

Does Competitive Strategy Always Lead to Performance? Examining the Key Roles of Innovation and Competitive Intensity: A Study of SMEs in the Greater Accra Region of Ghana

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Abstract

This study examines whether competitive strategy always translates into superior firm performance, placing innovation and competitive intensity at the centre of that question. Anchored in the resource-based view, the positioning school and the dynamic-capabilities perspective, it models competitive strategy as a driver of both innovation and performance, treats innovation as the mechanism that carries part of the strategy effect through to performance, and tests whether the strength of the innovation–performance link depends on competitive intensity. A quantitative, explanatory design was adopted. Data were collected from 365 manager-owners of SMEs in the Greater Accra Region of Ghana using a seven-point questionnaire adapted from existing literature. Construct reliability ranged from 0.925 to 0.953 (Cronbach's alpha), and multicollinearity was not a concern. Five hypotheses were tested using ordinary least squares regression, a bootstrapped mediation test and a moderated regression. Competitive strategy had a positive and significant effect on both firm performance and innovation; innovation had a strong positive effect on performance; innovation partially mediated the strategy–performance relationship; and competitive intensity did not significantly moderate the innovation–performance relationship. Thus, while competitive strategy is related to performance, that relationship is realised in SMEs substantially through innovation, and the returns to innovation are stable regardless of competitive pressure. Managers of SMEs should therefore treat innovation as the bridge between strategy and results, and policymakers should strengthen the innovation environment in which small firms operate.

Keywords: Competitive Strategy, Innovation, Competitive Intensity, Firm Performance, SMEs.

Introduction

Firms strategise deliberately to stay competitive, investing in pricing, promotion, product and distribution decisions meant to win and defend market share (Jiménez-Partearroyo and Medina-López, 2024). Competitive strategy is the process through which a firm builds a defensible position in its industry and earns above-average returns (Kachunda, 2023), and it is expressed not only in planning but in thinking and acting (Panina et al., 2026). For small and medium-sized enterprises the stakes are higher. SMEs dominate most developing economies and drive job creation, income and grassroots industrialisation (Kalaiselvi and Maithily, 2024), yet their performance varies sharply, and in Ghana many struggles and exit within a few years of establishment (Ansu-Mensah et al., 2021). Two strategies dominate how SMEs compete, differentiation and cost leadership (Pavlović and Čelić, 2020), each

aimed at lifting performance. The link between strategy and performance is neither automatic nor uniform. Globalisation, shifting tastes and rapid technological change force firms to innovate continually to hold their position (Gligović et al., 2021), so innovation is both a competitive weapon and the link between strategy and performance, while the pressure of rivals, captured by competitive intensity, shapes how far innovation is rewarded. Against this background the study asks whether competitive strategy always leads to performance, examining innovation and competitive intensity as the mechanism and the condition that qualify that relationship, using SMEs in the Greater Accra Region of Ghana, where the country's SMEs are most concentrated.

Statement of the Problem

SMEs operate where competitors, substitutes and new entrants press continuously on their ability to retain customers and sustain performance (Hicks, 2021), and competitive strategy is widely viewed as the route to superior performance (Das and Canel, 2023). Recent evidence, however, shows the payoff is not guaranteed. Farida and Setiawan (2022) found that business strategy improved competitive advantage partly through innovation among Indonesian SMEs, and Rubio-Andrés et al. (2024) found that cost leadership and differentiation improved market performance with innovation playing an important role, which suggests the value of strategy depends on how well firms convert strategic choices into innovative outcomes. Evidence on competition is also mixed. Otache (2024) found that competitive intensity strengthened the innovation–performance link among Nigerian SMEs, whereas Houessou et al. (2025) found that competitive intensity did not significantly change the effects of cost leadership and differentiation among fish-farming firms in Benin, and Jeremiah and Akpanuko (2025) reported no significant direct effect of competitive intensity on ICT-firm performance. The gap is therefore a limited understanding of how competitive strategy translates into SME performance under different competitive conditions, particularly in Ghana, where evidence is thin. This study fills that contextual and explanatory gap for SMEs in the Greater Accra Region.

