that is frequently connected with new market opportunities, the performance of SMEs is affected by EO via OE. In line with the aforementioned reasonings, transformational leaders promote high expectations and encourage interactions among all functional units to attain high expectations (e.g., market entry) [67]. This interaction results in the alignment of actions and increased communication [71], which is important because EO is a firm-wide construct that needs contribution and actions from all functional units for it to be turned

into successful opportunity exploitation and high performance [14,26]. Based on the above reasoning, we posit the following:

**H<sub>5</sub>.** *Transformational leadership moderates the link between entrepreneurial orientation and opportunity exploitation, and the positive link is expected to be stronger for managers/owners with higher than lower levels of transformational leadership.*

**H<sub>6</sub>.** *Transformational leadership moderates the relationship between entrepreneurial orientation and new venture performance, and the magnitude of the positive link is expected to be reduced for managers/owners with lower levels of transformational leadership.*

**H<sub>7</sub>.** *Transformational leadership moderates the indirect effect between entrepreneurial orientation and new venture performance through opportunity exploitation, and the magnitude of the indirect effect is expected to be further enhanced for managers/owners with a high level of transformational leadership.*

### 3. Data and Methodology

#### 3.1. Data Collection and Description

Data collected by this study were obtained from managers and owners of SMEs in Lebanon in 2022. We deemed Lebanon as an intriguing location option for data collection since it is a growing market with structural market difficulties that necessitate a higher level of entrepreneurship [72]. We obtained data from North Lebanon, South Lebanon, Mount Lebanon, Beirut, and Bekaa. These are Lebanon's top five provinces, and they are also where the majority of the country's SMEs are based. Our survey participants were the managers and owners, and they were targeted because they can uncover new opportunities with the help of market information and their intrinsic desire [73]. In addition, managers and owners are responsible and more concerned with the strategic planning and performance of organizations [74].

The simple random-sampling method was employed in this study. This sampling method has been used by prior researchers because it provides better information regarding a given sample size [75]. Voluntary participation was sought, and the participants were assured of complete anonymity and that the data obtained would be used for research purposes only. Initially, a total number of 755 questionnaire surveys were sent out in English, 429 valid responses were recovered (292 of which were online responses), and 119 were obtained manually. Due to incomplete responses, 18 responses were terminated during data filtering, leaving 411 responses for analyses. Focusing only on five provinces and distribution in English are the limits of the present study's survey, which further studies can expand upon. This study conducted a comprehensive survey of 755 by asking Likert scale questions covering basic entrepreneurial orientation, opportunity exploitation, transformational leadership, and new venture performance.

The demographic characteristics of this study are presented in Table 1, which demonstrates our sample's respondents. According to gender, 346 (84.18%) were men and 65 (15.82%) were women. A total of 290 (70.55%) respondents of this study had at least a bachelor's degree, implying that the majority of the participants of this study had sufficient education. Based on organization size, 122 (29.68%) of the participants were from SMEs with below 20 employees, 243 (59.13%) came from SMEs with between 21 and 40 employees, 36 (8.76%) were from SMEs with 41 and 60 employees, and 10 (2.44%) were from SMEs with above 80 employees. Based on organization age, 50.85% were less than 2 years old, 24.09% were 2–4 years old, 12.90% were 5–7 years old, 10.22% were 8–10 years old, and 1.94% were above 10 years old. A total of 340 (73.97%) of the participants had over five years of work experience, showing that they had enough experience to rate the constructs of this study.

**Table 1.** Demographic characteristics.

Respondent Characteristics (N = 411)		Frequency	Percentage (%)
Gender	Men	346	84.18
	Women	65	15.82
Education	Bachelor	226	54.99
	Master	46	11.19
	Doctorate	18	4.38
	Other	121	29.44
Organizational size (number of employees)	Less than 20	122	29.68
	21–40	243	59.13
	41–60	36	8.76
	61–80	10	2.43
	Above 80	---	---
Organization age (years)	Less than 2	209	50.85
	2–4	99	24.09
	5–7	53	12.90
	8–10	42	10.22
	Above 10	8	1.94
Work experience (years)	Less than 5	107	26.03
	6–10	180	43.80
	Above 10	124	30.17

Note: Table 1 shows the sample distributions.

