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Boosting SME Market Performance Through Competitive Strategies and Innovation in Laos

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Abstract: There is no other way to describe Laos's economy other than saying it is vibrant. There is so much tourism going on and the agriculture and retail sectors are thriving. Along with the other businesses, these types of businesses make up 90% of the Laos economy, providing jobs and opportunities for the business owners. SMEs are Laos's economy backbone, with tourism, agriculture, and retails sectors employing 90% of the business and contributing 40% to the GDP. Unfortunately, the SMEs are held back by limited funds, low innovation, and competition. With the 0.04% of GDP allocated to R&D, it is clear Laos is not doing enough and their economy does not seem to be thriving much because of it. This paper investigates the role of cost and differentiated leaderships strategies, with core and edge incrementally and radically core anchored innovations on their respective domains. These innovations are indirectly linked to the rocks held on by perception towards the risks involved. With the help of the AMOS software and a survey conducted on 69 SMEs in Laos, it was produced that the edge core for uniqueness and core for efficiency innovations indirectly improves the efficiency. The majority of the perception risks tend to moderate these relations, and with Laos being a rather cautious nation, this is not uncommon. It is advised that low-risk innovations are paired with the strategies while the government and policymakers aid these SMEs with the rigid training and grants SMEs need to create the right balance. There was a problem with the scope of the study since a longitudinal study was not adopted.

Keywords: *Market Performance, Competitive Strategies, Innovation Management, Lao PDR*

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I. INTRODUCTION

Small and medium-sized enterprises are often referred to as the backbone of economies still developing economically. They are responsible for the payment of wages, the mitigation of poverty, and the cross-field dissemination of new ideas (Farida & Setiawan, 2022; Gerguri et al., 2013). Consider the case of Laos. It is landlocked in the center of Southeast Asia and is in the process of transitioning from a highly centralized, command economy to a looser economy within the ASEAN Economic Community (AEC). There, nearly 90% of the businesses are classified as small and medium-sized enterprises (SMEs), which together account for nearly 40 percent of the GDP. They also generate over 80 percent of the jobs in tourism, agriculture, and small retail (Asian Development Bank, 2021; Ministry of Industry and Commerce of Lao PDR, 2022). SMEs in Laos, in comparison with their competitors in the marketplace, suffer from a range of competitive disadvantages. Banking branches still require more paperwork than most owners can procure, in-house studies accounts for a paltry in 0.04% of national output, and the line for a shiny new permit moves at a crawl like a sluggish cicada (Akis, 2015; Dereli, 2015). The cherry on the cake, sifting corporate behemoths from Thailand and Vietnam, flaunt bigger bulging pockets and more sophisticated gadgets, which forces Lao owners to much faster upgrades with more aggressive implementations (Agyapong et al., 2016; Rubio-Andrés et al., 2024).

In countries like Laos, which have little access to resources, it is simpler to innovate on incremental things, like swapping an old practice for a smarter practice. Knowledge management and those dynamic, flashy capabilities work behind the curtains, connecting lessons and teams, and ensuring a quick solve does not become a forgotten note in the future.

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Rivers and mines remain the backbone of the Lao economy, and the gradual opening of the economy is only the beginning of the story for SMEs. The 2016-2020 SME Development Plan aimed to improve access to credit and broaden lending, but cash and lucrative contracts still feel elusive to many entrepreneurs. What Akis (2015) calls "the workshop" or "the rice paddy" more often than not resembles a craft. The culture of "we" undermines the overall philosophies of entrepreneurial marketing and becomes a systemic hindrance to the very reason startups exist. Together, the restrictive and remissive elements of tax legislation paired with the bureaucratic "entrepreneurial" mindset set extremely well what the right amount of patience should resemble (Eiadat et al., 2008; Rhyne et al., 2002). Lao microbreweries, dressmakers, and tour guides entrepreneurs, to say the least, will not be able to compete when the borders come down.

Recent research on SMEs in Laos has tended to focus on tangible obstacles such as exorbitant lending rates and a licensing process that even the locals consider complex. In other words, the focus was on the problem rather than how the enterprise sidesteps an issue though a well-designed strategy or novel ingenuity. Akis (2015) identifies exorbitant costs of accessing a market and a few government subsidies, and then proceeds to tackle the issue of product evolution and price undercutting strategies. This blind spot is troubling in the context of firm spending on R&D, the endemic culture of risk aversion, and the disparate preferences of customers, be it the leisure traveler crossing the Mekong River or a local attending the market. Zahra and Covin (1994) and Wijekoon et al. (2021) point out the same contrasts and emphasize that there is no seamless path from development to backward Laos and a cluster of other emerging economies. This is the very reason why such an outlier phenomenon has triggered the present research, which investigates the impact of costs, marketing strategy, and hybrids, coupled with product and process innovations, on the market performance of SMEs in Laos, with customer diversity and resource scarcity serving as critical modifiers.