Objectives and Research Questions

The general objective is to examine the relationship between competitive strategy and SME performance in the Greater Accra Region, and the mediating role of innovation and the moderating role of competitive intensity within it. Specifically, the study examines the effect of competitive strategy on performance (H1) and on innovation (H2), the effect of innovation on performance (H3), the mediating role of innovation between strategy and performance (H4), and the moderating role of competitive intensity between innovation and performance (H5). Five research questions correspond directly to these objectives.

Significance of the Study

The study makes three contributions. In modelling innovation as a mediator, it clarifies the conditions under which competitive strategies pay off; in testing competitive intensity as a boundary condition, it addresses a little-explored moderator for African SMEs; and in situating strategy and innovation in an emerging-economy SME setting, it speaks to a literature dominated by large firms in developed economies. The findings also carry practical weight for owner-managers and policymakers in an economy where SMEs are the main source of livelihoods.

Beyond scholarship, the study speaks to a country in which SMEs are the main source of livelihoods. If innovation is the pathway from strategy to performance, owner-managers who grasp this will allocate their scarce resources more deliberately, and the finding that the returns to innovation do not depend on the level of competition simplifies the managerial task, since firms need not calibrate their innovation effort to the intensity of rivalry they face.

Literature Review

Competitive Strategy

Competitive strategy is the set of deliberate decisions through which a firm seeks a defensible, profitable position in its industry (Das and Canel, 2023), and it is inseparable from the search for advantage over rivals (Farida and Setiawan, 2022). The study conceptualises it along the two classic dimensions of differentiation and cost leadership. Differentiation rests on making a product or service unique along attributes buyers value, which supports a price premium and brand loyalty (Noor et al., 2025), and in SMEs it shows in new and upgraded offerings, superior service and brand investment (Okwaro et al., 2025). Cost leadership rests on becoming a relatively low-cost producer through operating efficiency and process improvement, so the firm can price competitively without sacrificing acceptable quality (Hossain et al., 2025). In practice the choice is rarely absolute; many small firms run a blended posture, and what separates strong performers is the consistency with which they translate strategy into action across pricing, product, service and delivery (Ondiwo and Kitur, 2023). The study therefore measures the extent to which a firm pursues each posture rather than forcing an either-or classification.

Innovation

Innovation is understood here as the creation of something new, or the significant improvement of something existing, to add value for customers and the firm. It is not confined to products but extends to processes, marketing and organisation, and the study adopts the standard fourfold classification of product, process, marketing and organisational innovation (Cordeiro et al., 2023). Product innovation introduces a new or substantially improved good or service (Molina-Castillo et al., 2023); process innovation improves the techniques and methods of production and delivery, and is especially valuable where cost and reliability matter (Kimani and Kipkorir, 2023); marketing innovation covers

new design, packaging, pricing and promotion (Olazo, 2023); and organisational innovation covers new business practices and workplace arrangements (Baumane-Vītoliņa et al., 2022). For SMEs these are rarely pursued in isolation. What matters is less any single launch than the embedded capacity to renew, which is why the study measures innovation as the firm's overall innovative capability.

It is also useful to distinguish the presence of innovation from its intensity. Two firms may both introduce new offerings, yet one does so occasionally and defensively while the other does so as a matter of routine. The second firm is more innovative in the sense that renewal is embedded in how it works, and for SMEs this embedded capacity does not require large research budgets; it is more often a matter of habitually listening to customers, experimenting cheaply, and absorbing improvements from suppliers and everyday practice.

Competitive Intensity

Competitive intensity is the degree of rivalry among firms in an industry (Zhang et al., 2026). It is driven by the number of competitors, the ease of entry, the availability of substitutes and the bargaining power of customers (Nwachukwu and Vu, 2022), and even the smallest firm is exposed to these forces. High intensity forces firms to introduce new products and adjust prices frequently, while low intensity gives firms greater control over outcomes (Handoyo et al., 2023). Although often treated as a threat, intense competition can also push firms to innovate, and it conditions how far a firm's innovations are rewarded. These sources are generally all present in the urban markets where most SMEs operate. Each pushes the firm to compete, whether to protect revenue or to raise the quality and features of its offering to survive, and each can bear on the firm positively or negatively, which is why the study examines the effect of competitive intensity on the innovation–performance relationship rather than assuming it in advance.

