

ENTREPRENEURIAL ORIENTATION AND STARTUP GROWTH: MEDIATION OF INNOVATION CAPABILITY

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Abstract

Entrepreneurial orientation has been widely recognized as a critical driver of startup success in dynamic and competitive markets. However, the mechanisms through which entrepreneurial orientation influences startup growth remain insufficiently explored. This study examines the effect of entrepreneurial orientation on startup growth, with innovation capability serving as a mediating variable. Using a quantitative research design, data were collected from 260 startup founders and managers operating in emerging business environments. Structural Equation Modeling (SEM) was employed to test the hypothesized relationships. The results reveal that entrepreneurial orientation has a significant positive effect on startup growth. Furthermore, innovation capability partially mediates this relationship, indicating that entrepreneurial firms grow faster when their strategic orientation is supported by strong innovation capabilities. The findings highlight that innovativeness, proactiveness, and risk-taking foster the development of new products, services, and processes, which in turn enhance firm growth. This study contributes to entrepreneurship literature by empirically validating the mediating role of innovation capability and extending the resource-based view in the context of startups. Practically, the findings emphasize the importance of nurturing innovative capabilities alongside entrepreneurial behaviors to achieve sustainable growth. The study concludes that entrepreneurial orientation alone is insufficient unless supported by continuous innovation

Keywords: *Entrepreneurial orientation, startup growth, innovation capability, entrepreneurship*

Introduction

Startups play a vital role in economic development by generating employment, fostering innovation, and driving competitiveness. However, achieving sustainable growth remains a major challenge for startups due to resource constraints, market uncertainty, and intense competition. Entrepreneurial orientation (EO), which reflects a firm's strategic posture characterized by innovativeness, proactiveness, and risk-taking, has been widely recognized as a key determinant of startup success.

Entrepreneurial orientation enables startups to identify market opportunities, introduce novel products, and respond proactively to environmental changes. Despite its importance, empirical findings on the relationship between entrepreneurial orientation and firm growth remain inconsistent. Some studies report strong positive effects, while others suggest that EO alone does not guarantee performance improvement. This inconsistency indicates the presence of intervening mechanisms that influence how entrepreneurial orientation translates into growth outcomes.

Innovation capability represents a firm's ability to develop new products, services, or processes and to implement creative ideas effectively. For startups, innovation capability is particularly crucial as it allows them to differentiate from competitors, respond to customer needs, and sustain competitive advantage. Entrepreneurial orientation is expected to stimulate innovation by encouraging experimentation, opportunity recognition, and strategic flexibility.

Although previous research acknowledges the importance of innovation in entrepreneurial firms, limited empirical studies have examined innovation capability as a mediating mechanism between entrepreneurial orientation and startup growth. Understanding this relationship is especially important in emerging economies, where startups often operate under resource constraints and volatile market conditions.

This study aims to fill this gap by examining the mediating role of innovation capability in the relationship between entrepreneurial orientation and startup growth. By integrating entrepreneurship and innovation perspectives, the study provides deeper insights into how startups can transform entrepreneurial intentions into sustainable growth outcomes.

Literature Review

Entrepreneurial orientation refers to a firm's strategic orientation that captures specific entrepreneurial aspects of decision-making styles, methods, and practices (Lumpkin & Dess, 1996). It is commonly conceptualized through three core dimensions: innovativeness, proactiveness, and risk-taking. Firms with high entrepreneurial orientation are more likely to engage in experimentation, pursue new opportunities, and challenge existing market conditions.

Startup growth is a multidimensional construct encompassing increases in sales, market share, employees, and profitability. Growth is particularly critical for startups, as it reflects survival, scalability, and long-term sustainability. Prior studies have established a positive relationship between entrepreneurial orientation and firm growth; however, the strength of this relationship varies across contexts, suggesting the presence of mediating factors.

Innovation capability refers to an organization's ability to transform knowledge and ideas into new or improved products, services, or processes. It represents a key dynamic capability that enables firms to adapt to changing environments. Entrepreneurial orientation fosters innovation by encouraging creativity, experimentation, and proactive opportunity exploration. Firms with strong innovation capabilities are better positioned to commercialize ideas and achieve growth.

The resource-based view (RBV) provides a useful theoretical foundation for understanding this relationship. According to RBV, competitive advantage arises from valuable, rare, inimitable, and non-substitutable resources. Entrepreneurial orientation represents a strategic resource, while innovation capability acts as an organizational capability that converts entrepreneurial intentions into tangible outcomes.

Empirical evidence supports the mediating role of innovation capability. Studies indicate that entrepreneurial orientation enhances innovation performance, which subsequently leads to higher firm growth and competitiveness. However, many studies have examined these relationships independently, with limited attention to mediation effects, particularly in startup contexts.

