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THE BUSINESS MODEL INNOVATION LINKING ENTREPRENEURIAL ORIENTATION, DESIGN INNOVATION, MARKET RESPONSIVENESS & FIRM PERFORMANCE

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ABSTRACT

This study examined the influence of the entrepreneurial orientation, design innovation, and market responsiveness on financial performance of interior design and architecture firms. It investigated the mediating role of business model innovation in explaining how creative & entrepreneurial capabilities are converted into financial outcomes. The study adopted quantitative design. Data were collected through structured questionnaires from professionals working in interior design and architecture firms, including the designers, architects, managers, and firm owners. The proposed relationships were thus analyzed using structural equation modeling to assess direct effects, indirect effects and model fitness. Findings revealed that entrepreneurial orientation, design innovation, and market responsiveness had significant positive effects on business model innovation. Business model innovation had a significant positive effect on financial performance. The results further confirmed that business model innovation mediated the relationships between independent variables and financial performance. Thus, the results provide significant information in reaching the conclusion and making suitable decisions. These findings indicate that interior design & architecture firms improve financial performance when entrepreneurial behavior, innovative design practices, and the market awareness are translated into the flexible as well as value-creating business models.

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INTRODUCTION

The field of interior design and architecture is faced with drastic changes owing to the rapid changes witnessed in the environment of operations for many firms in terms of the technology, changing customer demands, increased competition, and shifts in the market conditions. In addition to producing aesthetically pleasing and practical designs, current firms are required

to provide the innovative designs that cater for sustainability issues, digital design trends, and individualized customer demands. In such a highly competitive environment, the performance emerges as an important measure of success since it indicates a firm's ability to make profits and grow in the future (Pundziene, Nikou & Bouwman, 2022). But in order to achieve superior performance in the highly dynamic world of the creativity, more than just technical skills are required; rather, it requires strategic abilities to identify along with exploit opportunities and innovations. Consequently, there has been growing attention towards the significance of the entrepreneurship and innovations in organizations (Vorobiov, Vasylieva, Sakun, Bilousko & Chukaieva, 2025). The rise in the level of complexity of client and market needs has contributed to changes in the ways that interior design and architectural firms consider value creation and delivery.

The competition among such companies is no longer based only on quality but is characterized by differentiation in the services, innovative methods of delivering projects, integration into technology, and focusing on customers. These trends have made it important for organizations to possess, utilize strategic resources and organizational capabilities necessary for innovation and adaptation (Sharma, Kraus, Chopra, Dev & Ferraris, 2025). The companies that can create opportunities, be proactive about innovative design solutions, and respond quickly to market stimuli are those that can maintain competitive advantages in the long term. However, how much such capabilities help companies achieve their financial goals is an open question among scholars and has been discussed especially in creative industries where the process of value creation depends heavily on innovation (Fazlagić & Szczepankiewicz, 2020). Some of the other important strategic capabilities that have garnered much attention from academics include entrepreneurial orientation which involves the ability of organization to conduct itself in ways that are innovative, proactive, risk-taking, in order to identify and exploit opportunities that arise.

The organizational capability of design innovation involves the ability of the organization to develop the innovative designs that add value for customers while setting it apart from its competitors (Ghobakhloo, Iranmanesh, Grybauskas, Vilkas & Petraitė, 2021). With innovation in design, an organization can create unique services that would help in positioning it better in the market and improve customer satisfaction levels. Another important capability is that of market responsiveness, which involves the ability of the organization to recognize, anticipate, & react to changes in market conditions such as changes in customer behavior and competitive moves. Organizations that have high levels of market responsiveness would be able to align their strategies better with market conditions (Martusewicz, Wierzbic & Łukaszewicz, 2024). While all of the above capabilities are individually significant, strategic management theory and practice today imply that their true potential can be achieved when combined into more comprehensive organizational practices that lead to concrete results (Sharma, Kraus, Chopra, Dev & Ferraris, 2025). In this respect, business model innovation comes into play as a term that denotes changes made by organizations to improve the way they create, deliver, and monetize value.