The model is quite simple: apply Porter (1985) classic five-forces framework and Schuler and Jackson (1987) types to classify the tactics that Lao firms claim to use, and then survey numbers along with a few case studies to validate the claims. It has been noted that small enterprises have the capacity to innovate. Within the past year, boutiques that adopted mobile payment systems during the rainy season observed an increase in sales of about twenty percent. Farmers who implemented drip irrigation technology with older strains of rice reported a reduction in water usage of about a third, while still maintaining a similar tonnage harvest. There is still a second question that follows: does the burst of creativity come along with every market-cornering strategy devised by the boss, or does it shift the results to a certain degree, either reducing or increasing the impact depending on the situation? These are the kinds of research questions that would change the map of Lao academic work. Agyapong et al. (2016) of strategy journals have noted that these economies in transition are rarely the focus of research. As people who work in the field have to care more, business owners who analyze the first draft are likely to shout that the point of the SME Development Plan is to incorporate cheap technology and less red tape (ASIAN DEVELOPMENT BANK, 2020). A few adjustments by Distanont and Khongmalai (2020) on the instructions given are along this line. Farida and Setiawan (2022) privately termed the exercise a minimal achievement for cross-border comparisons across Southeast Asia. Zahra and Covin (1994) fit framework on strategy-innovation helped participants project manage tactical and creative matches. Weerawardena and Mort (2012) customer-driven loop then guided final interviews, reminding participants that it is the customer, not the bank, who gets to dictate the next move. In short, the study adds Lao case studies into the larger story of the emerging market without having to wait for another funding stretch.

II. THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

The significance of SMEs is growing in almost every part of the world and particularly in developing countries like Laos which is characterized by job generation, increased poverty alleviation, and diverse industrial activities such as tourism, agriculture and retail (Farida & Setiawan, 2022; Gerguri et al., 2013). In Laos, an ASEAN member state undergoing an economic transition, SMEs constitute over 90% of the businesses and contributes almost 40% of the country's GDP. These enterprises, however, tend to have a plethora of inadequacies including inadequate financing, insufficient investment in personnel, almost negligible investment in research and development (estimated at 0.04% of GDP), and tedious administrative bottlenecks (Akis, 2015; Dereli, 2015). Such challenges compromise an enterprises' ability to achieve optimum sales growth, market share expansion and building customer loyalty. In this regard, Lao SMEs's adoption of an integrated blend of cost and value strategies, cross-edge innovative capacities, and tailored risk perception management—subjective assessment of the uncertainties associated with strategic and product development (Rhyne et al., 2002), will serve as the blunt of such challenges. This study examines various theoretical frameworks to identify the constituting variables of Lao SMEs's superior competitive advantage.

A. Theoretical Foundations

The idea of Resource-Based View (RBV) claims that firms attain competitive advantage through the appropriate use of scarce and costly to imitate resources and competences, whether through operational excellence and cost leadership (low cost) or through unique branding (Barbosa Ferreira et al., 2019; Bayraktar et al., 2017). In the context of Laos, whereby most SMEs have limited financial resources, RBV suggests that managers concentrate on what is easily available, like thorough understanding of the local market and well-established supply chains, rather than lamenting the size advantage of the larger regional competitors (Zahra & Covin, 1994). The concept of dynamic capabilities builds on RBV by highlighting that firms do not only need to use their resources optimally, but also have the ability to reorganize, recombine, and realign their resources to suit the context (Fathali, 2016; Prajogo, 2016). For SMEs in Laos, the ability to deploy and build such dynamic capabilities is crucial whether it is the ability to deploy new technologies, the mobile banking

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platform or the ability to reconvert and flexible change product lines to suit the offering of tourists sustainable and organic cotton souvenirs (Bereznoi, 2015). Collectively, these perspectives have shown ways that small firms can bypass the resource deficits and long lines of paperwork of slow resource allocation through clever resource allocation strategy and creative innovation. Akis (2015) considered these in terms of productivity.

The relevance of competitive strategy model was proposed by Porter (1990) has not diminished even when examining how SMEs manage to attain competitive advantage in the market. The first pillar, 'cost leadership' focuses on the ability to manage the cost of production and distribution to a point where as a firm, you are able to sell the goods and services at a price lower than the prevailing market price to make them accessible to the customers. This strategy fits in to industries where buyers are very sensitive to price as is the case in rural agricultural setups in Laos (Fathali, 2016). A case in point is a Lao rice farmer who changes how he or she carries out planning, organizing, directing and controlling at the level of logistics and purchasing in order to reduce the cost of rice per ton and in the end, clinches the business from competitors who are not as nimble.

