

## **The Effect of Digitalization on SME Performance in UAE: The Mediating Role of Market Orientation**

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DOI: 10.46609/IJSSER.2025.v10i04.009 URL: <https://doi.org/10.46609/IJSSER.2025.v10i04.009>

Received: 20 March 2025 / Accepted: 18 April 2025 / Published: 28 April 2025

### **ABSTRACT**

*Today digitalization has become part of the business plan of small and medium enterprises (SMEs). Whereas market orientation could influence this relationship. Hence, the aim of this study is to examine the relationships between digitalization and SME performance with mediating role of market orientation in the United Arab Emirates (UAE). Quantitative methodology was applied to test the hypothesized relationships and validate the proposed conceptual framework. Questionnaire was used to collect data from a sample of 450 executive managers. Simple random sampling technique was applied in the survey procedure. SEM analysis was utilized to conduct data analysis. The results showed that digitalization has a significant effect on SME performance. In addition, the result reveals that market orientation partially mediates this relationship. The outcome of this paper contributes to the theory of resource-based theory, and provide novel evidence on the substantial role of digitalization in fostering the performance of SMEs in the UAE market. Therefore, policymakers in the business and trade sector should consider the findings of this paper in developing strategic future plans for developing the performance of SMEs.*

**Keywords:** Digitalization, Market Orientation, SME Performance

### **1. Introduction**

In every nation at the present time, small and medium-sized enterprises (SMEs), are the engine of economic expansion. The substantial employment rate and expansion of SMEs attest to the importance of SMEs in emerging countries (Hussain & Malik, 2022). SMEs are sometimes referred to as the foundation of the economy since they are essential to innovation, employment creation, and economic expansion. There are widely recognized standards that help differentiate SMEs from greater firms, even if the precise definitions may differ between nations and industries (Prasanna et al., 2019). SMEs usually employ fewer people than large corporations,

according to one popular definition that is based on employee count (Arsawan et al., 2022). Nevertheless, a variety of issues, including market demand, fast technical innovation, shifting consumer tastes, globalization, pandemics, and a lack of experience, impact SMEs' success in local markets (Abuanzeh et al., 2022). Without ignoring the necessity of a highly responsive marketing approach, SMEs are currently facing intense competition as a result of the significant advancements in the digitalization of work. SMEs should thus invest more money in changing to a digital business model and pay more attention to client needs in order to thrive in the market. Moreover, SMEs could experience financial difficulties and would have a stronger market position if this were to happen (Tidd & Bessant, 2018). Because of their size, SMEs are flexible and adaptable, which helps them take advantage of new possibilities and react swiftly to changes in the market (Ghak & Zarrouk, 2022). Furthermore, by producing revenue and jobs, SMEs frequently encourage local entrepreneurship and support regional development. It is impossible to overestimate their contribution to economic development and innovation, thus governments must give SMEs the resources and assistance they need to succeed (Hussain & Malik, 2022).

Organizations, industries, and even society have undergone significant transformation due to digital technology (Henri, 2022). Digital transformation has an impact on SMEs (Melo et al., 2023). SMEs are more likely to succeed, get a fair market share, please stakeholders, and support the national economy if they prioritize responsive market orientation and rely on business digitalization (Brandon et al., 2020). Digitalization describes the ongoing change in how businesses conduct their activities in the digital age (Verina & Titko, 2019). It has been argued that market orientations and corporate digitalization have become popular subjects in the literature, particularly in the SME sector. Their potential to boost the expansion and profitability of SMEs has been documented in a number of nations and is well known in practically every regional setting worldwide (Ikramuddin et al., 2021; Khamaludin et al., 2022; Ranjan & Nayak, 2023). The government in the United Arab Emirates (UAE) initiated a digitalization programs which urge all businesses in the country to include digital strategies into their business plans (Nuseir, 2018). Despite this promising program, SMEs find it difficult to transition to a digital business strategy (Joensuu-Salo et al., 2018). Digital transformation within SMEs in the UAE is not promising. For instance, during the COVID-19 epidemic, it was difficult for companies categorized in Dubai's SME sector to survive in the market with low levels of digital preparedness. Accordingly, the digital knowledge gap brought on by an insufficient level of computer literacy among company owners, managers, and employees is one of the biggest issues affecting SMEs in the UAE market, particularly microenterprises (Zarrouk, 2023). Additionally, business digitalization in the context of SMEs has not been conceptualized in prior research (Malodia et al., 2023). The majority of SMEs with little resources are ill-prepared for corporate digitalization due to its complexity, especially when it comes to open innovation initiatives