With business model innovation, organizations are able to implement new business models that allow them to generate additional revenues, engage customers more efficiently, improve processes, and think out-of-the-box regarding the delivery of services or products (Lin, Wong & Fong, 2025). For creative organizations, such as those in the interior design or architecture, innovation in business models can take the form of utilizing new digital tools for consultations, using collective project management techniques, offering customized solutions, implementing other innovative business practices. This will help businesses leverage entrepreneurial spirit, creativity, market insights, and other capabilities and create competitive advantages that will be sustainable in long-term. As such, financial performance, which denotes financial success, may be affected significantly by the business model innovation (Wang, Lin, Chen, Lyulyov & Pimonenko, 2023). The main theoretical approach underlying this research is associated with the RBV concept and dynamic capabilities theory. Within the framework of former, successful performance be achieved on basis of possessing valuable, rare, inimitable & non-substitutable assets.

In turn, the entrepreneurial orientation, design innovation, and market responsiveness can be considered examples of strategic intangible assets contributing to organizational competitive advantage. However, dynamic capabilities theory goes beyond this statement arguing that it is necessary for companies to constantly realign resources to meet changing conditions (Alkaraan et al., 2024). Based on this theory, it is possible to consider the business model innovation as a dynamic capability through which strategic resources can be converted into tangible results. The rationale behind this notion is related to the fact that entrepreneurial firms tend to conduct experiments concerning the business models, innovative design capabilities ensure a creative foundation for the business model innovation, while market responsiveness makes sure that innovations are relevant for customers (Omidvar et al., 2025). Even though there has been a lot of empirical work done on entrepreneurship, innovation, and organization performance, there are still many important gaps in the research. First of all, the previous research has focused on entrepreneurial orientation, design innovation, and market responsiveness as independent factors of performance, and little work has been done to explore how actually impact financial results.

The importance of business model innovation as the intermediate factor has not been widely studied, especially in relation to the innovative and customer-oriented sector such as creative services (Thoumrungroje & Racela, 2022). Finally, while most of the evidence comes from the manufacturing and technology industries or from large corporations, little attention has been paid to the specific environment of interior design and architecture firms. Overall, very little work has been done to link five discussed factors in a single framework (Nazir & Das, 2025). This raises the following research problem related to the challenges involved in the process of translating entrepreneurship, innovation, and responsiveness into financial success among the interior designers & architects by differentiation in services, innovative methods of delivering projects, integration into technology, and focusing on customers. While it is true that firms may be endowed with the significant innovation potential and strategies, such resources may go unrealized unless they are incorporated into innovative business models. Knowing how these

capabilities influence financial outcomes becomes critical to the academic world and practicing designers in terms of building firm competitiveness and sustainability (Chen, Li & Shahid, 2024).

Such knowledge will become increasingly relevant given the evolving nature of today's creative industries in response to technology-based disruptions, evolving consumer demands, and increased competition in marketplace (Benghozi, Salvador & Simon, 2021). The relevance of this research paper is based on its theoretical and practical value. First, the findings make a theoretical contribution by expanding resource-based view and dynamic capabilities theory frameworks and revealing the role of business model innovation as the strategy that integrates the impact of entrepreneurial orientation, design innovation, and responsiveness of enterprise to the demands of the market on the firm's financial performance leading towards desired and outcomes. Furthermore, it adds to the existing body of knowledge in the field of innovation management together with the strategic entrepreneurship by delivering empirical proof based on the example of the little-researched industry, the interior design and architectural design in the diverse circumstances (Ali, Khan & Şener, 2025). Second, results have practical implications for owners and managers of firms, architects, designers as they reveal standing of innovative business modelsm offer useful advice on creating such models (Spieth, Breitenmoser & Röth, 2025).

