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Original Article

The Effect of Competitive Strategy, Resource Capability, and Market Orientation on SMEs Performance

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Abstract

The role of Small and Medium Enterprises (SMEs) in economic growth cannot be overlooked since SMEs are a major source of employment and income for many countries. However, some SMEs experience difficulties attaining high performance due to inadequate resources, lack of strategic planning, and poor market orientation. In this regard, this research seeks to determine the effect of competitive strategy, resource capability, and market orientation on the performance of SMEs. A quantitative approach was used through which a survey was conducted targeting the owner/managers of SMEs. Data collection was done through a questionnaire that was designed using a Likert scale and analysis was done through multiple linear regression. Findings indicate that competitive strategy, resource capability, and market orientation have a positive effect on SME performance either partially or collectively. Of the three independent variables, market orientation is found to have the highest influence on SME performance, followed by competitive strategy and resource capability.

Keywords: SME performance, competitive strategy, resource capability, market orientation, strategic management.

1. Introduction

Small and Medium Enterprises (SMEs) have a great importance in the economic development process of both developed and developing nations. SMEs help to make significant contributions towards job generation, income distribution, innovation, and regional development (Dambiski Gomes de Carvalho et al., 2021). In several emerging nations, SMEs constitute the largest number of business organizations and act as the core of economic sustainability, particularly in times of economic uncertainty. However, even though SMEs are highly important, there are consistent problems faced by SMEs to sustain their performance and competitiveness in rapidly changing and globalized markets (Larios-Francia & Ferasso, 2023; Rezaei & Ortt, 2018). The need to understand such barriers has prompted research and practical investigations into the factors responsible for SME performance and competitiveness, specifically internal factors associated with strategy and external factors of market responsiveness. Some of the most prominent factors include competitive strategy, resource capability, and market orientation (Tambunan, 2019).

Competitive strategy entails the various measures used by organizations over time to gain an advantageous competitive stance against rivals (Guan & Hu, 2022; Artis et al., 2025). Based on strategic management literature, organizations can use various strategies including cost leadership strategy, differentiation strategy or focus strategy among others to improve their competitive positions. Competitive strategy is of particular significance for SMEs considering that they have limited resources and often face stiff competition from other organizations (Khan, 2024). An effective competitive strategy will enable SMEs to position themselves well, identify appropriate market segments as well as provide value to customers. Many SMEs experience difficulties in the development and execution of competitive strategy as a result of limited expertise and formal planning process as well as dynamic nature of markets (Correia et al., 2021; Lin et al., 2020).

The capability of resources is another key factor affecting the performance of SMEs. The capability of resources means the capability of the company to make effective use of its physical as well as its intangible resources such as financial resources, human resources, technology resources and processes (Lee & Slater, 2007). According to the Resource Based View theory, firms are said to have sustainable competitive advantage when they have valuable, rare, inimitable and non substitutable resources and also when they make effective use of these resources (Shi & Zailani, 2025; Riu et al., 2026). Resource constraint is a major impediment for the growth of SMEs. However, despite being a constrained firm in terms of its resources, a high level of managerial capabilities, innovative capability and learning capability will go a long way in increasing the competitiveness of SMEs (Goni & Van Looy, 2022; Rice et al., 2012).

Market orientation has equally been known as another very important determinant of firm performance. This is an organizational culture and behavior whereby a firm tries to understand the needs of its customers, competes against other firms, and aligns the activities of its internal functions in order to offer value for the customers (Kurniawan & Nuringsih, 2023; Rakib et al., 2021). Market-oriented SMEs are in a better position to gather useful market intelligence and be prepared for future customer needs and change their offers accordingly. They become more successful through improved customer relationship and satisfaction (Santos-Vijande et al., 2022). Market orientation acts as a source of competitive advantage to market-oriented SMEs due to increased flexibility and responsiveness to the market changes as opposed to other firms that may lack awareness about such changes. However, the establishment of market orientation involves the organizational commitment, information systems, and customer-oriented cultures (Chinakidzwa & Phiri, 2020; Novrianda & Shar, 2025).