Firm Performance

Firm performance captures the extent to which a business attains its goals (Nasir et al., 2023). Because firms pursue different goals, performance is multidimensional, and financial indicators alone give only a partial, backward-looking picture (Ahmad et al., 2023). The study assesses performance through complementary financial and non-financial measures, drawing on owner-managers' assessments of their firms relative to key competitors on indicators such as sales and profit growth, return on investment and market share (Fernández-Portillo et al., 2022; Vuong, 2025). This relative, self-report approach is standard in SME research because many small firms keep no audited accounts and are reluctant to release financial data to outsiders (Prempeh et al., 2022).

There is a further, practical reason for using managers' assessments relative to competitors. Such measures obviate the need for audited accounts and the disclosure of sensitive financial data, yet they let owner-managers give a valid and reliable picture of performance

that researchers can interpret. Indeed, relative self-assessments of this kind are already standard in SME research for these reasons.

Theoretical Review

Four complementary theories frame the study. The resource-based view (Barney, 1991) locates advantage inside the firm, in resources that are valuable, rare, imperfectly imitable and non-substitutable (Arsawan et al., 2022); applied to SMEs, it frames innovation capability as a primary internal source of advantage that rivals cannot easily copy (Kalathingal and Ambrammal, 2025). The positioning view (Porter, 1985) locates profitability in the firm's position within its industry, secured through lower cost or differentiation, and complements the resource-based view by explaining advantage from the outside in. The dynamic-capabilities view (Teece et al., 1997) addresses how firms sustain advantage in changing environments by sensing, seizing and reconfiguring their resource base, with innovation the visible expression of these routines, and recent evidence links dynamic capabilities to SME performance in turbulent conditions (Cullen et al., 2023). Schumpeter's theory (Schumpeter, 1934) casts innovation and creative destruction as the fundamental driver of economic change, a view reaffirmed in modern treatments (Aghion et al., 2021). Together the four converge on one account: the positioning view explains why a firm must choose a posture, the resource-based view why execution rests on hard-to-copy capabilities, the dynamic-capabilities view why those capabilities must be renewed, and the Schumpeterian view why innovation is the form that renewal takes. The study's model expresses this synthesis directly: competitive strategy sets direction, innovation turns direction into results, and competitive intensity is the condition under which the value of that capability is tested.

Empirical Review and Hypotheses

This section reviews recent empirical evidence and derives the study's five hypotheses. Following the practice of anchoring each proposition in the studies that speak most directly to it, several studies are revisited across the sub-sections as the argument requires, and the evidence is read comparatively so that the Ghanaian case can be located against findings from other economies and sectors. Because the studies reviewed here were conducted mainly in Indonesia, Spain, Nigeria, Benin, Vietnam and other specific settings, with only Keelson et al. (2024) and Agyapong et al. (2024) working squarely within the West African frame, the review also exposes how thin the direct Ghanaian evidence remains, which is the gap the five hypotheses are designed to close.

Competitive Strategy and Firm Performance

The proposition that competitive strategy improves firm performance enjoys broad empirical support, although the size and route of the effect vary by context. In an emerging-economy SME setting closely comparable to the present one, Keelson et al. (2024) analysed 365 SMEs in Ghana using partial least squares structural equation modelling and found that