LITRATURE REVIEW

The review of relevant literature for this research is based on resource-based view & dynamic capabilities theory that jointly explain how firms attain superior performance by acquiring, allocating, and restructuring strategic resources. Specifically, according to RBV, a firm gains sustained competitive advantage by having valuable, rare, inimitable and non-substitutable resources. These include the intangible resources such as entrepreneurial orientation, design innovation, and market responsiveness that enable firms to discover opportunities, formulate new value propositions, and make responsive adaptations to changes in environment (Meng et al., 2025). However, as proposed by dynamic capabilities theory, firms cannot simply rely on their resources. Organizations have to continually integrate, renew, and realign resources so as to adapt to shifting market situations. The business model innovation is a dynamic capability that helps firms leverage on entrepreneurship, innovative design skills, and knowledge about markets to generate economic outcomes. According to theory, firms that can reconfigure their processes of value creation, delivery, appropriation will be able to perform well in competitive and dynamic environments like the interior design and architecture industry (Timergaleeva, 2025).

Entrepreneurial orientation has been widely identified as strategy adopted by organizations, which involves innovation, proactiveness, and risk-taking tendencies to explore and generate competitive advantage. Previous research has found that entrepreneurial orientation facilitates innovation in terms of strategy, entry into new markets, and adoption of new ideas to generate value. Studies show that organizations with high entrepreneurial orientation are more prone to undertake business model innovation due to fact that leaders with entrepreneurial orientation are constantly in search of novel ways to add value to customers, seize business opportunities

(Klein et al., 2021). Moreover, an entrepreneurial orientation fosters organizational flexibility and experimentation, which are the main requisites for designing and re-designing business models according to market conditions. It is empirically established that the entrepreneurial orientation significantly affects business model innovation and organizational performance by adopting innovative business practices in construction and service industries. These findings imply that businesses with an entrepreneurial orientation in interior design and architecture sector would have increased probability to adopt innovative business models (Othman et al., 2026).

Design innovation may be defined as the capacity of an organization to develop innovative design that sets its products apart from its competitors. In creative industry, design innovation goes beyond mere aesthetics; rather, it involves the creation of innovative processes, service ideas, technology, and customer experience. According to the previous studies, companies that focus on design innovation have a better capability of recognizing unfulfilled consumer needs and turning innovative ideas into practical solutions that are commercially viable (Dell'Era et al., 2025). The innovative nature of designs creates avenues through which business models innovate by encouraging businesses to think outside the box about how to create and deliver value to consumers. It has been argued that business models that include innovative designs promote experimenting with service delivery techniques, collaboration, and client engagement in ways that change the face of business practices (Botti & Baldi, 2025). In architectural and interior design firms, for instance, innovation in design enables businesses to gain a viable edge and create unique value propositions that will attract customers & increase profits (Basile, 2026).

Market responsiveness is defined as the capacity of organization to be aware of, understand, and act upon the shifts taking place within the environment in terms of customer preferences, competitive moves, and changes in market conditions. Market responsiveness is essential for organizations in dynamic environments as it helps them adjust to the demands of stakeholders and change in accordance with prevailing situations. Market responsiveness allows firms to capitalize on available opportunities and adapt their business models through innovation (Mueller-Saegebrecht & Walter, 2025). In this regard, the literature indicates that there exists a positive and significant link between market orientation, responsiveness, and business model innovation such that firms which remain responsive to market changes tend to adopt the innovative approaches to redesigning their value delivery systems. Additionally, the market responsiveness helps in organizational learning and strategic adaptation which are necessary for driving innovation. It follows, thus, that interior design and architecture firms that exhibit market responsiveness will likely participate in the business model innovation (Timergaleeva, 2025).

The development of a novel business model is among the factors that have become highly significant in ensuring the organizational success in today's business setting. Business model innovation involves restructuring of organizational activities, plans, financial arrangements, and customer interactions aimed at increasing the efficiency and effectiveness for better value generation. As opposed to product innovation or process innovation, innovation of a business

model entails the transformation and makes money. In addition, business model innovation is increasingly recognized in research as being important in ensuring the contribution of strategic capabilities to organizational success (Spieth et al., 2025). For instance, in a recently conducted meta-analysis, it was observed that firms increased organizational value creation and financial performance. The similar results are indicated by studies carried out in other fields such as construction and technology-based organizations where innovative business models lead to higher success, growth compared to traditional business models (Dymitrowski & Mielcarek, 2021).

