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Strategic Orientations and Innovation Capability for Sustaining MSME Performance: Insights from the Agricultural Sector

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ABSTRACT

Objective - This study aims to examine the role of Market Learning Orientation (MLO) and Entrepreneurial Orientation (EO) in enhancing Innovation Capability (IC) to sustain the performance of Micro, Small, and Medium Enterprises (MSMEs) in Malaysia, specifically in the Fruits and Vegetables (FFV) contract farming sector.
Methodology/Technique - Using a quantitative approach, primary data were collected from 228 FFV MSMEs through structured questionnaires. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) to test the relationships between MLO, EO, IC, and firm performance.
Findings and Novelty – The results reveal that both MLO ($\beta = 0.156$, $p < 0.05$) and EO ($\beta = 0.565$, $p < 0.01$) significantly enhance IC, which, in turn, positively influences firm performance ($\beta = 0.265$, $p < 0.05$). While MLO and EO do not directly impact performance, their mediated effects through IC are significant. This study contributes to the literature by emphasizing the pivotal role of IC as a mediator in translating strategic orientations into measurable business outcomes. It offers practical insights for MSMEs to prioritize innovation and for policymakers to design programs fostering strategic and innovative practices.
Type of Paper: Empirical Paper
JEL Classification: G21, L26, O16.
Keywords: Market Learning Orientation, Entrepreneurial Orientation, Innovation Capability, MSME Performance, Fruits and Vegetables Contract Farming, Malaysia, Business Sustainability.
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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in driving Malaysia's economy. They contribute 38.4% to the national GDP and makeup 97.2% of all business establishments, according to (SME Corporation Malaysia, 2023). These businesses are the backbone of employment, economic stability, and rural development in the country. However, despite their importance, MSMEs face numerous obstacles, including limited access to funding, technological gaps, and restricted market opportunities, as noted by the (World Bank, 2021).

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These challenges often hinder their ability to expand operations and embrace innovative practices, particularly in dynamic industries like agriculture. To overcome these barriers and ensure long-term growth, MSMEs must adopt strategies that foster adaptability and resilience. MSMEs are critical for food security and rural development in the agricultural sector, especially within the Fruits and Vegetables (FFV) contract farming segment. Yet, this sector is not without its own unique set of difficulties, such as seasonal fluctuations, inefficiencies in the supply chain, and changing consumer preferences.

The United Nations Development Programme (UNDP) emphasizes the need for a strong ecosystem to support the resilience of MSMEs. It advocates for scalable and innovative solutions to help these enterprises navigate future challenges (Spiro, 2023). Strategic approaches like Market Learning Orientation (MLO) and Entrepreneurial Orientation (EO) are essential tools for MSMEs to respond effectively to these complexities. MLO helps businesses gather and apply market insights, ensuring they can adapt to customer needs and shifting market trends (Sinkula, 1994). Meanwhile, EO encourages innovative and proactive behaviors that are crucial for surviving and thriving in dynamic environments (Miller, 1983). Together, these strategies, facilitated by Innovation Capability (IC), enable MSMEs to transform strategic efforts into measurable outcomes, promoting sustainability and firm performance (Makhloufi et al., 2021) (Fahim & Baharun, 2017a).

Guided by Resource-Based View (RBV) and Dynamic Capabilities View (DCV) theories, this study explores how MLO, EO, and IC collectively influence the sustainability and performance of MSMEs in the FFV sector in Malaysia. By investigating these relationships, the research aims to offer valuable insights into strategies that can strengthen MSME competitiveness and resilience in the face of evolving challenges.

2. Literature Review

MSMEs play a pivotal role in fostering economic development, accounting for a significant share of Malaysia's GDP and employment. Their contributions extend to sectors like agriculture, where they support food security and rural livelihoods (SME Corporation Malaysia, 2023). However, they are often constrained by financial limitations, technological gaps, and challenges in market access, making it difficult for them to compete effectively (World Bank, 2021).

The pandemic magnified these structural issues, with many MSMEs reporting operational disruptions and revenue losses. The (Department of Statistics Malaysia, 2021) highlighted that such vulnerabilities exposed the need for targeted support to improve resilience. Government initiatives, such as the Twelfth Malaysia Plan (2021–2025), focus on digital transformation and innovation to enhance MSME competitiveness (SME Corporation Malaysia, 2023). These strategies are essential for equipping MSMEs with the tools to overcome systemic challenges and thrive in an increasingly volatile economic environment.

