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Innovation Strategy and SME Survival: The Role of Organizational Adaptability

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Abstract. This study aims to concisely examine the impact of innovation strategy on the survival of small and medium enterprises (SMEs), focusing on the mediating role of organizational adaptability. Employing an explanatory research design, data were collected through structured questionnaires from SME owners and managers in Kumasi Metro, Ghana. Regression analysis reveals that innovation strategy is significantly related to organizational adaptability, which in turn positively influences SME survival. Therefore, organizational adaptability's mediating role is established, indicating its essential function in SME survival.

Keywords: *Innovation strategy, organizational adaptability, SME survival, diffusion theory, competitive advantage.*

Introduction

Entrepreneurship stands as the driving force behind economic growth (Amoah et al., 2022). Despite their vital role as catalysts for entrepreneurship and economic development, SMEs face formidable challenges (Kindström et al., 2024), especially in developing economies. Nevertheless, Osano (2023) argues that SMEs willing to innovate possess the capacity to thrive. Firms must also develop a competitive strategy to ensure their survival (Karikari, 2014). Innovation is defined as the implementation of new or significantly improved products, services, or processes (Stoneman, 2022). An organization's ability to identify the necessity for change, capitalize on emerging opportunities, and effectively navigate evolving circumstances is defined as organizational adaptability (Mendoza & Peláez, 2021). SME survival entails maintaining solvency to continue operations (Amoa-Gyarteng & Dhliwayo, 2024). This study aims to examine the influence of innovation strategy on the survival of SMEs, with a particular focus on the mediating role of organizational adaptability.

Theoretical Framework

The diffusion of innovation theory, proposed by Rogers (1995), serves as the theoretical foundation for this study. This theory suggests that innovation spreads within a social system over time through certain channels. This influential theory explains how, why, and how quickly new ideas and processes are adopted (Yu, 2022). This framework helps explain how SMEs adopt and implement innovation strategies and the resultant impact on organizational adaptability and survival.

Hypotheses Development

Innovation strategy and organizational adaptability

Firms with a well-defined innovation strategy are more likely to develop adaptive capabilities (Quansah et al., 2022). Innovation strategy involves planned actions and policies to achieve innovation goals, which enhance an organization's ability to adapt to changing environments (Badanin, 2023; Turgunov & Karimov, 2023). Thus, we propose that:

H1: Innovation strategy is positively related to organizational adaptability.

Innovation strategy and SME survival

Firms that persistently invest in innovation have a better chance of survival than those that do not invest (Floyd, 2016). Innovation gives SMEs a competitive edge, allowing them to differentiate their

offerings and improve operational efficiencies, thus enhancing their survival prospects (Rubio-Andrés et al., 2024). From the literature, we hypothesize that:

H2: Innovation strategy positively impacts SME survival.

The mediating role of organizational adaptability in the relationship between innovation strategy and SME survival

Organizational adaptability is essential for implementing innovative practices effectively (Kodama, 2019). It enables firms to respond promptly to market changes and uncertainties, sustaining their competitive position and survival (Mishrif & Khan, 2023). This suggests that organizational adaptability may mediate the effect of innovation strategy on SME survival. Thus, we posit that:

H3: Organizational adaptability mediates the relationship between innovation strategy and SME survival.

Methods

An explanatory research design was employed, targeting SMEs in Kumasi, Ghana's second-largest city. Data were collected through structured questionnaires distributed to SME owners and managers. The sample size was 200 SME owners and managers, obtained through convenience sampling from all registered SMEs with the Ghana Enterprises Agency in Kumasi. The survey measured innovation strategy, organizational adaptability, and firm survival. Responses were analyzed using IBM SPSS Statistics 28, with regression models testing the hypothesized relationships.

Research Results

The regression results (Table 1) show the effects of innovation strategy on organizational adaptability and SME survival.

Table 1-

Inferential Results

Variable	Model 1	Model 2	Model 3
Control paths			
Gender	-.034 (.017)	-.817 (.020)	-.958 (.039)
Age	-.050 (.034)	-.096 (.044)	-.707(.004)
Level of Education	.345 (.000)	.104 (.001)	-.294 (000)

Main effects			
OA*IS	.301 (.000)		
IS*OS		.324 (.001)	
<i>Meditating effect</i>			.118 (.000)
IS*OA*OS			
Fit indices			
R ²	.710	.652	.854
ΔR ²	.468	.424	.572
Adjusted R ²	.446	.419	.572
F statistics	10.825	16.825	36.479
DF	199	199	199

Source: author's own development

Hypothesis Testing

Hypothesis 1: Innovation strategy positively affects organizational adaptability.

The results from Model 1 indicate that innovation strategy (IS) has a significant positive effect on organizational adaptability (OA) ($\beta = .301$, $p < .001$), supporting Hypothesis 1. This aligns with previous literature, such as Kanyuga (2019), suggesting that a well-defined innovation strategy enhances organizational adaptability.

Hypothesis 2: Innovation strategy positively impacts SME survival.

Model 2 shows that innovation strategy (IS) significantly impacts SME survival (OS) ($\beta = .324$, $p = .001$), supporting Hypothesis 2. This is consistent with studies such as Carrasco-Carvajal et al.(2023), which indicate that innovation has an essential impact on the competitiveness of SMEs. This confirms that SMEs with robust innovation strategies have higher survival rates.

Hypothesis 3: Organizational adaptability mediates the relationship between innovation strategy and SME survival.

The mediating effect is tested in Model 3, where the interaction term significantly affects SME survival ($\beta = .118$, $p < .001$). This suggests that innovation strategy leads to organizational adaptability, which in turn enhances SME survival, fully supporting Hypothesis 3. According to Adam and Alarifi (2021), innovation strategy positively impacts SME survival. As this study shows, organizational adaptability mediates this relationship.

Discussion and Concluding Remarks

The findings fully support all three hypotheses. Innovation strategy significantly enhances organizational adaptability, positively impacting SME survival. Furthermore, organizational adaptability significantly mediates the relationship between innovation strategy and SME survival. SMEs experience improved resilience and longevity due to their enhanced organizational adaptability driven by innovation strategy. Flexible organizations can effectively transform ideas into tangible outputs (Smit, 2015). This study extends the diffusion of innovation theory by showing that organizational adaptability mediates the association between innovation strategy and SME survival. It shows the importance of adaptability in maximizing the benefits of innovative efforts within SMEs. The practical implication is that managers should prioritize innovation and foster a culture of adaptability to enhance survivability. While this study provides valuable insights into SME survival, it has limitations. The convenience sampling method used in this study limits the generalizability of the findings to all SMEs. Furthermore, the study does not explore the impact of sector-specific innovation strategies on SME survival in various contexts. Future studies should incorporate random sampling methods and investigate sector-specific innovation strategies to enhance understanding of their impact on SME survival across diverse contexts.

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