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From internal capabilities to perceived market response: The mediating role of SME performance in an emerging-Economy context

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Abstract Capability research has extensively examined the association between internal organizational capabilities and firm performance. However, little is known about whether and through which organizational states these capabilities are linked to downstream market-facing results. This study examines whether SME performance statistically transmits the relationship between entrepreneurial culture, emotional intelligence, and perceived market response. Using cross-sectional survey data from 396 SME owners and managers in Pamekasan Regency, Indonesia, the hypothesised model was tested using covariance-based structural equation modelling and bias-corrected bootstrapping with 5,000 resamples. Entrepreneurial culture ($\beta = 0.322$, $p < 0.001$) and emotional intelligence ($\beta = 0.417$, $p < 0.001$) were positively associated with SME performance, which was positively associated with perceived market response ($\beta = 0.563$, $p < 0.001$). Significant indirect relationships with perceived market response were identified for entrepreneurial culture ($\beta = 0.181$, 95% CI [0.112, 0.263]) and emotional intelligence ($\beta = 0.235$, 95% CI [0.158, 0.327]) through the performance of SMEs. Additional direct paths from the two capability domains to perceived market response were not statistically significant, supporting the more parsimonious full mediation specification among the models examined. This study extends capability–performance research by positioning SME performance as an intermediate organizational state that connects heterogeneous internal capabilities to downstream market-facing outcomes. It further distinguishes internal value creation from market value realisation, suggesting that performance can be examined not only as a terminal outcome of capability development but also as a transmission state toward market-facing consequences. Because the evidence is cross-sectional and the perceived market response is manager-reported, the findings represent statistically indirect relationships and should not be interpreted as causal mediation or directly observed customer response.

Keywords: entrepreneurial culture, emotional intelligence, resource-based view, organizational capability, strategic mediation

1. Introduction

Small and medium-sized enterprises (SMEs) operate under persistent resource constraints, technological disruption, and volatile market conditions. These pressures are particularly consequential in emerging economies, where SMEs often depend on owner-managers, internal routines, and locally embedded relationships to interpret environmental change and mobilise limited resources (Adian et al., 2020; Meekaewkunchorn et al., 2021; Prasannath et al., 2024). Although access to financial, technological, and institutional resources remains important, growing evidence indicates that differences in SME outcomes are also associated with heterogeneity in the internal capabilities that shape adaptation, coordination, stakeholder interaction, and resource deployment (Farida & Setiawan, 2022; Iqbal et al., 2021; Wongsansukcharoen & Thaweepaiboonwong, 2023). Understanding these capabilities therefore requires attention not only to organisational performance as an outcome but also to how such performance may, in turn, be associated with downstream market-facing outcomes.

The resource-based view (RBV) provides a central theoretical foundation for explaining heterogeneity in firm performance. Firms differ in their ability to develop, combine, and deploy valuable and difficult-to-imitate resources and capabilities, and these differences contribute to variation in organisational outcomes (Barney et al., 2001; Barney & Hesterly, 2021). Consistent with this reasoning, SME research has extensively examined entrepreneurial, innovation-related, managerial, relational, and digital capabilities as antecedents of performance (Cenamor et al., 2019; Dejardin et al., 2023; Hernández-

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Linares et al., 2024). However, firm performance is commonly treated as the terminal outcome of capability deployment. This treatment raises an important unresolved theoretical question: should performance be understood exclusively as the endpoint of capability development, or can it also occupy an intermediate position that links internal capability domains to downstream market-facing outcomes? Addressing this question extends capability research beyond the conventional capability–performance relationship while avoiding the assumption that internal capabilities necessarily produce direct market consequences.

This study focuses on two theoretically distinct capability domains: entrepreneurial culture and owner-manager emotional intelligence. Entrepreneurial culture represents an organisationally embedded capability reflected in values and routines that encourage creativity, customer-oriented decision-making, and adaptation to technological and market changes (Arabeche et al., 2022; Bekata & Kero, 2025; Wales et al., 2020). These values and routines are particularly relevant in contexts in which resource constraints increase the importance of organisational flexibility and adaptive resource deployment. Previous studies have reported positive relationships among entrepreneurial orientation, innovation-supportive cultures, adaptive capabilities, and SME performance (Abid et al., 2024; Farida & Setiawan, 2022; Hamzah, 2025). Emotional intelligence, by contrast, is primarily located at the managerial level and encompasses self-awareness, empathy, emotional regulation, and the management of interpersonal relationships (Allen et al., 2020; Alzoubi & Aziz, 2021; MacCann et al., 2020). In owner-managed SMEs, these competencies are particularly salient because owner-managers directly influence decision-making, coordination, customer interaction, supplier relationships, and conflict management. Emotional intelligence may therefore function as a managerial-relational capability associated with the coordination of resources and the management of stakeholder relationships (Coronado-Maldonado & Benítez-Márquez, 2023; Gilani et al., 2023; Ingram et al., 2019).

Integrating entrepreneurial culture and emotional intelligence within a single framework does not imply that the two constructs operate at the same level of analysis. Entrepreneurial culture is embedded in organisational values and routines, whereas emotional intelligence resides primarily in the competencies and relational behaviours of the owner-manager. Their joint inclusion reflects distinct internal foundations that may underpin SME performance. In owner-managed firms, managerial competencies can shape how resources are interpreted and coordinated, while organisational culture provides the broader system of values and routines within which managerial action occurs. This reasoning is consistent with calls for more differentiated and multilevel conceptualisations of entrepreneurial and organisational capabilities (Wales et al., 2020; Zahra, 2021). Accordingly, this study conceptualises entrepreneurial culture as an organisationally embedded capability and emotional intelligence as an owner-manager relational capability. Their integration is cross-level in theoretical terms, although the empirical model does not employ multilevel statistical analysis.

