

The Mediating Role of Innovation in Strategic Management Practices and SME Performance: Insights from Emerging Markets in Zambia

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Abstract:

This study examines the mediating role of innovation in the relationship between strategic management practices (SMPs) and the performance of small and medium enterprises (SMEs) in emerging markets, with a specific focus on Kabwe District, Zambia. Drawing from the Resource-Based Theory (RBT) and Dynamic Capabilities Theory (DCT), the study explores how innovation mediates the relationships between environmental scanning, strategy formulation, strategy implementation, and strategy evaluation and control, and the performance of SMEs. Using a sample of 202 SME owners and managers, data were collected through a Likert-scale questionnaire and analyzed using IBM SPSS and Hayes process version 4.2. The results revealed no significant mediation effects of innovation between strategic management practices and performance, suggesting that SMPs independently affect SME performance. The study recommends fostering a culture of experimentation, creativity, and continuous improvement within SMEs, and promoting the adoption of digital technologies to enhance strategic outcomes.

Keywords: SMEs, innovation, strategic management practices, mediation, performance, Hayes Process, environmental scanning, strategy implementation

1. Introduction

The fact that Small and Medium Enterprises (SMEs) constitute around 99.7 percent of the enterprises globally (Martin and Namusonge, 2014) proves their significance in contributing to the economic and social development in most countries. It is, therefore, necessary to put in place a strategic mechanism that will assist their growth, (Mwange, 2018, Mutambo et al, 2022, Mwange et al, 2022). In order to remain competitive, grow faster and function effectively and efficiently, SMEs need to utilize knowledge and strategy efficiently, (Mutambo, 2022; Mwange, 2018; Mwange et al, 2022). In view of aforesaid, Dutta & Pramanik (2022) envisaged that adopting innovative practices in strategic choices remains viable in achieving tangible performance in SMEs. Significantly, Lima et al. (2023) is on record to have epitomized that successful innovation directly contributes to enhanced SME performance by increased market share and competitiveness, enhanced operational efficiency, improved customer satisfaction and increased profitability, a view that is consisted with several other scholars (Dutta & Pramanik, 2022; Awan et al., 2023; Terziovski, 2010; Tidd et al, 1997; Twaliwi & Isaac, 2017; Yeh-Yun Lin & Yi-Ching Chen, 2007).

Innovation is widely recognized as a key driver of SME performance, (Al Mamun et al., 2022). It enables businesses to create new products, processes, and business models, differentiating themselves in the market and achieving sustainable competitive advantage, (Dutta & Pramanik, 2022). This ability to adapt and evolve is particularly critical for SMEs, who often operate in dynamic and competitive environments, (Bogers et al., 2019).

Thus, based on available literature (Bogers et al., 2019; Hult, et al. 2004; Rosli & Sidek, 2013; Salim & Sulaiman, 2011), Innovation acts as a crucial mediating variable between strategic management practices and the performance of Small and Medium-sized Enterprises (SMEs). This means that strategic management practices can positively influence SME performance by facilitating innovative practices, which then further drives performance enhancement, (Laforet, 2009; Awan et al., 2023; Jaradat, 2022; Mwange, A. (2018).

SMEs with strong strategic management practices, such as clear vision, effective resource allocation, and robust stakeholder engagement, create a fertile ground for innovation, (Salim & Sulaiman, 2011; Van et al. 2008; Lin & Chen, 2007; Damanpour, F. 1991; Li et al.2010; Dutta & Pramanik, 2022). These practices provide a framework for identifying opportunities, allocating resources for research and development, and fostering a culture that encourages creativity and experimentation, (Lima et al., 2023).

In view of the foregoing, this study investigated the mediation effects of Innovation on the interaction between Strategic Management Practices and the business performance of SMEs in Kabwe District.

In context, [Baron and Kenny \(1986: 1176\)](#) defined a mediator as a "third variable that accounts for the interaction between the predictor (independent variable) and the criterion (dependent variable).