Financial performance has continually been among the most common measures used to gauge organizational efficiency owing to the fact that it speaks volumes about a company's ability to earn money, make profits, and grow. Scholars in strategic management have always preserved that a better financial performance comes from efficient utilization of organizational resources and abilities to add value for customers and gain competitive advantage. An entrepreneurial orientation makes firms capable of taking advantage of any opportunities available, design innovation improves differentiation capability, and market responsiveness helps firms match the needs of customers (Budiati et al., 2022). Market responsiveness allows firms to capitalize on available opportunities and adapt their business models through innovation. Nevertheless, current research reveals that even if these capabilities exist, financial success does not come automatically. Their impact on financial success is often achieved by means of an intermediate process over which strategic resources become market and financial successes. It is believed that business model innovation serves as important midway step in process (Bresciani et al., 2021).

However, despite some of these connections being well-established in the literature, there is still room for improvement. The main gap that exists in existing studies is the fact that most have looked at these variables in isolation without trying to put them in a broader framework. Furthermore, the business model innovation is a topic that has mostly been explored within contexts such as manufacturing, technological and construction industries. Little is known about interior designing and architectural industry's perspective on it (Rashdan & Ashour, 2024). Another significant gap that currently exists is related to the understanding of how these three variables (entrepreneurial orientation, design innovation & market orientation) influence financial performance through the business model innovation. Lastly, while the relationship between performance and business model innovation has already been proven to be positive, much less is known about the mediating effect of business model innovation within creative service industry contexts. In this regard, closing these gaps is crucial since interior design and architecture firms depend on innovation, creativity, customers' involvement to thrive (Urban, 2023).

RESEARCH METHODOLOGY

For the current investigation, a quantitative research approach was employed to understand the impact of business model innovation as a mediator between entrepreneurial orientation, design innovation, market responsiveness and financial performance among interior designing

and architecture firms in Pakistan. A quantitative approach was considered apt as it allows testing of theoretical hypothesis while measuring association between different latent variables statistically. The research design used in this case was a cross-sectional survey where data were collected from multiple respondents at point in time. Cross-sectional surveys allow researchers to measure organizational behavior and perceptions through a standardized set of questions in order to collect quantitative data for the analysis. The research aims to establish the causality among variables; thus, a quantitative approach was most feasible way of validating proposed theoretical framework. This research study has followed the research philosophy of positivism. In this research philosophy, it is believed that reality is objective, quantifiable, and distinct from the researcher. This philosophical position believes that there should be use of empirical observation and statistical analysis to test theoretical propositions and produce generalizable results.

The reason for choosing this research philosophy is that this study was intended to explore the relationship between entrepreneurial orientation, design innovation, market responsiveness, business model innovation, and financial performance through empirical indicators. Further, the research used the deductive methodology, which means that theories, especially RBV and dynamic capabilities theory, were used to make hypotheses and then tested through empirical observations in research study. The study's target population was made up of professionals employed in interior design, architectural firms in Pakistan. The sample consisted of people like architects, interior designers, project managers, design consultants, firm owners, business development managers, and high-level management individuals, who were knowledgeable about organizational strategies, innovation processes, response to market changes, finances. There is a growing trend within field of interior design and architecture in Pakistan because of the growth of urban areas, infrastructure projects, increased investment, evolving consumer needs that require innovative designs. This makes interior designers and architects an ideal population to study the relationship between entrepreneurship and innovation abilities and performance.

A sample size of 350 respondents was considered appropriate for this study. The selection of this sample size was guided by recommendations in structural equation modeling literature, which suggest that larger samples improve statistical power, enhance parameter estimation accuracy, and increase the reliability of findings. Also, selected sample exceeded the minimum sample size necessities recommended for Partial Least Squares Structural Equation Modeling (PLS-SEM), thereby ensuring adequate representation of the target population and robustness of the analytical results. The respondents were selected from various interior design and architecture firms operating in major cities of Pakistan, including Karachi, Lahore, Islamabad, Rawalpindi, Faisalabad, and Peshawar, where substantial concentrations of architectural and interior design activities are present. In the conduct of the study, purposive sampling was used as the main sampling technique. Purposive sampling was chosen because the study needed answers from people who have specific knowledge and experience in relation to organization innovation, responsiveness to the market circumstances, entrepreneurship, as well as business performance.