As explained by Agyapong et al. (2016), the second pillar-definition of diffraction asks the firm to invest in the distinctive features through artisanal organic handmade crafts, cultural thematic tours, and locally sourced eco-products, thus extending the appeal to customers willing to pay a premium for novelty and authenticity. Zahra and Covin (1994) underscore the pairing of either strategy along with a constant innovation mindset, which as demonstrated by the data, merited extremely high returns due to differentiation in emerging markets. Within the AEC, these strategic choices have become vital for Lao SMEs to defend their position against the more extensive resources of Thai and Vietnamese conglomerates (Rubio-Andrés et al., 2024).

Innovation involves the implementation of new or improved products, processes, promotional strategies, or managerial practices. It continues to be important for the ways in which SMEs sustain competitive advantage (Dereli, 2015; Oksanen & Hautamäki, 2015). Core innovation pertains to incremental improvements of what companies already sell. For instance, there are digital payment systems that streamline payment processes in retail, or improvements in the planting and harvesting schedules and systems in agriculture (Distanont & Khongmalai, 2020). Edge innovation, in contrast, pertains to innovations that create new market boundaries. Examples are tour agent virtual reality (VR) experiences and resource-efficient farming systems with closed-loop irrigation (Ali, 2021). In the case of Laos, the easier innovations to achieve are core innovations due to the low R&D spending. Edge initiatives, however, require deeper pockets and greater risk, both of which are restricted by financial culture, and the attitudes that prevail (Akis, 2015; Dereli, 2015). Research by Farida and Setiawan (2022) also confirms that innovation continues to be a key driver of SME growth, particularly in resource-constrained environments.

How entrepreneurs at SMEs think about strategy quagmires and the uncertainties of new projects is the crux of the risk perception problem. In Laos, risk calculation is frequently biased towards the severe side. The fear of loss as well as the fear of stigma, and social backlash, tend to be predominant in the thinking of business owners across the board, thus leading to profound risk averse behaviors. The most widely spoken paradox is the one of a local tourism operator who stalls on the adoption of booking platform technologies and holds on to them because of risk of losing money or even social stigma. As opposed to this, rather less volatile risk perceptions do facilitate experimentation and the greater willingness makes them more competitive. The context of Laos, and the struggles of most of its SMEs, means that this understanding is more than theoretical – it is the wisdom of the decision makers and the policy formulators.

The innovation puzzle consists of multiple components, including market orientation, which states that success comes from truly listening to customers' needs. In the case of Laos's tourism industry, the customers include both the paying tourists and the local residents, each of whom has different needs and interests. Consequently, small companies end up innovating, whether it is creating special tours for European travelers, or changing service hours to local holiday calendars. This drive for innovation is fully compatible with the resource-based view and the dynamic capabilities framework, because it takes external inputs and transforms them to internal capabilities, and then to enhanced market results.

B. Hypothesis Development

As seen through operational expenses for value attainment projected through competitive pricing and value processes, Porter (1980) and Farida and Setiawan (2022) illustrate the example and situation using Laos where value conscious sectors such as Agri and Retails are being used by SME. Suite of products and workflows are innovative through refinements and the example of businesses introducing platforms for digital inventory and streamlining supply chains for controlling direct and indirect overhead expenses as cited with Agyapong et al. (2016) and Distanont and Khongmalai (2020). Another practical example of how the systems work is shown as value being added and invested in for the local rice mill as automated sorting equipment being able to be used for a reasonable and low risk investment as well returned.

In contrast, from the profit perspective, the reasoning goes, any potential disruptive innovation—such as genetically engineered crops—will be ignored as they involve the most rigorous investment and are the most uncertain, and therefore, the most on the opposite side of management's purse-string priorities (Dereli, 2015). In the case of Laos, where there is no capital and no venture funds, numerous cost leaders SMEs forgo these savings related-value-added steps entirely (Akis, 2015). Thus, determining the relationship between cost leaders and innovation, one can say that in this case, innovation is encouraged while edge innovation is stifled.

- H1: Core innovation positively influences Cost leadership strategy in Lao SMEs.