market competition was positively and significantly related to SME performance, which indicates that firms which engage competition deliberately, rather than passively, tend to perform better. Working in a broader African emerging-economy frame, Agyapong et al. (2024) traced dynamic pathways to SME performance and reported that a firm's strategic posture, expressed through organisational learning, innovation and market responsiveness, translates into superior performance where market conditions reward such choices. Rubio-Andrés et al. (2024) reinforces this pattern from a different angle, finding that both cost leadership and differentiation improved the market performance of SMEs, with innovation carrying a substantial part of the effect, so that the value of a competitive posture is realised through the innovative activity it sets in motion. Das and Canel (2023) frame the same relationship at the level of theory, treating competitive strategy as the principal route through which firms secure superior performance, and their argument supplies the conceptual backing for the empirical regularities reported by Keelson et al. (2024) and Rubio-Andrés et al. (2024). Cullen et al. (2023) add a capability-based qualification, showing that firms which continuously renew their capability base adapt more effectively and perform better in turbulent conditions, which implies that the performance return to a competitive posture is greatest where firms also hold the dynamic capabilities to sustain it. The comparison across these studies is instructive: the effect is reported in West African, broader African and international SME samples, and across differentiation and cost-oriented postures, which lends confidence that the relationship is general rather than an artefact of any single sector, country or strategy type. Indeed, the effect reported in these studies is substantial rather than marginal. What remains less settled, and what this study pursues, is not whether the effect exists but how much of it survives once the mechanism of innovation is accounted for.

H1: Competitive strategy has a positive effect on the performance of SMEs in the Greater Accra Region.

Competitive Strategy and Innovation

A firm's competitive strategy also shapes how much it innovates, because the pursuit of differentiation and cost advantage compels the renewal of products, processes and market approaches. Farida and Setiawan (2022), studying Indonesian SMEs, found that a firm's strategy exerts a positive effect on innovation and that innovation in turn carries the strategy through to competitive advantage, which underscores that strategy and innovation are tightly coupled rather than independent choices. Their evidence is particularly relevant here because it establishes strategy as a genuine antecedent of innovative activity rather than a parallel correlate of it, and because the resource-constrained SMEs they study resemble the firms examined in the present research. In a complementary vein, Zhang et al. (2023) showed that the strategic orientations of SMEs drive responsible innovation, and that the strength of this effect depends on the turbulence of the environment, so that firms pursuing a clear strategic direction generate more

innovation, especially where market conditions are unsettled. Read together, Farida and Setiawan (2022) and Zhang et al. (2023) point in the same direction from different economies and with different measures of innovation, which indicates that the strategy-to-innovation link is consistent even as its magnitude varies with context. The mechanism is intuitive. A firm that commits to being distinctive must generate the new products, services and marketing approaches that make it so, and a firm that commits to cost leadership must generate the process improvements that make lower prices sustainable. In both cases the strategic commitment creates the demand for innovation, and firms that hold their strategic course tend to accumulate innovative capability over time. This reading is consistent with Kalathingal and Ambrammal (2025), who treat innovation capability as an internal asset that firms build deliberately through an innovation-oriented culture rather than acquire by chance, which is exactly the kind of capability that a sustained strategic posture would be expected to cultivate.

H2: Competitive strategy has a positive effect on innovation of SMEs in the Greater Accra Region.

Innovation and Firm Performance

A large and growing body of evidence links innovation to superior firm performance, particularly among SMEs in developing economies. Quintero Sepúlveda and Zúñiga Collazos (2025) analysed 136 SMEs and found positive relationships between innovation capabilities, innovation strategy and financial performance, while cautioning that not all innovation strategies generate equal returns, which signals that the performance value of innovation depends on how it is pursued rather than on its mere presence. Le et al. (2023), drawing on Vietnamese SMEs, provide further evidence that innovation supports firm performance in an emerging-market context comparable to Ghana's, which matters because it shows the relationship holding outside the African setting and therefore travelling across institutional environments. Su et al. (2024), reasoning from a combined resource-based and institutional perspective, show that process innovation in particular raises firm performance by improving efficiency and adaptability, which locates part of the performance gain in the way firms produce and deliver rather than only in what they sell. Gautam et al. (2025) extend the evidence to business-model innovation, finding that it lifts SME performance both directly and through entrepreneurial mechanisms, so that renewal at the level of the business model is itself a source of results. Kalathingal and Ambrammal (2025) supply the resource-based rationale for these patterns, arguing that innovation capability is a primary internal source of competitive advantage and that firms which cultivate knowledge-sharing and an innovation-oriented culture build positions that rivals cannot readily copy. Hermundsdottir and Aspelund (2021), reviewing the sustainability-innovation literature, confirm from a large body of studies that innovative firms tend to be more competitive, while noting that contextual factors shape the strength of the link. At a broader level, Aghion et al. (2021) reaffirm the Schumpeterian claim that creative destruction remains a central mechanism of firm-level renewal and aggregate prosperity,