Underpinned by the Resource Based Theory (RBT) which stresses the vitality of resources both tangible and intangible in the running of organizations, ([Hillman et al., 2009](#); [Abosedo, 2016](#); [Banda and Mwangi, 2023](#)), and the Dynamics Capabilities Theory (DCT) which invigorates the cardinality of the external environment in the functionality of the businesses, ([Teece, 2016](#); [Teece et al. 2016](#); [Teece, 2018](#); [Samsudin & Ismail, 2019](#)), herewith conceptualized as SMEs, this paper investigated the mediating role Innovation in the relationship between strategic management practices herewith cited as (Environmental Scanning, Strategy Formulation, Strategy Implementation, Strategy Control and Evaluation Strategy Implementation) and SME Performance with lessons from Kabwe District, Zambia. The study was premised against the backdrop that Zambian SMEs, especially those in Kabwe district, continue to face devastating ramifications in operations and progression, ([Mwaanga et al. 2021](#); [Ministry of Commerce Trade and Industry, 2020](#); [Mukosa et al. 2020](#); [Mwaanga et al. 2020](#); [Mwewa, 2018](#); [Mwika et al. 2018](#)).

1.2 Objectives of the Study

1. To investigate the mediating role of Innovation in the relationship between Environmental Scanning and the Performance of SMEs in Kabwe District.
2. To explore the mediating role of Innovation mediates in the relationship between Strategy Formulation and the Performance of SMEs in Kabwe District.
3. To understand the mediating role of Innovation on the relationship between Strategy Implementation and the Performance of SMEs in Kabwe District.
4. To find out the mediating effect of Innovation on the relationship between Strategy Evaluation and Control and the Performance of SMEs in Kabwe District.

2. Literature Review

Small and medium-sized enterprises (SMEs) play a crucial role in economic development, fostering innovation and job creation. However, their success hinges on effectively implementing strategic management practices that drive performance. This literature review explores the mediating role of innovation in the relationship between strategic management practices and the performance of SMEs. It argues that innovation

acts as a bridge, translating strategic actions into tangible outcomes, and ultimately shaping SME success.

2.1 The Role of Innovation in SME Performance

Strategic orientation, encompassing market, entrepreneurial, and customer orientation, provides a framework for SMEs to direct their resources and efforts towards achieving specific goals. Al Mamun et al. (2022) examined the mediating effect of product and process innovation on the relationship between strategic orientation and performance in Malaysian manufacturing SMEs. Their findings show that customer and entrepreneurial orientation significantly influence product and process innovation, while market orientation is positively associated with process innovation. This study highlights that adopting specific strategic orientations can foster innovation, thereby boosting SME performance. Additionally, Wall (2021) investigated the determinants of SME performance in Thailand, focusing on the relationship between business strategy, innovation, and performance. The study reveals that business strategy, alongside process, product, and organizational innovations, significantly influences SME performance. This reinforces the notion that integrating innovation into strategic planning is crucial for achieving success.

Furthermore, Robinson et al. (2020) explored the role of innovation in small business performance using data from the Longitudinal Small Business Survey (LSBS) in the UK. They found that the regional environment, particularly the presence of innovation ecosystems and specialized agglomerations, can positively impact small firm growth and productivity. This emphasizes the importance of considering the regional context when implementing innovation strategies. In the same vein, while SMEs recognize the importance of innovation, its implementation often falls short of its potential, in that, Ismail et al. (2014) investigated the role of innovation in Malaysian SMEs. They observed that despite acknowledging the relevance of innovation, SMEs struggle to consistently integrate it into their operations. This underscores the need for targeted interventions and support mechanisms to facilitate greater innovation adoption among Malaysian SMEs.

2.2 The Importance of Innovation: Navigating the landscape of Developing and Developed Countries

Innovation is particularly critical for SMEs in developing countries, where access to resources and infrastructure can be limited. Ndesaulwa1 and Kikula (2016) reviewed empirical evidence on the impact of innovation on SME performance in Tanzania. They found a lack of consistent results, highlighting the need for more research in the African context. This underscores the importance of understanding the specific challenges and

opportunities faced by SMEs in developing countries, and tailoring innovation strategies accordingly. Even in more developed economies, SMEs often focus on incremental innovations, improving existing products rather than developing entirely new ones, Rexhepi (2014) studied the impact of innovation in SME performance in Kosovo, finding that SMEs primarily focus on product improvement rather than introducing entirely new offerings. This highlights the need for encouraging a culture of experimentation and exploration, fostering greater ambition in innovation efforts.

Knowledge management practices can play a crucial role in driving innovation and improving SME performance. Byukusenge et al. (2016) investigated the mediating effect of innovation in the relationship between knowledge management and business performance in Rwandan SMEs. They found that innovation fully mediates this relationship, implying that knowledge management alone is not sufficient for improved performance without the translation of knowledge into innovative products, processes, or services.

