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MARKET ORIENTATION AND SME COMPETITIVENESS IN PUBLIC PROCUREMENT: THE MODERATING ROLE OF STRATEGIC FLEXIBILITY

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ABSTRACT

This study investigates the effects of customer orientation, competitor orientation, and functional coordination on the sustainable competitiveness of Tanzanian special group Small and Medium Enterprises (SMEs), while assessing the moderating role of strategic flexibility. Although market orientation is often conceptualized as a unified construct, this paper adopts a component-level approach to evaluate the distinct contributions of each dimension within a highly regulated procurement environment. Data from 393 SMEs owned by youth, women, and persons with disabilities were analyzed using PLS-SEM. Findings reveal that customer orientation and competitor orientation significantly enhance sustainable competitiveness, whereas functional coordination shows no significant effect. Moreover, strategic flexibility demonstrates a negative moderation on the competitor orientation competitiveness link and an insignificant effect on the customer orientation path, underscoring its complex role in regulated markets. These insights highlight the need for strategic interventions that strengthen adaptive capabilities alongside market-driven strategies. The study offers practical implications for SME policy, capacity building, and procurement reform in developing economies.

Keywords: Customer orientation, Competitor orientation, Functional coordination, Strategic flexibility, Sustainable competitiveness, public procurement, Special group SMEs.

1. INTRODUCTION

Small and medium-sized enterprises (SMEs) have long been recognized as pivotal actors in fostering inclusive economic development, particularly in developing economies where they contribute significantly to employment, innovation, and local value creation (Muriente, 2025; OECD, 2018). Tanzania has implemented targeted policy interventions to ensure that women, youth, and persons with disabilities are included in public procurement. Legal reforms, including the amendment of the Public Procurement Act (PPA) in 2016, institutionalized preferential treatment mechanisms to enhance access to procurement opportunities for these marginalized groups (PPA Act, 2016). However, despite these supportive regulatory frameworks, many special group SMEs struggle to achieve long-term growth, competitiveness, and sustainability (Kweka & Sooi, 2020).

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Strategic orientations, particularly market orientation, are widely cited as essential for improving SME competitiveness. Market orientation (MO) is conceptualized as a firm's ability to understand and respond to market conditions through customer orientation, competitor orientation, and functional coordination (Narver & Slater, 1990; Kohli & Jaworski, 1990). These dimensions enable firms to align strategies and resource configurations with changing external demands. Nonetheless, most research treats MO as a unified construct, with limited empirical exploration of its individual components especially in highly regulated environments such as public procurement (Grandia & Volker, 2023). This simplification overlooks nuanced interactions between strategic behaviors and institutional constraints.

Public procurement in Tanzania creates a unique context marked by bureaucratic processes, high compliance requirements, and limited strategic discretion for SMEs. In such conditions, the impact of MO dimensions may vary: customer orientation (CU) aligns firms with buyer expectations, competitor orientation (CO) facilitates strategic positioning, while functional coordination (FC) supports internal alignment. However, internal coordination often remains compliance-driven, limiting strategic impact unless complemented by agility and innovation.

To address this, the study incorporates **strategic flexibility (SF)** the firm's capacity to adapt strategies and operations in response to environmental shifts as a moderating variable. Strategic flexibility is critical in constrained environments, as it enhances responsiveness and dynamic adjustment, potentially amplifying or diminishing the effects of market orientation on competitiveness (Zhou & Wu, 2010). Understanding this interaction provides a more comprehensive perspective on how SMEs can sustain competitiveness under regulatory constraints.

