



Unpacking the Influence of Entrepreneurial Orientation and Government Support Programs on New Product Performance

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Abstract

Purpose – This research paper aims to examine the impact of entrepreneurial orientation (EO) and government support programs (GSP) on new product performance in Korean Small and Medium-sized Enterprises (SME). We specifically focus on the interaction between these two factors and their influence on the new product performance of Korean SMEs.

Research design, data, and methodology – We collected survey questionnaires from SMEs that are certified with Inno-biz by the Korean Ministry of SMEs and Startups. The collected data was analyzed using SPSS 26 and AMOS to create an integrated model.

Result – Based on the analysis, our findings indicate that the proactiveness and innovativeness dimensions of EO have a positive effect on new product performance. However, the risk-taking dimension of EO has a negative effect. Additionally, GSP exhibit both positive and negative moderating effects on different dimensions of EO.

Conclusion – It is important to recognize that GSP are not a universal solution for all challenges faced by SMEs. Hence, it is crucial for policy-makers to have a clear understanding of SMEs' capabilities and the level of EO dimensions in order to identify types of GSP that could lead to positive outcomes, while minimizing the negative effects of GSP.

Keywords: Entrepreneurial Orientation, New Product Development, Government Support Programs

JEL Classification Code: M10, M31.

1. Introduction

Small and medium-sized enterprises (SMEs) have been identified as significant contributors to economic growth and development of a nation by contributing to a nation's job creation, innovation, and the overall growth of an economy (Audretsch & Keilbach, 2004; Wennekers & Thurik, 1999). However, SMEs often face significant challenges which limits their ability to implement strategies for securing growth and competitiveness due to the lack of internal resources and capabilities. Also, while it is widely acknowledged that new product development (NPD) plays a crucial role in enabling companies to gain a sustainable competitive advantage (Li et al., 2010; Cooper, 1994), it poses many difficulties for firms due to its inherent uncertainty and resource-intensive nature. SMEs face difficulties in achieving successful NPD outcomes, primarily due to the unfavorable competitive landscapes they encounter, especially in East Asian countries where large corporations primarily dominate the overall economy (Hong et al., 2010; Yoon & Seo, 2015).

In this context, entrepreneurial orientation (EO) has been identified as a key factor in driving new product development and improving the performance of SMEs (Lee & Cho, 2022). An entrepreneurial orientation refers to a strategic posture that prioritizes innovation, risk-taking, and proactiveness in an organization's decision-making processes (Covin & Slevin, 1989). EO can help SMEs to differentiate themselves from competitors, generate new business opportunities, and adapt to changing market conditions quickly (Cho, 2021; Jeong et al., 2006; Knight, 2001).

Nevertheless, SMEs encounter a multitude of obstacles when it comes to cultivating and sustaining an entrepreneurial orientation. What often goes unnoticed by scholars is the considerable cost associated with maintaining such an orientation. For instance, a lack of financial resources can severely hinder SMEs' capacity to allocate investments towards research and development as well as other entrepreneurial endeavors, necessary to maintain the level of EO (Atuahene-Gima & Ko, 2001; Brouthers et al., 2015). Additionally, SMEs may lack the experiential resources needed to support an entrepreneurial culture. This can include a lack of skilled employees, a supportive organizational culture, and limited access to external networks (Rauch et al., 2009). In light of these challenges, SMEs may need to rely on external support programs, such as those provided by governments to overcome these limitations and pursue entrepreneurial activities more effectively. For example, the Korean government has implemented various government support program (GSP) to assist SMEs in building their competitiveness (Lee, et al., 2001). These programs include financial support, technical support, training and education programs, and business incubation and acceleration programs. As such, GSP can also act as a catalyst for entrepreneurial orientation in Korean SMEs.

While government support program (GSPs) can provide significant benefits to SMEs, previous studies have reported some negative consequences on companies, especially on small ventures. For example, some studies have found that GSPs can lead to a dependence on government funding, limiting the internal ability of ventures to innovate and grow (Dai & Si, 2018; Nakku et al., 2019). Some researchers have argued that government supports may crowd out private investment, reduce competition, and create inefficiencies in the market. Additionally, these programs tend to be bureaucratic and time-consuming to navigate, which may distract firms to pursue activities related to their core competitive advantages (Doh & Kim, 2014; Pergelova & Angulo-Ruiz, 2014). Therefore, it is important for policy-makers to carefully evaluate both costs and benefits of government supports and to design policies that maximize their positive impact while minimizing any negative effects. However, there is a limited understanding of the interaction between EO and GSPs in enhancing new product performance in SMEs.