Open innovation strategies involve collaborating with external partners, leveraging external knowledge and resources to accelerate innovation. Bekata & Kero (2024) studied the role of strategic orientation and dynamic capabilities in managing open innovation in Ethiopian SMEs. They found that strategic orientation positively influences open innovation and that dynamic capabilities, which enable firms to sense, seize, and transform external ideas, mediate this relationship. This highlights the potential benefits of adopting open innovation approaches for SMEs, particularly in accessing new knowledge and resources. Even in challenging environments, innovation can significantly impact SME performance. Abdilahi et al. (2017) investigated the impact of innovation on SME performance in Hargeisa, Somaliland. Their findings demonstrate a strong correlation between innovation and SME performance, highlighting the importance of innovation in driving growth even in difficult circumstances.

In conclusion, the literature reviewed reveals that innovation plays a vital mediating role in the relationship between strategic management practices and the performance of SMEs. It acts as a bridge, translating strategic orientations, business strategies, and knowledge management practices into tangible outcomes, including increased productivity, competitiveness, and profitability. However, the literature also highlights the need for further research to address specific contexts, particularly in developing countries, and to explore the nuances of different innovation types, including product, process, organizational, and open innovation.

3. Methodology

Underpinned by the delineation of Epistemological thought which is the nature, sources of knowledge or facts, (Creswell, 2015; Saunders, 2016, Saunders, 2019), the study was invigorated in the realm of the pragmatic philosophy herewith the consequences of actions, (Dudovskiy, 2018; Dawadi et al., 2021; Muzata, 2017; Saunders & Thornhill, 2012). Additionally, Deductive (Testing), (Murphy et al., 2014; Muzata, 2017) was applied. Furthermore, the researcher applied Explanatory-Relationships and Effect, (Creswell and Plano Clark, 2011), generated within the domain of descriptive case study (Brondy, 2020). The sample size was calculated using the Slivin formulation which produced; $n = N / (1 + Ne^2) = 500 / (1 + 500(0.05^2)) = 220$; n thus, approximated sample was 220 SMEs though 202 was determined as the final sample size through response rate.

Moreover, data was obtained via Likert Scale Questionnaire and analysed using Structural Equation Modelling (SEM) in IBM.SPSS version 27, (Kenny, 2020; Saunders et al. 2019; Rosner, 2016).

The testing for mediation effects was achieved through the use of the Hayes 4.2 mediation method in SPSS version 27, (Baron and Kenny, 1986, Fritz et al. 2012; Hayes and Schukow, 2013, Hayes, 2013; Hayes, 2022).

4. Results

4.1 Descriptive Statistics

A review of ES1 indicated that the majority (67.3%) of the informants agreed that the analysis and understanding of internal capacities enhances SME performance while the minority (0.5%) disagreed. In view of ES2, most of the respondents agreed (61.4%) that the Performance of their Businesses had grown due to the new production system while the marginal (0.5%) strongly disagreed. Similarly, positive findings were recorded on E3 where many of the respondents Agreed (72.3%) and only a few (0.5%) disagreed. Additionally, findings on ES4 showed that the majority of the participants agreed (57.3%) and 31.4 % strongly Agreed that they had invested in recruiting, retaining and retraining the right employees to improve business performance whereas the minority (0.5%) strongly disagreed. Furthermore, a review of ES5 found that many of the respondents also agreed (65.3%) and while a small proportion (1.5%) disagreed. Moreover, ES6 found that 70.3% agreed while 1.5% disagreed. Similarly, the mainstream (68.8%) of the participants on ES7 agreed while the minority (1.0%) disagreed. Thus, it was established statistically that SMEs in Kabwe District were involved in environment scanning in their business operations owing to a positive agreement they gave to the questions asked.

4.2 The Mediating effect of Innovation on the relationship between Environmental Scanning and the Performance of SMEs

The results revealed that the relationship between ES and Innovation had a statistical significance, (0.004, ≤ 0.005). Additionally, the relationship between ES and performance through Inn was not significant (0.890, ≤ 0.005). Similarly, the relationship between Inn and performance through Inn was not significant (0.028, ≤ 0.005). Thus, the findings suggested a complex relationship between Environmental Scanning (ES), Innovation (Inn), and performance of SMEs. To decipher whether mediation existed, the researcher analyzed the significance of the paths within the model which showed path a (ES to Inn): Significant ($p = 0.004$) thus depicting a positive relationship between Environmental Scanning and Innovation. On the other hand, path b (Inn to Performance): Not significant ($p = 0.028$) hence deducing that Innovation, while positively related to performance, does not have a statistically significant direct impact on SME performance within this model. It was thus deduced that no mediation existed.