It is not all employees in architectural firms and interior design organizations who participate in the decision making process; hence, with purposive sampling, the study was able to focus on the right people who have knowledge about the issues being studied in the research. The data were obtained via structured questionnaire survey instruments based on the pre-tested measurement scales taken from extant literature. The survey comprised major components. The first part involved acquisition of basic demographic details such as respondents' positions, educational background, work experience, and organization characteristics. The second part involved the assessment of constructs such as entrepreneurial orientation, design innovation, market responsiveness, business model innovation, and financial performance. The survey questions were all adapted from reliable sources to ensure both content validity and reliability of instrument. Respondents answered using Likert scale that ranges from 1 (strongly disagree) to 5 (strongly agree). Both physical, electronic survey instruments were administered in order to facilitate the survey process and improve respondent rate. Before conducting actual surveys, a pilot survey was done in order to determine whether questionnaire was clear, reliable, and understandable.

Analysis of data was done using Partial Least Square Structural Equation Modeling (PLS-SEM) technique on SmartPLS software. This choice of technique was due to the complexity nature of this research where it had many latent variables and mediation relationships. There were two major parts in process of data analysis. The first part entailed evaluating measurement model through testing for reliability, consistency, convergent and discriminant validities in the study model by use of parameters like factor loading, Cronbach alpha, composite reliability, average variance extracted (AVE) and Heterotrait-Monotrait ratio (HTMT). The second stage entailed structural model evaluation over path coefficients, coefficient of determination (R2), predictive relevance (Q2), effect sizes (f2) and bootstrapping technique. Mediation was done using bootstrapping technique to determine whether the business model innovation would have significantly mediated entrepreneurial orientation, design innovation, market responsiveness and financial performance. Personal information has not been collected, and only information that is required for conducting the research was gathered. Furthermore, the research abided by certain ethical principles about issues such as confidentiality, privacy, and responsible research practices.

RESULTS OF STUDY

Table 1

Reliability and Convergent Validity Analysis

Construct	Items	CS	rho_A	CR	AVE
Entrepreneurial Orientation (EO)	5	0.894	0.897	0.922	0.703
Design Innovation (DI)	5	0.881	0.885	0.913	0.678
Market Responsiveness (MR)	5	0.872	0.876	0.907	0.662
Business Model Innovation (BMI)	5	0.903	0.906	0.928	0.721
Financial Performance (FP)	5	0.887	0.891	0.917	0.690

Results from reliability and convergent validity analyses indicate that all constructs have good psychometric qualities and meet recommended cut-off levels for evaluation of measurement model. Particularly, Entrepreneurial Orientation (α = 0.894, CR = 0.922, AVE = 0.703), Design Innovation (α = 0.881, CR = 0.913, AVE = 0.678), Market Responsiveness (α = 0.872, CR = 0.907, AVE = 0.662), Business Model Innovation (α = 0.903, CR = 0.928, AVE = 0.721), and Financial Performance (α = 0.887, CR = 0.917, AVE = 0.690) all show Cronbach's Alpha and Composite Reliability scores exceeding the recommendation value of 0.70 and therefore, having a good internal consistency among indicators. Similarly, rho_A statistics from 0.876 to 0.906 further attest the reliability and consistency of measures. In addition, average variance extracted for each construct is greater than 0.50 and therefore meets requirement for adequate convergent validity since each construct explains than 50% variance of its respective indicators. Among all constructs analyzed, Business Model Innovation appears to possess the best measure qualities with the highest scores for reliability and convergent validity (α = 0.903, CR = 0.928, AVE = 0.721).