### 3.2. Variable Selection

This study measured entrepreneurial orientation using seven items adopted from the work by [76]. Owners/managers of SMEs were asked to rate their firm's innovativeness, proactivity, and risk taking based on the items. These items relate to the implementation of progressive processes and practices; they also search for new practices and embrace bold actions that could impact their firms. Table 2 shows sample statements for measuring the EO variable. Responses were recorded on a Likert scale from 1 to 5. The number 1 reflects that the individuals strongly disagree with the statements, and 5 reflects that the individuals strongly agree with the statements.

**Table 2.** Sample statements for measuring entrepreneurial orientation variable.

Statements	Measurements
1. The management of our organization supports the projects that are associated with risks and expectations for returns higher than average.	Likert scale: 1 = strongly disagree 5 = strongly agree
2. We actively observe and adopt the best practices in our sector.	
3. We actively observe the new practices developed in other sectors and exploit them in our businesses.	
4. We recognize early on such technological changes that may have an effect on our organization.	
5. We can take on unexpected opportunities.	
6. We search for new practices all the time.	
7. In uncertain decision-making situations, we prefer bold actions to make sure that possibilities are exploited.	

This study measured OE using five items adapted from the work by [36]. Table 3 shows sample statements for measuring the OE variable. Responses were recorded on a Likert scale from 1 to 5. The number 1 reflects that the individuals strongly disagree with the statements, and 5 reflects that the individuals strongly agree with the statements.

**Table 3.** Sample statements for measuring opportunity exploitation variable.

Statements	Measurements
Searching and identifying opportunities from changes in customer demands and preferences.	Likert scale: 1 = strongly disagree 5 = strongly agree
Searching and identifying opportunities from changes in the economic environment.	
Searching and identifying opportunities from changes in the political environment.	
Searching and identifying opportunities from changes in the technological environment.	
Searching and identifying opportunities from changes in the regulatory environment.	

This study measured TL using five items adapted from the work by [12]. Table 4 shows the sample statements for measuring the TL variable. Responses were recorded on a Likert scale from 1 to 5. The number 1 reflects that the individuals strongly disagree with the statements, and 5 reflects that the individuals strongly agree with the statements.

**Table 4.** Sample statements for measuring transformational leadership variable.

Statements	Measurements
My leader clearly articulates his/her vision of the future.	Likert scale: 1 = strongly disagree 5 = strongly agree
My leader leads by setting a good example.	
My leader challenges me to think about old problems in new ways.	
My leader says things that make employees proud to be part of the organization.	
My leader has a clear sense of where our organization should be in five years.	

This study measured NVP using six items from the work by [74]. Table 5 shows sample questions for measuring the NVP variable. Responses were recorded on a Likert scale from 1 to 5.

**Table 5.** Sample questions for measuring new venture performance variable.

Questions	Measurements
1. Return on investment	Likert scale: 1 = extremely declined 5 = extremely improved
2. Return on assets	
3. Return on equity	
4. Sale growth	
5. Employees satisfaction	
6. Employee loyalty	

### 3.3. Models and Methodology

#### 3.3.1. Conceptual Model

The present work constructs the conceptual model below to examine the EO–NVP relationship and to test the hypotheses. Figure 1 shows the conceptual model. As shown in Figure 1, we attempt to explore the direct and indirect (through OE) effect of EO on NVP. Furthermore, we aim to probe whether TL has a moderator role between the interested variables.



$p > 0.05$ ). This indicated that CMB did not significantly enhance the model fit. As a result, the possible difficulties of CMB can be overlooked in the present study.