This study extends existing literature by empirically testing innovation capability as a mediator between entrepreneurial orientation and startup growth. By doing so, it provides a more comprehensive understanding of how entrepreneurial strategies are transformed into measurable growth outcomes.

Theoretical Framework

This study is grounded in the **Resource-Based View (RBV)** and **Dynamic Capability Theory**.

- Entrepreneurial orientation represents a strategic resource.

- Innovation capability acts as a dynamic capability enabling firms to utilize entrepreneurial orientation effectively.
- Startup growth is the performance outcome.

Proposed Relationships:

- Entrepreneurial Orientation → Startup Growth
- Entrepreneurial Orientation → Innovation Capability
- Innovation Capability → Startup Growth
- Innovation Capability mediates the relationship between Entrepreneurial Orientation and Startup Growth

Methodology

A quantitative research design was employed using a cross-sectional survey approach. Data were collected from 260 startup founders and senior managers operating in technology, service, and manufacturing sectors. Standardized scales were used to measure entrepreneurial orientation, innovation capability, and startup growth using a five-point Likert scale. SmartPLS 4 was utilized for data analysis due to its suitability for mediation testing and prediction-oriented research. Reliability, validity, and structural relationships were assessed using Partial Least Squares Structural Equation Modeling (PLS-SEM).

Data Analysis

Table 1: Measurement Model Results

Construct	Cronbach's Alpha	Composite Reliability	AVE
Entrepreneurial Orientation	0.90	0.93	0.69
Innovation Capability	0.88	0.91	0.66
Startup Growth	0.91	0.94	0.72

Interpretation

The measurement model demonstrates strong internal consistency and convergent validity. Cronbach's alpha and composite reliability values exceed the recommended threshold of 0.70, indicating reliable measurement of all constructs. Average Variance Extracted (AVE) values are above 0.50, confirming adequate convergent validity. These results indicate that the measurement instruments effectively capture entrepreneurial orientation, innovation capability, and startup growth. The strong psychometric properties of the constructs provide a reliable foundation for structural model analysis and hypothesis testing.

Table 2: Structural Model Results

Path	β	t-value	p-value	Result
Entrepreneurial Orientation → Startup Growth	0.38	6.21	<0.001	Supported
Entrepreneurial Orientation → Innovation Capability	0.55	8.34	<0.001	Supported
Innovation Capability → Startup Growth	0.42	6.75	<0.001	Supported

Interpretation

The structural model results indicate a significant positive relationship between entrepreneurial orientation and startup growth. Entrepreneurial orientation also significantly influences innovation capability, suggesting that entrepreneurial firms are more likely to develop innovative products and processes. Innovation capability has a strong positive effect on startup growth, confirming its critical role in enhancing firm performance. These findings validate the theoretical assumption that innovation acts as a key mechanism through which entrepreneurial orientation drives growth.

Table 3: Mediation Analysis

Indirect Path	Effect	t-value	Result
Entrepreneurial Orientation → Innovation Capability → Startup Growth	0.23	4.98	Supported

Interpretation

The mediation analysis confirms that innovation capability partially mediates the relationship between entrepreneurial orientation and startup growth. The significant indirect effect indicates that entrepreneurial orientation enhances startup growth not only directly but also indirectly through innovation capability. This finding supports the resource-based view, emphasizing that entrepreneurial behavior must be supported by innovation capabilities to achieve sustained growth. Startups that effectively translate entrepreneurial initiatives into innovative outputs are more likely to achieve superior growth outcomes.

Conclusion

This study examined the relationship between entrepreneurial orientation and startup growth, focusing on the mediating role of innovation capability. The findings confirm that entrepreneurial orientation significantly enhances startup growth and that innovation capability serves as a critical mechanism in this relationship. Startups that exhibit strong entrepreneurial behaviors and invest in innovation capabilities are better positioned to achieve sustainable growth. The study contributes to entrepreneurship literature by empirically validating the mediating role of innovation capability and extending the resource-based view in the context of startups. The results highlight that entrepreneurial orientation alone is insufficient without the capability to innovate effectively.

Future Recommendations

Future research should adopt longitudinal designs to examine how entrepreneurial orientation and innovation capability evolve over time. Additional mediators such as knowledge management, learning orientation, and digital capability could be explored. Cross-country studies would enhance generalizability and reveal contextual differences. Practically, startup founders should focus on building innovation-friendly cultures, investing in R&D, and encouraging creative problem-solving. Policymakers should support startups through innovation grants, incubation centers, and entrepreneurship training programs to strengthen national innovation ecosystems.

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