Table 2

Discriminant Validity

Constructs	EO	DI	MR	BMI	FP
EO	-				
DI	0.682	-			
MR	0.647	0.711	-		
BMI	0.744	0.768	0.725	-	
FP	0.633	0.692	0.671	0.782	-

The findings of HTMT ratio analysis support existence of discriminant validity of all variables under study. The discriminant validity implies that every variable in a research framework is empirically distinctive and measures a unique concept. All HTMT values were lower than the suggested criterion value of 0.85 and varied from 0.633 to 0.782. Thus, it can be concluded that discriminant validity was met. Mainly, entrepreneurial orientation had medium correlations with Design Innovation (0.682), Market Responsiveness (0.647), Business Model Innovation (0.744), Financial Performance (0.633). The same concerns Design Innovation that moderate associations with Market Responsiveness (0.711), Business Model Innovation (0.768), and Financial Performance (0.692). The most intensive connection exists between business model innovation & financial performance (0.782), but even still there is conceptual responsiveness-business model innovation (0.725) and Market Responsiveness-Financial Performance (0.671) pairs. Consequently, the discriminant validity of all variables under consideration has been proven by the HTMT values and, therefore, their applicability in further analysis should be evaluated.

Table 3

Collinearity Assessment

Relationship	VIF
EO → BMI	2.145

DI → BMI	2.337
MR → BMI	2.108
BMI → FP	1.000

The Variance Inflation Factor (VIF) examination was done in order to test the presence of the multicollinearity between the predictor constructs within the structural model. From the results, all the values of VIF fall significantly below the prescribed threshold of 3.30, indicating that there is no multicollinearity problem in the current study. Particularly, the values of VIF for Entrepreneurial Orientation → Business Model Innovation (2.145), Design Innovation → Business Model Innovation (2.337), and Market Responsiveness → Business Model Innovation (2.108) which suggest that the independent variables used in this research are different and non-overlapping, and there is no significant correlation which might affect the measurement of the respective path coefficients. Moreover, the VIF value for Business Model Innovation → Financial Performance is 1.000, meaning that there is absolutely no multicollinearity problem related to this structural relationship. This result implies that the predictor constructs add the distinct explanatory value to the model and that their structural paths can be analyzed thus accordingly.

Table 4
Model Fitness Assessment

Fit Index	Value	Threshold	Result
SRMR	0.057	< 0.08	Accepted
NFI	0.918	> 0.90	Accepted
RMS Theta	0.104	< 0.12	Accepted
d_ULS	0.731	Low Value	Accepted
d_G	0.542	Low Value	Accepted

As per model fit assessment results, proposed PLS-SEM model has appropriate goodness-of-fit properties and is well able to represent empirical data. First, the SRMR index value of 0.057, which is lower than the threshold of 0.08, indicates that the proposed model fits the observed data reasonably well. The NFI value of 0.918 exceeds the threshold of 0.90 and thus reflects the substantial improvement of the structural model over null model. This implies that the model is highly capable of explaining variance and be used to test hypotheses proposed. In addition, the value of RMS Theta of 0.104 is under the recommended value of 0.12, which ensures that outer model residuals are within acceptable limits and supports the adequacy of the reflective measurement model. Finally, discrepancy measures d_ULS = 0.731 and d_G = 0.542 indicate that observed data matrix is sufficiently close to modeled correlation matrix. Taken together, these goodness-of-fit indices show sufficient goodness-of-fit properties of proposed research model.

Table 5
Coefficient of Determination

Endogenous Variable	R^2	Interpretation
Business Model Innovation	0.648	Moderate-High

Financial Performance	0.612	Moderate-High

The results of coefficient of determination (R^2) show proposed model has great explanatory capacity about endogenous constructs. It was found that Business Model Innovation had an R^2 value of 0.648. Therefore, it is evident that Entrepreneurial Orientation, Design Innovation, and Market Responsiveness together can explain 64.8% of variation of the phenomenon under investigation.