Second, in determining whether the data collected were normally distributed, [82] argued that the Skewness and Kurtosis indexes should be  $\leq 2$  and  $\leq 3$ , respectively. As presented in Table 6, the Skewness index ranges between 0.106 to 0.547 and the Kurtosis index ranges between 0.059 to 0.922. Therefore, it can be inferred that the data gathered are normally distributed. To ensure that the internal consistency of the four constructs in this study was ensured, Cronbach's alpha was estimated. Ref. [83] recommended that Cronbach's alpha values should be higher than 0.75. As presented in Table 6, Cronbach's alpha for each construct ranged between (0.894 to 0.940). Thus, all four constructs in this study showed satisfactory internal consistency.

**Table 6.** Measurement model results.

Construct	Items	Factor Loading	Cronbach's Alpha	Composite Reliability	Average Variance Extracted	Distribution	
						Skewness	Kurtosis
Entrepreneurial Orientation	E01	0.802	0.895	0.914	0.654	-0.109	0.299
	E02	0.822				-0.282	-0.263
	E03	0.892				-0.254	-0.275
	E04	0.799				-0.231	-0.922
	E05	0.811				-0.365	0.401
	E06	0.692				-0.211	-1.301
	E07	0.628				-0.331	-0.882
	E08	---					
	E09	---					
Opportunity Exploitation	OE1	0.908	0.901	0.902	0.693	-0.509	0.067
	OE2	0.852				-0.341	-0.099
	OE3	0.824				-0.522	-0.081
	OE4	0.843				-0.547	-0.221
	OE5	0.601				-0.311	0.109
Transformational Leadership	TL1	0.609	0.939	0.899	0.621	-0.352	-0.282
	TL2	0.625				-0.244	-0.338
	TL3	0.823				-0.106	-0.339
	TL4	0.842				-0.162	-0.609
	TL5	0.879				-0.255	-0.506
NVP	NVP1	0.693	0.940	0.922	0.649	-0.542	-0.266
	NVP2	0.779				-0.524	0.059
	NVP3	0.855				-0.407	-0.289
	NVP4	0.805				-0.499	-0.406
	NVP5	0.829				-0.467	-0.298
	NVP6	0.744				-0.235	-0.367

Using CFA, we evaluated the convergent and discriminant validity of our measures. As presented in Table 6, the results revealed that all the factor loadings in the present study were above 0.6, ranging from 0.601 to 0.908. The values for composite reliability were greater than 0.7, ranging from 0.902 to 0.922. The average variance extracted values were greater than 0.5, ranging from 0.621 to 0.654. Thus, our measures have sufficient convergent validity.

Third, for discriminant validity, the square root of average variance extracted (AVE) for every construct was compared with surrounding correlations. Ref. [83] recommended that the square root of the average variance extracted should be higher than the off-diagonal correlation to ensure discriminant validity. As illustrated in Table 7, the square root of AVE off-diagonal (in parentheses) was larger than the surrounding correlations. Therefore, showing discriminant validity was ensured. Table 7 also shows the mean of EO is the highest at 3.940, followed by OE, NVP, OA, OS, and TL with means of 3.831, 3.560, 3.167, 3.092, and 1.940, respectively. Furthermore, TL and EO with a standard deviation of 1.086

and 0.752, respectively, have the highest variations, while OS and OA with a standard deviation of 0.704 and 0.723, respectively, have the lowest variations.

**Table 7.** Correlation among variables and discriminant validity.

Construct	Mean	St. Dev	EO	OE	TL	NVP	OS	OA
Entrepreneurial Orientation (EO)	3.940	0.752	(0.809)					
Opportunity Exploitation (OE)	3.831	0.739	0.602 **	(0.799)				
Transformational Leadership (TL)	1.940	1.086	0.442 **	0.399 **	(0.788)			
New venture performance (NVP)	3.560	0.738	0.209 **	0.327 **	0.353 **	(0.806)		
Organizational Size (OS)	3.092	0.704	0.553 **	0.593 **	0.478 **	0.489 **	---	
Organizational AGE (OA)	3.167	0.723	0.466 **	0.369 **	0.569 **	0.482 **	0.626 **	---

Note: \*\* denotes statistically significant at 1%.