This research paper aims to investigate the influence of EO and GSPs on new product performance in Korean SMEs. Specifically, the study will analyze the interaction between these two factors and their impact on new product performance in Korean SMEs. The paper also identifies the types and roles of GSPs available to Korean SMEs and review the literature on government support programs. Finally, the study will analyze government support from a resource-based view and summarize the existing literature on the positive and negative effects of government support policies. The findings of this research paper provide important insights for SMEs, policymakers, and researchers interested in enhancing the performance of SMEs.

2. Literature Review

2.1. Entrepreneurial Orientation

The concept of EO was initially introduced by Miller (1983) and further expanded upon by Covin and Slevin (1989). EO refers to a strategic inclination of a company to undertake risks and generate innovative new values that differentiate it from competitors (Lumpkin & Dess, 1996). It encompasses a firm's management practices, decision-

making styles, and operational approaches (Lumpkin & Dess, 1996; Wang, 2008). In this study, entrepreneurial orientation was defined based on Miller's (1983) definition, comprising three sub-dimensions: innovativeness, risk-taking, and proactiveness.

Entrepreneurial orientation is a multidimensional construct that encompasses several dimensions, including proactiveness, risk-taking, and innovativeness (Li et al., 2010; Wang, 2008). Each of these dimensions contributes to the development of an entrepreneurial culture in an organization and can lead to improved performance and competitiveness. However, prior studies primarily adopted a one-dimensional perspective when assessing EO, which restricted our comprehension of the specific impact of each dimension on performance. This unidimensional approach hindered the identification of effective response strategies across diverse EO dimensions. For instance, an SME may excel in innovation but lack the proactiveness required to respond quickly to changes in the market. In this case, the SME can devote its valuable resources to promote proactiveness, thereby enhancing its overall entrepreneurial orientation in a more effective way.

In addition, empirical studies have found that not all dimensions of EO are equally important for firm performance (Lumpkin & Dess, 1996). For example, innovativeness and proactiveness have consistently been found to have a positive effect on firm performance (Covin & Slevin, 1989; Wiklund & Shepherd, 2005), while the relationship between risk-taking and firm performance is mixed (Rauch et al., 2009). Therefore, a multidimensional approach to EO provides a more nuanced understanding of the relationship between EO and firm performance. Moreover, the importance of the different dimensions of EO may vary across different contexts, such as industry, firm size, and national culture (Covin & Lumpkin, 2011; Lee & Cho, 2022). For example, innovativeness may be more important for firm performance in technology-intensive industries, while proactiveness may be more important in rapidly changing environments (Covin & Slevin, 1989). Thus, a multidimensional approach to EO allows for a more context-specific understanding of EO and its effects on firm performance.

2.2. Government Support Programs (GSPs)

The literature on GSP is vast, with a focus on identifying the effects of these programs on firm performance. Several studies have found positive effects of GSP have a positive impact on SME performance, including sales growth, employment, and profitability. Other studies have found mixed results, suggesting that the effectiveness of these programs depends on the types of support provided, target groups, and the complementary resources as well as the implementation strategies (Lee & Jo, 2018; Pergelova & Angulo-Ruiz, 2014).

On the positive side, this financial support with the form of loans, grants, or tax incentives enables SMEs to invest in research and development, purchase necessary equipment, and hire skilled employees. In addition, government support policies can provide SMEs with technical assistance and training in building their capabilities and knowledge in areas such as marketing, management, and innovation (Cancino et al., 2015). These support programs can also provide SMEs with access to new markets and help them to expand their operations. On the negative side, however, GSPs can create market distortions and inefficiencies. For example, subsidies may lead to overproduction and price distortions, while loan guarantees may lead to moral hazard problems (Doh & Kim, 2014).

Nonetheless, there remains a lack of comprehensive understanding regarding the impact of GSP on the dimensions of EO and their subsequent influence on corporate performance. The examination of the interaction between GSP and EO represents a crucial research area that has received limited attention in existing literature. This interaction is important because it can help to explain how SMEs can enhance firm performance through EO. For example, technical assistance programs can provide SMEs with the knowledge and expertise needed for proactiveness, which in turn enhance new product performance. Moreover, market access support programs can provide SMEs with new market opportunities, which can enhance their risk-taking behaviors. Moreover, government support programs can also provide SMEs with access to intangible resources, such as knowledge and expertise, which help SMEs overcome knowledge barriers and develop their entrepreneurial capabilities, such as their ability to identify and pursue new opportunities, to innovate, and to manage risk.

