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Market Orientation of Moroccan SME Managers and Performance: Does Innovation Capability Matter?

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Abstract

Although previous studies have established a positive relationship between market orientation (MO), innovation capabilities (IC), and SME performance, the specific context of Moroccan SMEs remains underexplored. This study aims to examine how MO and IC interact to enhance the performance of Moroccan SMEs. A quantitative survey was conducted among 84 SME managers operating in various sectors. Data analysis was performed using the Partial Least Squares Structural Equation Modeling (PLS-SEM) method via SmartPLS 4. The results indicate that MO has a positive and direct effect on the performance of Moroccan SMEs. Additionally, IC play a partial mediating role in this relationship. The theoretical and practical implications of these findings provide concrete guidance for SME managers and policymakers, highlighting the strategic importance of strengthening MO and enhancing IC to foster sustainable SME performance in Morocco.

Keywords: *Market Orientation, Innovation Capabilities, SME Performance, Moroccan Smes.*

Introduction

Small and medium-sized enterprises (SMEs) play a crucial role in the Moroccan economy, contributing significantly to job creation, economic diversification, and the reduction of social and regional inequalities ((OMTPME), 2021; Allammari et al., 2024). Representing over 90% of the country's entrepreneurial fabric, SMEs are an essential pillar of both local and national development (Belbachir, 2022). However, Moroccan SMEs face numerous challenges such as increased competition, rapid technological advancements, global economic fluctuations, and growing demands for sustainability and social responsibility (ALLAMMARI et al., 2024; Zouiri & Bennani, 2019). These challenges can impact their overall performance, sometimes placing them in difficulty in an increasingly complex economic environment. In response to this reality, it becomes crucial to reconsider traditional management systems and adopt innovative strategies that allow SMEs to better adapt to their environment and face these challenges more effectively (ALLAMMARI et al., 2023).

Recent academic literature highlights the importance of market orientation as a strategic lever for SMEs to overcome the external challenges they face (Cheng et al., 2025; Hikmah et al., 2024; Oberoi & Naoui-Outini, 2024). By adopting a MO approach, SMEs are better able to understand consumer needs and expectations and identify innovation opportunities. This approach enables them to develop innovation capabilities that align with market demands, which becomes a key factor in improving their competitiveness (Aydin & Alniacik, 2024; Kolbe et al., 2022). Indeed, strong MO enhances the responsiveness of SMEs to environmental changes and allows them to quickly adjust their strategies, thereby achieving superior performance compared to businesses less attuned to market dynamics (Hikmah et al., 2024).

MO, as defined by Narver & Slater (1990), encompasses three key dimensions: customer orientation, competitor orientation, and interfunctional coordination. Customer orientation refers to the company's ability to understand and meet consumer needs and expectations (Brown et al., 2002). Competitor orientation refers to the attention given to analyzing competitors' actions in order to make relevant strategic decisions (Schulze et al., 2022). Finally, interfunctional coordination emphasizes the importance of

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collaboration between various functions within the company, such as marketing, production, and research and development, to ensure a coherent and effective response to market demands (Mathafena & Msimango-Galawe, 2023). As for IC, they refer to a company's ability to generate new ideas, transform them into new products or services, and adapt to technological innovations (Ferreira et al., 2020; Pufal & Zawislak, 2022; YuSheng & Ibrahim, 2020). These capabilities are crucial for enabling SMEs to adjust to market developments and maintain sustainable performance in the face of environmental challenges (Le & Lei, 2019).

Although many studies have highlighted the links between MO, IC, and SME performance, there remains a lack of research on how these two concepts specifically interact in the context of Moroccan SMEs. Most existing research focuses on more developed contexts or specific industries, leaving a gap regarding the peculiarities of the Moroccan market. In particular, the understanding of how MO can directly influence IC and, consequently, the performance of Moroccan SMEs, remains insufficient. This study aims to fill this gap by exploring the interaction between MO and IC and assessing their impact on the performance of SMEs in the specific context of Morocco, a developing country facing unique challenges in terms of innovation and competitiveness.

