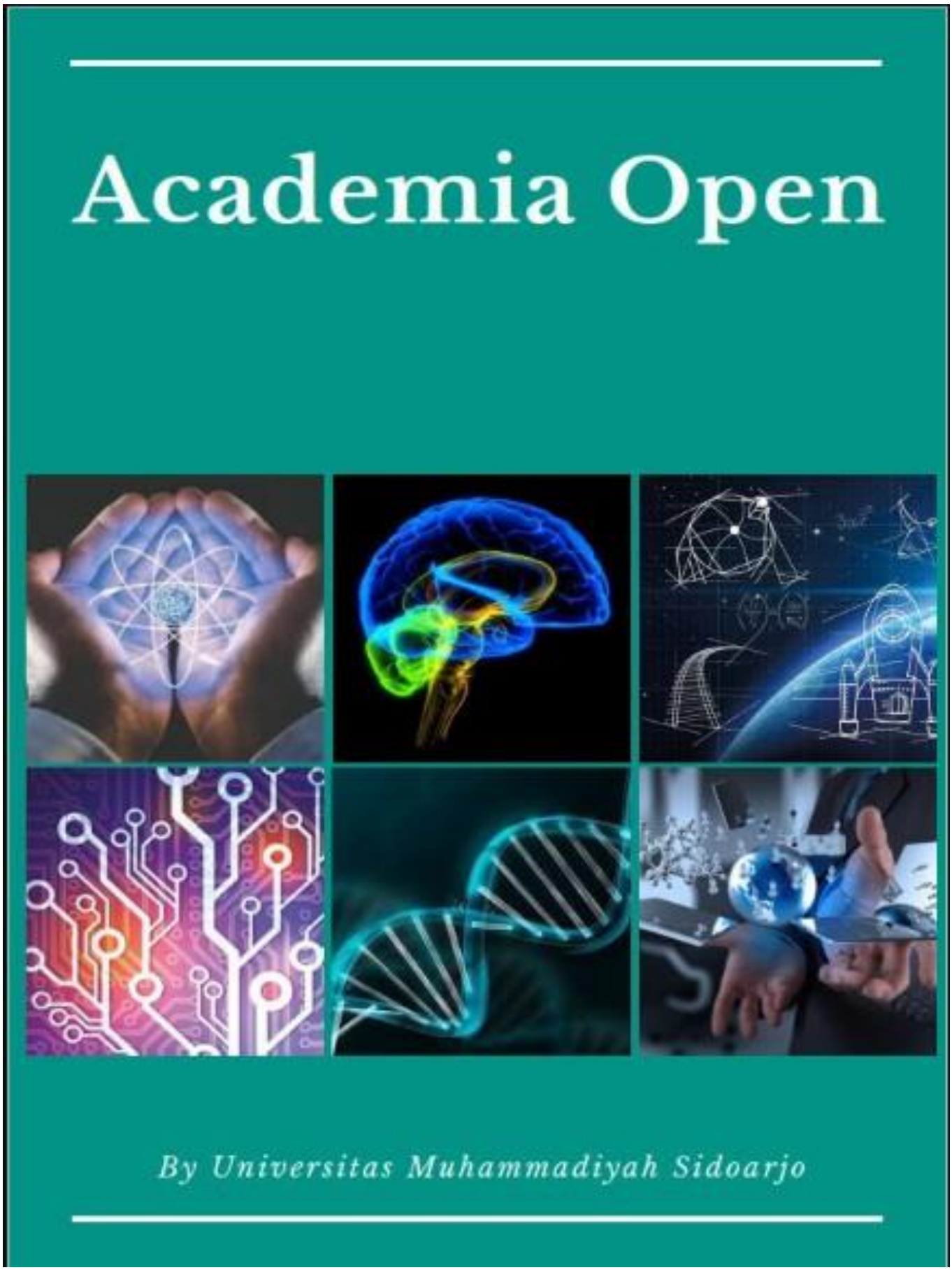
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The Impact of Strategic Orientation on SME Performance: The Mediating Role of Marketing Capabilities

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Abstract

General Background Small and medium enterprises operate across varied economic conditions where strategic postures and organizational routines shape business continuity and competitiveness. **Specific Background** This study examines small and medium enterprises in Baghdad, Iraq, focusing on market orientation, entrepreneurial orientation, marketing capabilities, and firm performance in a resource-constrained market. **Knowledge Gap** Prior studies in Iraq examine individual links among strategic orientation, marketing capabilities, and firm performance separately rather than testing the full mediated chain together in one model. **Aims** This research investigates how market orientation and entrepreneurial orientation relate to firm performance among Iraqi small and medium enterprises and tests whether marketing capabilities mediate these relationships. **Results** Based on survey data from 181 managers analyzed via regression and 5,000-sample bootstrap mediation, market orientation and entrepreneurial orientation show positive direct links with marketing capabilities and performance, while marketing capabilities mediate both orientation-performance pathways. **Novelty** This study tests the integrated orientation-capability-performance sequence within a single empirical model for small and medium enterprises in Baghdad. **Implications** Findings suggest that managers in resource-constrained markets should pair strategic postures with marketing capabilities to turn strategic intent into stronger firm outcomes.

Highlights:

- Survey data from 181 firms show positive direct links from market and entrepreneurial postures to firm outcomes and marketing routines.
- Bootstrap mediation results confirm indirect pathways through marketing routines for both strategic postures alongside significant direct effects.
- Marketing routines record the strongest unique standardized association with firm outcomes in the combined regression model.

Keywords: Strategic Orientation, Market Orientation, Entrepreneurial Orientation, Marketing Capabilities, Firm Performance

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1. Introduction

Small and medium enterprises are the economic backbone of the market economies, and are an economic footprint much larger than their physical size, and have always been a matter of interest for governments, policy makers and researchers. The reported figures of SMEs range between 95% of all businesses registered in the world and 80-85% of its total economic output and employment (Hidayati et al., 2025; Pascal & Shin, 2015). This is frequently the case, especially in developing economies, where the majority of business enterprises are micro, small and medium enterprises (SMEs) that dominate the landscape, as shown in Indonesia with 98.68% of all business enterprises being micro, small and medium, and employing 75.33% of the total workforce (Susanto et al., 2021). In addition to these overall statistics, SMEs are noted to create jobs at twice the rate of large established firms and are engines of innovation and economic dynamism, they are highly adaptive, fast-learning and responsive to change in the market which is structurally replicated by large organisation (Mohammadali & Abdulkhaliq, 2019). In Iraq, these attributes are especially important as SMEs play a key role as a buffer to reliance on oil revenues, are a major source of absorbing a large share of the unemployment population and provide a livelihood for a large portion of the population whose livelihoods are precarious (Dakhel, 2022).

But this is also put to the test with high sensitivity. It is therefore evident from survival statistics that, in Ghana, only 60% of SMEs would last beyond 5 years in operation and financial weakness and under-deployment of market orientation strategies were cited as key challenges to performance and growth (Oduro & Mensah-Williams, 2023). Such weaknesses are directly related to the competitiveness of businesses, and building and maintaining strong resources and capabilities is crucial for the continued contribution of SMEs to the national economies (Oduro & Mensah-Williams, 2023). Questions regarding the relationship between strategic dispositions and measurable performance outcomes are thus no longer abstract and theoretical, but rather of direct relevance to the sustainability of the private sector in resource-scarce economies.

Strategic orientation provides an interesting and theoretically-based explanation for the performance disparities found across SMEs. Strategic orientation can be defined as the values, principles, and strategic postures that guide a firm's operations and shape the behaviours critical to the firm's ongoing success (Yuwono et al., 2025), and as such, can best be considered as a mechanism of alignment between the firm and the competitive environment, whose effectiveness relies on the internal processes' congruence with the firm's chosen strategic position (Wilden & Gudergan, 2017). In the present study, strategic orientation is defined in two dominant and complementary aspects: market orientation and entrepreneurial orientation.

Market orientation is an organisational culture that focuses on the systematic generation and dissemination of market information, such as the information about customers, competitors, and inter-functional coordination, with the explicit aim of providing superior customer value (Kohli & Jaworski, 1990; Narver & Slater, 1990). For SMEs, it helps them react promptly and effectively to changes in market demand and is correlated with increased organisational learning and better performance results (Halim et al., 2026; Hidayati et al., 2025). Entrepreneurial orientation, however, is a strategic management disposition that influences how organizations treat innovation, proactiveness and risk in search for market opportunities in an uncertain environment (Miller, 1983; Lumpkin & Dess, 1996) that incorporates entrepreneurial values into strategic-management activities and is an important factor that affects the performance of an organization — especially in SMEs in uncertain environments or in environments lacking institutions. While the two orientations vary in emphasis, market orientation focuses on the intelligent use of existing market knowledge, and entrepreneurial orientation focuses on the proactive development of new market positions, they are not competing but instead complementary strategic logics, and companies that have both behaviors tend to have more market resources and market competencies (Lekmat et al., 2018).

Generally, empirical evidence has been strong in demonstrating that both orientations have a positive effect on performance in various countries. Entrepreneurial and market orientations proved to be the most effective for achieving entrepreneurial growth-based performance and their combined effect was more pronounced than the other combinations of orientations in Pakistan (Khizar et al., 2023). Laukkanen et al., (2013) conducted a multi-country study that included 1,120 responses from Hungary and Finland and found that entrepreneurial, market and brand orientations together contributed to the business growth of SMEs in terms of business brand and market performance. Based on the findings of the study, in Malaysia, a sample of 473 entrepreneurs in the service sector was found to confirm that both orientations positively impact superior firm performance, with entrepreneurial orientation having the greatest impact on the strategic dimension of their firm—incremental and radical innovation pathway in Turkey (Koçak et al., 2017) has been demonstrated on a sample of 818 SMEs. In Iraq specifically, an investigation of 388 SMEs revealed that market orientation, entrepreneurial orientation and technological orientation all had positive effects on firm performance in modern Iraq, and in the Kurdistan Region research identified entrepreneurial marketing as having a positive influence on firm performance in the Region, with environmental turbulence being a moderating factor between these two variables (Alani et al., 2025; Raouf & Esmaeel, 2025).

The evidence, however, is not uniform and conclusive. It is often difficult to compare the relative influence of market and entrepreneurial orientations, and for some, it can be unclear whether market or entrepreneurial orientations have direct or indirect effects, depending on other intervening organisational mechanisms. More seriously, strategic orientations as constructs cannot be expected to lead to better results if firms do not have the complementary capability resources to implement the orientations, as in the case of Thai SMEs, marketing orientation had direct and indirect effects on firm performance, while the effect of entrepreneurial orientation was indirect and mediated solely by marketing capabilities (Lekmat et al., 2018). This discovery invites theoretical focus on the organisational capacity for enacting the orientations rather than focus on the orientations themselves.

This is the mechanism that lies between the marketing capability. Marketing capability is defined as the integrated process

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whereby firms apply tangible and intangible resources to meet unique consumer needs, provide competitive products, and achieve superior brand positioning (Kero & Bogale, 2023) which includes market-intelligence systems that monitor the external factors affecting competitive activities. Based on the resource-based view, marketing capability is valuable, rare, and hard to imitate and substitute, and this is a reason why it is a source of SCA (Yu et al., 2016). Additionally, marketing capability can be defined as a prototypical dynamic capability which is consistent with the idea that capabilities are the ability to build, combine and reconfigure internal and external competencies to adapt to the environment changes (Teece et al., 1997; Mostafiz et al., 2023). Importantly, the resource-based view relies on the fact that resource endowment alone is not enough: it is the action-oriented capabilities that arise from the resources that allow firms to flexibly respond to changes in market conditions in a systematic and performance-enhancing way (Oduro & Mensah-Williams, 2023).