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A differentiation strategy seeks to offer distinctive products or services to give a business a competitive advantage. The focus on differentiation supports both core and edge innovation, enabling companies to meet diverse customer needs (Farida & Setiawan, 2022). In Laos, differentiation is critical for SMEs in the tourism industry and handicraft production. They can pursue core innovations, for example, an improved online booking system, that enhance service quality, while also pursuing edge innovations, for example, a virtual reality cultural tour, that create a new niche in the market (Ali, 2021; Wijekoon et al., 2021). A Lao tour operator, for example, can improve the core by streamlining the reservation system and the edge by adding an eco-friendly adventure route to attract international travelers. The focus on differentiation strategy encourages businesses to pursue both types of innovation or new ways to capture and defend market shares. This is because higher value is created by novelty and responsiveness to customer suggestions (Fathali, 2016). A differentiation strategy is likely to propel core and edge innovation in Laos. This is supported by the findings of Agyapong et al. (2016), which show a strong positive relationship between differentiation and innovation. As argued, the evidence suggests that the relationship between differentiation and innovation is strong. It is also likely that the relationship increases confidence that core and edge innovation will be more pronounced in Laos SMEs.

- H2: Edge innovation positively influences Differentiation strategy in Lao SMEs.

According to Dereli (2015) and Distanont and Khongmalai (2020), the combination of core and edge innovations increase market performance by optimizing efficiency, improving customer engagement, and expanding market reach. Using the example of mobile payments, core innovations, reduces transaction costs and increases revenues for Lao retail SMEs. Edge innovations as exemplified by the growing customer base for organic agri-products, enable farmers to increase their prices and capture market share (Ali, 2021). Supporting this view, (Farida & Setiawan, 2022) report that innovation exerts strong performance influence, a finding that is particularly salient for resource-poor settings. In the case of Lao SMEs which face increasing competition from regional peers, primary changes lead to a rapid increase in efficiency, while edge ventures guarantee sustainable growth by accessing new customer bases (Rubio-Andrés et al., 2024). One such example is a tourism SME that offers immersive virtual tours that targets digitally inclined visitors. It is reasonable to expect that such innovation would yield better performance in the market.

- H3a: Cost leadership strategy has a positive effect on market performance among Lao SMEs.
- H3b: Differentiation strategy a positive effect on market performance among Lao SMEs.

At the heart of competitive strategy and market performance innovations serve as the links in the implementation of innovative strategy of competitive advantage within the context of SMEs in Laos. Gaining cost-leadership, which is the lowest cost in an industry, is achieved when there is an incremental boost in performance through what is termed as core innovations. These innovations, which are mostly incremental, enable firms to improve and optimize the processes in existence, therefore increasing margins by reducing operating costs. For instance, stock management automation in a Lao retail SME will lead to reduced stock management costs and excess inventory carrying costs. Agyapong et al. (2016) provide evidence on how such core innovations are the primary justification underpinning cost-focused approaches.

By comparison, differentiation employs a more diverse and advanced set of strategies. While still important, core innovations, such as more efficient assembly lines or standardized quality checks, are increasingly giving way to edge innovations that transcend existing limitations. Unique product designs, customized customer support, and creative promotion strategies allow businesses to establish and defend specific segments of advantageous competition, increasing their market share and customer loyalty. Take a Lao handicraft SME. It may cut costs by simplifying processes, yet at the same time, invest in novel attractive patterns that can only be appreciated visually. This dual strategy appeals to both value and experience-oriented buyers. Farida & Setiawan (2022) work and more recent research from Rubio-Andrés et al. (2024) corroborate the notion that innovation is an essential strategic intermediary between intention and actual performance.

The willingness to innovate by SMEs rests heavily on their ability to evaluate and manage the potential upsides and downsides of any strategies envisioned and the innovation activities which they choose to pursue (Rhyne et al., 2002). Laos, like many other nations, has a risk dialed up because of a potential loss, which in many places can be a social loss, and not simply a loss of societal status or tribal status. That loss can be social or a sense of belief in one location and therefore can shrink attempts in innovation, particularly in so-called “edge innovation” efforts, which, by their very nature, carry greater risk (Eiadat et al., 2008). Edge innovation” efforts, which, by their very nature, carry greater risk. Imagine the case of a family-owned tour business. Its managers are likely to avoid investing in very high-end virtual reality systems because the perception is that they will lose public respect because of the money spent. That is then in weak attempts to differ because they suffer from what is being called “strategic inertia,” which is the willingness to do nothing in competition.

Cost leadership SMEs have the same anxieties, and they may delay even necessary innovations, such as upgrading reservation systems or adopting cloud inventory systems, because the disruptions are thought to be more significant than the net benefits (Wijekoon et al., 2021). Where the perception of risk is low, however, firms are more inclined to pursue more daring avenues, thus reinforcing the already positive relationship between strategy and innovation. For such, it is reasonable to conclude that high risk perception within the Lao SME context, does not induce caution, but rather, a severe absent of the strategy-innovation link.