To achieve the objectives of this study, the following research questions will be addressed:

RQ1: Does MO directly impact the performance of Moroccan SMEs?

RQ2: Does MO foster the development of IC in Moroccan SMEs?

RQ3: Do IC impact the performance of Moroccan SMEs?

RQ4: Do IC mediate the relationship between MO and the performance of Moroccan SMEs?

To answer these research questions, this article will be structured as follows: first, a literature review will be conducted to formulate the hypotheses and conceptual model of the study. Then, the methodology used for data collection and analysis will be detailed. The results will then be presented, followed by their discussion. Finally, a section will be included for the conclusions, contributions, limitations, and perspectives for future research.

Literature Review

In the literature review, we will explore the theoretical foundations and empirical studies related to market orientation, innovation capabilities, and SME performance. The aim is to provide a comprehensive overview of the key concepts and how they interrelate.

The Relationship Between Market Orientation and SME Performance: The Resource-Based View

In this study, we rely on the Resource-Based View (RBV) developed by Barney (1991) to explain how market orientation (MO) can be perceived as a strategic resource for Moroccan SMEs. According to this theory, a firm's unique and distinctive resources form the basis for its sustainable competitive advantage. Market orientation, which includes a deep understanding of customer needs, the ability to monitor competitors' actions, and interfunctional coordination, can be considered a strategic resource (Torres et al., 2022). It enables SMEs to adapt and effectively respond to market demands. A well-market-oriented SME is able to capture valuable information and transform it into strategic actions that foster innovation and competitiveness, ultimately leading to improved performance (Schulze et al., 2022).

Recent studies have emphasized that MO plays a key role in improving firm performance, regardless of the industry or context. For instance Cheng et al. (2025), in a study involving 303 Chinese SMEs across industrial, agricultural, and service sectors, demonstrated that MO positively influences performance, though this effect is moderated by environmental uncertainty. Similarly, Derbe et al. (2024), in the context of small tomato producers in Ethiopia, found that MO significantly improves market performance,

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particularly when key resources such as access to credit and improved seeds are mobilized. Additionally, Akintola et al. (2024), in a study involving 286 executives from major telecommunications operators in Nigeria, showed that specific dimensions of MO, such as interfunctional coordination and customer orientation, have a significant influence on organizational performance, confirming the relevance of MO across different competitive environments.

Hypothesis H1: Market orientation has a positive and direct impact on the performance of Moroccan SMEs.

The Mediating Role of Innovation Capability: The Dynamic Capabilities Theory

According to Teece et al. (1997), simply possessing strategic resources is not enough to guarantee or sustain high performance, especially in dynamic and uncertain environments. In fact, in ever-evolving markets, the ability to rapidly adapt to changes is essential. This is where Dynamic Capabilities Theory comes into play, highlighting the need for firms to possess specific competencies that enable them to adjust and reorganize their resources in response to market changes (Teece et al., 1997). Dynamic capabilities allow an SME to remain competitive by being able to quickly adapt, identify new opportunities, and overcome external threats. In this context, innovation capability plays a crucial role as a dynamic capability because it allows the SME to reinvent itself and innovate in response to market challenges. By improving its innovation capabilities, an SME strengthens its dynamic capabilities, thus enabling it to maintain performance in an increasingly competitive and uncertain economic environment.

Innovation capability plays a key mediating role in the relationship between market orientation (MO) and SME performance by allowing firms to better exploit market opportunities and respond more agilely to consumer needs (Elgarhy & Abou-Shouk, 2023; Keskin, 2006). A strong innovation capability enables SMEs to quickly adapt their products and services based on market insights, thus improving their competitiveness. When MO is combined with robust innovation capability, it fosters the introduction of new ideas and solutions, leading to performance improvements, both in terms of internal efficiency and access to new markets (Naheed, 2018; Ozgul et al., 2023). Consequently, innovation capability facilitates the integration of market information into decision-making processes, thereby strengthening the effects of MO on SME performance, particularly in terms of exports or competitive advantage (Huhtala et al., 2014).