Fourth, as presented in Table 8, the model was significant and fit. The CFA model fit results are  $\chi^2/\text{degree of freedom ratio}$  (CMIN/DF) = 2.710, CFI = 0.942, TLI = 0.939, GFI = 0.968, RMSEA = 0.055, and these values fell within the acceptable cut-off range [84].

**Table 8.** Model fit summary of the measurement model.

Goodness of Fit	Relative/Normal Chi-Squared (CMIN/DF)	Comparative Fit Index (CFI)	Tucker-Lewis Index (TLI)	Goodness Fit Index (GFI)	Root Mean Square Error of Approximation (RMSEA)
Results	2.710	0.942	0.939	0.968	0.055
Cut-off range	CMIN/DF < 3	CFI > 0.9	TLI > 0.9	GFI > 0.8	RMSEA < 0.08

#### 4.2. Moderated Mediation Analysis

##### 4.2.1. Mediation Results

The PROCESS macro (model 4) by [77] was adopted to test hypotheses H<sub>1</sub>, H<sub>2</sub>, H<sub>3</sub>, and H<sub>4</sub>. As shown in Table 9, the link between EO and OE is statistically significant at a 1% level ( $\beta = 0.449$ ,  $p < 0.001$ ,  $t = 9.672$ ), implying that EO has a positive effect on OE. Furthermore, Table 8 shows that EO is statistically significant at a 1% level and is a positive predictor of NVP ( $\beta = 2.82$ ,  $p < 0.001$ ,  $t = 6.322$ ). Furthermore, it reveals that OE is statistically significant at a 1% level and has a positive effect on NVP ( $\beta = 0.316$ ,  $p < 0.001$ ,  $t = 5.862$ ). Thus, based on the results, H<sub>1</sub>, H<sub>2</sub>, and H<sub>3</sub> were all validated. Remarkably, the results reveal that EO has a positive direct effect on NVP, and new ventures with a more entrepreneurship basis could achieve higher performance. The higher values of R<sup>2</sup> confirm the validity of the models indicating that 18.4 and 20.2% of the variation in the dependent variables can be explained by the independent variables in models 1 and 2, respectively.

**Table 9.** Results of mediation analysis.

	$\beta$	SE	t	p	Lower CI	Upper CI	R <sup>2</sup>
Model 1: Mediator variable model							
EO	0.449	0.041	9.672	0.000	0.337	0.622	0.184
Model 2: Outcome variable model							
EO	0.282	0.053	6.322	0.000	0.122	0.431	0.202
OE	0.316	0.044	5.862	0.000	0.101	0.396	
Bootstrap results for the indirect effects	0.103	0.035			0.039	0.143	

Note: Bootstrap sample = 5000; CI = 95%.

As discussed earlier, a bootstrapping method with 5000 resamples was also used to examine the significance of the indirect effect of OE. As shown in Table 9, the bootstrap results for the bias-corrected percentile for the indirect effect of EO on NVP through OE were significant ( $\beta = 0.103$ ,  $SE = 0.035$ , confidence intervals (CIs) [0.039, 0.143]). The bias-corrected percentile approach adjusts for any bias in the bootstrap estimate. Particularly, the percentile-based approaches use the percentiles of the generated bootstrap distribution to determine the limits of the confidence interval. Hence, as presented in Table 9, OE partially mediates the link between EO and NVP, and  $H_4$  is validated. Overall, the findings answer the first research question by explaining how entrepreneurial orientation impacts new venture performance in Lebanon.

#### 4.2.2. Moderation Results

The moderated mediation hypotheses were tested using model 59. As shown in Table 10, the moderating role of TL was explored in the EO–OE ( $H_5$ ), EO–NVP ( $H_6$ ), and OE–NVP nexuses ( $H_7$ ).