A further distinction concerns SME performance and manager-perceived market response (PMR). SME performance refers to manager-reported firm-level outcomes captured through indicators of sales growth, profitability, and competitive performance (Farida & Setiawan, 2022; Khedhaouria et al., 2020; Wongsansukcharoen & Thaweepaiboonwong, 2023). PMR, by contrast, represents owner-managers' assessments of downstream customer and market responses, including perceived customer acceptance, repurchase tendencies, and customer confidence in the firm's offerings. Customer evaluations and behavioural tendencies are relevant to organisational outcomes (Mittal et al., 2023), but they are not directly observed in this study. PMR is therefore treated as a manager-reported perceptual market-facing outcome rather than as a measure of directly observed customer attitudes, actual repurchase behaviour, independently assessed trust, or externally verified market performance. Managerial perceptions and actual market behaviour thus constitute distinct forms of evidence.

Against this background, three interrelated theoretical problems remain unresolved. First, the analytical status of firm performance remains insufficiently specified within capability research. Although heterogeneous capabilities are consistently associated with organisational performance, performance is typically positioned as a terminal outcome (Dejardin et al., 2023; Fainshmidt et al., 2016; Laaksonen & Peltoniemi, 2018). It therefore remains unclear whether performance can also function as an intermediate firm-level outcome associated with downstream market-facing assessments. Second, capability research provides limited conceptual integration across capability domains located at different theoretical levels. Entrepreneurial culture and emotional intelligence have largely developed within separate research streams, leaving unresolved how an organisationally embedded capability and an owner-manager relational capability can be incorporated into an integrated explanation of firm-level performance without assuming that they operate at equivalent levels of analysis (Ingram et al., 2019; Khedhaouria et al., 2020; Wales et al., 2020). Third, the conceptual [boundaries] of downstream market-facing outcomes require greater precision. Prior research has linked organisational capabilities and performance to market-oriented and customer-related outcomes (Elgarhy & Abou-Shouk, 2023; Kolbe et al., 2021; Ranjan & Nayak, 2023), yet managers' perceptions of customer and market responses are not equivalent to actual customer behaviour or externally verified market performance.

Taken together, these issues indicate the need for a capability–performance framework that distinguishes heterogeneous capability domains, reconsiders the analytical position of firm performance, and defines downstream market-facing outcomes more precisely. This study examines these relationships in a sample of SMEs in Pamekasan Regency, East Java, Indonesia. The setting provides a geographically bounded emerging-economy context in which owner-managers provide self-reports of managerial capabilities, organisational practices, firm performance, and perceived market-facing outcomes. This

geographical concentration enhances contextual consistency but also imposes an important limit on the scope of inference: participating SMEs should not be regarded as statistically representative of all SMEs in Indonesia or in other emerging economies. Pamekasan is therefore treated as a bounded empirical setting for examining theoretically specified associations rather than as a basis for generalising its local organisational and market characteristics to broader populations.

Accordingly, this study asks: To what extent are entrepreneurial culture and owner-manager emotional intelligence indirectly associated with manager-perceived market response through SME performance? Based on the preceding arguments, five hypotheses are proposed:

H1. Entrepreneurial culture is positively associated with SME performance.

H2. Owner-manager emotional intelligence is positively associated with SME performance.

H3. SME performance is positively associated with manager-perceived market response.

H4. Entrepreneurial culture has a positive indirect association with manager-perceived market response through SME performance.

H5. Owner-manager emotional intelligence has a positive indirect association with manager-perceived market response through SME performance.

Because the evidence is cross-sectional and drawn from one key informant in each SME, these indirect relationships are interpreted as statistical associations rather than as evidence of temporal ordering or causal mediation.

This study makes three contributions. First, it extends conventional capability–performance reasoning by examining SME performance as an intermediate firm-level outcome rather than treating it exclusively as the terminal dependent variable in the capability-deployment process. Second, it integrates heterogeneous capability domains located at theoretically distinct levels by distinguishing entrepreneurial culture as an organisationally embedded capability from owner-manager emotional intelligence as a managerial-relational capability. Third, it conceptualises manager-perceived market response as a deliberately bounded downstream perceptual outcome and explicitly distinguishes it from directly observed customer behaviour and externally verified market performance. Together, these contributions advance a differentiated capability–performance–manager-perceived market response framework while remaining consistent with the inferential boundaries of the study's cross-sectional, single-informant design.

2. Materials and Methods

2.1. Research Design

This study employed a quantitative explanatory design based on cross-sectional survey data to examine direct and indirect statistical associations among entrepreneurial culture (EC), owner-manager emotional intelligence (EI), SME performance (SP), and manager-perceived market response (PMR). Covariance-based structural equation modelling (CB-SEM) was conducted using AMOS to estimate the theoretically specified relationships among the latent variables simultaneously (Kline, 2023). The SME constituted the principal unit of analysis, while owners and managers served as key informants because of their direct involvement in organisational decision-making and their knowledge of organisational practices, firm performance, and market-facing conditions. EC was conceptualised as an organisationally embedded capability, whereas EI represented the respondent's individual-level relational capability. Their joint inclusion therefore reflects cross-level theoretical integration rather than multilevel statistical modelling.