To address these persistent challenges, MSMEs must adopt strategic approaches that enhance adaptability, resilience, and innovation. Key strategies, including Market Learning Orientation (MLO), Entrepreneurial Orientation (EO), and Innovation Capability (IC), play a pivotal role in equipping MSMEs to navigate dynamic market conditions and achieve sustainable growth.

2.1 Strategic Orientation Variables for MSMEs

2.1.1 Market Learning Orientation (MLO)

Market Learning Orientation (MLO) emphasizes the continuous gathering, sharing, and application of market information, enabling firms to anticipate and adapt to shifts in customer needs and competitive

dynamics (Sinkula, 1994). MLO is essential for building a sustainable competitive advantage for MSMEs, particularly in resource-constrained sectors like agriculture. Studies reveal that MLO helps firms align strategies with market needs, resulting in more resilient and adaptive practices (Jaworski & Kohli, 1993). In Malaysia, MSMEs in the agricultural sector, including fruits and vegetable contract farming (FFV CF), often face barriers in conducting formal market research. MLO provides a solution by enabling these businesses to leverage existing market knowledge cost-effectively, thus enhancing their responsiveness without additional financial strain (Zahid, 2021). The research underscores that MLO supports continuous adaptation to environmental shifts, making it a critical component for sustaining MSMEs in dynamic markets (Fahim & Baharun, 2017a).

2.1.2 Entrepreneurial Orientation (EO)

Entrepreneurial Orientation (EO) encompasses the dimensions of innovativeness, proactiveness, and risk-taking, which are critical for fostering resilience and growth (Miller, 1983). EO enables MSMEs to explore new opportunities, implement innovative practices, and address market challenges proactively. Research demonstrates that EO significantly enhances firm performance by promoting sustainable practices and fostering adaptability (Wiklund & Shepherd, 2005).

In the context of FFV contract farming, EO helps MSMEs navigate resource constraints by encouraging experimentation with sustainable practices. Research indicates that EO significantly influences the sustainability performance of MSMEs, as it drives the adoption of innovative solutions that align with environmental and market demands. A study by (Mokbel Al Koliby et al., 2024) demonstrated that entrepreneurial competencies, which are integral to EO, play a robust role in promoting innovation and sustainable performance among manufacturing SMEs. Studies also show that EO contributes to the adoption of environmentally friendly farming techniques, enhancing market positioning and operational resilience (Makhloufi et al., 2021). These findings highlight EO's critical role in equipping MSMEs to address uncertainties and achieve long-term growth.

While MLO equips MSMEs with the ability to adapt to market demands and EO fosters innovation and proactiveness, their full potential is realized through Innovation Capability (IC). Innovation Capability serves as a critical mechanism that transforms the strategic benefits of MLO and EO into measurable outcomes. By leveraging IC, MSMEs can translate market intelligence and entrepreneurial traits into sustainable practices that enhance adaptability and competitiveness.

2.2 Innovation Capability (IC) as a Mediator

Innovation Capability (IC) refers to the ability to develop and implement new ideas, processes, or products that enhance firm adaptability and competitiveness (Lawson & Samson, 2001). Innovation Capability (IC) is crucial for MSMEs, particularly in dynamic sectors like agriculture, as it enables the transformation of Market Learning Orientation (MLO) and Entrepreneurial Orientation (EO) into adaptive, sustainable solutions. IC acts as a mediator, translating MLO and EO into actionable strategies that improve performance and resilience. Research indicates that both MLO and EO positively influence IC, which in turn contributes to improved sustainability and competitive advantage for MSMEs in sectors like fruits and vegetable contract farming (FFV CF) (Fahim & Baharun, 2017b) (Makhloufi et al., 2021). Within the FFV sector, IC enables MSMEs to adopt innovative agricultural practices, optimize resource use, and align with consumer preferences. Studies indicate that MSMEs with strong IC achieve better market responsiveness and sustainability outcomes, underscoring their role in translating strategic orientations into tangible performance improvements (Keskin, 2006). Thus, MLO and EO lay the foundation for IC, which mediates their effects to ensure that MSMEs can achieve sustainable growth and remain competitive in dynamic markets.