3. Hypotheses

3.1. Proactiveness

Research has revealed that companies characterized by high EO engage in exploratory learning to discover creative solutions for existing customers problems (Atuahene-Gima & Ko, 2001; Li et al., 2010). This approach enables these

firms to introduce innovative products by combining internal resources and external resources in unconventional ways. Furthermore, proactiveness empowers firms to proactively respond to customer demands by actively identifying and capitalizing on new market opportunities through continuous monitoring of market information and knowledge (Zhou et al., 2005; Wang, 2008).

H1: Proactiveness of SMEs is positively related to their new product development (NPD) performance.

3.2. Risk-taking

Risk-taking is often described as a characteristic that distinguishes entrepreneurs from managers in large companies (Lumpkin & Dess, 1996). While managers pursue strategies based on their existing resources, entrepreneurs actively seek opportunities through bold behaviors, unconstrained by internal resource limitations (Lee et al., 2001). Risk tolerance refers to the willingness to embrace business risks and invest significant resources, even in situations of high uncertainty or limited project validation (Keh et al., 2002).

By undertaking additional risks and challenges in order to differentiate themselves from competitors, Korean SMEs can develop innovative products that satisfy latent customer needs, thereby enhancing their new product development (NPD) performance in foreign markets.

H2: Risk-taking of SMEs is positively related to their new product development (NPD) performance.

3.3. Innovativeness

Innovativeness refers to the ability to generate creative ideas and develop new processes, products, or services, with the intention of establishing a competitive advantage through differentiation. According to Lumpkin and Dess (1996), innovativeness is characterized by a firm's willingness to foster creativity, embrace technological leadership, and promote the development of new processes within the organization. Firms that exhibit such tendencies are more likely to achieve organizational success through effective changes in areas such as technological innovation, management practices, and product design.

H3: Innovativeness of SMEs is positively related to their new product development (NPD) performance.

3.4. Government Supports

Resource-based view suggests that firms can gain a competitive advantage by acquiring and utilizing valuable, rare, and inimitable resources (Barney, 2001; Wernerfelt, 1984). Resources can be classified as tangible or intangible, and can include physical assets, financial resources, knowledge, skills, and organizational culture. Capabilities, on the other hand, refer to the firm's ability to integrate, coordinate, and leverage its resources to achieve strategic goals. From this perspective, GSPs can be seen as valuable resources that SMEs can use to enhance their competitiveness and performance.

Some research points to the negative effects of GSPs. They argue that these programs can create dependency and discourage firms developing their own internal capabilities (Albert & Couture, 2013; Odongo, 2014; Stiglitz, 1989). Additionally, GSPs can be bureaucratic and time-consuming to navigate, discouraging firms in accessing the support they need in a timely manner. However, considering the limited internal resources available to SMEs for pursuing EO – the primary source of their competitive advantage – GSPs are believed to play a positive role rather than a negative one. Additionally, these programs can grant SMEs access to intangible resources, including knowledge and expertise. Such resources are instrumental in overcoming knowledge barriers and fostering entrepreneurial capabilities within SMEs, such as identifying and pursuing new opportunities, promoting innovation, and effectively.

However, from a resource-based perspective, it is important to note that GSPs are not a panacea for SMEs' challenges. GSPs can provide SMEs with complementary resources and capabilities that can enhance their existing strengths and overcome their weaknesses. Hence, it is imperative for SMEs to possess a comprehensive comprehension of their present level of EO and determine which GSPs are needed to attain their strategic objectives.

H4a: Government support program positively moderates the relationship between proactiveness and new product development performance of SMEs.

H4b: Government support program positively moderates the relationship between risk-taking and new product development performance of SMEs.

H4c: Government support program positively moderates the relationship between innovativeness and new product development performance of SMEs.