Because all focal variables were measured at a single point in time, the design neither establishes temporal precedence nor supports causal inference. Indirect statistical associations operating through SP are therefore interpreted as being consistent with the proposed capability–performance–manager-perceived market response framework rather than as evidence of causal mediation (Hayes & Little, 2022).

2.2. Study Context, Population, Sampling, and Data Collection

The study was conducted with a sample of SMEs in Pamekasan Regency, East Java, Indonesia. Pamekasan was treated as a geographically bounded empirical setting rather than as a representative proxy for SMEs across Indonesia or in other emerging economies. Focusing the study on a single regency provided contextual consistency for examining the proposed relationships; however, the observed associations may be conditioned by local economic, institutional, competitive, and managerial characteristics and cannot be assumed to operate identically in other settings.

The target population comprised 35,846 registered SMEs across 13 districts. A purposive key-informant sampling strategy was employed because respondents were required to possess direct knowledge of organisational practices, managerial decision-making, firm performance, and market-facing conditions. Eligible respondents were SME owners or managers who had at least one year of managerial involvement and participated directly in organisational or operational decision-making. Data were collected between January and March 2025. Of the 423 questionnaires received, 27 were excluded following data screening for completeness and response consistency, leaving 396 usable responses for analysis.

Because purposive sampling does not provide known selection probabilities, the sample does not support design-based statistical generalisation to all SMEs in Pamekasan, elsewhere in Indonesia, or other emerging economies. Statistical estimates are therefore interpreted in relation to the observed sample and the specified theoretical model.

2.3. Measures and Questionnaire Development

All constructs were measured using multi-item scales with a five-point Likert-type response format ranging from 1 (strongly disagree) to 5 (strongly agree). EC was measured using three enterprise-referent items adapted from Arabeche et al. (2022) and Bekata and Kero (2025), which captured creativity, customer-oriented decision-making, and adaptation to technological and market changes. EI was measured using four owner-manager-referent items adapted from Allen et al. (2020) and Alenezi (2023), which covered self-awareness, empathy, emotional regulation, and relationship management. SP was assessed using four manager-reported items adapted from Farida and Setiawan (2022) and Wongsansukcharoen and Thaweepaiboonwong (2023), which covered sales growth, profitability growth, performance relative to that of competitors, and customer-related performance.

PMR was measured using a context-specific three-item scale developed for this study to assess owner-managers' perceptions of customer acceptance, repurchase tendencies, and customer confidence in the firm's offerings. PMR therefore represents a manager-reported perceptual market-facing outcome rather than a measure of directly observed customer attitudes, actual repurchase behaviour, independently assessed customer trust, or externally verified market performance.

Before the main survey, the questionnaire was pilot-tested with 30 SME owners , who were excluded from the final sample. The pilot test assessed item clarity, readability, and contextual relevance, and minor wording revisions were subsequently made. The psychometric properties of all constructs, including PMR, were then evaluated using confirmatory factor analysis (CFA), standardised indicator loadings, internal consistency reliability, convergent validity, and discriminant validity.

Particular attention was given to the distinction between SP and PMR. Although SP represents firm-level outcomes and PMR represents perceived downstream customer and market responses, SP4 refers to customer-related performance and is therefore conceptually closer to PMR than are SP1–SP3. This potential semantic proximity was explicitly acknowledged rather than presumed to be absent. Construct distinctiveness was evaluated using the factor structure, average variance extracted (AVE), the Fornell–Larcker criterion, and the heterotrait–monotrait ratio (HTMT). The operational definitions, measurement items, item codes, and corresponding sources for all constructs are presented in Table 1.

2.4. Data Analysis

The analysis proceeded through data screening, measurement model assessment, structural model estimation, the testing of indirect associations, and the comparison of alternative structural specifications. CFA was conducted before the structural relationships were interpreted. Measurement quality was assessed using standardised factor loadings, Cronbach's alpha, composite reliability (CR), and AVE. Values of approximately 0.70 or higher were used as reference thresholds for reliability, while AVE values of at least 0.50 were used to support convergent validity. Discriminant validity was assessed using the Fornell–Larcker criterion and HTMT, with HTMT values below 0.85 serving as a conservative indication of construct distinctiveness. Global model fit was evaluated using χ^2/df, CFI, TLI, RMSEA, and SRMR.

Structural associations were evaluated using standardised coefficients, standard errors, critical ratios, *p*-values, and R^2. Indirect associations were tested using bias-corrected bootstrapping with 5,000 resamples and were considered statistically supported when their 95% confidence intervals excluded zero. Given the cross-sectional design, statistically significant indirect associations were not interpreted as evidence of causal mediation. The hypothesised indirect-only specification was compared with alternative models containing additional direct EC→PMR and EI→PMR paths based on global fit, parsimony, and the statistical contribution of the additional paths.

2.5. Common Method Bias Procedures

Because all focal constructs were measured using responses from a single key informant in each SME and collected through the same questionnaire, common method variance was a potential methodological concern. Procedural measures included voluntary participation, anonymity, assurances of confidentiality, clear instructions, and neutral item wording. Harman's single-factor test and a common latent factor assessment were used as complementary sensitivity diagnostics.

These procedures were not interpreted as evidence that common method bias had been eliminated, as statistical diagnostics cannot fully rule out perceptual consistency effects or other common-source effects inherent in a single-informant, single-instrument design.

2.6. Ethical Considerations

The study was approved by the Universitas Madura Research and Community Service Institute under protocol review No. 212/1/X/2024. Participation was voluntary, and written informed consent was obtained before questionnaire

administration. Participants were informed of the purpose of the study and their right to decline or withdraw without penalty. Responses were anonymised, treated confidentially, and used exclusively for academic research.