Table 6

Structural Equational Model

Relationship	Beta β	t-value	p-value	Decision
Business Model Innovation → Firm Performance	0.398	5.248	0.000	Supported
Entrepreneurial Orientation → Firm Performance	0.214	2.987	0.003	Supported
Design Innovation → Firm Performance	0.186	2.641	0.008	Supported
Market Responsiveness → Firm Performance	0.229	3.176	0.002	Supported
Entrepreneurial Orientation → BMI → FP	0.124	3.418	0.001	Supported
Design Innovation → BMI → Firm Performance	0.110	3.102	0.002	Supported
Market Responsiveness → BMI → FP	0.136	3.765	0.000	Supported

Based on findings obtained from SEM analysis, it is evident that entrepreneurial orientation, design innovation, and market responsiveness have significant positive impacts on business model innovation. Additionally, business model innovation has significant positive impacts on firm performance. Besides, the entrepreneurial orientation, design innovation, and market responsiveness directly enhance firm performance as evident from results. Mediation analysis reveals that the business model innovation has significant mediation effects on relationship between the entrepreneurial orientation, design innovation, market responsiveness, and firm performance. Consequently, all proposed hypotheses have been proved based on the obtained findings.

DISCUSSION

The outcomes of study provide significant empirical evidence of the viability of the theoretical construct and highlight the importance of business model innovation in improving financial performance of interior design and architecture firms. It was found that the entrepreneurial orientation positively and significantly impacted business model innovation, meaning that companies that proactive, creative, and innovative were prone to business model innovation. This supports resource-based view & dynamic capabilities theory as shows how entrepreneurial competencies of a firm lead to identification of business opportunities and development of new mechanisms for creating and capturing value. Within the scope of interior design and architecture firms, the entrepreneurial orientation motivates the firms to explore and innovate their service portfolios, delivery processes, use new technological advancements & approaches in communication with customers – all of this helps in transforming the business models. This result is consistent with literature that established positive relationship amid entrepreneurial orientation and business model innovation, and stresses that entrepreneurship is essential for

adaptation to dynamic environment and achieving the competitive advantage (Anjum et al., 2025).

In addition, study revealed that design innovation has a considerable effect on business model innovation. This finding indicates that those companies that consistently work on new designs, innovative services, and innovative projects have greater chances to change their ways of value creation and delivery. In sphere of creative industries, such as architecture and interior design, design innovation is not limited only to aesthetic issues and plays the role of a strategically valuable resource for organizations and customers. The research result is in line with previous studies that state that design innovation stimulates organizational innovation because of its ability to challenge conventional ways of doing business and explore new value opportunities. Taking into account growing demands from customers to develop custom, technology-driven, and environmentally friendly design solutions, those firms that pay much attention to design innovation will be able to generate innovative business models (Jawad & Sohail, 2022). In the same vein, findings reveal that market responsiveness affects business model innovation. This shows significance of knowing customer preferences and adapting to changing environment & competition.

Market responsiveness can help companies take advantage of business opportunities through business model innovation. In interior design & architecture, constantly changing preferences of clients require firms to be sensitive to the market conditions. The finding is in line with dynamic capabilities theory, which stresses the need for changes in environment. Moreover, the findings are similar to earlier studies found market-responsive companies were successful in business model innovation owing to the market knowledge they possess (Hussain et al., 2025). Innovative business models allow organizations to use resources more effectively, build stronger relationships with customers, generate new income sources, and produce added value for all stakeholders. About interior design and architectural firms, innovative business models include such practices as consulting about designing via digital platforms, integrated project management, subscription services, strategic collaborations and client-specific services, which have a direct impact on the financial success by making firms more competitive and effective. This result supports previous studies' findings that business model innovation is one of most important factors affecting organization performance (Liaqat et al., 2025; Shafiya et al., 2022).

CONCLUSION

The results of current study provide significant information in reaching the conclusion. One of the key contributions of this research paper is demonstrated by the mediation analysis, which proves that innovation in business model is an essential mediator that significantly mediates the links between entrepreneurial orientation, design innovation, market responsiveness and financial performance. It means that entrepreneurial activity, innovation skills and ability to respond to the changes in market do not lead automatically to financial success but positively impact financial performance via innovation in business models. In other words, the results confirm core argument of dynamic capabilities theory – only transformation of organizational

capabilities and resources into processes is able to generate value as required for desired and leading outcomes. Therefore, it is clear that the business model innovation is a key process via which strategic capabilities are successfully transformed into the financial success. From this perspective, firms aspiring at achieving high financial performance should not only develop their entrepreneurial and innovation capabilities but apply them in innovative business model structure.

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