The evidence that is emerging as a mediator is growing in coherence in national and institutional settings. A meta-analysis of 78 independent samples with a total of 23,711 companies from 31 countries found that the market and entrepreneurial orientations are positively associated with marketing capabilities, while marketing capabilities exert a strong mediation effect between the orientation–performance relationship, with effect sizes varying across industries, cultures and economic development levels (Shanka et al., 2025). In the SME context, entrepreneurial orientation impacts on performance both directly and indirectly via marketing capability, with the capability of the marketing-mix having a greater impact on performance than the capability of managing market-information (Pascal & Shin, 2015). However, the marketing capabilities of firms mediate the relationship between market orientation and firm performance, as observed in Ethiopian manufacturing firms (Melesse & Knatko, 2024), while the relationship between the strategic posture dimensions and business performance is mediated by both marketing and innovation capabilities, indicating that concentrating only on strategic posture without developing integrated organisational capabilities is not enough (Imiru, 2024).

1.1 The Iraqi Context and the Study's Contribution

This is in the context of Iraq, where it bears particular importance. Iraq's economy is heavily dependent on oil activities with limited involvement of the private sector due to weak financing structures, dominance of state enterprises, obstacles to regulations, and poor infrastructure conditions (Abbas & Ali, 2025; Abdullah, 2021). Moreover, there are other structural challenges that hinder Iraqi SMEs such as the lack of the supportive regulatory frameworks and the disparities between domestic SME classification criteria and the prevailing international SME classification which diminishes the industrial performance of SMEs in Iraq compared to their counterparts in the region and globally (Suliman et al., 2024). During the post-2014 recession, these structural vulnerabilities were brought into sharp focus as 20–25% of the private-sector workforce in the Kurdistan Region lost their jobs, leaving them with no employment due to falling oil prices and an unresolved fiscal dispute between Baghdad and Erbil (Mohammadali & Abdulkhaliq, 2019). Iraq's Council of Ministers included SME promotion in its private sector development strategy and determined that it is one of three pillars of that strategy to 2030 (Mohammadali & Abdulkhaliq, 2019), but its potential to effectively promote SMEs at scale is constrained. For Iraqi SMEs, the match between strategic orientation and the capability of the organisation is not simply desired, it is needed for survival, as they have limited resource bases and they operate in a hostile environment. The influence of institutional and environmental pressures, as well as intervening mechanism specific to context, is further highlighted by related Iraqi strategic-management scholarship, which suggests a need to examine strategic processes in their national context and not assume that they are transferable from one national context to another (Hasan & Baskaran, 2022; Hasan, 2023).

There are already some Iraqi studies that have investigated individual components of this logic, such as studies that confirm that strategic orientation directly influences performance (Alani et al., 2025; Al-kalabi, 2025; Raouf & Esmaeel, 2025; Taib, 2021); orientation has an influence on marketing capability (Al-Janabi, 2016; Al Barwari et al., 2025; Alkhafagi, 2023; Yasir, 2022); and marketing capability affects the performance outcomes (Abbas et al., 2026; Al-Amrani et al., 2024; Al-Laheebi, 2025). These studies individually indicate that each one of the hypothesized chain is within the Iraq environment. What has been missing, however, is a single integrated model in which the tests of these relationships are performed together – not just that they hold, but how much explanatory power marketing capability contributes to their relationship, as the mechanism that links strategic disposition to performance when both are estimated together in a single structural model.

This study attempts to answer the following research question: how do market orientation and entrepreneurial orientation affect the performance of SMEs? And, does marketing capability act as a mediator in the relationship between the two orientations in the Iraqi business environment? It does this, and contributes three different ways to the literature. First, strategic orientation is not an isolated performance driver, but an indirect one, as it is through a marketing capability that orientation effects are realised and modelled in the study (Lekmat et al., 2018; Pascal & Shin, 2015). Second, it is – to the authors' knowledge – the first study to test the entire orientation–capability–performance continuum in one model for the Iraqi SME population, rather than examining each component individually in different studies in the Iraqi context. Third, it generates context-specific empirical evidence to inform policy and managerial practice in Iraq and comparable post-conflict, oil-dependent economies seeking to diversify through private-sector development.

2. Literature Review

2.1 Strategic Orientation as a Guiding Logic of the Firm

Strategic orientation is a value and a principle that determines the way in which a firm operates and the behaviours that it is willing to value in order to achieve performance (Yuwono et al., 2025). It is not an essential characteristic of one company, but rather an alignment mechanism between the company and its competitive environment, and true fit happens when the internal processes match the orientation selected (Lekmat et al., 2018). It is especially significant for SMEs where the owner

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manager's strategic orientation is more likely to be translated directly through the organisation and not as a formal policy.

According to the literature, there are two views regarding the interactions between orientations and performance, namely universalistic view and holistic view. From the literature, it can be seen that if the view of universalistic, the orientation will have a direct effect on performance, while if the view of holistic, the orientation will have both direct and indirect effects through innovation (Yuwono et al., 2025). With respect to this two-scale strategic orientations of small firms, market orientation and entrepreneurial orientation and the holistic view of strategic orientations, the latter is the more probable and is used in this study to treat these two orientations as the main strategic dimensions of SMEs, given the fact that SMEs hardly have enough resources to use multiple orientations to their full extent.

2.2 Market Orientation

It has been conceptualised from two existing perspectives: the cultural perspective which sees market orientation as an organisational culture that creates superior customer value through customer orientation, competitor orientation, and inter-functional coordination (Narver and Slater, 1990); and the behavioural perspective which views market orientation as market intelligence generation, dissemination, and responsiveness (Kohli and Jaworski, 1990). The cultural tradition is adopted in this study by Halim et al., (2026), who define market orientation as a culture of customers, which incorporates the knowledge of customers' needs and the monitoring of competitors as well as cooperation between various functions.

Market orientation helps SMEs react quickly and appropriately to fluctuations in market demand, which enhances customer satisfaction and gives them a competitive edge (Halim et al., 2026). Hidayati et al. (2025) build on this by describing market orientation as an invisible resource that can create organisational learning and provide resource-constrained SMEs with the tools to fine-tune their value propositions in an iterative manner via market-intelligence processes. This work redefines market orientation as not just a customer-oriented attitude, but as a learning process, which is integrated in the overall entrepreneurial nature of the firm (Susanto et al., 2021).

2.3 Entrepreneurial Orientation

Entrepreneurial orientation is the attitude of a firm that is characterized by its innovativeness, proactiveness, and risk-taking in obtaining new opportunities in an environment of uncertainty (Halim et al., 2026). Entrepreneurially oriented firms are defined as those that seek product-market innovation, take calculated risks, and innovate proactively to beat their competitors, describes Pascal and Shin (2015). Susanto et al. (2021) also describe such companies as being led by risk-taking executives, being constantly engaged in product innovations, and being able to fight aggressively with industry competitors.

It is still not established whether the construct is unidimensional as suggested by Covin and Slevin (1989) or has an additional dimension of autonomy and competitive aggressiveness as proposed by Lumpkin and Dess (1996): most empirical studies, including the study of Pascal and Shin (2015) below in the measurement section, focus on the three original dimensions of innovativeness, risk taking, and proactiveness. Entrepreneurial orientation has been consistently considered as a part of entrepreneurial initiative, containing strategic-management values, which is an important, but debated, factor affecting the performance of SMEs in any dimensionality (Hidayati et al., 2025).

2.4 The Relationship Between Market Orientation and Entrepreneurial Orientation

Market orientation and entrepreneurial orientation can be distinguished conceptually but are complementary in terms of functioning of a firm: the former – the ability to use the available information about customers and competitors; the latter – the ability to seek new opportunities (Lekmat et al., 2018). Empirical evidence of complementarity is moderately consistent. Institutionally complex environments, according to Buli (2017) who investigated the performance of 171 SME managers, benefit from an entrepreneurial and market orientation. All entrepreneurial orientation dimensions were found to positively impact on performance, with market orientation showing a similar impact.

But evidence is not yet entirely consistent as to how these orientations relate to the performance. Other studies suggest that strategic orientation only indirectly influences performance through an intervening organisational mechanism, like marketing capability (Lekmat et al., 2018; Shin & Aiken, 2012). This inconsistency, both studies stating positive impact and others suggesting otherwise, forms the theoretical basis for the present study to investigate marketing capability as a mediator between the two.

2.5 Strategic Orientation and Performance in the Iraqi SME Environment

The direction of the evidence from Iraq is fairly consistent, ranging from general populations of SMEs (Alani et al., 2025), sector-specific studies conducted in the Kurdistan Region (Raouf & Esmaeel, 2025), and smaller regional samples in northern Iraq (Al-kalabi, 2025; Taib, 2021). The findings must be interpreted with regard to the significant strategic role, particularly in an oil-based economy, where small and medium enterprises are inadequately financed by the private sector (Abbas & Ali, 2025; Abdullah, 2021), and the fact that the classification of SMEs is not in line with international standards (Suliman et al., 2024), and the lack of infrastructure and regulations despite the efforts of digital transformation in recent years (Salih, 2025). In such institutional uncertainty, SMEs are hypothesized to depend more on intangible resources (such as strategic orientation) to implement exploratory growth strategies instead of exploitative growth strategies (Adomako et al., 2020; Temouri et al., 2020).

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There are two gaps and this study takes place in the analytical space between these two gaps. First, previous research on Iraqis shows only direct effects, while the internal mechanism — already demonstrated elsewhere to be important (Shin & Aiken, 2012) — between orientation and performance is not examined. Secondly, none places its conclusions in the context of a unified model that provides estimates of orientation, capability and performance simultaneously as pairwise relationships. Both gaps must be closed through marketing capability, which is explored below.

2.6 The Dependent Variable: SME Performance

SME's performance is traditionally viewed as a multidimensional construct where performance indicators that involve financial aspects (sales growth, profitability and market share), non-financial aspects (customer satisfaction, operational efficiency and innovation output) are included (Pascal & Shin, 2015). Such is the multilayered nature of the situation in Iraq, where information about firms' size and performance is often not formally disclosed, and where perceptions or self-reported measures of growth and competitiveness are used instead of audited financial statements (Alani et al., 2025). This study defines SME performance as a composite scale in line with Morgan et al., (2009). The construct is represented by the following items of sales growth, market share, profitability, customer retention and acquisition, and operational efficiency. The scores of the item are added together to get an overall SME performance measure for analysis in SPSS.

The outcomes of the performance are influenced by the structural constraint to the same extent as their managerial choice because that constraint is present in the operating environment of Iraqi SMEs (Abbas & Ali, 2025; Suliman et al., 2024), which should be taken seriously when determining the variance in outcomes of performance rather than only strategic orientation and capability variables. Moreover, the performance of SMEs in Iraq is important not only on the level of the firm, but also for the country as these firms establish themselves as an important alternative to the reliance on oil revenues and one of the main sources of employment absorption (Dakhel, 2022). Such dual meaning, both as a dependent variable for the firm and as an indicator of the overall ability of the private sector to withstand shocks and stresses, makes SME performance the dependent variable of the main effect of the strategic orientations and marketing capability in this study.

2.7 The Mediating Variable: Marketing Capabilities

Marketing capabilities are the integrated capabilities of the firm to employ tangible and intangible resources to satisfy the demand of customers, produce competitive products and gain a distinct market position (Kero & Bogale, 2023). This also includes market-intelligence systems that enable companies to observe and analyse the market-level factors that affect competitiveness, and to view marketing as a competence that's used continuously, rather than as a fixed asset.