2. LITERATURE REVIEW

2.1 Theoretical Literature review

Market Orientation theory (MOT) provides a strategic lens through which firms can achieve superior performance by aligning their internal processes with external market demands, primarily through customer orientation, competitor orientation, and inter-functional coordination (Narver & Slater, 1990; Kohli & Jaworski, 1990). Traditionally, MOT has been treated as a unified construct; however, emerging scholarship emphasizes the need to disaggregate its dimensions to better understand their distinct strategic roles across varying contexts (Didonet et al., 2016). In regulated environments such as Tanzania's public procurement system particularly among SMEs owned by special groups MOT offers valuable insights into how firms can navigate institutional constraints to enhance sustainable competitiveness (Israel, 2019; Panga & Kazungu, 2015). For instance, customer orientation enables SMEs to meet procurement expectations and build trust with public entities, competitor orientation informs strategic bidding and positioning, while inter-functional coordination fosters internal synergy though its impact may be muted unless paired with innovation-driven practices (Zehir et al., 2019). By unpacking MOT into its core components, this study contributes to theory by identifying which strategic behaviors most significantly influence SME performance in policy-driven, inclusion-based economies, thereby addressing a critical gap in the contextual application of MOT.

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Dynamic Capability Theory (DCT) extends this perspective by emphasizing a firm's ability to **integrate, build, and reconfigure internal and external competencies** to address rapidly changing environments (Teece et al., 1997). Dynamic capabilities operate through sensing opportunities and threats, seizing opportunities, and transforming resources to sustain long-term performance. In public procurement contexts characterized by compliance demands and bureaucratic rigidity, dynamic capabilities such as **SF** become critical in enabling SMEs to adjust strategies, reconfigure resources, and exploit institutional opportunities effectively. Thus, while MO provides the strategic intent to understand markets, dynamic capabilities determine the firm's capacity to translate that intent into adaptive actions, ensuring sustainable competitiveness under uncertainty (Zhou & Wu, 2010).

By integrating these theories, the study positions **market orientation as a primary strategic driver** and **strategic flexibility as a dynamic capability** that conditions the effectiveness of MO dimensions. This theoretical synthesis supports a contingent view where sustained competitiveness depends not only on market sensing and responding but also on the firm's ability to adapt its resource base and operational logic within a regulated procurement system.

2.2 Empirical literature review and Hypothesis Development

2.2.1 Customer Orientation and Sustainable Competitiveness

Empirical studies consistently affirm the strategic importance of customer orientation in enhancing firm competitiveness, particularly in dynamic and service-driven sectors. Bankole, (2022), through a quantitative survey of 311 Nigerian service firms, demonstrated that firms with robust customer-centric strategies achieved higher levels of customer loyalty and market differentiation, which translated into sustainable competitive advantage. Similarly, Tunc (2020) found that Turkish SMEs that prioritized customer needs reported significant improvements in market share and customer satisfaction, reinforcing their competitive positioning. In the context of developing economies, Tseng et al. (2018) emphasized that aligning firm strategies with evolving customer expectations enables SMEs to respond effectively to market volatility and institutional pressures. These findings collectively suggest that customer orientation fosters adaptability, value creation, and client trust critical elements for SMEs navigating procurement systems. However, most existing studies have not examined this relationship within public procurement environments, where compliance and regulatory constraints may influence how customer orientation translates into competitive advantage. **H1: Customer orientation is positively and significantly related to sustainable competitiveness among special group SMEs in public procurement.**

2.2.2 Competitor Orientation and Sustainable Competitiveness

Competitor orientation, a core element of market orientation, reflects a firm's ability to monitor and respond to rivals' strategies and actions (Narver & Slater, 1990). In regulated contexts like public procurement, this capability helps SMEs, particularly special group SMEs, improve bidding strategies, anticipate market changes, and ensure compliance. Empirical studies consistently report its positive influence on performance. For example, Crick (2021) found that competitor-oriented UK SMEs enhanced adaptability and contract success. Similarly, Asikhia (2009) confirmed its link to growth and market share among Nigerian SMEs. Advanced analyses, such as Kim et al. (2022) and Lee and Wang (2023), revealed that competitor orientation strengthens adaptive