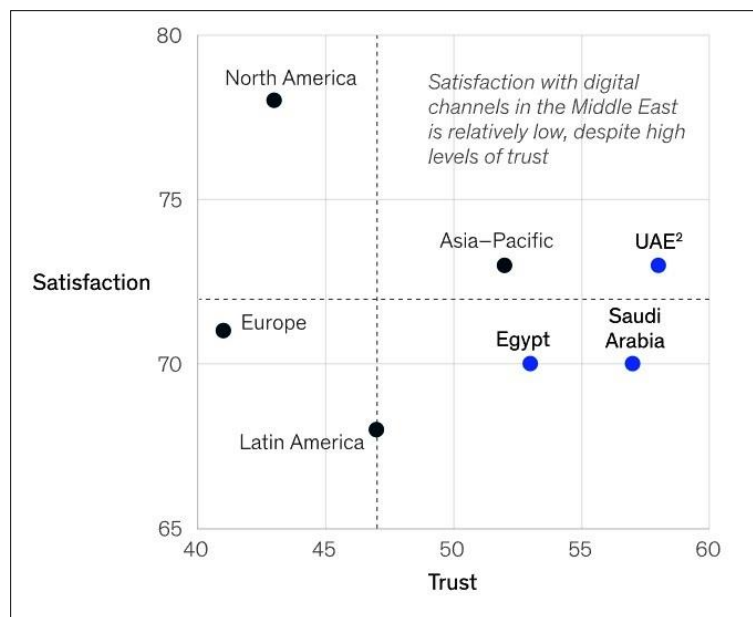
(Bertello et al., 2021). To the end, the aim of this study is to examine the relationships between digitalization and SME performance with mediating role of market orientation in the UAE.

## **2. The Challenges of SMEs in UAE**

SMEs face a variety of difficulties in the marketplace, the nature of which varies based on the kind of SMEs, according to the literature review. Their low chance of survival is the most significant factor affecting SMEs in the competition (Acheampong & Hinson, 2018). Lack of creative production and marketing strategies is one of the many factors that make SMEs highly unlikely to survive (Ioanid et al., 2018; Eito-Brun, 2017). SMEs represent 50% of all jobs worldwide and 90% of all businesses. As a result, assessing SMEs' success throughout the digital transformation is still a broad study topic that needs more investigation and analysis (Melo et al., 2023). Due to consumers' current substantial dependence on online shopping and services, many SMEs in the UAE are not yet engaged in digital transformation, which has an impact on their market performance (Abdelhamid & Sposato, 2019). Although SMEs may gain from digitalization, there may be other elements at work that affect a company's performance, and digitalization is not a guarantee of success. Furthermore, certain small and medium-sized enterprises can have justifiable worries about both the costs and risks of introducing new technology. For SMEs operating in the UAE, there are several inherent challenges and concerns. It is clear that SMEs in the UAE are facing more and more rivalry and difficulties, both from their peers and from big businesses in both the local and foreign markets (ALAmeri & Musa, 2021). Most SMEs use traditional management approaches, and a lack of resources and experience may hinder their ability to expand (Sadiq & Gebba, 2021). Although SMEs manage 95% of businesses in the UAE, their influence is primarily felt in business, trading, and distribution. As a result of the changes in growth patterns, SMEs were unable to effectively manage or control their resources effectively to establish a business plan based on digitalization (Anand et al., 2020). Even if some SMEs have witnessed successful examples in the country, this does not imply that they operate efficiently and without major challenges. The degree to which digitalization influences SME performance in the UAE market is yet unknown. Though some SMEs might not be completely aware of the advantages that digitalization could provide or how to successfully integrate digital technology into their daily operations. This emphasizes the necessity for SMEs to receive additional training and assistance in order to successfully navigate the digital environment and embrace its benefits. While digital solution providers can offer specialized products and assistance to help SMEs overcome adoption hurdles, governments and industry groups can also aid SMEs by offering resources and training. In the end, SMEs' long-term viability and expansion in an increasingly digital economy will depend on how well they successfully incorporate digital technology into their operations.