Marketing capability can be considered as a source of SCA based on the resource-based view, as it is valuable, hard to imitate, and not easily tradable in the factor markets (Yu et al., 2016). Building on this concept, marketing capability has been defined as a prototype of a dynamic capability, in line with the overall notion that firms maintain competitiveness by developing, acquiring, and recombining internal and external capabilities in response to changing environments (Mostafiz et al., 2023). The difference is that by going beyond the resource endowment, this dynamic framing makes marketing capability more distinct from resources: it is about the ability to do something with resources, and not just about having them.

The findings from the empirical study support this view and confirm that marketing capability is a mediating variable between strategic orientation and firm performance. A meta-analysis of 78 samples and 23,711 companies from 31 countries validates that marketing orientation, as well as entrepreneurial orientation, is associated with the building of marketing capabilities, which positively and measurably mediate the relationship between orientation and performance, with the effect size differing based on the industry and institutional context (Shanka et al., 2025). Previously, it was determined that each dimension of strategic orientation has a unique pathway to performance in the Korean context (Shin & Aiken, 2012), and the Thai SMEs confirmed that the entrepreneurial orientation has an indirect effect on the performance (Lekmat et al., 2018). Similar mediation effects have been found among Ethiopian manufacturing businesses (Melesse & Knatko, 2024; Imiru, 2024).

3. Hypotheses Development

3.1 Strategic Orientation and SME Performance

Market orientation reflects a firm's systematic capacity to generate, disseminate, and act upon intelligence concerning customer needs and competitor behaviour, and it is widely theorised as a direct driver of superior firm performance because it aligns organisational activity with market realities (Buli, 2017). Cross-national evidence corroborates this proposition: in the Malaysian service sector, market orientation positively affected firm performance, though its explanatory power was secondary to that of entrepreneurial orientation (Nasir et al., 2017), while research spanning Hungarian and Finnish SMEs confirmed a positive effect transmitted through brand and market performance (Laukkanen et al., 2013). Within Iraq, Taib (2021), Al-kalabi (2025), and Alani et al. (2025) each report a positive market orientation–performance relationship. On this basis:

H1a: Market orientation has a significant positive effect on SME performance in the Iraqi business environment.

Entrepreneurial orientation, characterised by innovativeness, proactiveness, and risk-taking, is theorised to enhance firm performance by enabling firms to identify and exploit opportunities ahead of competitors (Khizar et al., 2023). In the Malaysian service sector, entrepreneurial orientation emerged as the stronger of the two orientations in predicting

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performance (Nasir et al., 2017), while research on Turkish SMEs confirmed effects both direct and indirect through innovation (Koçak et al., 2017). Iraqi-specific evidence is broadly consistent, including findings from Alani et al. (2025) and sector-specific evidence from the Kurdistan Region, where the strength of entrepreneurial marketing's effect on performance was contingent upon environmental turbulence (Raouf & Esmaeel, 2025) — a qualification of particular relevance given Iraq's fiscally volatile, oil-dependent economic structure. On this basis:

H1b: Entrepreneurial orientation has a significant positive effect on SME performance in the Iraqi business environment.

3.2 Strategic Orientation and Marketing Capabilities

The theoretical rationale linking strategic orientation to marketing capabilities rests on the premise that a firm's dispositional orientation constitutes the organisational impetus through which specific operational competencies are built (Mostafiz et al., 2023). Because marketing capability is conceived as a dynamic capability rather than a static resource, its development is theorised to depend on antecedent strategic orientations (Kero & Bogale, 2023).

Market orientation, through its emphasis on intelligence generation and dissemination, is widely regarded as a direct precursor to marketing capability, since a firm's capacity to sense and respond to market conditions logically precedes its ability to execute effective marketing actions (Shin & Aiken, 2012). This is corroborated by the 31-country meta-analysis (Shanka et al., 2025). Iraqi-specific evidence lends further support: research on Kurdistan's construction-sector SMEs establishes market orientation as a resource underpinning technological innovation capabilities (Al-Janabi, 2016), while research from Northern Iraq confirms that market orientation contributes jointly with entrepreneurial orientation to marketing effectiveness (Al Barwari et al., 2025). On this basis:

H2a: Market orientation has a significant positive effect on marketing capabilities among SMEs in the Iraqi business environment.

Entrepreneurial orientation is similarly theorised to enhance marketing capability, as the proactive and risk-tolerant disposition characteristic of entrepreneurial firms encourages experimentation with market-facing activities, thereby accelerating capability accumulation (Yaqub et al., 2025). International evidence confirms that entrepreneurial orientation exerts significant effects on marketing capability (Pascal & Shin, 2015), operating substantially through this mechanism in Thai SMEs (Lekmat et al., 2018). Within Iraq, an exploratory study of travel and tourism companies found that stronger entrepreneurial orientation was associated with more robust marketing capabilities (Alkhafagi, 2023), reinforced by evidence that customer capital promotes entrepreneurial marketing activity among Iraqi SMEs (Yasir, 2022). Accordingly:

H2b: Entrepreneurial orientation has a significant positive effect on marketing capabilities among SMEs in the Iraqi business environment.

3.3 Marketing Capabilities and SME Performance

The theory is that marketing capability has a direct positive impact on firm performance since it is the means by which strategic intent is turned into competitive results (Kero & Bogale, 2023), in line with dynamic capabilities theory (Mostafiz et al., 2023). Research involving Korean firms found that marketing capability has a significant impact on firm performance regardless of whether it originates from an orientation or not (Shin & Aiken, 2012), while comparative research conducted in Omani manufacturing and service SMEs corroborates this relationship, particularly in service firms (Nusair et al., 2022).

In Iraq, for example, Al-Amrani et al. (2024) find that online marketing capability significantly enhances SME performance; Al Barwari et al. (2025) find that innovative marketing capability drives sustainable SME success despite conflicts causing disruption; and Al-Laheebi (2025) finds that marketing-related capability significantly impacts performance through competitive advantage as mediator, albeit with the caveat that there are only limited achievements in this regard because of lack of technological adaptation. Iraqi evidence at large shows that dynamic capabilities – where marketing capability is a vital element thereof – significantly influence SME performance in volatile markets (Abbas et al., 2026). Thus:

H3: Marketing capabilities have a significant positive effect on SME performance in the Iraqi business environment.

3.4 The Mediating Role of Marketing Capabilities

The mediating role of marketing capabilities in the strategic orientation-performance link is theoretically supported by the resource based view and dynamic capabilities approach, which suggest that while strategic orientation is a latent disposition, it needs to be translated into specific capabilities to produce performance results (Mostafiz et al., 2023). This proposition has been empirically tested by Shin & Aiken (2012), who find that marketing capabilities mediate the effect of strategic orientation on performance among firms operating in Korea. Subsequent research has demonstrated that in case of Thai SMEs, the influence of entrepreneurial orientation on performance operates via marketing capabilities and not via a direct channel (Lekmat et al., 2018). Recently published evidence with large sample sizes has confirmed that both market orientation and entrepreneurial orientation impact SME performance positively in direct and indirect ways, with marketing capability as a mediator (Yaqub et al., 2025).

In case of Iraq, despite the lack of one single study testing the whole mediated path in one model, all individual relationships have been sufficiently proved by different research works: orientation predicting capability (Al-Janabi, 2016; Alkhafagi, 2023) and capability predicting performance (Al-Amrani et al., 2024; Al Barwari et al., 2025; Al-Laheebi, 2025). The

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presence of both link segments within the Iraqi SME population provides a coherent empirical basis for proposing that marketing capability functions as a mediating mechanism in this specific institutional setting. Because market orientation and entrepreneurial orientation are treated as distinct dimensions throughout this study (H1a/H1b, H2a/H2b), the mediation hypothesis is correspondingly specified as two separate paths rather than a single combined statement:

H4a: Marketing capabilities mediate the relationship between market orientation and SME performance in the Iraqi business environment.

H4b: Marketing capabilities mediate the relationship between entrepreneurial orientation and SME performance in the Iraqi business environment.

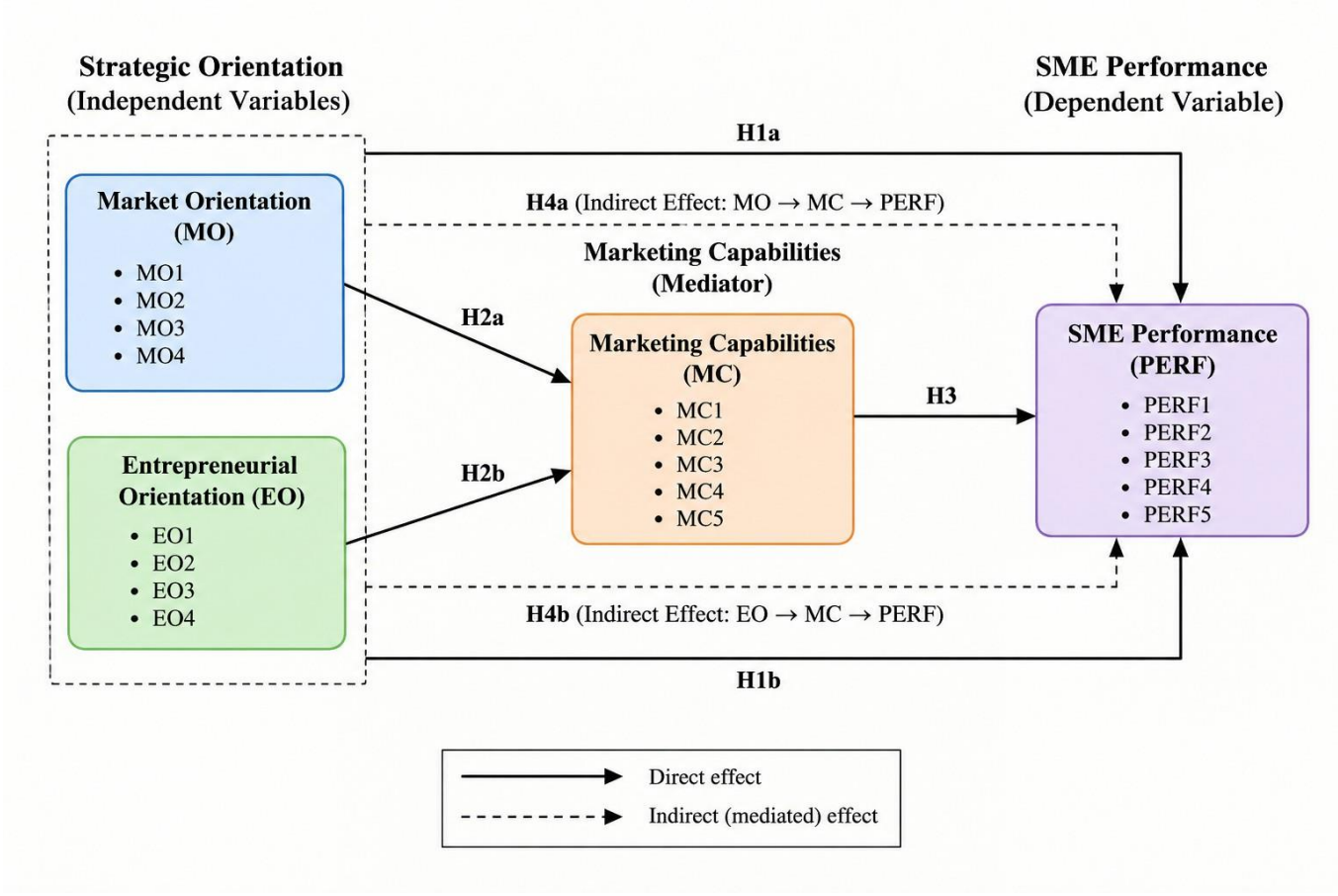


Figure 1.