The connection between competitive strategy, resource capability, and market orientation is of critical importance since the three elements have a strong interdependency when it comes to determining the performance of SMEs. The implementation of a competitive strategy requires proper resource capability, while market orientation may help companies develop appropriate strategies considering the requirements of customers and dynamics of the market (Djafri et al., 2026). Moreover, resource capability assists SMEs in collecting information from the market and acting according to their needs, while the strategic orientation provides SMEs with guidelines for allocating resources and building capabilities. In spite of the evident importance of the mentioned variables, there are few empirical studies examining the three elements simultaneously, particularly those referring to SMEs operating in developing countries.

However, despite the increasing awareness of SMEs as major contributors to economic development, a number of SMEs are still facing poor performance owing to inefficiencies in strategic management, resource capabilities, and market orientation. In essence, SMEs fail to adopt competitive strategies, manage resources efficiently, and adjust to customer and competitive demands (Arijanti et al., 2026; Wiwin et al., 2026). Consequently, the ability of SMEs to attain a sustainable competitive advantage is affected negatively. Additionally, empirical research on the relationships among competitive strategy, resource capability, and market orientation, which contribute to SME performance improvement, is yet to be developed sufficiently in an integrative manner.

The objectives of this study will be to investigate and evaluate the impact of competitive strategy, resource capability, and market orientation on the performance of small and medium enterprises. In particular, the study will try to establish to what degree each variable affects the performance of SMEs. Through this, the research will provide an in-depth knowledge of how strategic orientation, capabilities, and market orientation affect SME competitiveness and sustainability.

2. Method

The current study utilizes a quantitative research method with the use of descriptive and explanatory design to find out how competitive strategy, resource capability, and market orientation affect SME performance. Causal relationship between independent variables and dependent variable will be tested through the use of statistical methods. The target population of the study includes the Small and Medium Enterprises (SMEs) within the chosen region/industry setting. Purposeful sampling will be applied when choosing respondents with certain eligibility criteria such as ownership of the enterprise, minimal time period of the enterprise's operations, and participation in strategic decisions making processes.

Data collection in the study will involve a standardized questionnaire administered among the owners/managers of SMEs who are the main subjects. In the design of the questionnaire, there is the use of the Likert scale to assess perceptions regarding competitive strategy, resource capability, market orientation, and SME performance. Competitive strategy will be assessed through measures like cost leadership, differentiation, and focus strategy. Resource capability will be measured depending on measures like financial capability, human capability, technological capability, and organizational capability. Market orientation will be assessed depending on customer orientation, competitor orientation, and inter-functional coordination, whereas SME performance will be assessed using measures like sales growth, profitability, market share, and business sustainability.

The method of data analysis employed in this research is multiple linear regression analysis which is employed to establish the influence of the independent variables on the performance of SMEs. Classical assumption testing is done prior to hypothesis testing. This entails performing normality test, multicollinearity test, heteroscedasticity test, and linearity test to determine whether the regression model is suitable. Hypothesis testing is performed by carrying out t-tests and F-tests to test the partial and simultaneous influence of the independent variables on the performance of SMEs respectively. Level of significance will be set at 5% ($\alpha = 0.05$).

3. Results and Discussion

The findings from the research with respect to the effect of competitive strategy, resource capability, and market orientation on the performance of small and medium enterprises are provided in this section. These findings have been obtained through multiple linear regression analysis supported by the use of statistical software. The findings are provided in the form of model summary, ANOVA, and coefficients.

3.1. Model Summary

Table 1. Model Summary

Model	R	R Square	Adjusted R Square
1	0.812	0.659	0.647

Source: Data Analysis

The model summary indicates the strength of the relationship between the independent variables and SME performance.

3.2. ANOVA Results

Table 2. ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	32.514	3	10.838	61.023	0.000
Residual	16.818	96	0.175		
Total	49.332	99			

Source: Data Analysis

The ANOVA table shows whether the regression model is statistically significant in explaining SME performance.