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capacity and stimulates innovation when integrated with knowledge systems. However, findings are context-dependent; Bekata and Kero (2025) reported no significant effect in Ethiopia, citing weak market intelligence systems. Overall, competitor orientation enhances strategic agility and responsiveness, supporting Market Orientation Theory in driving sustainable competitiveness in Tanzania's public procurement. **H2: Competitor orientation is positively and significantly related to sustainable competitiveness among special group SMEs in public procurement.**

2.2.3 Functional Coordination and Sustainable Competitiveness

FC, or inter-functional integration, reflects the collaboration among organizational units to create customer value (Narver & Slater, 1990). Within Market Orientation Theory, FC promotes information sharing and alignment of processes with market demands, supporting responsiveness and compliance in regulated procurement environments. Theoretically, FC should enhance SMEs' ability to prepare accurate bids, allocate resources efficiently, and deliver quality outcomes, strengthening sustainable competitiveness. Empirical evidence, however, is mixed. Studies by Mukhtar et al. (2020) and Hubnerova et al. (2020) link FC to operational efficiency and competitive advantage through improved information flow and strategic alignment. Mogaka et al. (2022) similarly reported positive effects on responsiveness and cost efficiency. Yet, research by Waruiru et al. (2018) and Lopez-Torres et al. (2023) suggests FC's impact weakens without complementary factors like technology adoption and innovation. In highly regulated contexts, FC alone often remains compliance-driven, limiting its strategic influence unless integrated with dynamic capabilities and market responsiveness. **H3: Functional coordination is positively and significantly related to sustainable competitiveness among special group SMEs in public procurement.**

2.2.4 Strategic Flexibility as a Moderator in the MO–SC Relationship

Research on the multidimensional MO–SC link reveals mixed results, prompting scholars like Brozovic (2023) to advocate for moderators to explain unexplained variances. Moderation identifies conditions under which strategic flexibility enhances or diminishes sustainable competitiveness in public procurement. Strategic flexibility enables firms to adapt to environmental changes, mitigate risks, and maintain competitive advantage, making it critical in dynamic markets (Morgan et al., 2019; Guo & Cao, 2014). SMEs leveraging flexibility respond effectively to uncertainties, allocate resources efficiently, and explore new markets (Sen et al., 2023). Despite its strategic role, empirical findings on SF and financial outcomes remain inconclusive (Aabo et al., 2024), necessitating further inquiry. Accordingly, this study hypothesizes:

H4: SF moderates the relationship between customer orientation and sustainable competitiveness.
H5: SF moderates the relationship between competitor orientation and sustainable competitiveness.
H6: SF moderates the relationship between functional coordination and sustainable competitiveness.

2.3 Conceptual Framework

This framework applies MOT, viewing MO as multidimensional (CU, CO, FC) and assessing each dimension's effect on SC in regulated procurement contexts. **DCT** underpins the inclusion of

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strategic flexibility as a moderator, capturing SMEs' adaptive capacity to reconfigure resources, influencing how market orientation drives sustainable competitiveness. As figure 1