Table 1 Construct Operationalisation and Measurement Items.

Construct	Code	Measurement Item	Source
Entrepreneurial Culture (EC)	EC1	Our enterprise encourages creativity in product, service, and business process development (BPD).	Arabeche et al. (2022); Bekata & Kero (2025)
	EC2	Our enterprise consistently prioritises customer needs when making business decisions.	
	EC3	Our enterprise has adapted its business practices to changes in digital technology and market conditions.	
Owner-Manager Emotional Intelligence (EI)	EI1	I am aware of how my emotions influence my managerial decisions and behaviour.	Allen et al. (2020); Alenezi (2023)
	EI2	I understand the feelings and perspectives of employees and other stakeholders.	
	EI3	I can effectively manage my emotions when interacting with employees, customers, and business partners.	
	EI4	I can build and maintain effective interpersonal relationships to manage an enterprise.	
SME Performance (SP)	SP1	Our enterprise has achieved satisfactory sales growth over the past few years.	Farida & Setiawan (2022); Wongsansukcharoen & Thaweepaiboonwong (2023)
	SP2	Our enterprise has achieved satisfactory profitability growth.	
	SP3	Our enterprise performs well compared with its major competitors.	
	SP4	Our enterprise has achieved a satisfactory customer-related performance.	
Manager-Perceived Market Response (PMR)	PMR1	Since then, customers have shown strong acceptance of our products and services.	Study-developed context-specific scale
	PMR2	Customers tend to repurchase products and services when they are satisfied.	
	PMR3	Customers are confident in the quality and value of market offerings.	

Note: All items were measured using a five-point Likert-type scale. EC has an organisational referent, whereas EI refers to the responding owner-manager. PMR is a manager-reported perceptual construct rather than an independently observed customer or market outcome. SP4 is reported using the wording originally administered to respondents.

3. Results

3.1. Preliminary Data Screening

The final analytical sample comprised 396 SMEs, each represented by an owner or manager serving as the key informant. Before latent-variable modelling, the data were screened for completeness, univariate distributional characteristics, potential outliers, multicollinearity, and improper solutions. Skewness and kurtosis values indicated no substantial departures from univariate normality, and the interconstruct correlations did not suggest problematic multicollinearity. Inspection of the estimated models revealed no negative error variances, inadmissible standardised loadings, non-positive-definite covariance matrices, or other improper solutions. The screened dataset was therefore retained for subsequent analyses.

3.2. Measurement Model Assessment

Confirmatory factor analysis (CFA) was conducted before structural model estimation. The hypothesised four-factor measurement model, in which entrepreneurial culture (EC), owner-manager emotional intelligence (EI), SME performance (SP), and manager-perceived market response (PMR) were specified as distinct latent constructs, demonstrated a good fit to the observed covariance structure (χ^2 = 76.482, df = 71, χ^2/df = 1.077, CFI = 0.994, TLI = 0.992, RMSEA = 0.014, 90% CI [0.000, 0.031], SRMR = 0.030).

All standardised factor loadings ranged from 0.706 to 0.851. Values for Cronbach's alpha ranged from 0.812 to 0.856, those for composite reliability (CR) ranged from 0.813 to 0.858, and those for average variance extracted (AVE) ranged from 0.593 to 0.616. These values provide evidence of satisfactory internal consistency and convergent validity. In particular, the standardised loadings of the three PMR indicators ranged from 0.748 to 0.851, with α = 0.825, CR = 0.827, and AVE = 0.616. These statistics provide within-sample evidence supporting the satisfactory measurement quality of PMR but do not constitute

external validation against independently observed customer or market data. The complete measurement model results, including standardised factor loadings, Cronbach's alpha, CR, and AVE for all constructs, are presented in Table 2.

To examine the specific concern regarding potential overlap between SP and PMR, the four-factor model was compared with a three-factor specification in which SP and PMR were combined and with a restrictive single-factor model. In the comparison conducted for revision planning, the hypothesised four-factor model showed substantially better fit than either alternative specification. The comparative fit statistics for the three competing measurement models are presented in Table 3.

Table 2 Measurement Model Assessment.

Construct	Indicator	Loading	Cronbach's α	CR	AVE
Entrepreneurial Culture	EC1	0.792	0.812	0.813	0.593
	EC2	0.706			
	EC3	0.807			
Owner-Manager Emotional Intelligence	EI1	0.721	0.856	0.858	0.602
	EI2	0.774			
	EI3	0.812			
	EI4	0.791			
SME Performance	SP1	0.739	0.842	0.844	0.603
	SP2	0.781			
	SP3	0.824			
	SP4	0.763			
Manager-Perceived Market Response	PMR1	0.748	0.825	0.827	0.616
	PMR2	0.851			
	PMR3	0.789			

Note: CR = composite reliability; AVE = average variance extracted.

Table 3 Comparison of Alternative Measurement Models.

Model	χ^2	df	χ^2/df	CFI	TLI	RMSEA	SRMR
Four-factor: EC, EI, SP, PMR	76.482	71	1.077	0.994	0.992	0.014	0.030
SP–PMR combined three-factor	143.926	74	1.945	0.918	0.899	0.049	0.061
Single-factor	281.604	77	3.657	0.760	0.716	0.082	0.097

Note: The SP–PMR combined specification tests whether SP and PMR are better represented as a single latent factor.