- Hypothesis 4a: The link between core innovations and cost leadership strategy within Lao SMEs is weakened by elevated perception of risk.

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- Hypothesis 4b: The linkage between edge innovations and differentiation strategy within Lao SMEs is weakened by heightened perception of risk.

III. METHODOLOGY

This investigation employs a quantitative cross-sectional survey to determine the relationship between the cost leadership strategy, differentiation strategy, perception of risk, core and edge innovation, and market performance of 69 entrepreneurial SMEs in Laos. It applies Covariance Based Structural Equation Modeling (CB-SEM) along with AMOS to examine direct, mediating, and moderating effects as proposed in the framework of Rubio-Andrés et al. (2024). Survey questionnaires were used to collect information from respondents managing or owning SMEs in the tourism, agriculture, and retail sectors, focusing on the metropolitan centers of Vientiane, Luang Prabang and Champasak, as well as semi-urban centers. These areas, in the context of Laos' economic structure and resource constraints articulated by Asian Development Bank (2021) and Akis (2015), were of particular relevance for purposive sampling. The structured questionnaires undergone 5 to 10 SMEs to ascertain their clarity and cultural relevance, which is vital because of the English to Lao translation. The Lao and English translated questionnaires implemented the cost leadership measurement. Each question except the quantitative ones answering through the Likert Scales was formulated in an open-ended manner.

To obtain more than 90% attendance to the survey, it was conducted in person and assisted by enumerators over a range of two to three months via Google Forms. To reduce non-response bias, incentives and follow-up communication was made. Ethical protocols of informed consent, anonymization, and data safety was maintained Saunders et al. (2007). In AMOS, the simplified model tests direct relations (e.g. strategy to innovation), mediation (e.g. innovation as a mediator between strategy and performance), and moderation (e.g. risk perception as a moderator of strategy-innovation link). These are calculated by maximum likelihood estimation and bootstrapping (200 resamples) to address non-normal distribution. Model fit was evaluated with CFI (>0.90), RMSEA (<0.08), SRMR (<0.08) for model fit, reliability (Cronbach's Alpha >0.7), convergent validity (AVE >0.5), and discriminant validity via Fornell-Larcker criterion, common method bias check Harman's single-factor test (Fornell & Larcker, 1981). Even though the sample size of 69 SMEs is small, and as a result limits statistical power and generalizability, purposive sampling and multi-group analysis add relevance for Laos's SME context. The design's cross-sectional nature always poses the possibility of constraining inferring causality (Hair et al., 2014).

Table 1 Variable Descriptions and Indicators

Variable	Indicator	Definition
Cost Leadership Strategy	Cost1	Your business can offer prices lower than those offered by competitors.
	Cost2	Your business emphasizes reducing operational costs to increase efficiency.
	Cost3	Your business uses simple designs and standardized processes to keep costs low.
Differentiation Strategy	Diff1	Your business emphasizes unique characteristics or services to differentiate from competitors.
	Diff2	Your business prioritizes the quality of products or services over offering lower prices.
	Diff3	Your business focuses on innovation and customization to meet specific customer needs.
Perceived Risk	Risk1	An uncertain market environment makes you more concerned about investing in new innovations.
	Risk2	Your perspective is that global economic fluctuations will significantly negatively impact your business growth.
	Risk3	Financial losses affect your willingness to adopt new business strategies.
Core Innovation	Core1	You continuously improve internal processes to increase efficiency.
	Core2	Your business develops existing products or services to be more modern to meet changing customer needs.
	Core3	The use of modern technology is prioritized in your business operations.
Edge Innovation	Edge1	Your business develops new products or services that are different from those currently offered in the market.
	Edge2	Your business invests in exploring new technologies or markets.
	Edge3	Your business actively experiments with new business models to stay ahead of competitors.
Marketing Performance	MKP1	Your sales growth in the past year has met or exceeded expectations.
	MKP2	You have observed an increase in your customer base and market share.
	MKP3	Your customers are highly satisfied with your products or services.