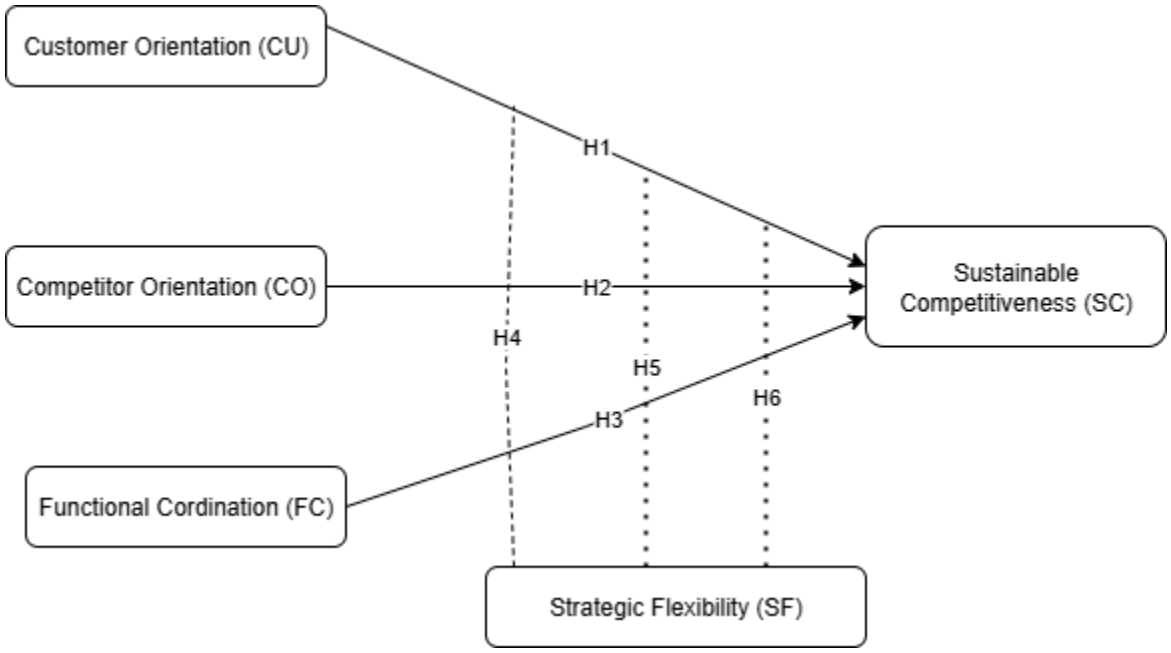

Figure 1: Conceptual Model of the study; Source: By Authors

3. METHODOLOGY

3.1 Research Philosophy, Design and Approach

This study adopted a **positivist philosophy**, emphasizing objective measurement and hypothesis testing to establish causal relationships (Kumar, 2019). An **explanatory research design** was employed to examine how customer orientation, competitor orientation, and functional coordination influence sustainable competitiveness among special group SMEs. A **cross-sectional survey** approach enabled data collection at a single point, supporting efficiency and hypothesis testing (Mugenda and Mugenda, 2003). Guided by **MOT and DCT**, the study followed a **deductive approach**, moving from theory to data to validate hypothesized relationships using statistical analysis (Rahi, 2017).

3.2 Sampling techniques and sample size

This study used a **census sampling technique**, targeting all special group SMEs registered with PPRA. The approach ensured complete coverage of the population, minimizing sampling bias and enhancing validity. The sample size equaled the entire population of eligible SMEs, enabling accurate testing of hypothesized relationships.

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3.3 Data Collection, Analysis, and Presentation

Data were collected using a structured questionnaire with closed-ended items on a five-point Likert scale adapted from prior studies (Bryman, 2016). PLS-SEM was adopted for this study due to its suitability in analyzing causal relationships among latent constructs in predictive research models. Furthermore, it allows simultaneous assessment of measurement and structural models, ensuring robust estimation of path relationships and explained variance, which aligns with the study's objective of examining the influence of market orientation dimensions on sustainable competitiveness (Hair et al., 2022; Sarstedt et al., 2020).

3.3.1 Response Rate

Out of 503 questionnaires distributed, 393 were returned, yielding a 78.1% response rate, which exceeds the 70% benchmark suggested by Mugenda (2003), ensuring data reliability and representativeness.

3.3.2 Assessment of Reflective Model

Indicator loadings should exceed 0.70 to ensure reliability (Hair et al., 2019). All loadings met this threshold except FC2 (0.688), acceptable as validity criteria were satisfied. As per figure 2.