The literature on the mediating role of innovation capability in the relationship between market orientation (MO) and SME performance shows mixed results. For example, Ozgul et al. (2023), in a study of 739 SMEs in Turkey, demonstrated that innovation capability plays a significant mediating role between MO and firm performance, emphasizing the importance of innovation in improving SME performance. In Finland, Huhtala et al. (2014) studied companies over two distinct economic periods (growth in 2008 and recession in 2010) and found that innovation capability played a total mediating role in the relationship between MO and performance during the growth period, but only partially during a recession, highlighting the importance of innovation depending on the economic cycle. Similarly, Zehir et al. (2015), in a study of 474 owners and managers of SMEs operating in the manufacturing sector in Turkey, found that innovation capability exerted a partial mediating effect between MO and export performance. This result shows that SMEs can enhance their competitive advantage by improving their market-driven innovation capability. Finally, Yu & Liu (2015), in a study of 155 SMEs in Mexico, found that innovation capability and reactive market orientation are key factors for the export performance of Latin American SMEs. The study also revealed that proactive market orientation has an indirect effect on export performance, underscoring the importance of developing innovation capabilities and adapting to customer needs to improve SMEs' international outcomes.

Hypothesis H2: Innovation capability partially mediates the relationship between market orientation and the performance of Moroccan SMEs.

Hypothesis H2a: Proactive market orientation has a direct positive effect on the performance of Moroccan SMEs.

Hypothesis H2b: Innovation capability has a direct positive effect on the performance of Moroccan SMEs.

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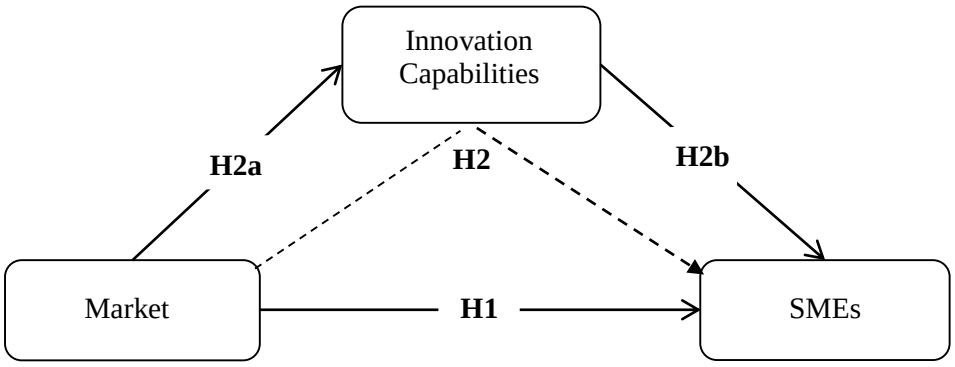

Figure N° 1. Research Conceptual Model

Methodology

Data Collection

Data for this study were collected through an online survey targeting SMEs operating in various sectors such as manufacturing, agriculture, and services. The participant selection process was based on a non-probability convenience sampling method, where respondents were chosen based on their availability and willingness to participate. A structured questionnaire was designed to gather information on market orientation, innovation capabilities, and business performance. The respondents were owners, managers, or executives of small to medium-sized enterprises, defined based on revenue and employee count following the criteria of BANK AL MAGHREB and the OMTPME (2021). In total, 84 SMEs made up the final sample. The questionnaire was administered via a secure online platform, ensuring the anonymity and confidentiality of the responses.