It is clear that digital platforms have provided businesses and consumers with a crucial lifeline, particularly during the most recent pandemics that have affected national economies. However, will consumers continue to use digital platforms or switch back to more conventional methods of trading and purchasing. In this sense, the McKinsey Digital Sentiment study in the UAE sheds light on how customer preferences can differ greatly between nations, within a region, and by industry. The subject of whether SMEs in the UAE pursue digital transformation and the degree to which they use digitalization to improve their performance in terms of profitability and business growth is therefore brought up to more debate. As seen in Figure 1 below, despite a high degree of confidence in the digital market, the digital solutions provided in the UAE are not superior to those found abroad, which results in comparatively poor satisfaction with digital channels in SME domain.

**Fig. 1. The degree of trust and satisfaction on digital channels in UAE (McKinsey Digital Sentiment, 2023)**



In general, the government of UAE is employing a holistic strategy to foster digitalization and the growth of the SME sector in Dubai. Numerous initiatives and programs have been put in place to improve particular facets of the SME sector, such as the regulatory environment, skill development, and export orientation. Nonetheless, there are some gaps in the ecosystem that call for a coordinated strategy from the public and private sectors to improve the support ecosystem as a whole and to address particular facets of SMEs' operations (increase focus on human capital development, foster innovation, and improve IT adoption, among other things). Further study on

these topics is therefore required to emphasize how digital transformation may assist SMEs in the UAE in overcoming this obstacle that impacts their performance in the market.

### **3. Literature Review**

#### **3.1. Digitalization**

The alterations and transformations generated by modern technology are referred to as “digitalization”. Digitalization is a change if digitalization is the conversion of data and procedures. Digitalization encompasses more than just converting current data to digital format; it also includes the use of digital technologies to gather data, identify patterns, and improve business choices (Parida et al., 2019). The term digitalization used to describe the process of incorporating digital technology into a company's or industry's operations, marketing, customer service, and other areas. According to Riasanow et al. (2019), digitalization is the process of implementing digital technology to significantly drive organizations toward digital tools and systems. Businesses may boost client experiences, improve productivity, and optimize efficiency thanks to this transition, which eventually spurs growth and profitability. In the current digital era, digitalization is becoming more and more crucial as companies work to remain competitive and satisfy changing customer demands. In light of this, firms must adopt digitalization if they want to be profitable and relevant in the marketplace. In order to enhance income and growth, it entails implementing new technologies and tactics to improve customer satisfaction and streamline operations.

The European Commission (2019) characterized business digitalization as the creation of smart products and services, the domination of innovative business models and new processes, and the convergence of contemporary technology and the integration of physical and digital systems. Digitalization is defined by the OECD (2018) as the effects of digitalization on the economy and society. Digitalization, on the other hand, is the process of transforming analog data and procedures into a machine-readable format that businesses can use. Schwertner (2017) defines business digitalization as the application of technology to develop new business models, procedures, software, and systems that improve efficiency, competitive advantage, and revenue. Tools like the internet, big data, information systems, and smart devices are all part of digitalization (Parlak, 2017). Knowledge production and acquisition are crucial in today's world. The process of producing and using information seems to be essential to the advancement of people, businesses, and societies. Businesses and society must go through business digitalization due to the increased development and use of knowledge in every field of life (Alaa et al., 2021). According to Berghaus and Back (2017), the majority of businesses at the present time view the early phases of a digitalization effort as crucial. This emphasizes how important it is to have a common stance or point of origin from which to guide the transformation process.

### **3.1.1. Digitalization in SME Domain**

Before initiating any digitalization, initiatives or putting any measures in place, it is crucial to establish success and failure metrics (Ifenthaler et al., 2021). Since digitalization has affected SMEs' total productivity and efficiency, its function in SMEs has been documented in the literature. SMEs may now reach a larger market, automate procedures, and improve operations thanks to digitalization. In today's fast-paced business world, digitalization has also made it possible for SMEs to remain relevant and compete with larger firms. In the end, digitalization is critical to SMEs' expansion and prosperity in today's fast-paced business climate. To stay ahead of the competition in the home market, SMEs must embrace digitalization and constantly adjust to new technology. Therefore, it is crucial to take into account how digitalization affects SMEs' internationalization (Joensuu-Salo et al., 2018). In the modern technological environment, a number of SMEs have embraced business digitalization (Hyvönen, 2018). Thus, one of the main forces behind digitalization in the SME sector is increasing customer satisfaction and retention (Hyvönen, 2018). Managing altering consumer behavior, understanding complex customer data, streamlining customer operations, incorporating technology, and adapting to the evolving business circumstances of numerous SMEs across all nations (Hess et al., 2019). In order to better understand how to enhance the customer experience, SMEs' adoption of business digitalization has therefore been the focus of several research (Nguyen, 2016).