Figure 1. Conceptual Framework of the Study

4. Methodology

4.1 Research Design

A quantitative approach was employed in this study as a method for objectively testing theories by examining the relationships between observed variables (Creswell & Creswell, 2017). This research utilised a survey-based design through a self-administered structured questionnaire distributed to respondents, consistent with established practice in strategic orientation and marketing capability research (Pascal & Shin, 2015; Shanka et al., 2025). The target population comprised owners or managers of SMEs operating in Baghdad, Iraq, given that owner-managers are the primary decision-makers responsible for strategic posture, marketing activity, and performance outcomes at the firm level (Lekmat et al., 2018).

4.2 Study Population

The study population was defined as SMEs registered with the Baghdad Chamber of Commerce and the Ministry of Commerce, comprising firms with fewer than 250 employees in accordance with Iraq's prevailing SME classification criteria (Suliman et al., 2024). Based on the most recent available registration records, the total population was estimated at 1,600

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SMEs operating within Baghdad's commercial and industrial sectors (Kareem et al., 2024). This registration-based figure was adopted, rather than broader informal-sector estimates, because it provides a verifiable and accessible sampling frame — a necessary methodological trade-off given the well-documented fragmentation of Iraq's national SME registries and the high prevalence of informal, unregistered enterprises in the wider Iraqi economy (Moosa et al., 2023). This trade-off is acknowledged explicitly as a boundary condition on generalisability: findings drawn from the formally registered population may not extend to the substantial informal segment of Iraq's SME sector, which likely faces an even more constrained resource and capability environment.

4.3 Sample Size Determination

The sample size was determined using Slovin's formula:

Where N represents the population size (1,600) and e represents the acceptable margin of error. A margin of error of 7% was selected a priori, balancing the practical constraints of survey administration among a hard-to-reach owner-manager population with the need for an adequate sample for multiple regression and mediation analysis. Applying this formula yields:

This resulted in a target sample size of 181 SMEs. The target sample is adequate for the planned SPSS analyses, including descriptive statistics, reliability analysis, correlation, multiple regression, and mediation analysis. To account for anticipated non-response and incomplete questionnaires, 200 questionnaires were distributed with the aim of retaining at least 181 valid responses after data screening.

4.4 Sampling Technique

The stratification method was used in selecting the sample, which was random, in order to guarantee representation from each of the three main commercial sectors of Baghdad, namely trade, services and light manufacturing, according to the sectoral composition of the Ministry of Commerce registry. The 181 target responses were distributed according to the 3 strata based on the proportion of the registered SMEs of each sector and the individual firms were selected within each of these strata by simple random sampling with each sector having an equal chances of being selected within the stratum (Sekaran & Bougie, 2016). This stratified approach was preferred over simple random sampling without stratification as it took into account the sectoral heterogeneity in the SME population of Baghdad and lessened the chances of sectoral bias that was observed in the previous research (Shanka et al., 2025).

Questionnaires were sent to a slightly larger sample of 200 SMEs to ensure that the sample of 181 valid responses is adequate for the anticipated non-response and incomplete questionnaires due to data screening.

4.5 Data Collection Procedure

Questionnaires were sent offline, using face-to-face hand delivery to owner-managers at their businesses followed by face-to-face collection. This distribution method was chosen due to the low level of business communication via formal email among Iraqi SMEs and the less reliable digital communication infrastructure (Salih, 2025). The questionnaires were examined for completeness at the time of collection and if any were incomplete, they were supplemented on the spot or discarded before they were entered for tabulation and statistical analysis, so that only completed questionnaires were included.

4.6 Common Method Bias

Common method variance (CMV) is a potential threat to validity because all of the constructs in this study were measured using the same owner-manager respondent, and were assessed with a single survey instrument. The following procedural remedies were built into the design stage: The items predicting the outcome variable were separated from the items predicting the outcome variable in the questionnaire, simple and clear language was used, and the anonymity of the respondents was ensured. For the analysis stage, it will use SPSS which will employ unrotated exploratory factor analysis by Harman's single-factor test. If one factor explains a high proportion (more than 50%) of the variance, this will be regarded as a concern for common method bias.

4.7 Measurement

The measurements used in this study was a 5 point Likert scale ranging from "strongly disagree (1)" to "strongly agree (5)". The 5 point scale was used because it was easy to answer for the respondents, not requiring as much time and mental strain as open-ended questions (Churchill, 1979). In general, the constructs of the variables under investigation were measured using instruments that are the result of a successful prior study in both emerging and developed markets in terms of their strategic orientation, marketing ability and firm performance, which are validated and reliable instruments.

Two dimensions of strategic orientation were operationalized for the measurement of strategic orientation. The market orientation (four items) scale was adapted from the scale developed by Narver and Slater (1990), which reflects the focus of firm objectives on customer satisfaction, competitor monitoring, and cross functional information sharing. Measurement of entrepreneurial orientation (four items) was based upon an extensively validated scale developed by Covin and Slevin (1989) that reflects the firm's focus on innovation, proactive market entry and a risk-tolerant strategic orientation. Therefore, they have been widely used and re-validated in previous studies with SMEs in a variety of institutional settings, making them appropriate for use in Iraq's business environment.

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In the meantime, the mediating construct of marketing capabilities (five items) was measured using the competitor-relative capability scale developed by Vorhies and Morgan (2005), measuring the firm's relative strength in the five marketing activities (New product development, Pricing, Marketing communication, Customer relationship management and Strategic marketing planning) relative to the main competitors. Furthermore, with regard to the construct of SME performance, a dependent construct was used which was adapted from Morgan et al. (2009) and measures relative performance in the past three years in terms of: sales growth, market share, profitability, customer retention and acquisition, and operational efficiency (five items).

4.8 Data Analysis

IBM SPSS Statistics was used to analyse data. Analysis was conducted in a step-wise manner. The data was first examined for missing values and data entry errors, outliers, and assumptions needed for parametric analyses. Second, Descriptive statistics: frequencies, percentages, means and standard deviations, were used to present the characteristics of the respondents and the study variables. Third, multi-item scales were internally examined for internal consistency by calculating Cronbach's alpha, and, when required, item-total statistics were calculated. Pearson's correlation analysis was then conducted to evaluate the bivariate relationships between market orientation, entrepreneurial orientation, marketing capabilities and SME performance. To test the direct effects specified in H1a, H1b, H2a, H2b and H3, multiple linear regression analysis was used. To determine multicollinearity, the tolerance and variance inflation factor (VIF) statistics were used, and the regression assumptions such as linearity, residual normality, homoscedasticity and error independence were investigated prior to the interpretation of the regression coefficients. To test the importance of marketing capabilities in H4a and H4b, regression based mediation analysis and bootstrapped confidence intervals for indirect effects were used. The independent variables were market orientation and entrepreneurial orientation, the mediator was marketing capabilities and the dependent variable was SME performance. The indirect effects were considered statistically significant if the 95% bootstrap confidence interval for the effect did not contain zero. Conventional inferential tests were considered to be statistically significant at the $p < .05$ level.

5. Results

5.1 Data Screening and Preliminary Analysis

The data consisted of 181 cases, corresponding to the targeted sample size in the methodology section. There were no missing values on the demographic variables, the 18 items measured on the Likert scale, and the four supplied composite scores. All Likert ratings were within the appropriate range of 1-5, all demographic codes were within their respective codebook ranges, and there were no missing or duplicates for the respondent identification numbers.

The four supplied composite-score variables were re-computed based on the original items. MO_Mean, EO_Mean, MC_Mean, and PERF_Mean were identical to the computed arithmetic mean values for all 181 cases (maximum absolute difference = 0.000). Therefore, these variables were retained as such for further analyses.

No univariate outliers were identified on the four composite scores using $|z| > 3.29$ criterion. Four-variate Mahalanobis distance screening did not detect any multivariate outliers at the $p < .001$ significance level (chi-square critical value, df = 4, = 18.467); the maximum D^2 was 12.703 for case 56. Three invariant response patterns were detected: cases 93, 177, 181 chose rating 5 on all 18 items. Since the above patterns could be responses, and were not outliers by statistical standards, they were not excluded from the sample set.

In addition, influence diagnostics were also checked. Some of the cases violated the heuristic Cook's D cut-off value of 4/N, but in all the models, the maximum value of Cook's D was considerably less than 1. The above cases were retained since the cut-off value of Cook's D is a screening heuristic, and not a deletion one.

5.2 Respondent and Firm Characteristics

Table 1. Respondent and Firm Characteristics

Variable	Category	Frequency	Percentage
Job_Title	General Manager/CEO	34	18.8%
Job_Title	Board Member	11	6.1%
Job_Title	Marketing/Sales Manager	50	27.6%
Job_Title	Operations Manager	40	22.1%
Job_Title	Deputy Manager	28	15.5%
Job_Title	Other	18	9.9%
Tenure	Less than 5 years	68	37.6%
Tenure	5–10 years	68	37.6%
Tenure	More than 10 years	45	24.9%
Company_Age	Less than 5 years	42	23.2%
Company_Age	6–10 years	66	36.5%
Company_Age	More than 10 years	73	40.3%
Employees	Fewer than 10	38	21.0%
Employees	10–49	84	46.4%

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Employees	50 or more	59	32.6%
Sector	Trade	56	30.9%
Sector	Industrial	41	22.7%
Sector	Service	53	29.3%
Sector	Technology	&23	12.7%
	Telecommunications		
Sector	Other	8	4.4%

Table 1.

Marketing/Sales Managers was the most popular job-title type (27.6%), followed by Operations Managers (22.1%) and General Managers/CEOs (18.8%). The distribution of tenure was split equally among those who had been working less than five years and those with five to ten years in their jobs (37.6% for each), whereas 24.9% had more than ten years experience in their positions. In terms of longevity, the vast majority of firms had been running for over ten years (40.3%) or six to ten years (36.5%). Companies with 10–49 employees made up the largest size category (46.4%).

The sampling adequacy for the 18-item factor analysis was very high (KMO = 0.934), and Bartlett's Test of Sphericity was statistically significant, chi-square (153) = 2269.288, p < .001. Unrotated principal-components analysis yielded the first component which explained 50.291% of the total variance. As the value exceeds the pre-specified 50% threshold for the diagnostic test, Harman's test does not offer any protection against common-method variance in this dataset; instead, it indicates a possibility of common-method issue. The result must not be considered conclusive evidence of common-method bias because the test itself is a diagnostic one.

5.3 Common Method Bias

Table 2. Harman's Single-Factor Test: Total Variance Explained

Component	Eigenvalue	Variance %	Cumulative %
1	9.052	50.291	50.291
2	1.983	11.018	61.309
3	1.358	7.543	68.852
4	1.017	5.650	74.501
5	0.514	2.855	77.356
6	0.478	2.658	80.014

Table 2.

5.4 Reliability Analysis

Table 3. Reliability of Study Constructs

Construct	Number of Items	Cronbach's Alpha
MO	4	0.899
EO	4	0.866
MC	5	0.912
PERF	5	0.909

Table 3.

All four constructs demonstrated strong internal consistency. Item-level diagnostics also showed corrected item-total correlations well above conventional minimum expectations, and deletion of any single item would not improve the alpha coefficient enough to justify item removal. Accordingly, all items were retained.