Measurement of Variables

The variables in this study were measured using widely recognized and validated scales from the academic literature. Market orientation (MO) was measured using the model by Narver and Slater (1990), which distinguishes three key dimensions: customer orientation (5 items), competitive orientation (3 items), and interfunctional coordination (4 items). Innovation capabilities were assessed with six items based on the works of Keskin (2006) and Lin et al., (2008). As for SME performance, it was measured using six items based on a model that incorporates financial indicators (sales growth, profitability), commercial indicators (market share, brand awareness), and relational indicators (customer satisfaction, customer base growth), in line with the approaches proposed by Keskin, 2006, Narver & Slater, 1990 and Venkatraman & Ramanujam, 1986). All variables were assessed using 5-point Likert scales, ranging from "strongly disagree" to "strongly agree," allowing for precise and comparable data for subsequent analysis.

Results

Data analysis was performed using Structural Equation Modeling (SEM) with SmartPLS 4.0 software to test the hypothetical relationships between variables and validate the formulated hypotheses. First, a preliminary analysis ensured the validity and reliability of the measurement instruments, with convergent validity indices: reliability coefficients (CR), Cronbach's alpha, and average variance extracted (AVE) meeting the criteria recommended in the literature. (Chin, 1998; J. F. Hair et al., 2019). Then, tests for direct effects and mediation were conducted to evaluate the mediating role of innovation capabilities in the relationship between market orientation and SME performance.

Evaluation of the Measurement Model

In this section, we evaluate the quality of the measurement model by examining the reliability and validity of the latent variables used in our study. This step is crucial to ensure that the measurement instruments

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are appropriate and adequately capture the underlying theoretical concepts of the variables being studied (J. Hair et al., 2017). We will specifically assess the internal reliability, convergent validity, and discriminant validity of the measures used (Table 1 and figure 1).

Table 1. Values of Reliability and Convergent Validity Indicators.

Constructs	Items	Loading	Cronbach's alpha	Composite reliability	AVE
Customer Orientation	CO1	0.792	0.846	0.848	0.620
	CO2	0.826			
	CO3	0.823			
	CO4	0.764			
	CO5	0.727			
Competitor Orientation	CPO1	0.864	0.842	0.843	0.760
	CPO2	0.878			
	CPO3	0.873			
Interfunctional	IFC1	0.851	0.809	0.813	0.637
	IFC2	0.782			
	IFC3	0.807			
	IFC4	0.749			
	IC1	0.856			
	IC2	0.838			
Innovation Capabilities	IC3	0.874	0.894	0.903	0.656
	IC4	0.802			
	IC5	0.718			
	IC6	0.761			
SMEs Performance	P1	0.757	0.874	0.879	0.615
	P2	0.816			
	P3	0.843			
	P4	0.708			
	P5	0.768			
	P6	0.805			