4.3 The mediating effect of Innovation on the relationship between Strategy Formulation and the Performance of SMEs

The findings revealed that the relationship between SF and Inn had a non-statistical significance, (0.464, ≤ 0.005). Similarly, the findings in the relationship between SF and though Inn to performance showed a non-statistical significance, (0.896, ≤ 0.005), this was true with the relationship between Inn and though SF to performance, (0.896, ≤ 0.005). Unlike Model 1, the findings from this model indicated a more complex and nuanced relationship, lacking clear evidence for a direct or mediated effect. Innovation.

4.4 The mediating effect of Innovation on the relationship between Strategy Implementation and the Performance of SMEs

The findings showed that the relationship between SI and Inn had non-statistical significance, (0.931, ≤ 0.005). Similarly, the relationship between SI though Inn to performance also had a non-statistical significance, (0.171, ≤ 0.005). Similar findings were recorded on the relationship between Inn and though SI to performance which also indicated a non-statistical significance, (0.025, ≤ 0.005). Analyzing the provided data, I observe a complex and somewhat ambiguous picture regarding mediation.

Path a (SI to Inn): Not significant ($p = 0.931$) indicates no statistically significant direct relationship between strategy implementation and Innovation in SMEs. Path b (Inn to Performance): Not significant ($p = 0.171$). Although the path is positive, this lack of significance suggests that Innovation does not directly contribute to SME performance

when it is a consequence of strategy implementation. Path c' (SI to Performance): Significant ($p = 0.025$). This result indicates a significant direct relationship between strategy implementation and SME performance, independent of Innovation. This finding suggests that strategy implementation can positively impact performance directly, even if it does not notably influence Innovation. In view of the foregoing, the findings suggest lack of mediation.

4.4 The mediating effect of Innovation on the relationship between Strategy evaluation and control and the Performance of SMEs

The study found that the relationship between SEC and Inn shows had a non-statistical significance, ($0.220, \leq 0.005$). Similarly, the relationship between SEC though Inn to performance showed a non-statistical significance, ($0.690, \leq 0.005$). Moreover, the relationship between Inn though SEC to performance also showed a non-statistical significance, ($0.030, \leq 0.005$). Analyzing the provided data, the researcher again encountered a complex scenario regarding mediation. Path a (SEC to Inn): Not significant ($p = 0.220$). This suggests that strategy evaluation and control do not significantly directly influence Innovation in SMEs. Path b (Inn to Performance): Not significant ($p = 0.690$). Although positive, this non-significant result indicates that Innovation does not directly contribute to SME performance when it's a consequence of strategy evaluation and control. Path c' (SEC to Performance): Significant ($p = 0.030$). The significant direct effect suggests a direct relationship between strategy evaluation and control and SME performance, independent of Innovation. Therefore, given the non-significant indirect effects, no mediation remains the most likely interpretation. SEC seems to directly impact SME performance, independently of its effect on Innovation.

4.5 Discussion

The rise of Small and Medium Enterprises (SMEs) has become significant in the economic landscape, contributing notably to employment. Understanding the factors that affect SME performance is crucial, especially in dynamic environments like those found in Kabwe District. The current chapter discusses the mediating effect of Innovation on the relationship between strategic management practices and SME performance.

The relationship between Environmental Scanning and Innovation

In the context of this study, the first notable finding indicates a statistically significant relationship between ES and Innovation (Inn) with $p = 0.004$, which is less than the 0.05 significance threshold. Hence, it can be inferred that SMEs employing robust Environmental Scanning practices are likely to exhibit higher levels of Innovation. This is

an encouraging finding, suggesting that engagement with external trends and insights fosters a culture of innovative thinking, a critical success factor for SMEs. In view of the foregoing, innovation in SMEs can manifest in various forms, such as product innovation, process innovation, and business model innovation. This adaptability not only meets customer needs but also opens new markets, driving long-term sustainability. The interdependencies between Innovation and performance highlight the necessity of fostering a culture of innovation.

Innovation's Impact on Performance

The second finding, concerning the relationship between Inn and performance yields a p-value of 0.028. While this is indicative of a positive relationship, it fails to reach the conventional threshold for significance (0.05). This non-significance suggests that innovative efforts, while potentially beneficial for performance, do not guarantee performance improvements under the current study's parameters. Such results indicate that merely being innovative may not suffice for performance enhancement due to other intervening factors like market conditions, resource availability, or execution capabilities.