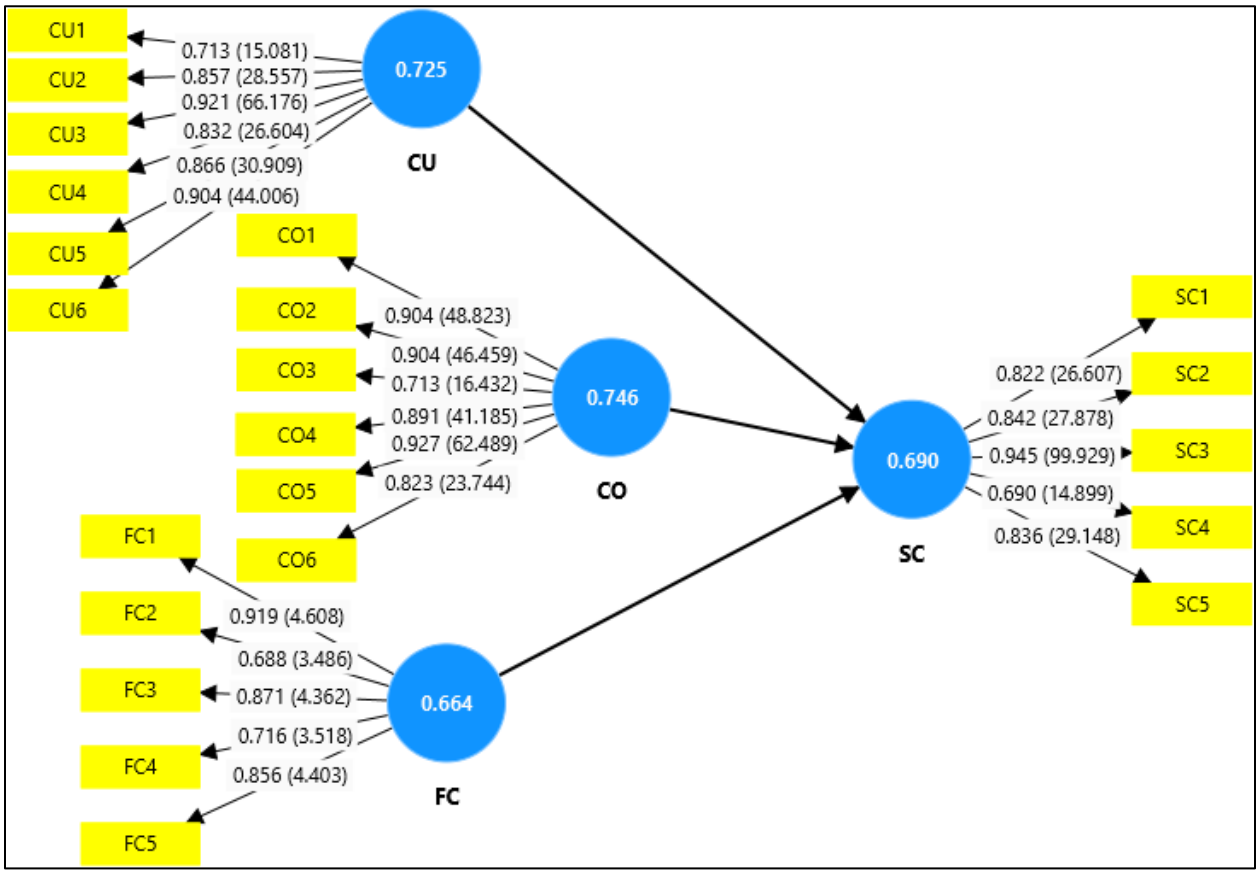

Figure 2: Measurement (Outer) model

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3.3.2.1 Internal Consistency Reliability

Internal consistency reliability was assessed using SmartPLS 4 for all constructs: CU, CO, FC, SC, and SF. Cronbach's Alpha, rho_A, CR, and AVE met recommended thresholds (Hair et al., 2019). All CR values ranged between 0.70–0.95, and AVE exceeded 0.50, confirming strong reliability and convergent validity of the measurement model. As per table 1.