**Table 10.** Results for moderation analysis.

	$\beta$	SE	t	p	Lower CI	Upper CI	R <sup>2</sup>
Model 1: Mediator variable model				Outcome: OE			
EO	0.231	0.112	2.401	0.014	0.052	0.462	0.225
TL	0.366	0.151	5.091	0.019	0.086	0.488	
EO $\times$ TL	0.241	0.060	3.251	0.016	0.099	0.281	
Control variable: OS	0.031	0.015	0.769	0.337	−0.026	0.059	
Control variable: OA	0.008	0.004	0.059	0.855	−0.018	0.043	
The conditional direct effect of EO on OE							
TL (−1SD)	0.069	0.079	1.708	0.000	0.055	0.207	
TL (+1SD)	0.246	0.058	3.244	0.001	0.198	0.359	
Model 2: Mediator variable model				Outcome: NVP			
EO	0.239	0.118	2.653	0.001	0.064	0.441	0.188
OE	0.425	0.071	5.445	0.014	0.220	0.431	
EO $\times$ TL	0.249	0.089	2.458	0.017	0.107	0.251	
Control variable: OZ	0.019	0.011	0.976	0.422	−0.088	0.054	
Control variable: OA	0.070	0.006	1.361	0.143	−0.049	0.084	
The conditional direct effect of EO on NVP							
TL (−1SD)	0.157	0.071	1.823	0.015	0.086	0.374	
TL (+1 SD)	0.512	0.088	4.113	0.000	0.238	0.611	
Bootstrap results for indirect effect (via OE)							
Index of moderated mediation	0.041	0.011			0.028	0.052	
The conditional indirect effect of EO on NVP (via OE)							
TL (−1SD)	0.161	0.042	1.729	0.010	0.061	0.286	
TL (+1SD)	0.248	0.049	2.996	0.000	0.199	0.362	

Note: Bootstrapped sample = 5000; CI = 95%.

In Table 10, the results indicated that the direct effect of EO on OE is statistically significant at a 5% level ( $\beta = 0.231$ ,  $p < 0.05$ ,  $t = 2.401$ ), and this main effect was moderated by TL ( $\beta = 0.241$ ,  $p < 0.05$ ,  $t = 3.251$ ) with CI [0.099, 0.281]. Hence, implying that TL moderates the significant positive EO–OE link supports the validity of  $H_5$ . Furthermore, the results show that the EO has a statistically significant ( $\beta = 0.239$ ,  $p < 0.01$ ,  $t = 2.653$ ) direct effect on NVP, and this effect was moderated by TL ( $\beta = 0.249$ ,  $p < 0.05$ ,  $t = 2.458$ ) with CI [0.107, 0.251]. Hence, indicating that TL moderates the significant positive EO–NVP link supports the validity of  $H_6$ . The higher values of  $R^2$  confirm the validity of the models

indicating that 22.5 and 18.8% of the variation of the dependent variable can be explained by the independent variables in models 1 and 2, respectively.

Moreover, the results for the conditional indirect effect showed that TL moderated the indirect relationship (through OE) between EO and NVP (bootstrap estimates = 0.041, bias-corrected CI = 0.028 to 0.052). Further, the results show that both the conditional indirect effects were statistically significant, and bootstrap intervals supported these results, supporting H<sub>7</sub>. Overall, the findings answer the second research question by explaining how transformational leadership has a moderator role between entrepreneurial orientation and new venture performance in Lebanon.

In providing a better understanding of the interactions, we used simple-slope analysis. For H<sub>5</sub>, the interaction was plotted in Figure 2 at 1SD below the mean and 1SD above the mean of TL. The link between EO and OE was higher for owners (or managers) with high TL ( $\beta = 0.246$ ,  $t = 3.224$ ,  $p < 0.001$ ) in comparison with owners (or managers) with low TL ( $\beta = 0.069$ ,  $t = 1.708$ ,  $p < 0.001$ ), which supports the validity of H<sub>5</sub>.