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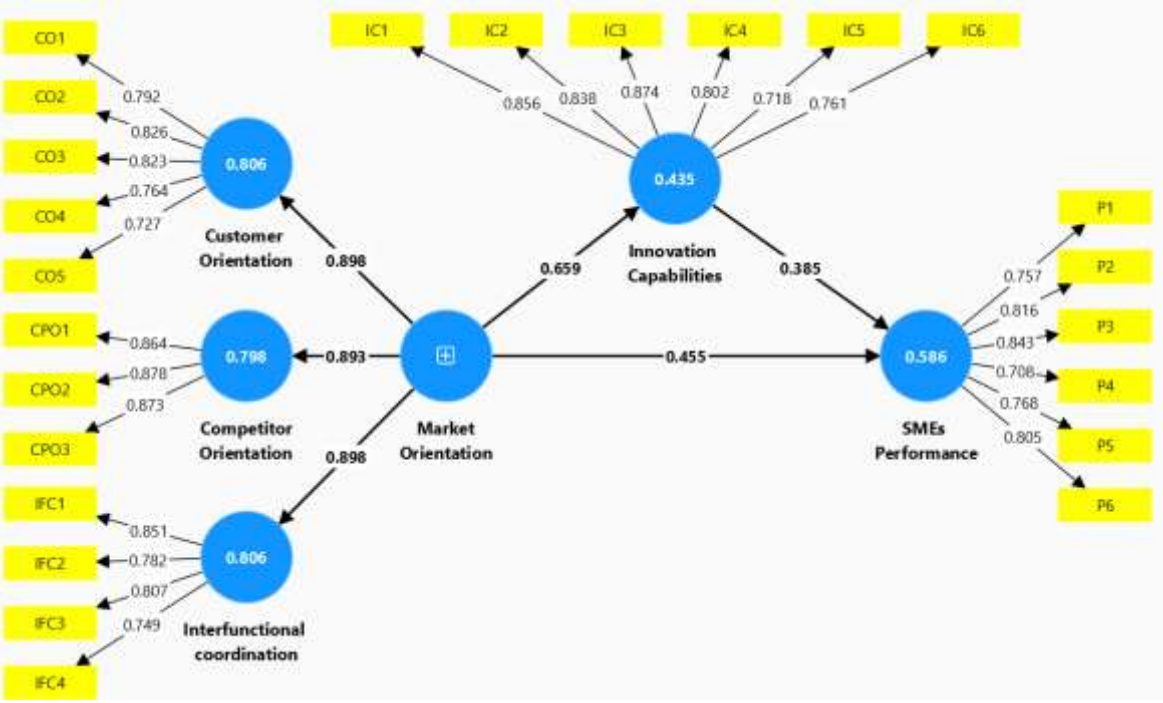

Figure 2. Path Execution Results on Smart-PLS

The results of the measurement model evaluation show satisfactory reliability and convergent validity. The item loadings are above 0.7, indicating a good representation of the constructs. The Cronbach's alpha values (ranging from 0.809 to 0.894) and composite reliability values (ranging from 0.848 to 0.903) confirm the internal reliability of the measures. Additionally, the AVE values (ranging from 0.615 to 0.760) are above the threshold of 0.5, indicating acceptable convergent validity for the latent variables.

For discriminant validity, the Fornell & Larcker (1981) criterion was adopted, which states that a latent variable should have an AVE (Average Variance Extracted) greater than its correlations with other latent variables. The results obtained are presented in Table 2

Table 2. Discriminant Validity

	CPO	CO	IC	IFC	P
CPO	0.872				
CO	0.691	0.787			
IC	0.547	0.570	0.810		
IFC	0.758	0.675	0.650	0.798	
P	0.583	0.685	0.685	0.621	**0.784**

Notes: CPO: Competitor Orientation, CO: Customer Orientation, IC: Innovation Capabilities, IFC: Interfunctional Coordination, P: SMEs Performance.

The results of discriminant validity, obtained using the Fornell-Larcker criterion, show that the square root of the AVE for each construct is higher than its correlations with other constructs. This indicates satisfactory discriminant validity for all constructs in the model. For example, for competitive orientation (CPO), the square root of the AVE (0.872) is much higher than its correlations with customer orientation (CO) and interfunctional coordination (IFC). Similarly, all other constructs meet this rule, thereby confirming the quality of the discriminant validity in this model.

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Evaluation of the Structural Model

To evaluate the structural model, we analyzed quality indices such as R^2, Q^2, and f^2 following Hair et al. (2019) recommendations. These metrics allow for examining explanatory relevance, predictive power, and the effect of relationships between the variables in the model. The results obtained from these tests are presented in Table 3 below.