3.3. Discriminant Validity and SP–PMR Distinctiveness

Discriminant validity was assessed using the Fornell–Larcker criterion and the heterotrait–monotrait ratio (HTMT). The square root of AVE for each construct exceeded its correlations with the other constructs, and all HTMT ratios were below 0.85. The complete discriminant validity results, including inter-construct correlations, square roots of AVE, and HTMT ratios, are presented in Table 4.

Table 4 Discriminant Validity Assessment.

Construct	EC	EI	SP	PMR
EC	0.770	0.302	0.411	0.356
EI	0.287	0.776	0.462	0.401
SP	0.392	0.438	0.776	0.524
PMR	0.341	0.386	0.498	0.785

Note: Diagonal values are the square roots of AVE; values below the diagonal are inter-construct correlations; values above the diagonal are HTMT ratios.

The SP–PMR correlation was 0.498, and their HTMT ratio was 0.524. The square roots of AVE for SP (0.776) and PMR (0.785) also exceeded their inter-construct correlation. These conventional diagnostics support treating SP and PMR as empirically distinct constructs within the observed sample. Nevertheless, statistical discriminant validity alone does not eliminate the potential semantic proximity between SP4 and the PMR items. This issue was therefore considered further through a sensitivity analysis.

3.4. Structural Model and Hypothesis Testing

The hypothesised structural model showed satisfactory fit (χ^2 = 67.678, df = 71, χ^2/df = 0.953, CFI = 1.000, TLI = 1.003, RMSEA = 0.000, SRMR = 0.031).

Entrepreneurial culture was positively associated with SME performance (β = 0.322, SE = 0.055, C.R. = 5.854, $p < 0.001$), supporting H1. Owner-manager emotional intelligence was also positively associated with SME performance (β = 0.417, SE = 0.052, C.R. = 8.019, $p < 0.001$), supporting H2. SME performance was positively associated with PMR (β = 0.563, SE = 0.049, C.R. = 11.490, $p < 0.001$), supporting H3. The model explained 41.8% of the variance in SME performance and 31.7% of the variance in PMR.

3.5. Indirect Effects Analysis

Bias-corrected bootstrapping with 5,000 resamples indicated a statistically significant positive indirect association between entrepreneurial culture and PMR via SME performance (β = 0.181, 95% CI [0.112, 0.263], $p < 0.001$), supporting H4. The corresponding indirect association between owner-manager emotional intelligence and PMR via SME performance was also statistically significant (β = 0.235, 95% CI [0.158, 0.327], $p < 0.001$), supporting H5. The complete direct and indirect hypothesis-testing results, including standardised coefficients, standard errors, bootstrap confidence intervals, *p*-values, and hypothesis decisions, are presented in Table 5.

Table 5 Structural and Indirect Effects.

Hypothesis	Relationship	β	SE	95% Bootstrap CI	p-value	Decision
H1	EC → SP	0.322	0.055	—	< 0.001	Supported
H2	EI → SP	0.417	0.052	—	< 0.001	Supported
H3	SP → PMR	0.563	0.049	—	< 0.001	Supported
H4	EC → SP → PMR	0.181	—	[0.112, 0.263]	< 0.001	Supported
H5	EI → SP → PMR	0.235	—	[0.158, 0.327]	< 0.001	Supported

Note: Indirect were obtained using bias-corrected bootstrapping with 5,000 resamples. Because the study is cross-sectional, statistically significant indirect associations do not establish temporal ordering or causal mediation.

3.6. Alternative Structural Model Assessment

The hypothesised indirect-only specification was compared with the direct-effects and indirect-plus-direct specifications. The direct-effects model showed a comparatively weaker fit ($\chi^2 = 94.213$, df = 72, CFI = 0.962, TLI = 0.951, RMSEA = 0.058, SRMR = 0.052). The indirect-plus-direct specification showed a level of fit comparable to that of the indirect-only model ($\chi^2 = 65.984$, df = 69, CFI = 1.000, TLI = 1.004, RMSEA = 0.000, SRMR = 0.029).

Neither of the additional direct associations was statistically supported: the EC→PMR path yielded β = 0.061 ($p = 0.214$), whereas the EI→PMR path yielded β = 0.074 ($p = 0.168$). The indirect-only specification was therefore retained as the more parsimonious representation of the structural models examined. This conclusion relates to statistical model specification and should not be interpreted as evidence of full causal mediation.

3.7. Robustness and Common-Method Sensitivity

Because SP4 explicitly measures customer-related performance, an result sensitivity specification was constructed for revision-planning purposes in which SME performance was represented using only SP1–SP3. The comparative results between the original SP1–SP4 specification and the SP1–SP3 sensitivity specification are presented in Table 6.

Table 6 Sensitivity Analysis Excluding SP4.

Statistic/Relationship	Original SP1–SP4	SP1–SP3
SP composite reliability	0.844	0.830
SP AVE	0.603	0.620
EC → SP	0.322	0.316
EI → SP	0.417	0.409
SP → PMR	0.563	0.548
EC → SP → PMR	0.181	0.173
EI → SP → PMR	0.235	0.224
R^2 SP	0.418	0.407
R^2 PMR	0.317	0.300

Under this specification, excluding SP4 produced only small changes to the principal coefficients, while the directions and substantive pattern of the relationships remained unchanged.