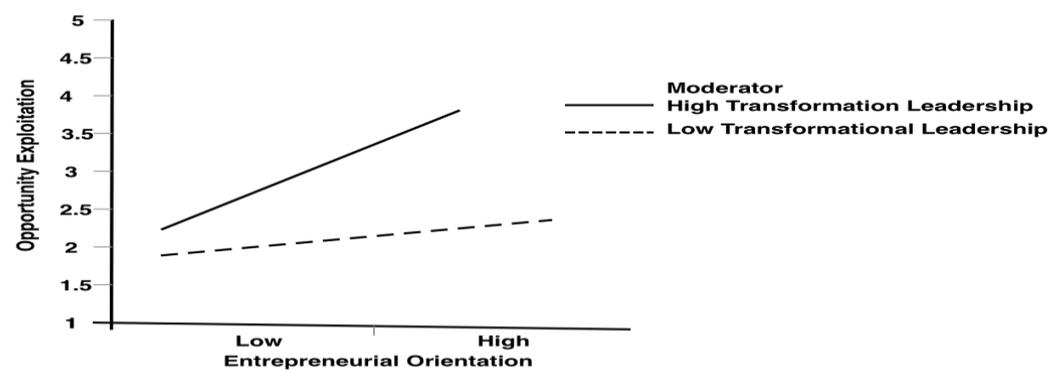


Figure 2. Moderating effects of different levels of TL on the EO–OE nexus.

Similarly, for H<sub>6</sub>, the interaction was plotted in Figure 3 at 1SD below the mean and 1SD above the mean of TL. The link between EO and NVP was lower for owners (or managers) with low TL ( $\beta = 0.157$ ,  $t = 1.823$ ,  $p < 0.05$ ) when compared to high TL ( $\beta = 0.512$ ,  $t = 4.113$ ,  $p < 0.001$ ), proving further support for H<sub>6</sub>.

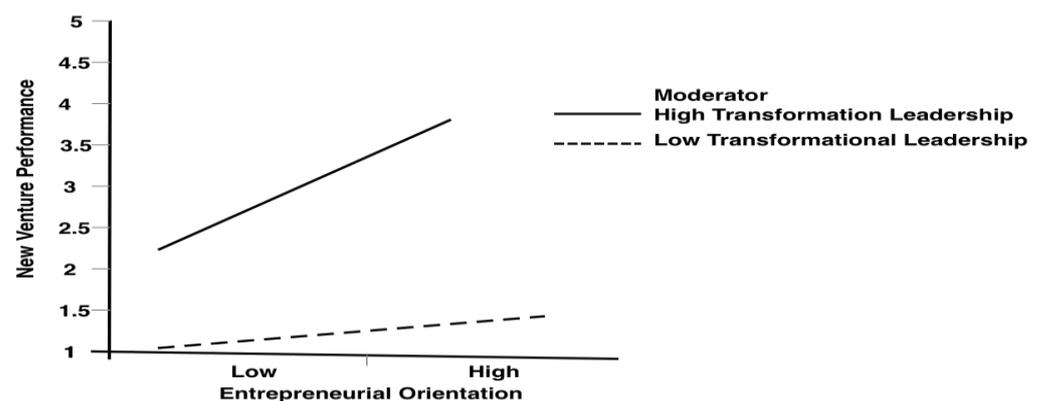
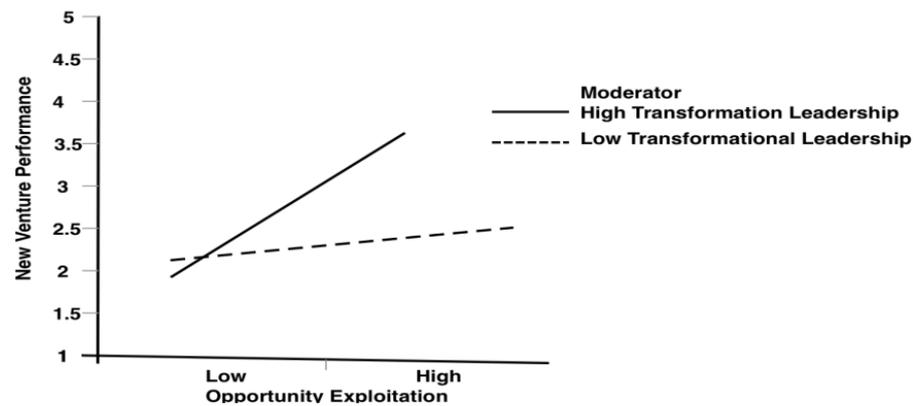


Figure 3. Moderating effects of different levels of TL on the EO–NVP nexus.