Path Analysis: A Deeper Look

Path a: ES to Inn is significant. The significant path a ($p = 0.004$) demonstrates that Environmental Scanning can enhance Innovation. This reflects the theory that by understanding market needs, competitor strategies, and broader environmental conditions, SMEs can align their innovative activities with actual market demands. In path b: Inn to Performance, the results show that they are not significant. The non-significantly positive path b ($p = 0.028$) raises questions regarding the effectiveness of Innovation in driving SME performance in Kabwe District. Although the relationship exists, its lack of statistical significance suggests other factors may influence performance, thwarting a straightforward correlation. The fact that path b is positive hints at potential benefits that need further exploration. Furthermore, path c': ES to Performance is also not significant. The non-significance of path c' ($p = 0.890$) indicates that ES does not directly impact performance within the model. This could imply that Environmental Scanning alone does not enhance performance; other mediating or moderating variables may be in play.

Possible Mediation Scenarios

Full mediation suggests that the relationship between ES and performance is entirely explained by Inn. According to the findings, path c' is non-significant, eliminating the possibility for full mediation. For a full mediation scenario, path b must be significant, which it is not. Partial mediation would require significance in both paths a and b, with a lower, significant path c' than expected. Given that path b's significance is not fulfilled, partial mediation cannot be established. The non-significant paths for both Inn to

Performance and ES to Performance clearly point towards the no mediation scenario. In essence, neither Innovation nor Environmental Scanning directly contributes to performance within the confines of this model.

The Mediating Role of Innovation on the relationship between Strategy Formulation and the performance of SMEs in Kabwe district

In this study, the relationship between strategy formulation and Innovation was shown to be statistically non-significant ($p = 0.464$). This indicates that the development of strategic plans does not inherently foster a culture of innovation within SMEs. Despite the expectation that strategic intent aligns with innovative outputs, the direct correlation in this instance is lacking, suggesting potential misalignment between formulated strategies and innovation practices.

The relationship between Innovation and Performance

The study found that the relationship between Innovation and performance was also non-significant ($p = 0.896$). This raises critical questions regarding the effectiveness of innovative efforts within the context of the local SME environment. While positive, the lack of statistical significance suggests that simply being innovative does not guarantee performance enhancement. Potential external factors, such as market conditions, resource constraints, and execution capabilities, could dilute the effectiveness of innovation.

The Direct Relationship between Strategy Formulation (SF) and Performance

The relationship between strategy formulation and SME performance was found to be non-significant ($p = 0.896$). This could imply that strategic planning alone does not yield an improvement in performance metrics for SMEs in Kabwe District. Consequently, two hypotheses can be drawn: either the strategies being formulated are not effectively implemented, or there may be inherent barriers within the operational environment limiting performance outcomes.

Path Analysis Overview

Path a (SF to Inn) showed the probability value of $p = 0.464$ which indicated a non-significant value. The non-signification here suggests that strategy formulation does not enhance Innovation. This might indicate that SMEs struggle to translate strategic aspirations into innovative actions. Similarly, Path b (Inn to Performance) shows a Significance of $p = 0.896$ which is also non-significant. Although there is a positive relationship, its lack of significance indicates that the innovations produced do not significantly affect performance outcomes. In Path c' (SF to Performance) indicates a Significance value of $p = 0.896$. Again, this suggests that even direct strategic efforts do not correspond to tangible performance metrics. In light of these results, the conclusion

drawn from the analysis is that the model does not support the existence of mediation by Innovation. All relevant paths are non-significant, which can lead to critical observations regarding the nature of strategy formulation and operational execution within these SMEs. The absence of significant relationships necessitates a shift in perspective. The most likely scenario, as highlighted, is one of no mediation becomes evident.

The mediating role of Innovation on the relationship between Strategy Implementation and the performance of SMEs in Kabwe District

The framework within which SMEs operation often hinges on strategic processes, particularly strategy formulation and implementation. This discussion focuses on the mediating role of Innovation in the relationship between strategy implementation (SI) and SME Performance. The examination centers around understanding the implications of the significant and non-significant relationships identified between strategy implementation, Innovation, and performance, as articulated by the probability values from the study.

SI and Innovation of SMEs in Kabwe District

The data revealed a non-significant relationship between Strategy Implementation and Innovation ($p = 0.931$). This high p -value suggests that, despite efforts in strategy implementation, there is no direct elevation of Innovation within SMEs. This lack of correlation indicates the possibility of deeper systemic issues within the operational environments of these enterprises. The absence of impact might suggest a misalignment between the strategies being implemented and the innovative capabilities of the organization.