Table 4. Item-Level Reliability Diagnostics

Construct	Item	Corrected Item-Total Correlation	Alpha if Item Deleted
MO	MO1	0.785	0.866
MO	MO2	0.790	0.864
MO	MO3	0.741	0.881
MO	MO4	0.782	0.867
EO	EO1	0.736	0.821
EO	EO2	0.724	0.826
EO	EO3	0.707	0.833
EO	EO4	0.699	0.836
MC	MC1	0.785	0.891
MC	MC2	0.775	0.893
MC	MC3	0.773	0.893
MC	MC4	0.756	0.897
MC	MC5	0.793	0.889
PERF	PERF1	0.782	0.885
PERF	PERF2	0.756	0.891
PERF	PERF3	0.782	0.885
PERF	PERF4	0.767	0.889
PERF	PERF5	0.759	0.890

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T5.b5.eD4e scriptive Statistics

Table 5. Descriptive Statistics of Study Constructs

Variable	N	Mean	SD	Minimum	Maximum	Skewness	Kurtosis
MO	181	3.559	1.165	1.00	5.00	-0.510	-0.823
EO	181	3.548	1.067	1.00	5.00	-0.423	-0.665
MC	181	3.694	1.068	1.00	5.00	-0.567	-0.664
PERF	181	3.569	1.107	1.00	5.00	-0.458	-0.901

Table 5.

Marketing Capabilities recorded the highest mean (M = 3.694, SD = 1.068), followed by SME Performance (M = 3.569, SD = 1.107), Market Orientation (M = 3.559, SD = 1.165), and Entrepreneurial Orientation (M = 3.548, SD = 1.067). All means were above the scale midpoint of 3. Skewness and kurtosis values were moderate, with no composite showing a distributional shape that by itself would preclude ordinary least-squares analysis.

5.6 Correlation Analysis

Table 6. Pearson Correlation Matrix

Variable	MO	EO	MC	PERF
MO	1	0.358**	0.674**	0.577**
EO	0.358**	1	0.508**	0.512**
MC	0.674**	0.508**	1	0.680**
PERF	0.577**	0.512**	0.680**	1

Table 6.

Note. N = 181. ** p < .01 (two-tailed).

All variables under focus were found to be positively correlated. Market Orientation had a very high positive correlation with Marketing Capabilities (r = .674, p < .001) and a moderate to high positive correlation with SME Performance (r = .577, p < .001). Entrepreneurial Orientation had a positive correlation with Marketing Capabilities (r = .508, p < .001) and SME Performance (r = .512, p < .001). The variable that had the highest positive correlation with SME Performance was Marketing Capabilities (r = .680, p < .001).

5.7 Regression Assumption Tests

Table 7. Regression Assumption Diagnostics

Model	Linearity		Residual		Std. residual	Max VIF
	RESET p	Breusch-Pagan p	normality p	Durbin-Watson	range	
PERF on MO and EO	0.596	0.015	0.271	2.010	-2.54 to 2.45	1.147
MC on MO and EO	0.279	0.001	0.594	2.100	-2.86 to 2.58	1.147
PERF on MC	0.932	0.072	0.062	2.143	-2.59 to 2.58	1.000
PERF on MO, EO, and MC	0.843	0.091	0.093	2.068	-2.31 to 2.64	2.155

Table 7.

Nonlinearity was not indicated as a problem by the RESET diagnostic in any model. Normality of the residuals was also satisfactory when checked with the Shapiro-Wilk test and graphical P-P plots. The value of the Durbin-Watson statistics was near 2 in each case and hence there was no problem with the issue of autocorrelation of the residuals. Multicollinearity was not an issue since the highest value of the VIF was 2.155 in the integrated model and all tolerances were greater than .46. The standardized residuals stayed between approximately +/-3 in all the models.

Homoscedasticity needs a bit of clarification since the Breusch-Pagan test showed that the H1 model had heteroscedasticity (p = .015) and so did the H2 model (p = .001). There was no heteroscedasticity in the H3 model and the integrated model according to the Breusch-Pagan test. To confirm that this is a robust finding, heteroscedasticity-robust standard errors (HC3) were calculated for the H1 and H2 models. Significance of MO and EO was not affected. Here are the OLS results as per the pre-specified SPSS analysis.

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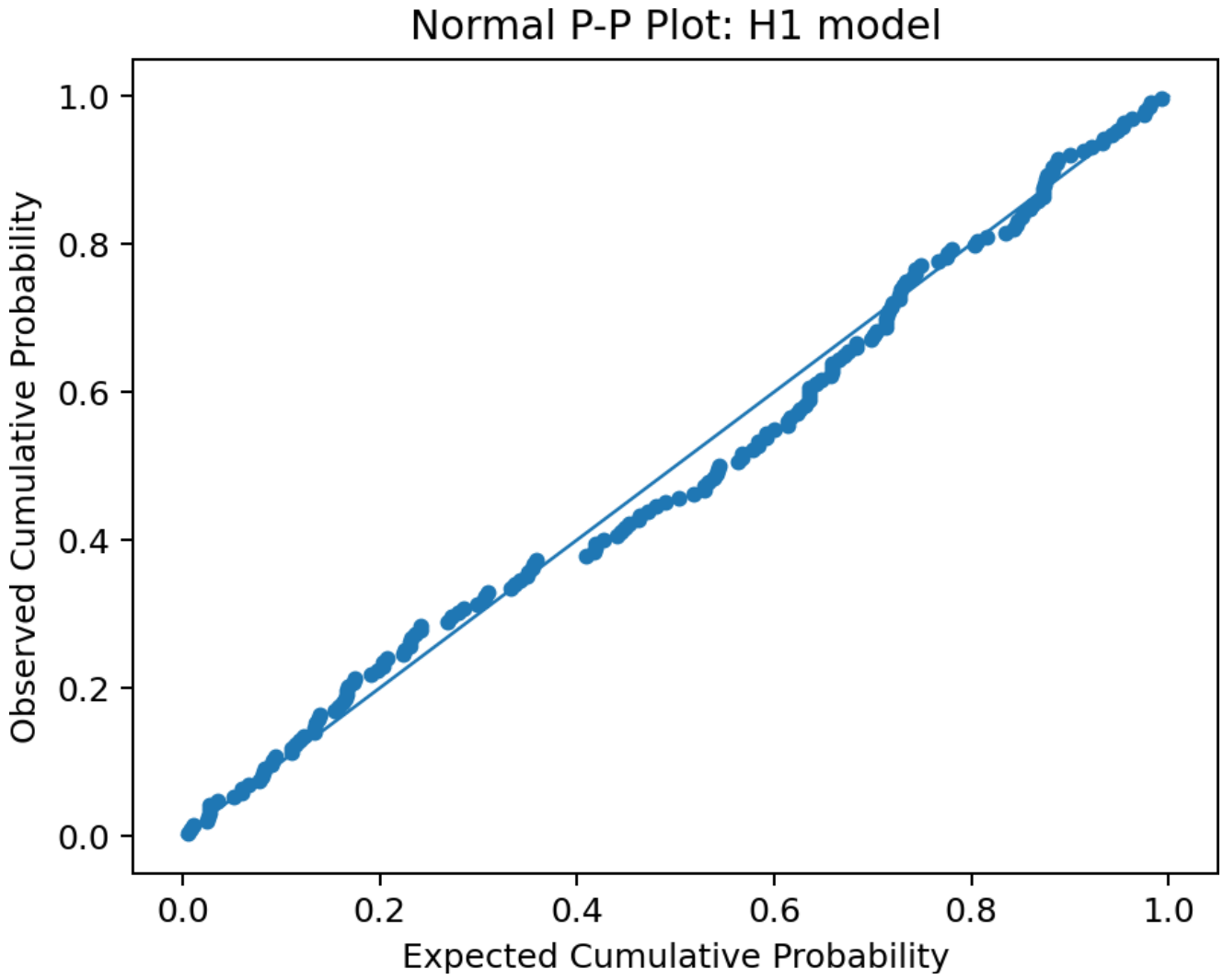


Figure 2.

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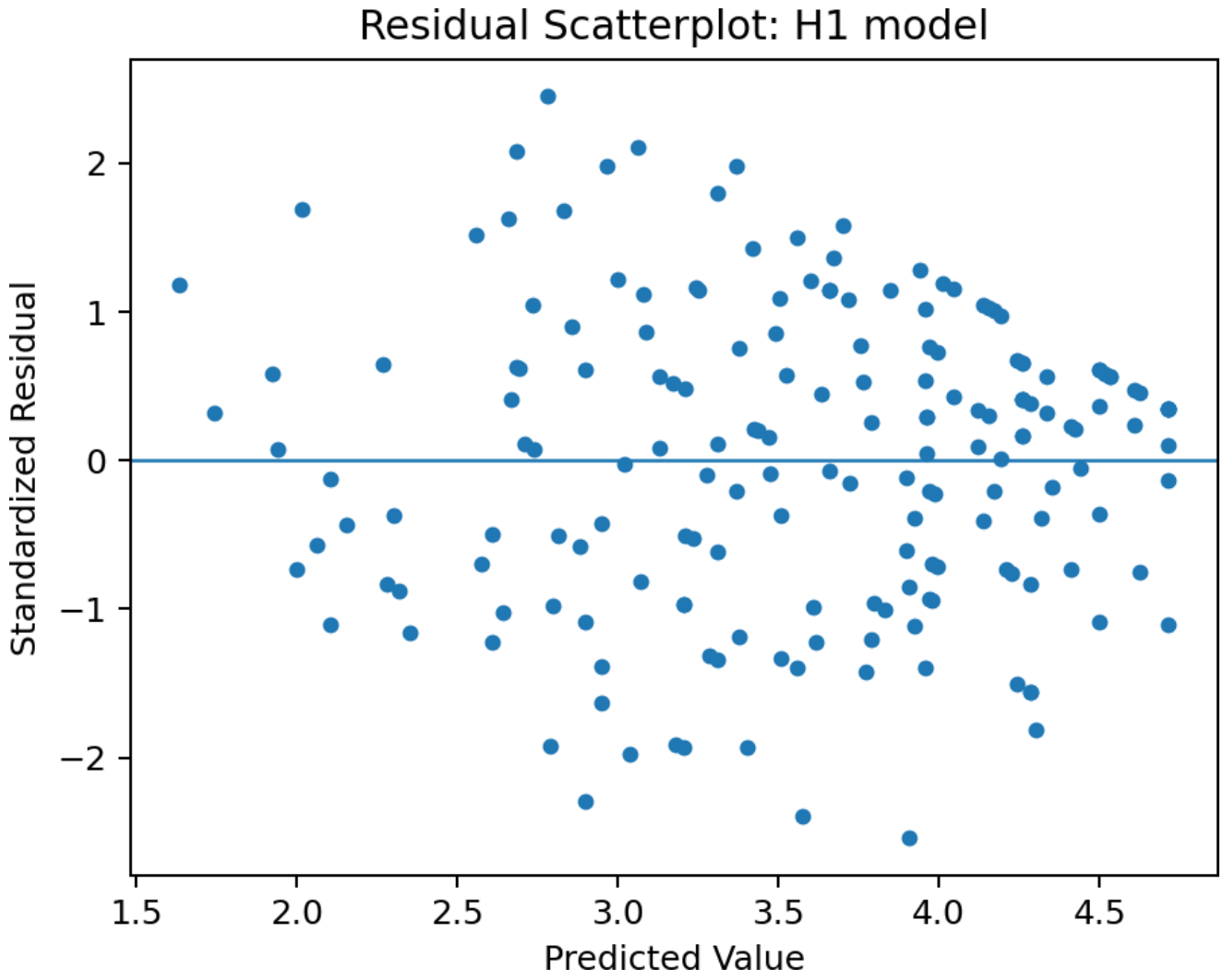


Figure 3.