For SMEs to remain ahead of their rivals in the market, they must embrace digitalization and adapt as technology develops. In a different way, for businesses to stay competitive and satisfy the changing demands and expectations of customers, digitizing work in the SME sector is becoming more and more crucial in the current digital era. As a result, adopting digitalization is essential for businesses to stay profitable and relevant in a market where customer demands fluctuate quickly due to technological advancements. According to Bilyalova et al. (2019), modern digital technology is more than simply a tool; it's a way of life that creates new possibilities like studying at any time and throughout every aspect of life. SMEs must adjust to today's intensely competitive business climate as the environment and people's requirements have already changed considerably and will continue to do so. Therefore, without depending on digital systems, it is crucial and difficult to focus on transformation processes (Grönroos, 2006). Globalization and digitalization have created a more rapid and less predictable environment, and modern technology increases up the rate at which SMEs assess information and make choices (Earley, 2014). In light of this, Westerman et al. (2014) asserted that business digitalization enabled SMEs to take use of digital technology in order to improve ineffective business models or develop new income and value streams. Similarly, Westerman and Bonnet (2015) attested to the fact that company digitalization assisted SMEs in reducing unnecessary expenditures and boosting productivity.

### **3.2. Market Orientation**

Market orientation is a corporate strategy that emphasizes satisfying customer demands through product creation, market research, and customer satisfaction (Boonmalert et al. 2020). It entails comprehending the target market, figuring out their wants and requirements, and developing goods and services to meet those demands. As indicated by Gani et al. (2023), market orientation also pertains to the ongoing monitoring of the market as well as the adaptation to changing needs among customers and trends in the market. Market orientation also defined as a customer-centric strategy that seeks to add value for clients and establish lasting partnerships with them (Razak et al., 2023). Because it allows them to remain customer-centric and develop goods and services that cater to their target market, it is crucial for firms to use a market orientation strategy (Akanpaaba et al., 2023). Businesses may assess how successfully market orientation has been implemented to maintain competitiveness in the marketplace using a variety of measures. Customer orientation is a widely used measure that entails getting feedback from customers and creating items that suit their tastes (Alabsy, 2021). Competition orientation is yet another measure that entails analyzing the techniques employed by rivals and modifying marketing strategies in accordance with those findings (Okello & Luttah, 2022). Inter-functional coordination, the last metric, is coordinating all organizational departments to meet customer demands and enhance overall business performance (Abdulsamad et al., 2021). Some scholars argue that adopting a market-oriented strategy is essential for firms to remain competitive and satisfy changing consumer expectations, regardless of the method used to quantify market orientation (Saraswati, 2022).

When it comes to market orientation, one of the most important elements of corporate success is responsive market orientation, which entails gathering and evaluating consumer feedback to create goods that suit their tastes (Bodlaj & Čater, 2022). Businesses may maintain their competitiveness in the market and establish a solid reputation for client loyalty and satisfaction by giving market orientation first priority (Wang & Liu, 2020). In order to remain ahead of the competition and satisfy changing consumer demands, organizations can benefit from a variety of market orientation strategies, including competitor orientation, customer orientation, and inter-functional coordination. In the end, every company hoping to improve sales and keep a good reputation in the marketplace must implement a responsive market orientation plan (Albuquerque & Martins, 2022). For instance, a smartphone manufacturer may use a customer-focused strategy by getting input from their target market, which may include tech enthusiasts or millennials, in order to create features that suit their tastes. It is also possible for them to investigate the techniques employed by their rivals and modify their marketing strategy appropriately in order to maintain a competitive advantage over them. In order to fulfill consumer requirements and enhance overall corporate performance, inter-functional coordination

would entail coordinating various divisions, including marketing, customer service, and product development. A powerful brand would be developed as a consequence of this action by the corporation.