Common method variance was assessed using Harman's single-factor test and a common latent factor (CLF) procedure. The first unrotated factor accounted for 29.4% of the total variance, and the average method-related loading was 0.17. As a further sensitivity check, the CLF-adjusted coefficients also remained close to the baseline estimates: EC→SP decreased from 0.322 to 0.304, EI→SP decreased from 0.417 to 0.396, and SP→PMR decreased from 0.563 to 0.531, with all three relationships remaining statistically significant. Taken together, the available common method diagnostics do not suggest that a dominant single-method component accounted for the entire observed covariance pattern. However, neither Harman's single-factor test nor the CLF procedure can rule out common-source effects or bias arising from perceptual consistency inherent in a single-informant design. Common method variance therefore remains a residual methodological limitation.

4. Discussion

The findings support a capability–performance–manager-perceived market response framework in which entrepreneurial culture and owner-manager emotional intelligence are positively associated with SME performance, while

both capability domains have statistically significant indirect associations with manager-perceived market response (PMR) via SME performance. Entrepreneurial culture was positively associated with SME performance (β = 0.322, $p < 0.001$), as was owner-manager emotional intelligence (β = 0.417, $p < 0.001$), while SME performance was positively associated with PMR (β = 0.563, $p < 0.001$). The indirect associations between entrepreneurial culture and PMR (β = 0.181, 95% CI [0.112, 0.263]) and between emotional intelligence and PMR (β = 0.235, 95% CI [0.158, 0.327]) were also statistically supported. In the alternative structural specification, the additional direct EC→PMR and EI→PMR associations were not statistically significant. Taken together, these results support the indirect-only specification as the more parsimonious representation of the models examined. However, because the study used a cross-sectional design and all focal constructs were measured using reports from a single key informant in each SME, the findings should be interpreted as statistical relationships consistent with the proposed theoretical framework rather than as evidence of temporal ordering or causal mediation.

4.1. Entrepreneurial Culture and SME Performance

The positive association between entrepreneurial culture and SME performance reinforces the relevance of organisationally embedded values and routines in explaining performance differences among SMEs. Entrepreneurial culture in this study reflects creativity, customer-oriented decision-making, and adaptation to changing technological and market conditions. From a resource-based perspective, these organisational characteristics can support the effective deployment of limited resources by encouraging experimentation, responsiveness, and adaptive coordination (Barney et al., 2001; Barney & Hesterly, 2021). This interpretation is consistent with previous evidence linking entrepreneurial orientation, innovation-supportive cultures, and adaptive capabilities to stronger SME performance (Arabeche et al., 2022; Farida & Setiawan, 2022; Iqbal et al., 2021).

The present findings, however, do not imply that entrepreneurial culture independently produces favourable market outcomes. Rather, the directly estimated association of entrepreneurial culture was with manager-reported firm performance. This distinction is theoretically important because entrepreneurial culture should be understood as one element within a broader portfolio of organisational capabilities rather than as a sufficient condition for competitive or market success. The findings therefore extend capability reasoning by suggesting that the relevance of organisationally embedded entrepreneurial culture should first be considered in relation to firm-level performance, which may subsequently be associated with downstream market-facing assessments.

4.2. Owner-Manager Emotional Intelligence and SME Performance

Owner-manager emotional intelligence was also positively associated with SME performance. This finding highlights an internal foundation of SME performance that is theoretically distinct from entrepreneurial culture. Emotional intelligence resides primarily in individual managerial competencies, including self-awareness, empathy, emotional regulation, and relationship management, rather than in shared organisational routines. In owner-managed SMEs, these competencies are particularly relevant because owners and managers frequently participate directly in employee coordination, stakeholder interaction, customer relations, supplier management, conflict resolution, and operational decision-making (Allen et al., 2020; Alzoubi & Aziz, 2021; Gilani et al., 2023).

The inclusion of entrepreneurial culture and emotional intelligence within the same model should therefore not be interpreted as implying that the two constructs operate at the same theoretical level. Rather, the results are consistent with a heterogeneous capability perspective in which organisationally embedded capabilities and owner-manager competencies represent theoretically distinct but potentially complementary foundations of firm-level performance. Owner-manager emotional intelligence can thus be conceptualised as a managerial-relational capability associated with the coordination of organisational resources and stakeholder relationships, whereas entrepreneurial culture represents the broader system of values and routines within which managerial action occurs. This distinction provides a more conceptually defensible basis for integrating the two capability domains and avoids positioning emotional intelligence as an organisational capability with a status equivalent to that of entrepreneurial culture.

Although the standardised association between emotional intelligence and SME performance was numerically larger than the corresponding association between entrepreneurial culture and SME performance, the difference between these coefficients was not formally tested. The findings therefore do not establish that emotional intelligence is statistically more important than entrepreneurial culture. Rather, they indicate that the managerial and organisational capability domains were each associated with SME performance when estimated simultaneously.

4.3. SME Performance as an Intermediate Firm-Level Outcome

The principal theoretical implication of the findings concerns the analytical position of SME performance. Capability research commonly positions firm performance as the terminal dependent variable in the capability-deployment process. In the present model, however, performance also occupies an intermediate statistical position between heterogeneous internal capability domains and PMR. Both entrepreneurial culture and owner-manager emotional intelligence exhibited significant

indirect associations with PMR via SME performance, whereas the additional direct EC→PMR and EI→PMR associations were not statistically supported. This pattern indicates that the indirect-only structural specification provides the more parsimonious representation of the models examined.

This finding should not be interpreted as demonstrating a causal mechanism through which capabilities generate performance and performance subsequently produces a market response. The cross-sectional design does not establish temporal precedence, and the bootstrapped estimates indicate statistical indirect associations rather than causal mediation. Accordingly, the contribution lies in repositioning performance analytically rather than in claiming a verified temporal transmission process. SME performance can therefore be examined not only as an endpoint associated with internal capabilities but also as an intermediate firm-level outcome within a broader structural relationship involving downstream market-facing assessments.