Figure 2. Regression Diagnostic Plots for the H1 Model (SME Performance on Market Orientation and Entrepreneurial Orientation)

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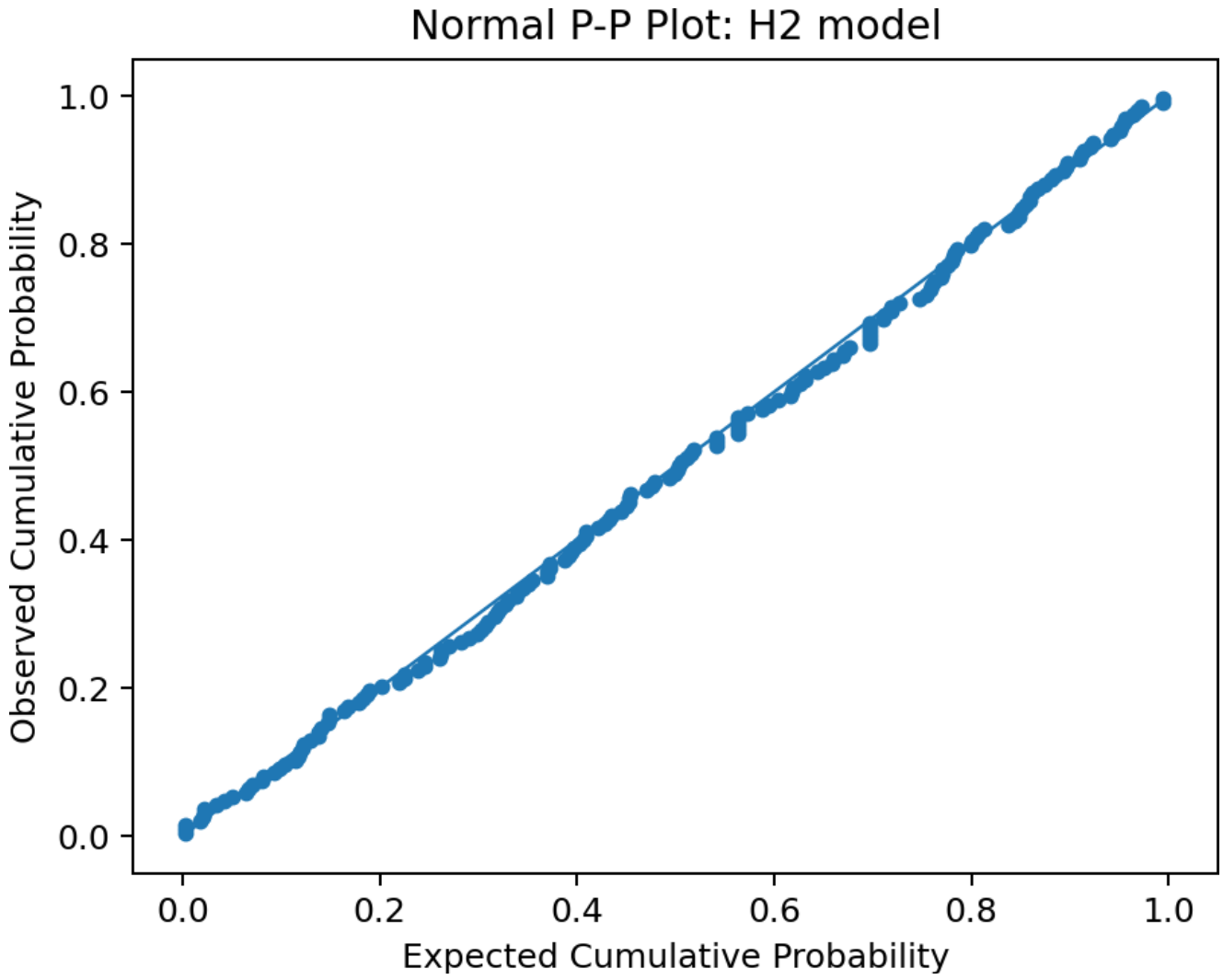


Figure 4.

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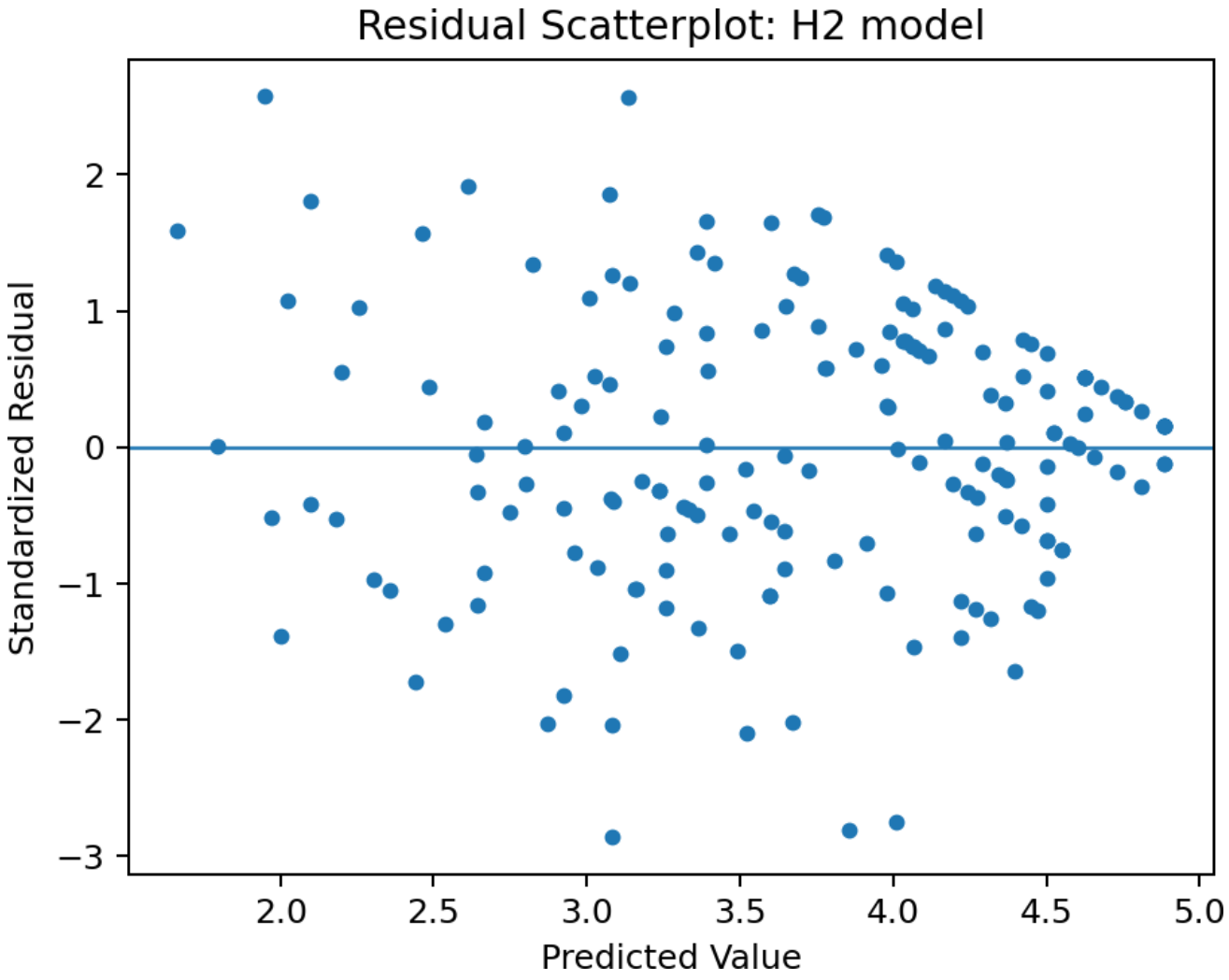


Figure 5.

Figure 3. Regression Diagnostic Plots for the H2 Model (Marketing Capabilities on Market Orientation and Entrepreneurial Orientation)

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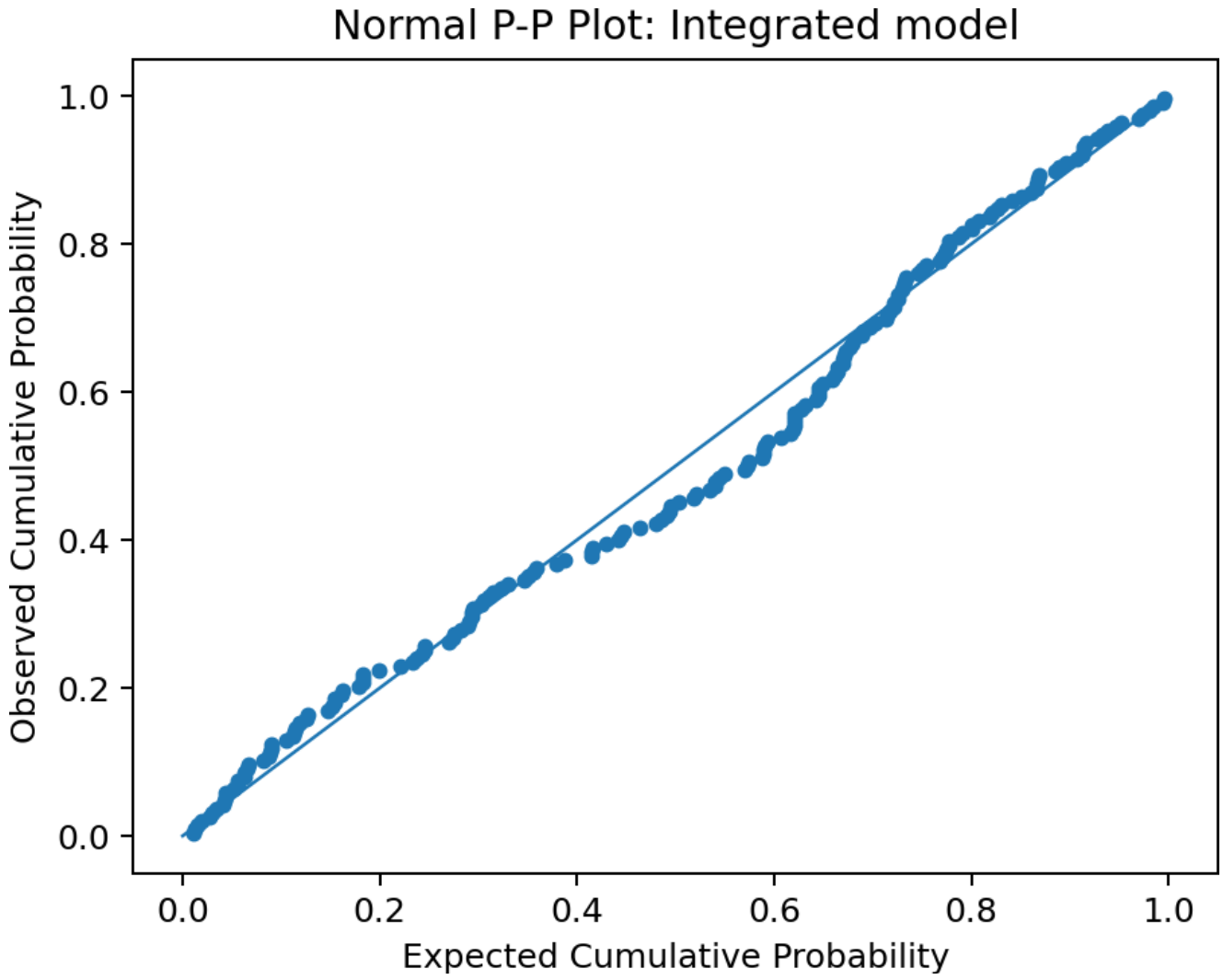


Figure 6.