2.3 Conceptual Framework

The conceptual framework for this study illustrates the relationships between Strategic Orientation Variables of MLO and EO, IC, and MSME performance. The MLO and EO are proposed as the key strategic orientations that directly influence IC. In turn, IC mediates the impact of these orientations on MSME performance, enabling the translation of strategic efforts into sustainable outcomes. Figure 1 below reflects the interconnectedness of these variables and provides a structured approach to examining their combined effects on business resilience and growth.

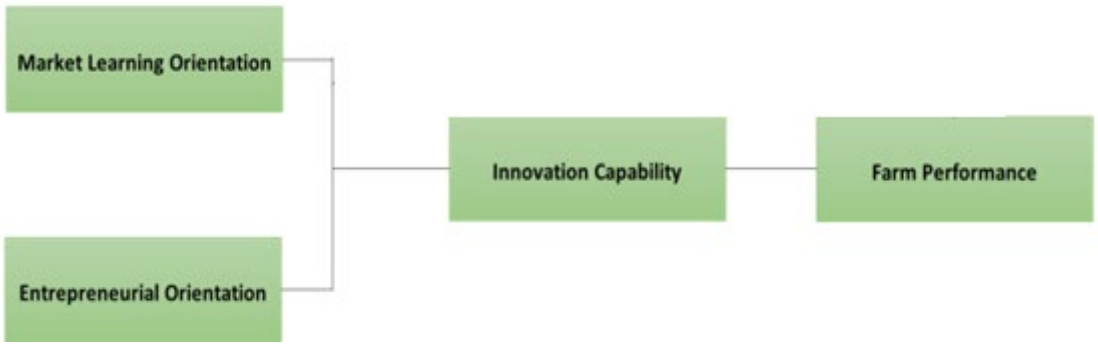


Figure 1. Conceptual Framework

3. Research Methodology

This study adopts a quantitative research design to examine the impact of Market Learning Orientation (MLO) and Entrepreneurial Orientation (EO) on the performance and sustainability of Malaysian MSMEs, with Innovation Capability (IC) as a mediating variable. The research specifically focuses on the Fruits and Vegetables (FFV) contract farming sector, a vital component of Malaysia's agricultural economy that faces resource constraints, market volatility, and operational inefficiencies.

The study utilized a structured questionnaire to collect primary data. The questionnaire included items measuring MLO, EO, IC, and performance sustainability using a 5-point Likert scale ranging from "strongly disagree" to "strongly agree." A total of 300 questionnaires were distributed face-to-face, targeting owners or senior managers directly involved in decision-making processes. Of the distributed questionnaires, 228 responses were deemed usable, yielding a response rate of 76%, which is robust for this type of study.

The collected data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) to examine the relationships between variables and test the mediating effect of IC. PLS-SEM was chosen for its ability to handle complex models with latent constructs and relatively small sample sizes. Descriptive statistics were first used to profile the respondents and businesses, followed by inferential analysis to test the study's hypotheses. The analysis provided insights into the direct and indirect effects of MLO and EO on performance sustainability, highlighting the critical role of IC as a mediator.

4. Analysis and Finding

The structural equation modeling (SEM) results demonstrated significant relationships between Market Learning Orientation (MLO), Entrepreneurial Orientation (EO), Innovation Capability (IC), and firm performance. Both MLO and EO were found to directly impact Innovation Capability, with path coefficients

of 0.156 (t = 2.419, p < .05) and 0.565 (t = 9.543, p < .01), respectively. EO exhibited the strongest influence on IC, underscoring its role in fostering proactive and innovative behaviors.

The influence of IC on firm performance was also significant (β = 0.265, t = 2.362, p < .05), highlighting its critical role as a mediator. Notably, while the direct effects of MLO and EO on firm performance were not significant, the indirect pathways through IC were confirmed. MLO → IC → Performance had an indirect effect coefficient of 0.041 (t = 2.096, p < .05), and EO → IC → Performance had an indirect effect coefficient of 0.150 (t = 2.193, p < .05). These findings underscore the importance of leveraging IC to translate strategic orientations into tangible performance improvements

Table 1. Structural Model Results.