The interpretation of the SP→PMR relationship also requires particular caution. PMR was reported by the same respondents who evaluated SME performance. Thus, the positive association indicates that respondents who reported stronger firm performance also tended to report more favourable customer and market responses. It does not demonstrate that independently observed customers actually exhibited greater acceptance, repurchase behaviour, or confidence in the firms' offerings. This distinction is particularly important because PMR was operationalised as a perceptual construct developed for this study rather than measured using customer surveys, transaction records, retention measures, or other external market indicators.

The measurement results provide evidence that SP and PMR are statistically distinguishable within the present sample. The SP–PMR correlation was 0.498, the corresponding HTMT ratio was 0.524, and the square roots of the AVE values for SP and PMR exceeded their interconstruct correlation. Nevertheless, statistical discriminant validity does not fully resolve the conceptual proximity between the constructs. In particular, SP4 explicitly measures customer-related performance and is semantically closer to the PMR domain than are the sales, profitability, and competitive-performance indicators. The SP–PMR relationship should therefore be interpreted with this residual measurement boundary in mind rather than as conclusive evidence that firm performance and manager-perceived market response constitute entirely distinct domains.

Common method considerations further reinforce the need for cautious interpretation. Harman's single-factor test indicated that the first unrotated factor accounted for 29.4% of the total variance, while the common latent factor assessment produced an average method-related loading of 0.17. These diagnostics do not suggest that a dominant single-method component accounted for the entire covariance structure. Nevertheless, they cannot rule out effects arising from perceptual consistency, [respondent-level] halo effects, or other common-source influences when the same owner or manager evaluates the predictor, intermediate, and outcome constructs. The observed structural relationships should therefore be interpreted as associations among manager-reported constructs rather than as relationships between subjective internal assessments and independently verified market behaviour.

Taken together, these findings support a capability–performance–manager-perceived market response framework in which heterogeneous internal capability domains are associated with an intermediate firm-level outcome that, in turn, is associated with a downstream perceptual market-facing outcome. As summarised in Figure 2, the framework distinguishes entrepreneurial culture as an organisationally embedded capability from owner-manager emotional intelligence as a managerial-relational capability, while positioning SME performance as the intermediate firm-level outcome associated with manager-perceived market response.

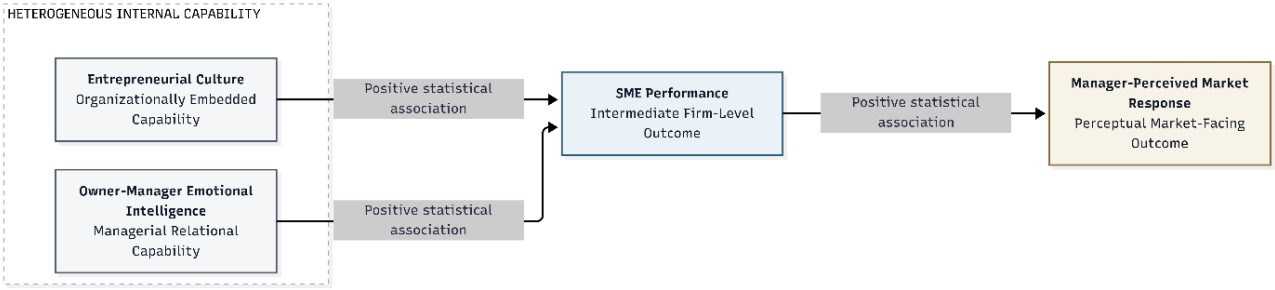

Figure 1 Capability–Performance–Manager-Perceived Market Response Framework.

4.4. Theoretical Implications

The study offers three theoretical implications for capability and SME research. First, it extends conventional capability–performance reasoning by treating SME performance as an intermediate firm-level outcome rather than exclusively as a terminal dependent variable. This perspective broadens the analytical architecture of capability research by considering whether capability-associated performance is also statistically related to downstream market-facing assessments. The contribution therefore concerns the theoretical positioning of performance within a broader capability–outcome structure rather than providing evidence of a causal mediation process.

Second, the findings support a more differentiated conceptualisation of heterogeneous internal capabilities. Entrepreneurial culture represents an organisationally embedded capability reflected in values and routines, whereas emotional intelligence represents an owner-manager relational capability located at the individual managerial level. Their respective associations with SME performance suggest that firm-level outcomes can be examined in relation to capability domains that originate at different theoretical levels without treating those domains as conceptually equivalent. This cross-level interpretation responds to the need for greater attention to the managerial microfoundations through which organisational capabilities are enacted in SMEs (Wales et al., 2020; Zahra, 2021).

Third, the study enhances the conceptual precision with which downstream market-facing outcomes are treated. Rather than equating managerial assessments with actual market responses, the study explicitly distinguishes manager-perceived market response from directly observed customer attitudes, actual repurchase behaviour, independently assessed trust, and externally verified market performance. This distinction narrows the empirical claim while strengthening the conceptual validity of the framework. The findings therefore support a capability–performance–manager-perceived market response perspective rather than the stronger claim that internally developed capabilities necessarily culminate in objectively realised market value.