Table 3. R^2, Q^2, and f^2 Metrics

Constructs	R^2	Q^2predict	Links	f^2	Interpretation
IC	0.428	0,270	MO -> Performance	0.283	Small
Performance	0.576	0,381	MO-> IC	0.770	Large
			IC -> Performance	0.203	Small

The results of the R^2, Q^2, and f^2 metrics provide interesting indicators for evaluating the quality of the structural model. Indeed, the R^2 reveals that MO explains 42.8% of the variance in IC, thus exceeding the significant threshold of 0.26 (Cohen, 1988; Croutsche, 2002). Furthermore, MO and IC together explain 57.6% of the variance in performance, a substantial result. Regarding effect size (f^2), the relationships MO → Performance (0.283) and IC → Performance (0.203) show weak effects, while the relationship MO → IC (0.770) reflects a strong effect, in line with Cohen's (1988) thresholds. Finally, the Q^2 indicator, which assesses predictive relevance, shows positive values for IC (0.270) and Performance (0.381), indicating a strong predictive capability of the model (Geisser, 1974)

The hypothesis testing was conducted in two stages: first, the evaluation of the direct effects between MO, IC, and SME performance (Table 4), followed by the mediation effect test (Table 5).

Table 4. Direct Effects

Direct effects	Original Sample	Sample Mean	Standard Deviation	T Statistics (O/STDEV)	P Values	Validation
H_1: MO → SMEs Performance	0.455	0.437	0.135	3.378	0.001	Accepted
H_{2a}: MO → IC	0.659	0.666	0.092	7.164	0.000	Accepted
H_{2b}: IC → SMEs Performance	0.385	0.406	0.148	2.612	0.009	Accepted

The results of the direct effects, presented in Table 4, show significant effects. Hypothesis H1, which suggests that MO positively influences SME performance, was validated with a coefficient of 0.455 and a p-value less than 0.01. Additionally, hypotheses H_{2a} and H_{2b}, which concern the effect of MO on IC and the impact of IC on SME performance, were also confirmed with coefficients of 0.659 and 0.385, and p-values less than 0.01. These results validate the key role of market orientation and innovation capability in improving SME performance.

Table 5. Mediation Effect

		Original Sample	Standard deviation	T statistics (|O/STDEV|)	values	Confidence intervals (2.5% - 97.5%)
Total Effect	MO→ SMEs Performance	0.709	0.074	9.561	0.000	0.543-0.835
Direct Effect	MO → SMEs Performance	0.455	0.135	3.378	0.001	0.166-0.679
Indirect Effect	MO→ IC→ Performance	0.254	0.116	2.183	0.029	0.088 -0.533

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The results of the mediation test, presented in Table 5, show that the total effect of MO on SME performance is significant, with a coefficient of 0.709 and a p-value less than 0.001, indicating a strong relationship between MO and SME performance. When analyzing the direct and indirect effects, we observe that the direct effect of MO on SME performance is also significant (0.455, $p < 0.001$). Moreover, the indirect effect, where IC acts as a mediator, is also significant with a coefficient of 0.254 and a p-value of 0.029, confirming that innovation acts as a partial mediator in the relationship between MO and SME performance. The confidence intervals (2.5% - 97.5%) for the indirect effect do not contain zero, which supports the validity of the mediation. These results confirm the importance of innovation capability in the mediation mechanism between market orientation and SME performance.

Discussion

The main objective of this study was to examine the mediating role of innovation capability in the relationship between MO and SME performance. Specifically, the study aimed to analyze how IC could influence the effect of MO on SME performance in the context of Moroccan SMEs. Hypothesis H1, which posits that MO has a positive effect on SME performance, was confirmed, with a significant direct effect of 0.455. This result aligns with several previous studies, including those by Akintola et al. (2024), Bamfo & Kraa (2019), D'souza et al. (2022), Derbe et al. (2024), Hikmah et al. (2024), Ho et al. (2018), Lekmat et al. (2018), Naheed (2018); Oduro & Haylemariam (2019), Ozgul et al. (2023) and Powers et al. (2024). Thus, the study showed that, in the Moroccan context, SMEs that adopt measures to monitor customer satisfaction, respond to their expectations, and observe competitors' strategies are better positioned to improve their overall performance. These findings confirm the strategic importance of market orientation as a performance lever for companies operating in dynamic and competitive environments.