### **3.2.1. Market Orientation in SME Domain**

In the highly competitive business world of today, the function of market orientation in SMEs is very necessary for their success. By learning about its clients' preferences, expectations, and purchasing patterns, a market-oriented SME concentrates on satisfying their needs and desires (Hernández-Linares et al., 2021). SMEs may utilize this market data to create goods and services that are customized to meet the demands of their clients, increasing the likelihood that they will be satisfied and remain loyal (Peng & Chang, 2023). Additionally, a market-oriented SME is more likely to spot new market possibilities and react fast to market changes, both of which contribute to preserving a competitive edge. To put it another way, SMEs' performance in the current business climate is greatly influenced by their market orientation (Özgül et al., 2023). To that end, SMEs may create goods and services that are more likely to please and keep consumers by putting their needs and preferences first. A market-oriented strategy also helps SMEs keep ahead of the competition by seeing new possibilities and adapting to market shifts (Ardani, 2023). As a result, SMEs hoping to prosper in the cutthroat business environment of today must adopt a market-oriented approach. For SMEs, however, putting a market-oriented strategy into practice can be difficult, particularly if they lack the necessary funds and experience. To collect consumer data, examine market trends, and create customized goods and services, a substantial time, financial, and human commitment is needed (Al-Shourah, 2021). This can be challenging for SMEs with limited resources, but the potential benefits of a market-oriented strategy far outweigh the initial investment. By understanding the needs and preferences of their target market, SMEs can tailor their products and services to meet customer demands more effectively, ultimately leading to increased sales and profitability. In today's fast-paced and competitive business landscape, embracing a market-oriented approach is essential for SMEs looking to thrive and succeed in the long run.

### **3.3. SME Performance**

Scholars use the term “business performance” to refer to the outcome of companies' performance in a variety of areas, including marketing, financial, profits, and growth, as well as innovation. The amount of revenue per year, increase in profits, and expansion of the firm are only a few of the effective ways that the success of the SME may be assessed (Inta & Irina, 2017). According to Mtengela and Mrindoko (2023), SME performance may thus be defined as the capacity of the business to accomplish particular objectives based on financial considerations. Therefore, a SME has to decide which of its goals to prioritize, and its

performance is evaluated based on how successfully it accomplishes these goals in a given amount of time (Inta & Irina, 2017). It is clear that the idea of SMEs' performance is dynamic. Therefore, a proper interpretation of performance will aid the researchers in creating precise performance indicators. For instance, a model explaining the relationship between present and future performance was put out by Qistina and Khashini (2017). According to Ahmad et al. (2018), organizational performance is a systematic approach to assessing an organization's efficacy that accounts for interactions with both the internal and external contexts. Because businesses can only prosper and advance in the market if they attain the targeted profits and growth, SME performance in term of profitability and business growth among the primary factors of interest to academics in all areas of business and management (Bhola & Basu, 2015). According to Wheelen and Hunger (2010), business performance demonstrates how a business allocates its resources to achieve its objectives. Thus, the culmination of a company's efforts is its performance. For example, profitability is a significant indication of SME performance (Qistina & Khashini, 2017). Most researchers evaluated SME performance using financial indicators (Al-Matari et al., 2014; Bianchi, 2015).

SMEs have become important assets for many nations and are a dynamic part of the global economy as they are the engines of economic development and the indicator of long-term company growth in rising nations (Abdul-Mohsin, 2020) (Ali et al., 2021). The effects of globalization on small businesses and intense competition in home markets put greater pressure on SMEs, necessitating further research into the elements that may improve their performance. Therefore, it is essential to research SME performance in emerging nations like the UAE from the perspective of profitability and business growth. In this regard, the embracing market orientation, applying new business models, and progressing toward digitalization in marketing, SMEs may significantly improve corporate performance. To grow in the market and boost profitability, SMEs' managers and leaders also need to give priority to other elements like innovation, entrepreneurship, and an attitude of learning (Qalati et al., 2020). SMEs' top concerns are business expansion and profitability; fostering these two aspects would improve SMEs' organizational performance (OECD, 2016, 2017). Furthermore, a SME's success is evaluated based on how well it accomplishes its goals, which need to be connected to financial gain and market development. Thus, it is crucial for SMEs to not only focus on digitalization but also on fostering a culture of innovation and continuous learning within the organization. By prioritizing these elements, SMEs can enhance their organizational performance and achieve their goals of business expansion and increased profitability. Ultimately, the success of an SME is determined by its ability to adapt to market changes, generate financial gains, and sustain growth over time.