Lastly, for H<sub>7</sub>, the interaction was plotted in Figure 4 at 1SD below the mean and 1SD above the mean of TL. The indirect effect of OE on the EO–NVP nexus was higher for owners (or managers) with high TL ( $\beta = 0.248$ ,  $t = 2.948$ ,  $p < 0.001$ ) when compared with those with low TL ( $\beta = 0.161$ ,  $t = 1.729$ ,  $p < 0.01$ ), further supporting H<sub>7</sub>.



**Figure 4.** Moderating effects of different levels of TL on the OE–NVP nexus.

#### 4.2.3. Discussion

Based on data collected from SMEs in Lebanon, the mediation of OE and the moderating role of TL were theorized and examined.

The findings reveal that EO has a positive impact on NVP in Lebanon. This particular result is in line with prior findings, e.g., [51,85], which reported that EO contributes to business performance. Likewise, EO was found to be a crucial determinant of OE in newly established SMEs in Lebanon. This is consistent with the conclusion of prior works, e.g., [2,86], which argued that opportunity recognition is a crucial trait of an entrepreneur, who must possess the ability to exploit opportunities for profit. Furthermore, OE was found to be a significant predictor of NVP.

This result aligns with prior research, which suggested that through OE, firms can incorporate crucial market information and knowledge and use it for value creation to promote their business performance, e.g., [26,47].

OE was revealed to be a partial mediator of the EO–NVP nexus. This is in contrast with the work by [50], who reported full mediation of opportunity discovery in the EO–NVP relationship. However, our partial mediation result is consistent with the work by Anwar et al. (2018), who reported that a competitive edge plays a partial mediating effect in the EO–NVP relationship. Moreover, the finding uncovered that TL moderated both the direct and indirect relationship between EO–NVP. Overall, the results confirm our hypotheses and stress the role of EO in enhancing SMEs' performance. Moreover, the results highlight the significant effects of the mediator and moderator on the EO–NVP nexus.

## 5. Conclusions

### 5.1. Concluding Remark

Entrepreneurship remains understudied in less-developed economies, particularly in turbulent markets (e.g., Lebanon). The dominant emphasis on industrialized nations (e.g., Canada, United States) casts doubts on the generalizability of entrepreneurial findings and theories. This study fills the gap and empirically explores the impact of entrepreneurial orientation (EO) on new venture performance (NVP) through opportunity exploitation (OE) at varying levels of transformational leadership (TL). This may be the first work attempting to investigate the EO–NVP nexus in the emerging country of Lebanon. Also, this study specifically contributes by constructing a moderated mediation model by drawing from a resource-based view and upper-echelon theory to illustrate how EO can increase the intensity of OE and ultimately NVP. Furthermore, this study contributes to the exploration of the mentioned relationship by considering the potential moderating role of TL, which has not been tested so far. To achieve this purpose, we collected the surveys of 411 managers and owners of SMEs in 2022 by focusing on the top five provinces in Lebanon where the majority of the SMEs are located. Overall, the evidence obtained from the research showed that OE partially mediates the EO–NVP nexus and both the direct and indirect effects were further enhanced when at a higher level of TL.

## 5.2. Policy Implications

The current research contributes significantly to the existing body of knowledge on the mechanism of the EO–NVP relationship in a developing economy by revealing OE as the intervening mechanism by which EO impacts NVP in a turbulent market. Further, prior studies have reported disparities in the empirical evidence related to the link between EO and performance, e.g., [2,50], making it challenging for entrepreneurs and academics to establish how and under what conditions EO is more or less advantageous to the success of new SMEs. To address this void in the literature, this study uncovers OE as the intervening mechanism that partially mediates the link between EO and NVP.