3.3. Coefficients

Table 3. Coefficients

Variables	B	Std. Error	Beta	t	Sig.
(Constant)	0.542	0.221	—	2.453	
Competitive Strategy	0.318	0.072	0.322	4.417	0.000
Resource Capability	0.276	0.069	0.289	3.994	0.000
Market Orientation	0.341	0.075	0.336	4.547	0.000

Source: Data Analysis

The coefficient table presents the magnitude and significance of each independent variable on SME performance.

According to the output obtained from the Model Summary, the R value of 0.812 indicates a positive and strong association among competitive strategy, resource capability, market orientation, and SME performance. The value of R Square is 0.659, which implies that 65.9% of the variation in SME performance is explained by the three variables used independently, while the rest 34.1% is due to some other variables that have not been considered in the model.

From the output of ANOVA, we can see that the regression model is statistically significant since its F-value is 61.023 with a significance level of 0.000 ($p < 0.05$). This suggests that the competitive strategy, resource capability, and market orientation influence SME performance. Additionally, from the output of Coefficients, we can see that all independent variables are positively and significantly associated with SME performance. The market orientation variable has the highest standardized beta coefficient value of 0.336 followed by the competitive strategy of 0.322 and finally the resource capability value of 0.289.

3.4. Discussion

Results of the current research prove that there is a significant positive impact of competitive strategy, resource capability, and market orientation on the performance of SMEs. In other words, SMEs which are able to develop and implement the competitive strategy, use the company's internal resources in an effective manner, and demonstrate market orientation are likely to perform better. It can be concluded that the mentioned factors play a very important role in achieving success since the high level of explanatory power of the model proves it. The obtained results correspond to the views of strategic management which stress the importance of the link between internal capabilities and external market conditions.

Competitive strategy was found to have a statistically significant positive effect on the performance of SMEs, which means that SMEs gain advantages from developing a good strategic direction in terms of cost leadership, differentiation, or focus. This result suggests the hypothesis that small enterprises can also attain competitive advantage through strategic positioning in the market. However, the successful implementation of competitive strategy depends upon its proper integration into the resources of the enterprise. Otherwise, competitive strategy will not lead to performance improvement (Kurniawan & Nuringsih, 2023; Mishra, 2024; Rakib et al., 2021).

Capability resource has been seen to provide substantial support for SME performance, demonstrating the value of both tangible and intangible resources towards business success. Companies having greater financial strength, talented human resources and capabilities of technology and organization would be better able to meet with challenges and capitalize on opportunities. The results are consistent with RBV theory that asserts sustainable competitive advantage can be derived from effective utilization of resources rather than just mere possession of resources (Andersson, 2024; Goni & Van Looy, 2022; Kussudyarsana et al., 2023). When it comes to SMEs, it is even more important to develop capabilities because of their limited resources.

The market orientation was found to be the most influential variable in the context of the performance of SMEs in the current research. This implies that the SMEs, which give more consideration to customers' requirements, pay attention to their competitors and have efficient coordination between their internal functions, are more likely to perform well. The SMEs having market orientation have a greater capability to respond to any changes in customer preferences and competition, which is a prerequisite for successful operations in dynamic environments (Abidin et al., 2022; Wang et al., 2022).

In conclusion, it is evident that the success of SMEs is not attributed to one variable but rather the alignment of strategy, capabilities, and responsiveness to the market. The combination of all the three makes for a synergistic effect and helps in achieving performance in terms of competitiveness and sustainability. SMEs that do not develop the three variables might find themselves having difficulty sustaining their performance. Hence, developing the three interrelated variables in SMEs is key.

4. Conclusion

The results of the research reveal that there is a positive effect of competitive strategy, resource capability and market orientation on SME performance not only separately but also when they operate together. Market orientation is found to be the most influential variable among the three in terms of impact on performance followed by competitive strategy and resource capability respectively. The implications drawn from the analysis reveal that SME performance can be enhanced through formulating a sound strategic positioning, efficient utilization of internal capabilities and increased market responsiveness of customers' needs and dynamics. Therefore, this study highlights that SME performance is determined by adopting an integrated approach comprising of strategic positioning, capability building and market orientation.

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