Pathway	Path Coefficient (β)	T-Value	P-Value	Significance
MLO → IC	0.156	2.419	0.016	Significant
EO → IC	0.565	9.543	0.000	Significant
IC → Performance	0.265	2.362	0.018	Significant
MLO → Performance	0.122	1.261	0.208	Not Significant
EO → Performance	0.084	0.841	0.400	Not Significant
MLO → IC → Performance	0.041	2.096	0.037	Significant
EO → IC → Performance	0.150	2.193	0.028	Significant

5. Discussion and Conclusion

This study explored the interrelations among Market Learning Orientation (MLO), Entrepreneurial Orientation (EO), Innovation Capability (IC), and firm performance within the context of Malaysian MSMEs, specifically in the Fruits and Vegetables (FFV) contract farming sector. The findings underline the significance of IC as a mediating factor, translating strategic orientations into tangible performance outcomes.

Firstly, the results demonstrate that MLO positively influences IC, albeit moderately. MSMEs that emphasize market intelligence and adaptability tend to develop innovative capabilities, aligning their practices with evolving customer needs. This highlights the importance of market-driven strategies in enhancing resilience and ensuring business continuity in volatile sectors like agriculture. This is consistent with the studies by (Ho et al., 2018), Micheels and Boecker (2017), (Micheels & Gow, 2015) and (Mirzaei et al., 2016) in the agricultural setting.

Secondly, EO emerged as the most significant driver of IC. MSMEs with strong entrepreneurial traits, such as proactiveness, risk-taking, and innovation, are better equipped to navigate uncertainties and capitalize on opportunities. This finding underscores the need to foster entrepreneurial behaviors within MSMEs to sustain competitive advantages. In the agricultural sector, Micheels and Boecker (2017) analyzed agricultural firms in Canada and found similar findings, namely that EO is an important factor in determining the product and marketing innovations of farm-based agribusiness.

Thirdly, IC plays a pivotal role in enhancing firm performance. It acts as a bridge, mediating the effects of MLO and EO on performance. MSMEs with higher IC are more likely to implement sustainable practices, optimize resources, and respond effectively to market changes. This is in line with numerous numbers of researchers who found a positive and significant role played by IC in improving firm performance considerably (Omar et al., 2016; Saunila, 2014). It reinforces the critical role of innovation in translating strategic efforts into measurable outcomes.

Finally, while MLO and EO had no significant direct effects on firm performance, their mediated pathways through IC were significant. This indicates that simply possessing strategic orientations is insufficient; firms must actively develop and utilize their innovation capabilities to achieve desired performance outcomes. Although evidence showed that firms with higher MLO will have high firm performance, dissonant findings exist as some studies found negative or insignificant MLO-firm performance relationships (such as by Micheels and Boecker, 2017). Micheels and Boecker (2017) indicate that MLO indirectly affects expected farm performance through innovations.

In the complexity of the business environment, EO is known as one of the elements of a firm's success (Wiklund and Shepherd, 2005)The plausible explanations for the insignificant direct relationship are that EO activities are not easy to execute, particularly when the business market is stagnant and there are significant environmental and dynamic challenges (Kraus et al., 2012).

This study highlights the importance of Innovation Capability (IC) as a critical mediator in translating MLO and EO into improved performance for MSMEs, particularly in the Fruits and Vegetables (FFV) sector. MLO and EO significantly drive IC, which, in turn, enhances firm performance, emphasizing the necessity of innovation for business sustainability and resilience. This finding is similar to that reported by Micheels and Boecker (2017), which highlighted the significant indirect effect of market orientation towards enhancing the expected future performance of the agricultural firms in Ontario, Canada, through product innovation and market innovation.

For FFV MSMEs, strategic orientations must be complemented by robust innovation practices to navigate market complexities and achieve competitive advantages. These findings provide actionable insights for MSMEs to invest in building their innovation capabilities and for policymakers to support these efforts through targeted programs and resources.

Future research could expand the analysis to other sectors and explore cross-cultural comparisons to deepen the understanding of how strategic orientations influence MSME performance across diverse contexts.

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