Table 1: Internal Consistency Reliability

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
CO	0.930	0.932	0.946	0.746
CU	0.923	0.941	0.940	0.725
FC	0.880	0.843	0.907	0.664
SC	0.886	0.909	0.917	0.691
SF	0.693	0.817	0.827	0.628

CU showed high reliability (α = 0.930, CR = 0.946, AVE = 0.746). CO and FC also exceeded recommended thresholds, confirming validity. SC demonstrated strong internal consistency (α = 0.886, CR = 0.917, AVE = 0.691). SF, despite α = 0.693, met acceptable reliability through CR = 0.827 and AVE = 0.628.

3.3.2.2 Discriminant validity

HTMT analysis confirmed discriminant validity, with all values below 0.85. The highest (0.762 between SF and SC) remained acceptable, supporting construct distinctiveness per Sarstedt, et al. (2020). As Per table 2.

Table 2: Discriminant validity Hetetroit monetrait ratio

	CO	CU	FC	SC	SF	SF x CU	SF x CO	SF x FC
CO								
CU	0.176							
FC	0.061	0.071						
SC	0.377	0.396	0.093					
SF	0.124	0.228	0.069	0.762				
SF x CU	0.076	0.038	0.035	0.204	0.237			
SF x CO	0.073	0.078	0.074	0.235	0.167	0.125		
SF x FC	0.034	0.034	0.027	0.035	0.034	0.077	0.080	

3.3.3 Assessment of the structural model

After confirming measurement model reliability and validity, the next step in PLS-SEM is structural model evaluation, focusing on hypothesized relationships. This includes assessing **R^2** for explanatory power, **Q^2** for predictive relevance, and path coefficient significance, following thresholds by Hair et al. (2019).

3.3.3.1 Collinearity Statistics VIF Inner Model Statistics

Variance Inflation Factor (VIF) was used to assess multicollinearity among constructs and interaction terms. All VIF values ranged from 1.009 to 1.110, far below the threshold of 5 (Hair et

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al., 2019), confirming negligible multicollinearity and ensuring reliable path coefficient estimates within the structural model. As per table 3.

Table 3: VIF Inner Model Statistics

Construct	VIF
CO	1.054
CU	1.081
FC	1.009
SF	1.110
SF x CO	1.060
SF x CU	1.074
SF x FC	1.017

3.3.3.2 Coefficient of determination (R^2)

R^2 assesses explanatory power of endogenous constructs, with higher values indicating stronger prediction. This study's model explained 69% of Sustainable Competitiveness variance (R^2 = 0.690), reflecting moderate to substantial explanatory strength per Nitzl, & Chin, (2017).

3.3.3.3 Assessment of the Effect Size of the Coefficient of Determination (f^2)

After evaluating R^2, effect size (f^2) was analyzed to determine each predictor's contribution (Hair et al., 2019). Strategic Flexibility had the largest effect on Sustainable Competitiveness (f^2 = 0.571), while Competitor Orientation (0.146) and Customer Orientation (0.090) showed smaller effects. Functional Coordination (0.009) and interaction terms demonstrated negligible influence. As per table 4.

Table 4: **Coefficient of Determination**

Construct	Effect size f^2	Decision
CO -> SC	0.146	Medium
CU -> SC	0.090	Small
FC -> SC	0.009	No
SF -> SC	0.571	High
SF x CO -> SC	0.042	Small
SF x CU -> SC	0.006	No

3.3.3.4 Assessment of Predictive Relevance (Q2)

Predictive relevance (Q^2) was assessed using the blindfolding procedure (Hair et al., 2019). All Q^2 values exceeded zero, confirming predictive capability. Sustainable Competitiveness (0.369) and Strategic Flexibility (0.368) showed strong predictive relevance, while Customer Orientation (0.258), Competitor Orientation (0.237), and Functional Coordination (0.236) exhibited moderate levels, indicating acceptable model robustness. As per table 5.