Furthermore, we integrated two key theories to provide insights into how the moderating role of TL facilitates the EO–NVP relationship. First, consistent with the resource-based view, this research explores TL as an intangible resource to help facilitate the EO–OE–NVP model. Hence, clarifying the role of internal resources in enabling EO–NVP relationships. Second, the findings of this study are also consistent with the upper-echelon theory that leadership behaviors are crucial in enabling the EO–NVP relationship.

Specifically, to the best of our knowledge, the moderating role of TL on the direct link between EO and NVP is scarce, particularly in a developing economy context. The support for this particular finding is novel. This means that if the leaders of newly established ventures are willing to adapt by efficiently using their internal resources and inspiring their employees in a turbulent market, such as Lebanon, SMEs' performance can be enhanced by EO.

Another important contribution of the present research is that it was discovered that while EO could be related directly to NVP, the strength of this relationship is further enhanced when EO is directed towards OE under the condition of high TL. This conclusion offers empirical validation for the need to explore the instant entrepreneurial response outcomes of EO and reflects the initial effort of the moderating role of TL on EO–NVP in a developing economy. This insightful contribution reveals the crucial role of TL as a boundary condition in promoting NVP through successful OE.

Furthermore, the current research offers crucial managerial implications for the management of SMEs. Specifically, this research advances SMEs' management practices. The findings of this study revealed that EO and constant OE are major drivers of SMEs' survivability. It was revealed that EO plays a crucial role in improving SMEs' performance in Lebanon. Notably, the findings indicate that entrepreneurs and the managers of new ventures must transform their entrepreneurial strategic posture into opportunity exploitation behaviors by pinpointing market inefficiencies and consumer needs, launching novel products and services, and taking advantage of opportunities for new products to enter the market to maximize financial gain.

While newly established businesses are often constrained by resource limitations, managers of new venture firms should seek to develop attributes of TL behaviors. Possessing such attributes can strengthen SMEs' ability to derive higher performance benefits from new opportunities in the market. On a practical level, managers of new venture firms should serve as suitable role models (adopting an entrepreneurial mindset), promote acknowledgment of team objectives (by establishing reward systems linked to team or organization performance), and set high-performance expectations (establishing ambitious targets that encourage employees to push).

Finally, managers of new venture firms should stimulate innovative thinking, for example, by hosting meetings regularly, during which newly emerging opportunities are discussed. Firms that devote resources to such initiatives are more likely to realize greater benefits from their entrepreneurial efforts.

## 5.3. Limitation

Our sample consists of newly established SMEs in Lebanon, which limit the findings to be generalized to other emerging and developing market contexts. Also, our sample is limited to 411 managers and owners of SMEs, which limits the findings to some extent, allowing them to be generalized for entire new venture firms in Lebanon. Even though

the Lebanese context is well warranted, caution should be exercised when generalizing the current research conclusions. Furthermore, the literature on absorptive capacity identifies acquisition, assimilation, and transformation is similar to that on other absorptive capacity components [87]. Unlike the current research, which only examined the effect of OE on the EO–NVP nexus, further research could use other components to provide a comprehensive picture. From this standpoint, future studies might draw on associated theories and examine the three other components in a multi-mediation model to examine whether acquisition, assimilation, and transformation play a substitutive or complementary role in entrepreneurial orientation–performance outcomes. Likewise, the majority of the research on TL has been carried out in the Western context (known for individualistic cultural values), while our study setting was the Lebanese context. Values exert a crucial function in comprehending how TL and a nation’s culture may shape leadership behavior. Future research may examine whether the conclusions of this study are valid across different contexts and if cross-cultural differences might moderate the relationships in our integrated theoretical model. Additionally, further studies can include in the testing model other factors, such as blockchain technology [88], network capability and strategic information flow [89,90], innovation [91,92], COVID-19 [93,94], and competitive intensity and environmental uncertainty [95]. Furthermore, it would be useful for further studies to replicate the present study for other emerging markets by considering the three absorptive capacity components and larger sample sizes. Moreover, further studies could use the EU limits (e.g., 10, 50, 250) for measuring SME size for better comparability with European studies. Lastly, the OE5 statement with 0.601- factor loading could be further investigated.

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