#### **4. Hypothesis development**

The literature study indicates several findings and data demonstrating that digitalization enhances sustainable performance of companies in the SME domain (Vide et al., 2022). The literature findings substantiate the considerable impact of digitalization on SME performance. Digitalization has transformed company operations and provided several advantages for SMEs (Arifuddin et al., 2022). Digitalization has allowed SMEs to optimize their operations and save expenses, hence enhancing profitability. Automating monotonous procedures using digital technologies enables SMEs to conserve time and resources, so allowing them to concentrate on other critical facets of their operations (Eller et al., 2022). Moreover, digitalization has facilitated SMEs in accessing a broader audience and augmenting their client base in both local and foreign markets, hence fostering company growth. Research has established that employing digital marketing strategies enables organizations to target particular demographics and enhance their online presence, hence augmenting revenues and expanding the market (Martins, 2023). Digitalization significantly influenced new product development in manufacturing SMEs in Germany and Japan (Motohashi & Rammer, 2020). Simultaneously, digitalization may result in heightened rivalry and an augmented need for technological expertise and resources, posing challenges for certain SMEs (Sijabat, 2022). Although digitalization might advantage SMEs, it may not be practical for all enterprises due to the supplementary expenses and expertise necessary. In summary, prior research on digitalization demonstrates its transformative impact on SMEs and underscores its necessity as a tool for enhancing their performance. The conclusions drawn from the analysis of prior research in this domain indicate that digitalization has enabled SMEs to enhance sales, augment profits, and eventually foster sustained revenue growth (Sanchez-Riofrio et al., 2022; Vide et al., 2022; Rosli et al., 2023). Furthermore, digitalization enables SMEs to get insights into their consumers' wants and preferences, allowing for the customization of their products and services. This may enhance consumer interactions and cultivate brand loyalty, which is essential for sustained success and profitability. Consequently, this study will evaluate the the following hypothesis statement among SMEs in the UAE.

*Hypothesis (H1):*

*“Digitalization has a significant and positive effect on SME performance”*

Furthermore, the research study indicates that digitalization influences SME performance and market orientation in several ways (Bylon et al., 2019; Wasim et al., 2024). Digitalization has profoundly influenced corporate operations and consumer interactions. Digitalization significantly enhances market orientation by enabling the collection and analysis of consumer data (Abidin et al., 2022), therefore allowing a firm to react promptly to client needs. Currently, the rising number of data analytics tools and various AI techniques enables businesses to acquire

insights into customer behavior and preferences, thereby assisting SMEs in their customer orientation, facilitating the promotion of their products and services, and addressing proactive customer needs (Meskhi et al., 2020). Furthermore, digitalization has facilitated firms in communicating with clients more efficiently and effectively via several channels, including social media, email, and mobile applications. These channels assist SMEs in enhancing competitive orientation and adopting a customer-centric business model, with firms concentrating on certain items (Mosavi & Triansyah, 2023). In conclusion, researchers validated a robust association between digitalization and market orientation. As SMEs increasingly use digital technologies, they enhance their capacity to gather and analyze client data, hence facilitating the formulation of more successful marketing plans (Saunila, 2021). Utilizing digital technologies, SMEs may enhance customer experience, resulting in heightened customer loyalty and retention. Digitalization significantly aids SMEs in becoming more customer-centric, a crucial element of market orientation, hence enhancing their market performance (Kaczorowska-Spychalska, 2018). Consequently, it is imperative for SMEs to prioritize digitalization in their pursuit of establishing a robust market orientation and fostering growth in the contemporary digital era. This study will evaluate the following hypothesis in SMEs in the UAE based on the abovementioned arguments and findings.