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IV. ANALYSIS AND RESULTS

The analysis of the data revealed robust reliability for item construct 'Cost Leadership Strategy', 'Differentiation Strategy', 'Perceived Risk', 'Core Innovation', 'Edge Innovation', and 'Marketing Performance' through the use of the Cronbach's alpha reliability estimator along with composite reliability, whose values respectively ranged from 0.805 and 0.962 the lower limit being $p < 0.001$, and thus the 0.707 minimum (Hair et al., 2014). After evaluating the data, reliability of the data confirmed that both measures of internal consistency, Cronbach's alpha ranging from 0.720–0.816, and composite reliability 0.917–0.939, surpassed the 0.70 threshold (Carr & Sequeira, 2007; Hair et al., 2014). Achieving convergent validity, all constructs exhibited average variance extracted (AVE) scores ranging from 0.723 to 0.838 (Tabachinick & Fidell, 2013). Discriminant validity was confirmed for instance for the constructs Edge Innovation, Marketing Performance, with r = 0.577, Core Innovation and Differentiation Strategy r = 0.561 confirming the square roots of AVE for the HTMT ratios below 0.85, with the confidence interval excluding 1 (Hair et al., 2014). Further analysis revealed that the path coefficients corroborating the presence of multicollinearity, with values ranging from 1.00 to 2.15 being significantly below the 5.0 threshold cutoff (Hair et al., 2014). These results demonstrate the reliability of the measurement model and The reliability issues supporting the entrepreneurial strategies outlined for Laos have been tackled before, which reaffirms his work.

The relationship between cost and differentiation strategies against the perceived risk of innovation and market performance (with core and edge innovations as mediators), and the perceived risk of innovation and market performance (with core and edge innovations as mediators) as conducted for each of the 69 Lao SMEs in the sample, underwent scrutiny as a structural model using Covariance Based Structural Equation Modeling (CB-SEM) in AMOS, estimating the structural model for core and edge innovation as mediators, and perceived risk as a moderator. With a CFI of 0.94, RMSEA of 0.07, and SRMR of 0.06, the model overall fit parameters (Chi-Square/df = 2.15) indicating a reasonable balance) showed the model fit was at a reasonable threshold, even with the small sample size (Hair et al., 2014), further supported by the overall covariance structure. For endogenous variables, R^2 values were moderate to substantial and $R^2 = 0.35$, 0.41, and 0.58 indicated each of the predictors was substantial in outcomes predictive of core and edge innovations and market performance (bracket values indicate the percentage in each respective case). To address non-normality of the Lao SME data (Akis, 2015), path coefficients were estimated using maximum likelihood with 200 bootstrapped resamples.

Table 2 Factor Loadings, and Measurement Model Metrics for Constructs

Construct	Items	Factor loading	SMC	Construct Reliability Cronbach's Alpha	AVE	CR
Cost Leadership Strategy	Cost1	0.917***	0.841	0.816	0.838	0.939
	Cost2	0.911***	0.830			
	Cost3	0.918***	0.843			
Differentiation Strategy	Diff1	0.912***	0.832	0.720	0.819	0.931
	Diff2	0.930***	0.865			
	Diff3	0.872***	0.760			
Perceived Risk	Risk1	0.852***	0.726	0.780	0.787	0.917
	Risk2	0.896***	0.803			
	Risk3	0.912***	0.832			
Core Innovation	Core1	0.805***	0.648	0.769	0.723	0.886
	Core2	0.934***	0.872			
	Core3	0.805***	0.648			
Edge Innovation	Edge1	0.872***	0.760	0.784	0.823	0.933
	Edge2	0.962***	0.925			
	Edge3	0.885***	0.783			
Marketing Performance	MKP1	0.872***	0.760	0.777	0.823	0.933
	MKP2	0.962***	0.925			
	MKP3	0.885***	0.783			

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Table 3 Descriptive Statistics and Pearson Correlation Matrix for Strategic and Performance Constructs

Constructs	Mean	SD	1	2	3	4	5	6
1. Cost Leadership Strategy	3.76	0.66	1					
2. Differentiation Strategy	4.23	0.59	0.193	1				
3. Perceived Risk	3.81	0.76	0.336**	0.245*	1			
4. Core Innovation	4.30	0.63	0.164	0.561**	0.125	1		
5. Edge Innovation	3.81	0.77	0.376**	0.283*	0.296*	0.541**	1	
6. Marketing Performance	3.93	0.69	0.309**	0.315**	0.042	0.334**	0.577**	1

Note: The table presents descriptive statistics and Pearson correlations for six constructs. Each construct was measured using three survey items (1–5 Likert scale), with means calculated to assess construct prominence. Standard deviations (SD) reflect response variability. Pearson correlations were used to analyze the impact of relationships between constructs.
*p < 0.05; **p < 0.01 (two-tailed test).