Another significant conclusion drawn from this study is the confirmation of Hypothesis H2a, which suggests that MO positively influences the IC of Moroccan SMEs. This result is consistent with the findings of researchers such as D'souza et al. (2022) and Keskin (2006). This observation highlights that SMEs that adopt a MO approach are better positioned to leverage information about customer needs and market trends, thereby fostering the development of IC. It confirms that MO acts as a catalyst for innovation, enabling companies to enhance their offerings and maintain competitiveness.

The study also validated Hypothesis H_{2b}, which asserts that IC positively affects the performance of Moroccan SMEs. This result is in line with conclusions from studies such as those by Pufal & Zawislak (2022), Rajapathirana & Hui (2018) and YuSheng & Ibrahim (2020), which demonstrated the central role of innovation in improving organizational performance. These findings emphasize that SMEs with strong innovation capabilities are better equipped to develop innovative solutions, respond effectively to market demands, and stand out from the competition, thereby contributing directly to their overall performance.

Finally, the study confirmed Mediation Hypothesis H2, which posits that IC plays a mediating role in the relationship between MO and SME performance. The results showed a significant mediating effect, suggesting that the impact of MO on SME performance is partially transmitted through their ability to innovate. These conclusions are consistent with the work of Ozgul et al. (2023), which also highlighted the importance of innovation as a strategic lever in maximizing the benefits of MO. This demonstrates that MO, when coupled with enhanced IC, can enable SMEs to develop differentiated solutions, strengthen their market competitiveness, and achieve high performance.

Conclusions, Contributions, Limitations and Perspectives

This study highlighted the central role of market orientation and innovation capability in improving the performance of Moroccan SMEs. The results show that MO has a significant direct effect on SME performance, while also positively influencing their IC. Moreover, IC plays a partial mediating role, confirming that it is a crucial mechanism for maximizing the impact of MO on performance. These findings underscore the importance for Moroccan SMEs to combine a market-oriented approach with sustained innovation efforts to improve their competitiveness.

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Contributions

This research makes significant contributions to the existing literature by exploring the mediating role of innovation capability in the relationship between market orientation and SME performance. By confirming this mediation, the study enhances the understanding of the mechanisms through which MO influences performance, highlighting the strategic importance of innovation as a lever. It offers a new perspective, particularly in the context of emerging economies, where this topic remains underexplored.

By situating the analysis within the Moroccan context, this research fills an important gap in studies on SMEs in developing countries. It validates theoretical models developed in other contexts while emphasizing local cultural and economic specifics. The findings thus reinforce the relevance of the concepts of MO and IC for improving SME competitiveness, even in less stable economic environments.

From a practical standpoint, this study provides clear guidance to managers of Moroccan SMEs. It emphasizes the need to develop market-oriented strategies while investing in innovation capabilities to improve performance. These results may also guide policymakers in the development of tailored support programs that foster both innovation and better MO, both locally and internationally.

Limitations

However, this research has certain limitations. First, the convenience sampling method limits the generalization of the results to all Moroccan SMEs. Additionally, the final sample, consisting of 84 SMEs, remains relatively small, which could affect the robustness of the conclusions. Moreover, the data were collected at a single point in time (cross-sectional study), which does not capture the evolution of the relationships over time. Finally, contextual variables such as sector-specific features or regulatory constraints were not considered, which could nuance the results.

Perspectives

For future research, several avenues could be explored. It would be interesting to expand the sample by including SMEs from different sectors and regions of Morocco to enhance the representativeness of the results. A longitudinal study could also allow for analyzing how the relationships between MO, IC, and performance evolve over time. Furthermore, incorporating contextual factors such as digitalization, public policies, and competitive dynamics would provide a more in-depth understanding of the determinants of SME performance. Finally, international comparisons could enrich the analysis by examining whether these relationships are similar in other developing or emerging countries.

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