*Hypothesis (H2):*

*“Digitalization has a significant and positive effect on market orientation”*

In line with the above discussions, the relationship between market orientation and SME performance has been previously studied and reported as a significant association. Market orientation serves as a significant internal influence and demonstrates a positive correlation with organizational performance (Mubarak, 2019). This study examines the various mechanisms through which market orientation influences the performance of small and medium-sized enterprises (SMEs). Aminu et al. (2015) assert that all stakeholders must prioritize the significance of market orientation in enhancing the performance of SMEs. Market orientation enhances the marketing performance of SMEs by serving as a strategic instrument that facilitates value creation for customers through competitive advantage (Lansiluoto et al., 2019). Distanont and Khongmalai (2018) demonstrated that market-oriented firms exhibit superior performance in the market compared to those that do not adopt a market orientation. Consequently, a focus on market orientation is expected to enhance business performance. This may lead to enhanced business performance regarding sales, profitability, and market share (Abshar & Septrizola, 2023). Numerous studies in the literature indicate a significant relationship between market orientation and business performance in various SMEs (Khizar et al., 2023; Peng & Chang, 2023). Over the past decade, there has been significant scholarly focus on the topic of market orientation due to its increasing prominence. Numerous researchers in marketing concur that

market orientation establishes a solid basis for a company's sustained competitive advantage, thereby enhancing the company's performance (Nurhilalia et al., 2019). Market orientation is a strategic framework that emphasizes the identification and fulfillment of customer needs and desires. This approach enables businesses to enhance their understanding of customers and the market context (Ranjan & Nayak, 2023). This facilitates the development of products and services that align with customer needs, resulting in enhanced customer satisfaction and loyalty. Focusing on the customer within their strategy enables SMEs to develop products and services that effectively address customer needs and preferences, resulting in enhanced customer satisfaction, loyalty, and financial success. SMEs should prioritize market orientation as a fundamental aspect of their business strategy. This study will evaluate the following hypothesis statement in SMEs in the UAE, informed by findings from prior research and relevant literature reports.

*Hypothesis (H3):*

*“Market orientation has a significant and positive effect on SME performance”*

Finally, understanding the mediating role of market orientation on the relationship between digitalization and SME performance necessitates an examination of how digitalization influences both market dynamics and SME performance, as it serves as a critical link between the two variables. In this context, Joensuu-Salo et al. (2018) examined the relationship between market orientation and digitalization in the context of firm performance among internationalized SMEs. Juan et al. (2023) identified a significant positive correlation between market orientation and the economic performance of SMEs in the digital market. There is a limited number of academic studies that examine the role of market orientation as a mediator within the SME sector, particularly concerning SME performance as the dependent variable. For instance, Idar et al. (2012) investigated the mediating effect of market orientation on the relationship between strategic planning practices and performance in Malaysian SMEs. Amin et al. (2016) identified a significant mediating effect of market orientation on the relationship between entrepreneurial orientation and the performance of SMEs. However, recent evidence is limited and requires further investigation. Bastian & Piliang (2024) noted a deficiency of evidence supporting the strategic significance of digital technologies for value creation. The current literature does not provide comprehensive frameworks that reflect an organization's strategic orientation towards digital innovation and transformation initiatives. Examining the mediating role of market orientation in the relationship between digitalization and organizational performance is crucial for SMEs in the UAE. Digitalization is transforming industries and business practices, necessitating that SMEs adapt and utilize digital technologies to maintain competitiveness in the market. Merely implementing digital tools and technologies does not ensure enhanced organizational performance. The concept of market orientation emphasizes the understanding

and fulfillment of customer needs and can act as a vital mediator in converting digitalization initiatives into measurable business results. Thereby, this study will test the following hypothesis based on the previously discussed arguments and findings.

*Hypothesis (H4):*

*“Market orientation mediates the relationship between digitalization and SME performance”*

**5. Research Methodology**

This study applied quantitative methods to analyze relationships between digitalization, market orientation, SME performance. The population is the executive managers of SMEs in the UAE. Data instrument is self-administrated questionnaire. The data collection has been conducted on a sample of 450 respondents. Simple random sampling technique has been applied in the survey procedure. SPSS software is deployed to conduct data analysis. Regression analysis is principal approach used to conduct data analysis and test the hypothesis of this study.

**6. Result and discussions**

Data analysis results indicate findings that address the study's research questions. Testing hypotheses should provide evidence for the existence and strength of effects, hence validating the hypotheses. This research is carried out in various stages, beginning with path analysis to determine the relevance of direct links between digitalization, market orientation, and SME performance (Akoglu, 2018). To that aim, unstandardized coefficients are used to validate and accept hypotheses, whereas standardized coefficients (Beta) are used to quantify the strength of the interrelationships between the aforementioned constructs. The output data in Table 1 shows the magnitude of correlations between digitalization and market orientation (beta = 0.66), digitalization and SME performance (beta = 0.64), and lastly SME performance and market orientation (beta = 0.62). The values and magnitudes of beta between the constructs, as well as between the constructs and their relevant dimensions, indicate a moderate degree of linkages between them.