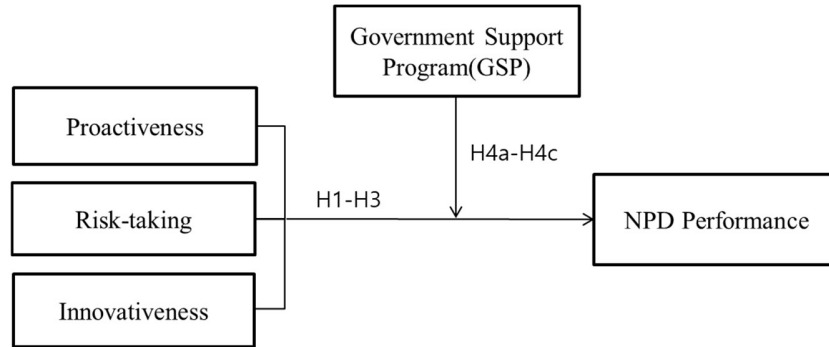


Figure 1: Research Model

4. Methodology

4.1. Data and Sample

In order to test the hypotheses, we collected the data through the survey of Korean SMEs. The sampling frame used in this study consisted of random sample of 18,000 companies with Inno-biz certification. Inno-biz companies refer to a category of businesses that have been certified and nurtured by the Korean Ministry of SMEs and Startups. To obtain an Inno-biz certification, a company must demonstrate technological competitiveness in the global market and exhibit growth potential in its respective industry, having operated for at least three years since its establishment. The Inno-biz certification was introduced by the Korean government in 2001 with the aim of providing startups a growth pathway to evolve into mid-sized enterprises. This certification offers various financial and tax benefits as well as preferential treatment. Inno-biz companies primarily operate in the manufacturing sector and possess strengths in technological innovation, making them an ideal sample for our study. Our sample consists exclusively of firms engaged in export activities, enabling us to explore measures for enhancing their performance in overseas markets.

To gather data, we compiled a list of companies that had received Inno-biz certification and randomly distributed questionnaires to a total of 750 Inno-biz companies. Among the 750 questionnaires sent, we received 426 usable responses, resulting in a response rate of 56.8%. For this study, we utilized only 400 questionnaires, excluding companies that do not have valid data. Table 1 presents the demographic characteristics of our sample.

4.2. Measurement

To measure the variables for hypothesis testing, this study employed measurement items that have already demonstrated reliability and validity in previous research. Some items were adapted to align with the characteristics of Korean SMEs, and the majority were measured using a 5-point Likert scale (1 = not at all, 5 = very much). Table 2 provides a summary of the measurement items along with their details.

Prior to testing the hypotheses in this study, an analysis was conducted to confirm the reliability and validity of the multi-item variables. The reliability analysis, presented in Table 2, reveals that all Cronbach's α values were 0.7 or higher. Additionally, the factor loading values for nearly all items were measured to be 0.7 or higher, indicating satisfactory reliability.

In this study, we introduce a novel variable that reflects the extent to which firms actively seek various types of support from the government. This variable is referred to as GSP and is constructed by combining the five distinct sources of government support received within the past three years. These sources include direct financial support, technical assistance, market access support, and public sector purchasing. Each of the five sources is represented as a binary variable, with 0 indicating no utilization and 1 indicating the utilization of the specific support program.

Consequently, the values of the five sources are aggregated, resulting in a value of 0 for firms that did not utilize any government support programs and a value of 5 for firms that availed all available support programs.

Table 1: Sample descriptions

R&D ratio	N(%)	Annual sales (KRW)	N(%)
5% or less	191(47.7)	2.5 billion won or less	136(34.0)
6% ~ 10%	140(35.0)	2.6~ 5 billion won	104(26.0)
11% ~ 20%	47(11.8)	5.1~ 10 billion won	66(16.4)
21% or less	22(5.5)	10 billion won or above	94(23.6)
Number of employees	N(%)	Industry	N(%)
15 or less	136(34.0)	Consumer goods	233(58.3)
16 ~ 30	122(30.5)	Industrial goods	167(41.7)
31 ~ 100	122(30.5)		
100 or above	20(5.0)		

Table 2: Measure and Items-loading

	Factor loading	Cronbach α
New product performance		.805
Improvement in product technological competitiveness	.773	
Improvement in product quality excellence	.810	
Improvement in consumer reaction	.717	
Improvement in the simplifying production process	.769	
EO (proactiveness)		0.856
We act proactively than our competitors	.708	
We take an aggressive stance against our competitors	.777	
We tend to introduce new products or technologies before our competitors	.799	
We preemptively respond to changes in business environment	.640	
EO (risk-taking)		0.847
We prefer high-risk projects with high potential returns	.733	
We pursue high growth rather than current profits	.791	
We pursue rapid growth rather than survival	.827	
EO (Innovativeness)		0.803
We aim to achieve competitive advantage through R&D	.685	
We introduced many new product lines in the last three years	.705	
We focus our capabilities on developing new products/technologies	.801	
Our technology is difficult for competitors to imitate	.698	

5. Results

5.1. Descriptive Statistics

A correlation analysis was conducted to examine the relationships among the variables. As shown in Table 3, the majority of the key variables exhibit correlations of 0.5 or lower. Additionally, when assessing the variance inflation factor (VIF), values were found to be below 10, indicating the absence of multicollinearity issues.