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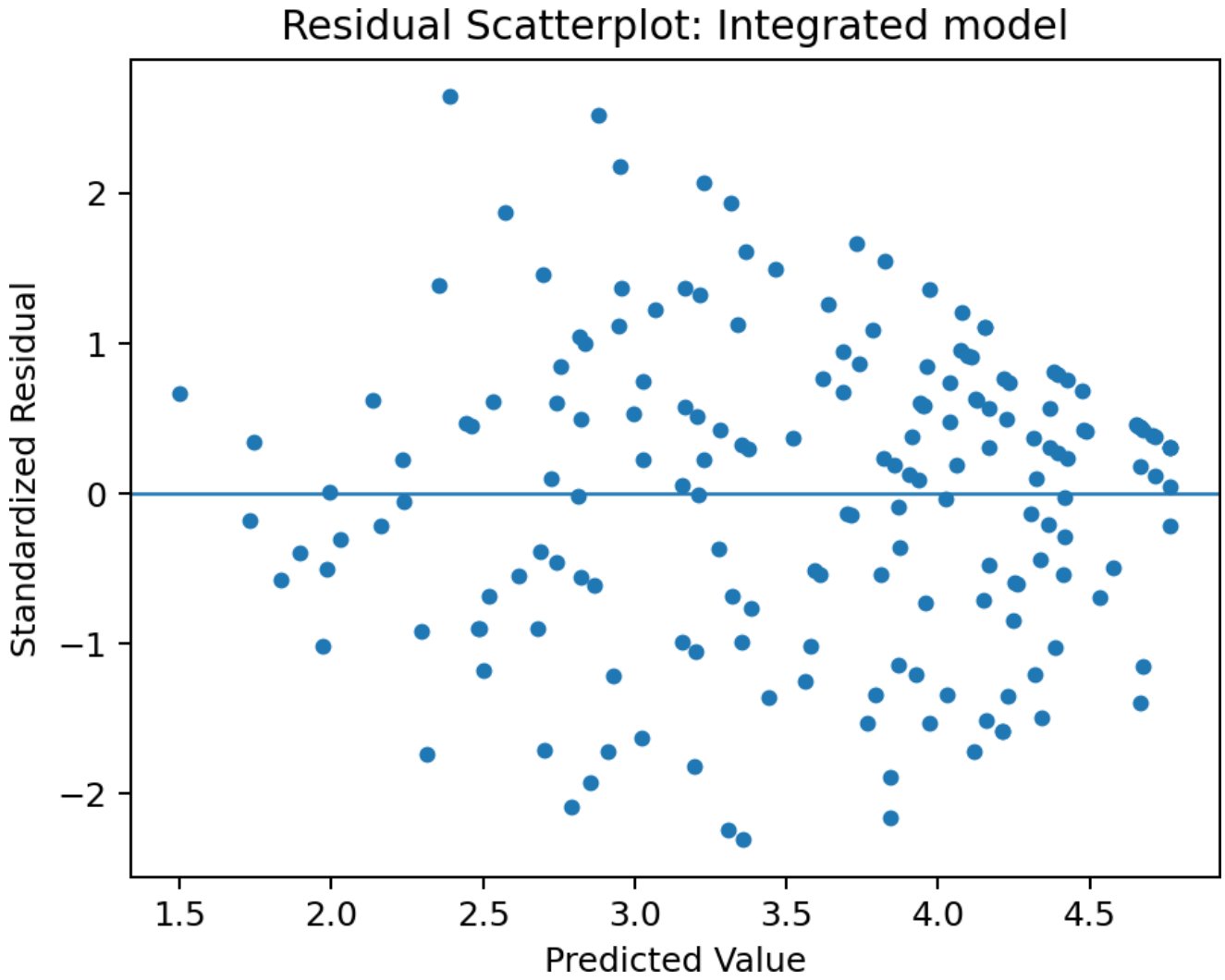


Figure 7.

Figure 4. Regression Diagnostic Plots for the Integrated Performance Model

5.8 Hypotheses Testing

H1a and H1b: Strategic Orientation and SME Performance

The model was statistically significant, R = 0.663, R^2 = 0.440, adjusted R^2 = 0.434, F(2, 178) = 69.941, p < .001.

Table 8. Multiple Regression Predicting SME Performance (H1a-H1b)

Predictor	B	SE	Beta	t	p	95% CI for B	Tolerance	VIF
MO	0.430	0.057	0.452	7.530	< .001	[0.317, 0.542]	0.872	1.147
EO	0.363	0.062	0.350	5.822	< .001	[0.240, 0.486]	0.872	1.147

Table 8.
Market Orientation was a significant positive predictor of SME Performance (B = .430, SE = .057, beta = .452, t = 7.530, p < .001, 95% CI [.317, .542]), supporting H1a. Entrepreneurial Orientation also had a significant positive effect (B = .363, SE = .062, beta = .350, t = 5.822, p < .001, 95% CI [.240, .486]), supporting H1b.

H2a and H2b: Strategic Orientation and Marketing Capabilities

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The model was statistically significant, R = 0.732, R^2 = 0.536, adjusted R^2 = 0.531, F(2, 178) = 102.822, p < .001.

Table 9. Multiple Regression Predicting Marketing Capabilities (H2a-H2b)

Predictor	B	SE	Beta	t	p	95% CI for B	Tolerance	VIF
MO	0.517	0.050	0.564	10.320	< .001	[0.419, 0.616]	0.872	1.147
EO	0.307	0.055	0.306	5.605	< .001	[0.199, 0.415]	0.872	1.147

Table 9.
Market Orientation significantly predicted Marketing Capabilities (B = .517, SE = .050, beta = .564, t = 10.320, p < .001, 95% CI [.419, .616]), supporting H2a. Entrepreneurial Orientation was also a significant positive predictor (B = .307, SE = .055, beta = .306, t = 5.605, p < .001, 95% CI [.199, .415]), supporting H2b.

H3: Marketing Capabilities and SME Performance

The model was statistically significant, R = 0.680, R^2 = 0.462, adjusted R^2 = 0.459, F(1, 179) = 153.878, p < .001.

Table 10. Simple Regression Predicting SME Performance from Marketing Capabilities (H3)

Predictor	B	SE	Beta	t	p	95% CI for B	Tolerance	VIF
MC	0.704	0.057	0.680	12.405	< .001	[0.592, 0.816]	1.000	1.000

Table 10.
Marketing Capabilities significantly predicted SME Performance (B = .704, SE = .057, beta = .680, t = 12.405, p < .001, 95% CI [.592, .816]), supporting H3. Marketing Capabilities alone explained 46.2% of the variance in SME Performance.

Integrated Performance Model

The model was statistically significant, R = 0.724, R^2 = 0.524, adjusted R^2 = 0.516, F(3, 177) = 64.943, p < .001.

Table 11. Integrated Regression Model Predicting SME Performance

Predictor	B	SE	Beta	t	p	95% CI for B	Tolerance	VIF
MO	0.202	0.067	0.212	3.024	= .003	[0.070, 0.333]	0.546	1.833
EO	0.228	0.062	0.219	3.642	< .001	[0.104, 0.351]	0.741	1.349
MC	0.440	0.079	0.425	5.586	< .001	[0.285, 0.596]	0.464	2.155

Table 11.
When the three independent variables Market Orientation, Entrepreneurial Orientation, and Marketing Capabilities were combined, the three were found to be still statistically significant. Marketing Capabilities had the biggest unique standardized beta (.425), followed by Market Orientation (.212) and Entrepreneurial Orientation (.219). The integrated model accounted for 52.4% of the variance in SME Performance.

5.9 Mediation Analysis

The mediation analyses were conducted with 5,000 bootstrapping samples and 95% percentile bootstrapping confidence interval. Each mediation analysis controlled for the other strategic orientation dimension.

Table 12. Bootstrap Mediation Analysis

Model	Path	Effect	SE / BootSE	t	p	95% Boot CI
Model A: MO -> MC -> PERF (covariate EO)	a	0.517	0.050	10.320	< .001	
Model A: MO -> MC -> PERF (covariate EO)	b	0.440	0.079	5.586	< .001	
Model A: MO -> MC -> PERF (covariate EO)	c (total)	0.430	0.057	7.530	< .001	
Model A: MO -> MC -> PERF (covariate EO)	c' (direct)	0.202	0.067	3.024	= .003	
Model A: MO -> MC -> PERF (covariate EO)	Indirect a x b	0.228	0.050	—	—	[0.137, 0.332]

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Model B: EO -> MC -> PERF (covariate MO)	a	0.307	0.055	5.605	< .001	
Model B: EO -> MC -> PERF (covariate MO)	b	0.440	0.079	5.586	< .001	
Model B: EO -> MC -> PERF (covariate MO)	c (total)	0.363	0.062	5.822	< .001	
Model B: EO -> MC -> PERF (covariate MO)	c' (direct)	0.228	0.062	3.642	< .001	
Model B: EO -> MC -> PERF (covariate MO)	Indirect a x b	0.135	0.035	—	—	[0.074, 0.209]

With regard to H4a, Market Orientation was found to significantly predict Marketing Capabilities (a = 0.517, p < .001), and Marketing Capabilities significantly predicted SME Performance with control on both orientations (b = 0.440, p < .001). The indirect effect was 0.228 (BootSE = 0.050), and the 95% bootstrap CI was [0.137, 0.332]. Since zero did not fall within the range of the CI, hypothesis H4a is supported. The direct effect of Market Orientation was significant (c' = 0.202, p = .003), hence a significant indirect effect together with a significant direct effect.

For H4b, Entrepreneurial Orientation was found to significantly predict Marketing Capabilities (a = 0.307, p < .001), and the b path was significant (b = 0.440, p < .001). The indirect effect was 0.135 (BootSE = 0.035), and the 95% bootstrap CI was [0.074, 0.209]. Zero did not fall within the CI; therefore, H4b is supported. The direct effect of Entrepreneurial Orientation was significant (c' = 0.228, p < .001).

5.10 Summary of Hypotheses

Table 13. Summary of Hypotheses Testing

Hypothesis	Path	Beta / Indirect Effect	t / BootSE	p-value / 95% Boot CI	Decision
H1a	MO -> PERF	.452	7.530	p < .001	Supported
H1b	EO -> PERF	.350	5.822	p < .001	Supported
H2a	MO -> MC	.564	10.320	p < .001	Supported
H2b	EO -> MC	.306	5.605	p < .001	Supported
H3	MC -> PERF	.680	12.405	p < .001	Supported
H4a	MO -> MC -> PERF	0.228	BootSE = 0.050	95% CI [0.137, 0.332]	Supported
H4b	EO -> MC -> PERF	0.135	BootSE = 0.035	95% CI [0.074, 0.209]	Supported

6. Discussion

The results show consistent empirical support for the proposed orientation capability-performance framework among the sampled Iraqi SMEs and two methodological qualifications that should be noted in interpreting the findings: heteroscedasticity in H1 and H2 regressions and a Harman first-factor result that just exceeded the study's 50% common-method threshold. The substantive effects are then thus understood as statistically reliable associations in this cross-sectional, self-report design rather than as causal estimates.

H1a: Market Orientation and SME Performance

H1a was supported. Market Orientation showed a positive and statistically significant relationship with the SME Performance, with Entrepreneurial Orientation held constant. This is in line with the theoretical argument of this study which suggests that systematic focus on customer needs, competitor actions and market intelligence bring SME activities closer to market conditions. It is also in line with the previous studies reviewed in the literature, such as Buli (2017), Nasir et al. (2017), Laukkanen et al. (2013), and the Iraq centric studies by Taib (2021), Al-kalabi (2025), and Alani et al. (2025). The positive coefficient is still significant in the present data when Marketing Capabilities is added to the integrated model, implying that Marketing Capabilities is related to Performance via more than one mechanism.