**Table 1. Standardized regression coefficients and significance of relationships**

Hypothesis Statement	Directions of effects	Beta	C.R	Sig.	Result
<b>H1:</b> Digitalization has a significant effect on SME performance	Digitalization → SME Performance	0.64	3.70	0.00	Supported
<b>H2:</b> Digitalization has a significant effect on market orientation	Digitalization → Market Orientation	0.66	5.01	0.00	Supported

<b>H3:</b> Market orientation has a significant effect on SME performance	Market Orientation → SME Performance	0.62	4.08	0.00	Supported
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To test the hypothesis, the p-value indicates how probable the observed data is to have occurred under the null hypothesis. If the p-value is less than the criterion of significance (usually  $p < 0.05$ ), this study rejects the null hypothesis. In other words, the alternative hypothesis holds true. To support the hypotheses, the Critical Ratio (C.R) is used to assess the significance level of unstandardized regression coefficients (Hair et al., 2019). To validate hypotheses and achieve research objectives, two criteria are used: (1) if  $C.R \geq 1.96$  for a specific relationship, then a hypothesis is accepted (i.e.,  $p < 0.05$ ); otherwise, the hypothesis should be rejected; and (2) the estimate path coefficient for a relationship is significant at the 0.05 cut-off. The following are the outcomes of the research objectives:

The next stage in mediation analysis is to examine the indirect and total impacts of the dimensions in order to corroborate the mediation function of market orientation. Bootstrapping is a common and reliable method for investigating mediation effects in empirical investigations (Preacher et al., 2008; MacKinnon et al., 2002; MacKinnon et al., 2004). AMOS software is used for bootstrapping. The calculation is: "total effect" = "indirect effect" + "direct effect". To evaluate market orientation as a mediator, all indirect and total effects must be statistically significant. According to Preacher and Hayes (2008), when the indirect influence of an independent variable on a dependent variable through a mediator does not overlap a 0 in the 95% bootstrapping confidence interval, it suggests a mediation effect. Table 2 displays the results of bootstrapping statistics for the mediating path (digitalization → market orientation → SME performance).

**Table 2. The summary of bootstrapping of total and indirect effects**

Types of effect	Sig.	Effect	Lower bound	Upper bound	0 out of interval
Standardized indirect effect	0.00	0.41	0.22	0.70	Yes
Unstandardized indirect effect	0.00	0.48	0.26	0.97	Yes
Standardized total effect	0.01	1.23	0.92	1.19	Yes
Unstandardized total effect	0.00	1.05	0.91	1.80	Yes

The indirect (mediated) effect of digitalization on SME performance is determined to be significant (Sig. = 0.00) and 0 out of a possible range of 0.22–0.70. These two requirements are necessary to analyze the indirect path of digitalization: SME success is partially influenced by market orientation. The same assumption is used to evaluate the overall influence of the

independent and dependent constructs. In summary, bootstrapping results show statistical significance (Sig. < 0.05) for both indirect and total effects due to market orientation's partial mediation. Furthermore, the assessment of output data in Table 4.12 demonstrates that the (0-null) constraint is outside the confidence intervals for all pathways (indirect and total). Based on this outcome, hypothesis 4 which asserts that "market orientation mediates the relationship between digitalization and SME performance" is accepted and supported.

## **7. Conclusions**

This paper provided empirical evidence to support the relationships between market orientation, digitalization, and SME performance in the UAE market. Based on the findings of this study and what has been reported in the literature, SME performance is directly influenced by digitalization, whereas market orientation partially mediates this relationship. Specifically, the study found that SMEs that are more digitally advanced tend to have higher levels of performance in terms of profitability and business growth compared to those that are less digitally mature. However, the presence of a strong market orientation within an SME can further enhance the positive impact of digitalization on performance. This suggests that SMEs in the UAE market can benefit greatly from focusing on both digitalization efforts and market orientation strategies to improve their overall performance and competitiveness. In addition, this study highlights how market orientation and digitalization play a role in improving SME performance, especially in the dynamic UAE setting. The results show that although digital skills are critical for innovation and operational efficiency, they work best when combined with a strong market-oriented culture that prioritizes consumer insights in strategic choices.

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