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Table 5: Construct Cross-Validated Redundancy (Predictive Relevance (Q2))

	SSO	SSE	Q^2 (=1-SSE/SSO)
CO	3080.000	2349.358	0.237
CU	1155.000	856.959	0.258
FC	1898.000	1450.000	0.236
SC	1965.000	1239.369	0.369
SF	1898.000	1200.000	0.368

3.3.3.5 Path Coefficient

The final step assessed causal relationships by analyzing path coefficients, which indicate hypothesized links between constructs in PLS-SEM (Hair et al., 2019). Significance was tested using bootstrapping with 5,000 resamples, generating T-statistics and confidence intervals. Hypotheses were accepted when p-values < 0.05 and T-values exceeded 1.645 or 1.96.

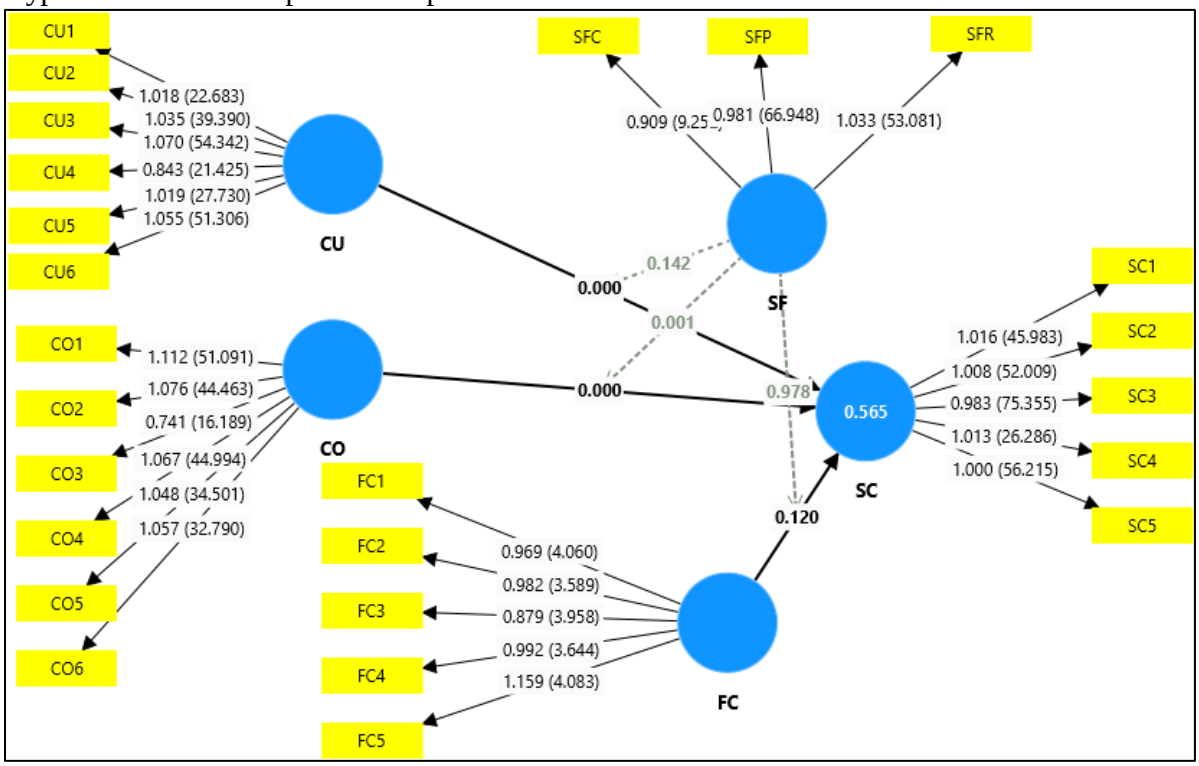

Figure 3: Bootstrapping; T Statistics (|O/STDEV|)

3.3.3.6 Direct effect Hypothesis testing

After confirming measurement model validity, the structural model was evaluated to test direct effect hypotheses (H1–H6), as presented in Figure 17 and Table 6.