Innovation (Inn) to Performance of SMEs in Kabwe District

The relationship between Innovation and performance was also found to be non-significant ($p = 0.171$). While the path is positive, the absence of statistical significance necessitates examination in both theoretical and practical contexts.

SI to Performance of SMEs in Kabwe District

Contrasting with the preceding relationships, the path from strategy implementation to performance ($p = 0.025$) is statistically significant. This finding suggests that strategy implementation has a direct and positive effect on the performance of SMEs, independent of Innovation.

The Complexity

The combination of a significant direct effect between strategy implementation and performance alongside non-significant effects through Innovation complicates interpretation. While SI positively influences performance, it does not do so via innovation.

The mediating role of innovation on the relationship between Strategy Evaluation and Control and the Performance of SMEs in Kabwe District

Strategy Evaluation and Control (SEC) is a critical component of strategic management that seeks to assess and adjust strategies to ensure they remain effective in the face of changing circumstances. Conversely, innovation is increasingly acknowledged as a vital driver of performance in SMEs, with the capability to foster competitive advantage. This section investigates the mediating role of innovation in the relationship between SEC and the performance of SMEs in Kabwe District. The findings indicate significant direct and indirect relationships among these constructs, revealing complex interdependencies that warrant critical analysis. The statistical outcomes of the study guide this discussion, offering insights into how SMEs can effectively navigate the interplay between these key components.

Innovation as a Performance Driver

While Innovation is often linked to improved performance, the study reveals a non-significant relationship between Innovation and SME performance when it is influenced by SEC ($p = 0.690$). This raises several questions regarding the effectiveness of innovation as a mediator in this context. The absence of a significant effect of Innovation on performance ($p = 0.690$) suggests that simply fostering an innovative environment may not suffice for SMEs to enhance performance. It opens discussions about the necessity of other supporting strategies or external conditions that would facilitate the link between Innovation and performance.

SEC to Performance

The significant direct effect of SEC on performance ($p = 0.030$) suggests that SEC practices can directly enhance SME performance, independent of Innovation. This finding is critical for understanding how strategic management contributes to performance outcomes in SMEs.

The Complexity of the SEC-Innovation-Performance Relationship

The interaction between SEC, Innovation, and performance unveils a complex dynamic. While SEC significantly enhances performance, the non-significant pathways through Innovation raise questions regarding the role of innovation in this framework. It is plausible that other, unexamined factors could mediate the relationship between SEC, innovation, and performance, such as leadership style, organizational culture, or external partnerships. While SEC focuses on structured methodologies often based on traditional performance indicators, the innovative strategies might require different assessment methods, making it difficult to create direct links.

Evaluation: Synthesis of the findings on the mediating role of Innovation and the performance of SMEs in Kabwe District.

The study concludes that innovation does not significantly mediate the relationship between strategic management practices (SMPs) and the performance of SMEs in Kabwe District. SMPs, including environmental scanning, strategy formulation, and strategy evaluation, directly influence SME performance without the intermediary role of innovation. The findings are consistent with other studies in developing nations which asserts that SMEs in developing nations are not innovative because of lack of access to resources and infrastructure. In that vein, [Ndesaulwa1 and Kikula \(2016\)](#) in Tanzania, found a lack of consistent results, highlighting the need for more research in the African context. Similarly, [Rexhepi \(2014\)](#) in Kosovo also found that SMEs primarily focus on product improvement rather than introducing entirely new offerings. Similar views are held by [Ismail et al. \(2014\)](#) in Malaysian SMEs. However, there is a positive relationship between innovation and strategic management practices in developed nations, ([Al Mamun et al, 2022](#); [Wall 2021](#); [Robinson et al, 2020](#)).

5. Conclusion

The study establishes that innovation did not mediate the relationship between strategic management practices (Environmental Scanning, Strategy formulation, Strategy Implementation, Strategy Evaluation and Control) and the performance of SMEs as all the probabilities across the factors failed to reach a statistical value. The findings thus, suggests that while innovation is important, it may not always serve as a critical link between strategy management and performance outcomes in SMEs.

Recommendations

1. SMEs should continue to invest in strategic management practices independently of innovation initiatives, focusing on enhancing internal operational capabilities.
2. Policymakers and SME support organizations should emphasize the adoption of digital tools and innovation to improve strategic outcomes.
3. Encourage continuous improvement processes within SMEs, promoting flexibility in strategy management and an openness to adopting innovative practices.
4. Future studies could explore how different types of innovation—product, process, and market—may have varying effects on SME performance.

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