4.5. Managerial Implications and Contextual Boundaries

For SME managers, the findings suggest that entrepreneurial culture and owner-manager emotional intelligence should be considered alongside systematic performance monitoring. Creativity, customer-oriented routines, adaptability, emotional regulation, and relationship-management competencies may support organisational functioning, but capability-development initiatives should be evaluated against measurable firm-level outcomes such as sales growth, profitability, and competitive performance. Managers should therefore avoid assuming that investments in internal capabilities automatically generate favourable market consequences.

The findings also highlight the importance of distinguishing internal performance assessments from external market verification. Because both firm performance and PMR were reported by managers, stronger internally assessed performance should not automatically be interpreted as evidence of actual customer acceptance or loyalty. SMEs could therefore complement managerial assessments with independently observed market indicators, such as customer feedback, retention rates, repeat-purchase records, complaint patterns, transaction histories, and other customer-level evidence. Separating internal performance indicators from externally observed market indicators would provide a stronger basis for evaluating whether organisational capabilities are accompanied by favourable market-facing outcomes.

Finally, the geographical setting establishes an important boundary for interpretation. The findings were based on data from SMEs in Pamekasan Regency, a geographically bounded context in which owners and managers served as key informants regarding organisational and market conditions. The results should therefore not be assumed to generalise statistically to all Indonesian SMEs or to enterprises operating under substantially different economic, institutional, competitive, or managerial arrangements. The proposed framework may have theoretical relevance in other SME contexts, but its empirical portability requires further testing across regions, industries, and countries, particularly in settings characterised by more professionalised management, more dispersed decision-making authority, different market structures, or different institutional environments.

5. Conclusions

This study examined the statistical relationships among entrepreneurial culture, owner-manager emotional intelligence, SME performance, and manager-perceived market response in a sample of SMEs in Pamekasan Regency, Indonesia. Entrepreneurial culture and owner-manager emotional intelligence were positively associated with SME performance, while SME performance was positively associated with manager-perceived market response. Both capability domains also exhibited statistically significant indirect associations with manager-perceived market response via SME performance. The additional direct associations between entrepreneurial culture and manager-perceived market response and between emotional intelligence and manager-perceived market response were not statistically supported, supporting the retention of the indirect-only specification as the more parsimonious representation of the structural models examined. Given the cross-sectional design, these findings indicate statistical associations consistent with the proposed theoretical framework rather than temporal ordering or causal mediation.

The study extends conventional capability–performance reasoning in three principal ways. First, it positions SME performance as an intermediate firm-level outcome rather than exclusively as the terminal dependent variable in the capability-development process. Second, it integrates theoretically heterogeneous capability domains by distinguishing entrepreneurial culture as an organisationally embedded capability from owner-manager emotional intelligence as a managerial-relational capability. Third, it distinguishes manager-perceived market response from actual customer behaviour and externally verified market performance. The resulting capability–performance–manager-perceived market response framework therefore provides a more differentiated account of how organisational and managerial capability domains are

statistically associated with firm performance and downstream perceptual market-facing outcomes without assuming causal transmission or objectively realised market responses.

Several limitations define the scope of these conclusions. First, the cross-sectional design does not establish temporal precedence or causal relationships. Longitudinal, panel, or time-lagged studies are therefore needed to examine whether changes in capabilities precede changes in performance and subsequent market-facing outcomes. Second, the use of purposive non-probability sampling and the geographically bounded setting of Pamekasan limit design-based statistical generalisation. Future studies should examine the framework using probability-based, multiregional, cross-industry, and cross-country samples to assess its empirical portability across different economic, institutional, competitive, and managerial contexts. Third, all focal constructs were reported by a single SME owner or manager. Although the common method diagnostics did not indicate a dominant method factor, perceptual consistency effects and common-source bias cannot be ruled out. Multi-source designs combining data from owner-managers, employees, customers, and objective business records would provide stronger evidence.

Fourth, manager-perceived market response was operationalised using a context-specific three-item scale developed for this study to capture perceived customer acceptance, repurchase tendencies, and customer confidence in the firm's offerings. The construct should therefore be regarded as a bounded perceptual measure rather than as an independently validated indicator of actual market response. Future research should validate and refine the scale using customer surveys, repeat-purchase and retention records, transaction data, complaint patterns, and other externally observable market indicators. In addition, because the SP4 indicator of SME performance refers to customer-related performance and is conceptually closer to the PMR domain than are the other performance indicators, further studies should examine the robustness of the SP–PMR distinction using alternative performance specifications and independent measures of market response. Addressing these measurement and design limitations would enable a more rigorous assessment of whether the proposed capability–performance framework extends beyond internally assessed organisational outcomes to independently observed market consequences.

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6. Declarations

6.1. Ethical considerations

This study was conducted in accordance with established ethical principles for social science research and was approved by the Universitas Madura Research and Community Service Institute under protocol review No. 212/1/X/2024. Participation was voluntary, and written informed consent was obtained from all participants before questionnaire administration. Participants were informed of the study purpose, the voluntary nature of their participation, and their right to decline or withdraw from the study at any time without penalty. Responses were anonymised and treated confidentially, and the data were used exclusively for academic research purposes.

6.2. Use of artificial intelligence (AI)

The authors declare that the generative AI tools ChatGPT (OpenAI), Paperpal, and DeepL were used only for language editing, grammar, readability, and translation during manuscript preparation. AI did not influence the scientific content, study design, data collection, analysis, interpretation, results, theoretical development, or conclusions. The authors assume full responsibility for accuracy, originality, integrity, and validity.

6.3. Conflict of Interest

The authors declare no conflicts of interest in relation to the publication of this manuscript.

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