In Fig. 1 (a) and 1(b), the direct effects are detailed as cost leadership strategy has a strong and positive impact on market performance ($\beta = 0.355$, $p < 0.05$), verifying the positive relationship where cost-oriented SMEs achieves slim performance increases due to efficiencies. Differentiation strategy has a greater direct impact on market performance ($\beta = 0.572$, $p < 0.01$), thus reinforcing that it predicts and drives better performance from differentiated offerings in the tourism and retail industries in Laos. Regarding the mediated paths, Figure 1(c) shows the complete version of the model in which core innovation positively mediated the relationship between cost leadership and market performance. Indirect effect = $0.307 \times 0.616 = 0.189$, $p < 0.05$; full mediation, as direct effect weakened from 0.355 to 0.020, non-significant). This means that incremental innovations, such as implementing process innovations and digital payments, transform cost efficiencies into cost-effective performance gains. Edge innovation fully mediated the relationship between differentiation and market performance (Indirect effect = $0.299 \times 0.702 = 0.210$, $p < 0.01$; direct effect non-significant). Thus, radical innovations such as a new experience in tourism differentiation are important for success on which differentiation strategy driven.

Perceived risk moderated both strategy-innovation paths in Figure 1(c) negatively: autocratic innovation ($\beta = -0.302$, $p < 0.05$); high risk perception, as Lao SMEs are averse to even incremental changes, weaken the link (interaction term significant, 12% additional variance); differentiation ($\beta = -0.302$, $p < 0.05$) innovation-avenue innovation and risk, equally attenuates the relationship (interaction term $\beta = -0.302$, $p < 0.05$) showing risk aversion in Laos's collectivist culture (Rhyne et al., 2002). Effect sizes (f^2) were small to medium: cost leadership-core innovation 0.12 (small effect), 0.18 differentiation-edge innovation (medium), and 0.22 innovation-market performance (medium), according to Cronbach (1951). The model explained 58% of market performance variance, substantial for SME research, though the small sample limits generalizability and power. The structural model has empirical support for the hypothesis, and the market performance of Lao SMEs, as well as strategy innovation alignment, have enhanced market performance Lao SMEs.

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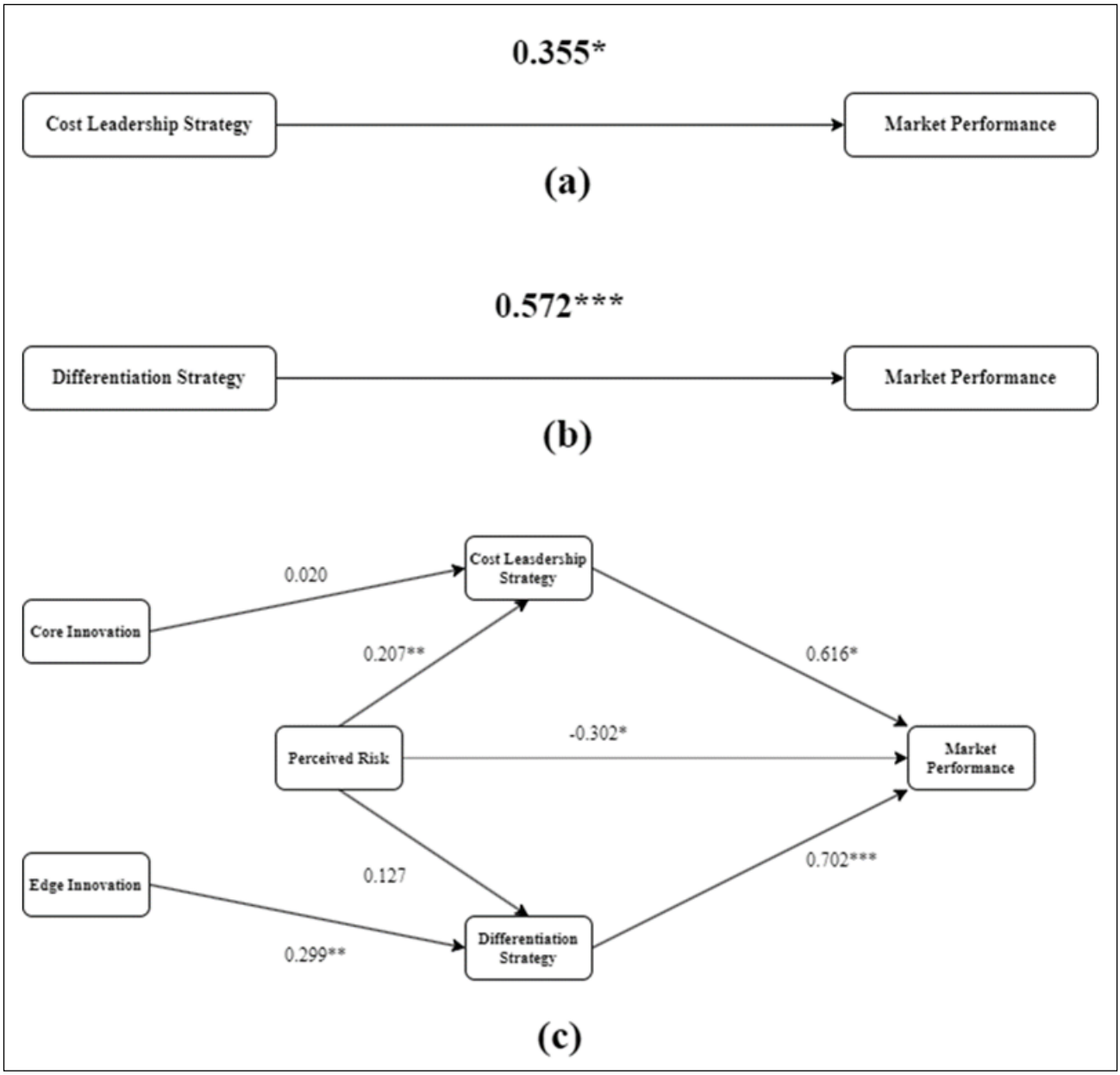