Table 3: Means, Standard Deviations, and Correlations

Variables	Mean	S.D	1	2	3	4	5	6	7	8
1. Firm size	34.49	38.96								
2. R&D intensity	9.09	9.21	0.065							
3. Marketing intensity	4.64	5.36	0.046	0.271**						
4. Diversification	65.12	24.12	0.029	0.069	0.034					
5. EO proactiveness	3.32	0.63	0.217**	0.091	0.159**	-0.009				
6. EO risk-taking	2.89	0.75	0.144**	0.098*	0.097	-0.018	0.692**			
7. EO innovativeness	3.35	0.58	0.108*	0.109*	0.155**	0.036	0.633**	0.518**		
8. GSP	1.38	1.45	-0.005	0.082	0.064	0.014	0.098*	0.150**	0.093	
9. NPD	3.47	0.47	0.123*	0.004	0.129**	-0.049	0.366**	0.222**	0.474**	0.034

Note. * $p < 0.05$; ** $p < 0.01$

5.2 Empirical Results

Regression analysis was conducted to examine the relationship between entrepreneurial orientation, government support program, and new product development performance of Korean SMEs. Hypothesis 1 posited that the sub-dimension of entrepreneurial orientation, proactiveness, would have a positive impact on new product performance of Korean SMEs. The results, as presented in Table 4, reveal a positive and significant effect of proactiveness ($\beta=0.118$, $p<0.05$), thus supporting Hypothesis 1. However, the results indicate that risk-taking has a negative and significant effect ($\beta=-0.075$, $p<0.05$), failing to support Hypothesis 2. Furthermore, the results demonstrate a positive and significant impact of innovativeness ($\beta=0.342$, $p<0.001$), providing support for Hypothesis 3.

Next, we examined the moderating role of GSP on the focal relationship. The results suggest that GSP negatively moderates the relationship between risk-taking and new product performance ($\beta=-0.144$, $p<0.05$), contrary to our expectations. However, the moderating effects of GSP on the relationships between innovativeness are positive and significant ($\beta=0.1660$, $p<0.05$), providing support for Hypothesis 4c.

Table 4: Results of hierarchical regression model

	DV = New Product Performance			
	Model 1	Model 2	Model 3	Model 4
Intercept	3.448***	2.203***	2.203***	2.196***
	(0.072)	(0.137)	(0.138)	(0.137)
Firm size	0.001*	0.001	0.001	0.001
	(0.001)	(0.001)	(0.001)	(0.001)
R&D intensity	-0.002	-0.003	-0.003	-0.003
	(0.003)	(0.002)	(0.002)	(0.002)

Marketing intensity	0.012**	0.006	0.006	0.006
	(0.004)	(0.004)	(0.004)	(0.004)
Diversification	-0.001	-0.001	-0.001	-0.001
	(0.001)	(0.001)	(0.001)	(0.001)
EO (Proactiveness)		0.118*	0.118*	0.117*
		(0.051)	(0.051)	(0.051)
EO (Risk-taking)		-0.075*	-0.074†	-0.078*
		(0.038)	(0.038)	(0.038)
EO (Innovativeness)		0.342***	0.342***	0.345***
		(0.046)	(0.046)	(0.046)
GSP (Government support programs)			0.000	0.005
			(0.014)	(0.015)
Proactiveness * GSP				0.021
				(0.033)
Risk-taking * GSP				-0.144*
				(0.100)
Innovativeness * GSP				0.166*
				(0.032)
R ²	0.035	0.254	0.254	0.267
Adjusted R ²	0.025	0.241	0.239	0.247
F value	3.587**	19.062***	16.637***	12.878***

N = 400; *** p<.001; ** p<0.01; * p<0.05; † p<.10

In order to further comprehend the interaction between different dimensions of EO and GSP on new product performance, we have provided Figure 2. Interestingly, for companies characterized by high risk-taking, the government support system was observed to have a detrimental impact on performance. Companies exhibiting high innovativeness were found to benefit from utilizing GSP to enhance new product performance. This implies that the effectiveness of GSP may vary depending on the specific dimension of entrepreneurial orientation.