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Table 6: Assessment of Structural Model Direct Relationships and Moderating Variable

Hypothesis	Direct path relationship	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Decision
H1	CU -> SC	0.224	0.227	5.069	0.000	Accepted
H2	CO -> SC	0.226	0.229	6.437	0.000	Accepted
H3	FC -> SC	0.098	0.100	1.556	0.120	Rejected
H4	SF x CU -> SC	-0.078	-0.080	1.469	0.142	Rejected
H5	SF x CO -> SC	-0.166	-0.175	3.378	0.001	Accepted
H6	SF x FC -> SC	-0.003	0.006	0.028	0.978	Rejected

Note: *p < 0.05; t-value = two tailed (1.96>)

The structural model results showed significant positive effects of Customer Orientation (p = 0.000) and Competitor Orientation (p = 0.000) on Sustainable Competitiveness, while Functional Coordination was insignificant. Strategic Flexibility significantly moderated Competitor Orientation–Sustainable Competitiveness (p = 0.001) but not Customer Orientation or Functional Coordination relationships.

4. FINDINGS AND CONCLUSION

Customer Orientation and Sustainable Competitiveness

CU significantly and positively influences sustainable competitiveness (p = 0.000), supporting H1. SMEs focusing on customer needs enhance responsiveness, compliance, and service quality, improving competitive positioning. These findings align with Market Orientation Theory and prior studies linking customer-centric strategies to superior performance and long-term sustainability (Narver & Slater, 1990; Bankole et al., 2022).

Competitor Orientation and Sustainable Competitiveness

CO showed a significant positive relationship with SC (p = 0.000), confirming H2. SMEs monitoring competitors' strategies gain bidding advantages and adaptability in procurement. This supports literature emphasizing competitor orientation's role in market positioning and innovation capabilities critical for sustainable advantage in competitive environments (Lee & Wang, 2023; Sondhi et al., 2024).

Functional Coordination and Sustainable Competitiveness

The relationship between FC and SC was not significant (p = 0.120), rejecting H3. This suggests compliance-driven coordination fails to generate strategic advantage in public procurement contexts, aligning with studies calling for adaptive, innovation-oriented coordination frameworks over traditional efficiency-based mechanisms (Maurer, 2022; Waruiru et al., 2018).

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Moderation: Strategic Flexibility on CU–SC Relationship
SF did not significantly moderate the CU–SC relationship (p = 0.142), rejecting H4. Regulatory rigidity and resource limitations may restrict SMEs' ability to leverage flexibility for customer-driven strategies, supporting findings that moderation effects depend on technological and contextual enablers (Pekovic & Rolland, 2016; Kasumaningtyas & Cempena, 2024).

Moderation: Strategic Flexibility on CO–SC Relationship
SF significantly moderated the CO–SC link (p = 0.001), supporting H5. Flexibility enables SMEs to reconfigure resources, respond to competitive intelligence, and enhance bid strategies, confirming its role in strengthening competitor orientation effects (Khan et al., 2022; Yang et al., 2022).

Moderation: Strategic Flexibility on FC–SC Relationship
Strategic flexibility did not significantly moderate the FC–SC relationship (p = 0.978), rejecting H6. This aligns with evidence suggesting coordination capabilities require complementary mechanisms to influence competitiveness, especially in rigid procurement contexts where flexibility alone cannot offset structural limitations (Vem et al., 2022; Mohammad et al., 2024).

Conclusion

Findings show customer and competitor orientations significantly enhance competitiveness, while functional coordination is insignificant. Strategic flexibility strengthens competitor orientation's effect but shows limited influence elsewhere. Thus, SMEs need strong market orientation supported by adaptive capabilities to remain competitive in regulated procurement environments. However, flexibility and internal coordination alone are insufficient without innovation, enabling infrastructure, and supportive institutional frameworks for sustainable success.

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