H1b: Entrepreneurial Orientation and SME Performance

It was also agreed by H1b. The results showed that Entrepreneurial Orientation had a positive effect on SME Performance with Market Orientation as a constant variable. This pattern follows the opportunity-seeking logic developed by Khizar et al. (2023), and supported by empirical evidence from Nasir et al. (2017) and Koçak et al. (2017) and Iraqi evidence from Alani et al. (2025) and Raouf and Esmaeel (2025). In respect of innovativeness, proactiveness, and willingness to take calculated risks, these factors seem to be related to better self-reported performance for Iraqi SMEs in a volatile environment. In the integrated model, the effect was also found to be significant, suggesting that Entrepreneurial Orientation still has a performance association outside of the Marketing Capabilities association.

H2a: Market Orientation and Marketing Capabilities

H2a was well received. Market Orientation (beta = .564) was the greater of the two strategic-orientation predictors of Marketing Capabilities. This is theoretically understandable, since market orientation is a concept that gives paramount importance to the generation, dissemination, and use of market information, this should help to make pricing, communication, managing relationships, new product activity, and strategic marketing planning easier. This is consistent with the pathway that Shin and Aiken (2012) proposed, the meta-analysis evidence found by Shanka et al. (2025), and the evidence collected from Iraq found by Al-Janabi (2016) and Al Barwari et al. (2025). The size of the coefficient indicates that, in this sample, capability development is particularly strongly associated with a market-oriented strategic posture.

H2b: Entrepreneurial Orientation and Marketing Capabilities

H2b was supported. After controlling Market Orientation, there was positive independent association between Entrepreneurial Orientation and Marketing Capabilities. The results of this research are in line with Pascal and Shin (2015), Lekmat et al. (2018), and

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the evidence from Iraq by Alkhafagi (2023) and Yasir (2022). The entrepreneurial firms also tend to behave in ways that can increase the rate of accumulation of market-facing capabilities, such as experimenting, proactively entering into the markets, and tolerating uncertainty. The lower standardized coefficient compared to Market Orientation cannot mean that Entrepreneurial Orientation is not important per se, but it means that the two orientations have different impacts on the process of capability building in this data set.

H3: Marketing Capabilities and SME Performance

H3 was supported. Marketing Capabilities presented the highest univariance with SME Performance, and in the simple regression, accounted for 46.2% of the variation in SME Performance. However, more important for the proposed model, Marketing Capabilities was significant when entered in the same block as Market Orientation and Entrepreneurial Orientation with the highest unique standardized coefficient in the integrated model (beta = .425). This finding corresponds with that mentioned by Shin and Aiken (2012), Nusair et al. (2022), Al-Amrani et al. (2024), Al Barwari et al. (2025), Al-Laheebi (2025) and Abbas et al. (2026). The findings lend credence to the hypothesis that strategic posture translates into greater performance through explicit routines and capabilities in the market.

H4a: Mediation of the Market Orientation-Performance Relationship

The bootstrap analysis supported the results of H4a. The indirect effect of Market Orientation on SME Performance through Marketing Capabilities was positive and the 95% bootstrap confidence interval was not equal to zero. Meanwhile, the direct effect of Market Orientation was still strong. This is in line with the argument that marketing capability is important, but not the only, mechanism for linking market orientation with performance. It aligns with the mediating logic of Shin and Aiken (2012), Lekmat et al. (2018), Melesse and Knatko (2024) and with the larger meta-analytic evidence which is summarized by Shanka et al. (2025). The finding is particularly relevant to the context of Iraq as the literature search revealed that the domestic evidence of the individual relationships was somewhat scattered but a lack of an integrated mediation test was found.

H4b: Mediation of the Entrepreneurial Orientation-Performance Relationship

The H4b was also passed. The indirect effect of Entrepreneurial Orientation on SME Performance via Marketing Capabilities was also significant and positive. The direct effect of Entrepreneurial Orientation on SME Performance was significant, but the effect was reduced after the mediator was added. This finding is in line with Lekmat et al. (2018); Pascal and Shin (2015); Yaqub et al. (2025); and the capability mediated logic for the general capability as described in the study. This is in contrast to evidence in contexts in which Entrepreneurial Orientation is only indirectly related to marketing ability and is statistically present in the current sample of Iraqis, both indirectly and directly via a residual pathway. The direct effect may be due in part to contextual factors, to differences in measurement, to the mix of sectors, and to institutional volatility.

7. Conclusion

This study aimed at investigating the relationship between Market Orientation and Entrepreneurial Orientation with SME Performance and the testing of the mediation role of Marketing Capabilities between SMEs in Baghdad. All seven hypotheses are supported by the results. Performance was positively related with both strategic orientations and with Marketing Capabilities and the latter was highly related with performance. The indirect effects between Market Orientation and Entrepreneurial Orientation on Job Creation were statistically significant via Marketing Capabilities in both Bootstrap mediation and AMO.In both Bootstrap mediation and AMO, the indirect effects of Market Orientation and Entrepreneurial Orientation on Job Creation through Marketing Capabilities were statistically significant. The direct effect in both the mediation models stayed significant, suggesting that besides the strategic orientation, Marketing Capabilities also play a significant role in the relationship between strategic orientation and SME Performance.

7.1 Theoretical Implications

For managers of Iraqi SMEs, the results imply that adopting a market-oriented or entrepreneurial posture is not sufficient if it remains only a stated strategic intention. Managers should translate customer and competitor intelligence, proactive opportunity seeking, and innovation into concrete marketing capabilities, particularly new-product development, pricing, communication, customer-relationship management, and marketing planning. Because Marketing Capabilities retained the strongest unique coefficient in the integrated model, investment in these routines appears especially relevant to converting strategic posture into stronger reported performance.

7.2 Managerial Implications for Iraqi SMEs

The findings suggest that for Iraqi SMEs managers a market-oriented or entrepreneurial attitude is not enough when it is expressed as a strategic plan but is not yet taken. Managers need to convert customer and competitor information, initiative, and innovation into marketable skills, such as new product development, pricing, communication, customer relations management, and marketing planning. Investment in these routines seems particularly relevant to the development of Marketing Capabilities in the integrated model, since they had the largest unique coefficient.

7.3 Limitations

There are several caveats in interpreting the results. The design is cross sectional, and hence, there is no temporal or causal ordering of the regression coefficients. The responses to all focal variables were self-reported by one respondent, and the Harman diagnostic indicates a potential common-method concern. Judging of performance was based on perception and not on audited financial statements. The sampling frame also only covered registered SMEs in Baghdad, which excludes the large informal SME sector in Iraq. The sample is also multi-sector, as are the differences between the sectors, but not modelled in the main hypotheses. Lastly, two direct-effect regressions had heteroscedasticity, but the sensitivity checks using robust standard errors did not alter the significance of the results.

7.4 Future Research Directions

Longitudinal or time-lagged designs should be used in future research to establish temporal ordering, to procure predictor and outcome data from different sources when possible, and to include objective performance indicators. Common-method variance would be better tested with the use of multi-source designs or marker-variable/latent-method approaches than with Harman's diagnostic. Replication was performed across other governorates in Iraq as well as with other informal SMEs, which would increase external validity. Other mechanisms—such as innovation capability, organisational learning, competitive strategy, or digital capability—could also be tested in future models and it could be investigated whether the pathway between orientation and capability and between either orientation or capability and performance is moderated by sector, environmental turbulence, firm age or firm size.

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APPENDIX A: QUESTIONNAIRE

The Impact of Strategic Orientation on SME Performance: The Mediating Role of Marketing Capabilities

Dear Senior Management Member,

Greetings,

This questionnaire is designed to collect data for a scientific study entitled "The Impact of Strategic Orientation on SME Performance: The Mediating Role of Marketing Capabilities." Given your managerial experience and leadership perspective, your participation is important to the success of this study. Please take a few minutes to respond to the questionnaire items in a manner that accurately reflects the actual situation of your company.

All information provided will be treated with strict confidentiality and will be used solely for scientific research and statistical analysis. Neither your name nor the name of your company will be disclosed.

Thank you for your valuable cooperation.

Researcher: Dr. Imad Adnan Fadhil
Al-Iraqia University / College of Administration and Economics

Section I: General and Demographic Information

Please place a check mark (✓) in the appropriate box or write your answer in the space provided.

1. Current job title:

Option	Response
General Manager / Chief Executive Officer	☐
Board Member	☐
Marketing / Sales Manager	☐
Operations Manager	☐
Deputy Manager	☐
Other (please specify): _____	☐

2. Years in your current position within this company:

Option	Response
Less than 5 years	☐
5–10 years	☐
More than 10 years	☐

3. Age of the company (since establishment):

Option	Response
Less than 5 years	☐
6–10 years	☐
More than 10 years	☐

4. Number of employees in the company (for company-size classification):

Option	Response
Fewer than 10 employees	☐
10–49 employees	☐
50 or more employees	☐

5. Sector in which the company operates:

Option	Response
Trade sector	☐
Industrial sector	☐
Service sector	☐
Technology and telecommunications sector	☐
Other (please specify): _____	☐

Section II: Study Constructs

For each statement below, please indicate the extent to which you agree or disagree using the following five-point Likert scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree.

A. Market Orientation

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Statement	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1. Our company's objectives are primarily driven by achieving customer satisfaction.	☐	☐	☐	☐	☐
2. Our company continuously monitors the actions and strategies of our competitors in the market.	☐	☐	☐	☐	☐
3. We freely share information about our successful and unsuccessful customer experiences across all departments of the company.	☐	☐	☐	☐	☐
4. Our strategy for achieving competitive advantage is based on a deep understanding of customer needs.	☐	☐	☐	☐	☐

B. Entrepreneurial Orientation

Statement	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
5. In general, our company's top management strongly emphasizes research and development, technological leadership, and innovation.	☐	☐	☐	☐	☐
6. We are often among the first companies in the market to introduce new products/services or administrative methods.	☐	☐	☐	☐	☐
7. Our company usually adopts a bold and proactive posture to maximize the exploitation of available opportunities.	☐	☐	☐	☐	☐
8. We have a strong orientation toward undertaking high-risk projects with opportunities for very high returns.	☐	☐	☐	☐	☐

C. Marketing Capabilities

Compared with your major competitors, please indicate the extent to which you agree that your company possesses strong capabilities in the following areas:

Statement	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
9. We have a strong capability to successfully develop and launch new products/services.	☐	☐	☐	☐	☐
10. We have the capability to implement effective pricing programs that respond to market changes.	☐	☐	☐	☐	☐
11. We efficiently manage and implement marketing communication and promotional campaigns.	☐	☐	☐	☐	☐
12. We excel at managing and maintaining long-term relationships with our customers.	☐	☐	☐	☐	☐
13. We possess strong skills in developing comprehensive marketing plans and strategies.	☐	☐	☐	☐	☐

D. SME Performance

Compared with your major competitors, please indicate the extent to which you agree with the following statements regarding your company's performance over the preceding three years:

Statement	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
14. Our company has achieved noticeable overall sales growth.	☐	☐	☐	☐	☐
15. We have succeeded in increasing our overall market share.	☐	☐	☐	☐	☐
16. We have achieved a high return on investment (high profitability levels).	☐	☐	☐	☐	☐
17. We have excelled in retaining existing customers and acquiring new customers.	☐	☐	☐	☐	☐
18. We have achieved high levels of overall operational efficiency and cost reduction.	☐	☐	☐	☐	☐

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