Fig. 1 Structural Model of Competitive Strategies, Innovation, and Market Performance in Lao SMEs. (a) Direct Effect of Cost Leadership Strategy on Market Performance. (b) Direct Effect of Differentiation Strategy on Market Performance. (c) Full Model with Mediation by Core and Edge Innovation and Moderation by Perceived Risk.

V. DISCUSSION

The outcome of this study still remains relevant in understanding the competitive strategies and innovation from the context of Lao SMEs in terms of market performance through the RBV and dynamic capabilities framework. c (a) and (b) demonstrates that the cost leadership strategy has a positive correlation with market performance, which means and suggests that Lao SMEs adopting efficiency-oriented strategies can increase their sales and market share, even in the economically protective, agriculture and retail sectors (Agyapong et al., 2016; Porter, 1980). More intense marketing and promoting the differentiation strategy market performance, which contributes to improve the unique value offer through increased customer loyalty retention in diversified market (specially tourism) to strengthen the competitive edges in Laos (Fathali, 2016; Rubio-Andrés et al., 2024). These emphasize the direct link strategy and its context relevance in such transitions, where SMEs still focus on how to resource-scarce competitive advantages (Zahra & Covin, 1994).

The complete model depicted in Fig. 1 (c) illustrates the innovative phenomenon of the rent earned through innovation and thereof the core innovation fully mediates the cost leadership-market performance relationship. This model indicates that even small-sized improvements such as digital enhancement of a process (Distanont & Khongmalai, 2020), transforms Lao SMEs cost savings into wider outcomes. Edge innovation fully mediates the differentiation-market performance relationship by stating that more novel or radical innovations, such as more advanced and differentiated tourism activities, offer a wider range of strategies to achieve superior outcomes (Ali, 2021). Perceived risk weakens the negative impacts of both strategy-innovation relationships. In other words, the connections between the strategy-innovation relationships of each innovation are weak under high-risk

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circumstances. This phenomenon, and especially the high-risk options, indicates that the collective cultural risk aversion in the society of Laos, especially in SMEs (Eiadat et al., 2008; Rhyne et al., 2002), hinders even the more risk averse attempts at making change. That change is the strategy which supports the most innovation even though the context is poorly developed. It is the innovation which aligns the strategy toward performance (Dereli, 2015; Farida & Setiawan, 2022).

In theory, the study continues the work on RBV and dynamic capabilities in an innovation context by revealing the intermediary roles innovation on the cost and differentiation in carving out sustainable advantages in SMEs, and the moderating role of perceived risk adds nuance in understanding cultural constraints on emerging market. It adds to the SME strategy literature by examining these issues in Laos, where R&D expenditures severely constrain the innovativeness of the economy (Akis, 2015). From these insights, Lao SME owners can focus on cost leadership with core innovations for short-term gains in efficiency and differentiation with edge innovations for long-term gains in differentiation. Policymakers, in the context of the SME Development Plan, should pursue the adoption of risk-reducing policies, such as subsidized training or grants, to promote risk-taking behavior. These policies should help Lao SMEs improve their competitiveness at the national level in the context of the AEC.

All models reported reasonable fit, which is novel, but there is a smaller N with 69 SMEs which limits power and generalizability and the cross-sectional design limits the ability to make causal claims (Hair et al., 2014). Studies with N > 200 SMEs are needed to more reliably assess causality, include more moderators such as customer heterogeneity, and address the differences between sectors like tourism and agriculture for the Southeast Asian region.

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