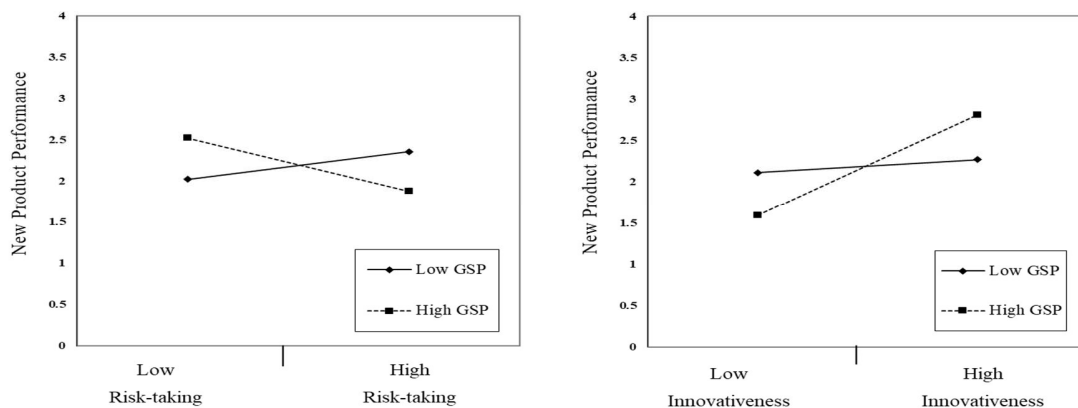


Figure 2: Interaction effects

6. Conclusion and Limitations

Previous studies have commonly measured EO using a single dimension, assuming that the three sub-dimensions proposed by Miller (1983) - proactiveness, risk-taking, and innovativeness - have a uniform impact on firm performance. However, recent research has uncovered distinct effects of these three dimensions, highlighting the need for studies that adopt a differentiated approach to measuring each sub-dimension of EO.

This study has adopted multidimensional approach and found that proactiveness and innovativeness positively influenced the performance of Korean SMEs, while risk-taking had a negative impact on new product development (NPD) performance. This suggests that the NPD process already carries inherent risks, making an additional risk-taking mindset has negative impacts on performance. On the other hand, our findings indicate that engaging in exploratory learning and technological leadership through the pursuit of proactiveness and innovativeness in entrepreneurial orientation can assist SMEs in effectively competing with larger counterparts.

We also intend to analyze the moderating effect of GSPs. Given the complex and multifaceted nature of EO and GSPs, a comprehensive understanding of the factors that influence SME performance requires a multidimensional approach. In particular, more research is needed to examine how GSPs interact with different dimensions of EO, and how it affects SME performance.

Our results show that GSPs negatively moderate the relationship between risk-taking dimension of EO and NPD performance. This is in contrary to our hypothesis which assumed GSP would provide valuable external resources to overcome the liability of smallness. The findings of this study revealed that for companies that are inclined towards risk-taking should carefully utilize GSP in a way that does not encourage taking additional risk-taking behaviors. Conversely, we found that the GSP has a positive moderating effect on the relationship between EO dimension of innovativeness and NPD. In such cases, GSPs can provide SMEs with the necessary external resources to foster the development and implementation of new products aligned with high level of innovativeness.

In conclusion, the usage of GSP varied depending on the specific dimension of EO that companies exhibited. It is important to recognize that GSPs are not a universal solution for all challenges faced by SMEs. Rather, GSP serve as a means to complement SMEs' existing resources and capabilities, reinforcing their strengths in different EO dimensions. Hence, it is crucial for SMEs to have a clear understanding of their own resources and capabilities, and to identify GSPs that align with the key dimensions of EO.

Our study is subject to several limitations. Firstly, the use of subjective measures to assess our dependent variable, new product development performance, could be complemented by incorporating objective measures using secondary data in the future. Secondly, as our sample exclusively consists of Korean SMEs, there are concerns regarding the generalizability of our findings in other contexts. It would be beneficial to explore the impact of EO sub-dimensions on firm performance by including companies from different countries. Lastly, further research is needed to examine potential mediating effects between EO and NPD performance, such as other internal capabilities and strategic orientations.

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