which situates the firm-level innovation-performance relationship within a wider account of how renewal generates economic gains. The weight of this evidence supports a positive innovation-performance relationship. Notably, the effect appears across different operationalisations of innovation, whether framed by these authors as innovation capability, process innovation, business-model innovation or sustainability-oriented innovation, and across a range of emerging and developing-economy contexts, which suggests that the benefit is robust to how innovation is measured and where it is studied. The consistency of this pattern across Quintero Sepúlveda and Zúñiga Collazos (2025), Le et al. (2023), Su et al. (2024) and Gautam et al. (2025) is what justifies positioning innovation as the pivotal construct in the study's model. Taken as a set, Quintero Sepúlveda and Zúñiga Collazos (2025), Su et al. (2024) and Gautam et al. (2025) also make clear that the performance gain is not automatic but depends on the type of innovation a firm pursues, which is why the present study measures innovative capability as a standing capacity rather than counting isolated launches.

H3: Innovation has a positive effect on the performance of SMEs in the Greater Accra Region.

The Mediating Role of Innovation

If competitive strategy stimulates innovation (H2) and innovation raises performance (H3), then innovation plausibly transmits part of the strategy effect to performance, which is the logic of mediation. Farida and Setiawan (2022) provide the most direct evidence for this chain, reporting that innovation mediates the relationship between strategy and competitive advantage in SMEs, so that the payoff of a strategic posture is realised partly through the renewal it triggers rather than through the posture alone. Their finding is important for the present study because it identifies innovation not merely as a correlate of strategy and performance but as the conduit between them. Gautam et al. (2025) reach a parallel conclusion for a different construct, showing that business-model innovation operates as an intervening mechanism between entrepreneurial strategy and SME performance, which strengthens the case that innovation carries strategic effects rather than arising as a mere by-product of them. Quintero Sepúlveda and Zúñiga Collazos (2025) add to this picture by finding that innovation capabilities and innovation strategy jointly shape financial performance, a result consistent with an indirect route running from strategy through innovation to results even though their design does not isolate that indirect path as such. The evidence from the emerging-economy SME setting reinforces the same reading. Keelson et al. (2024) report that strategy and performance are strongly related in Ghana while innovation remains central to the mechanism, which is precisely the configuration that a mediation model is designed to capture, and which the present study formalises for the Greater Accra case. Read comparatively, these studies converge on innovation as a transmitter of strategic effects, but none of them quantifies, for Ghanaian SMEs, how much of the total effect travels through that channel. The expectation here is

partial rather than full mediation. Because competitive strategy also improves performance through routes that do not pass-through innovation, such as sharper pricing, wider distribution and stronger customer relationships, a direct strategy effect should remain even after innovation is taken into account. What the mediation test establishes, and what these prior studies imply but leave unquantified for this context, is the share of the total effect that runs through the innovation channel, which is the quantity a direct-effect study cannot reveal.

H₄: Innovation mediates the relationship between competitive strategy and the performance of SMEs in the Greater Accra Region.

The Moderating Role of Competitive Intensity

Whether the returns to innovation are magnified or muted by competition is contested, which is precisely why competitive intensity is examined here as a moderator of the innovation-performance link rather than assumed to work in one direction. One strand of evidence suggests that intense competition strengthens the effect of innovation. Nwachukwu and Vu (2022) report that competitive intensity conditions the relationship between service and marketing innovation and customer satisfaction, which indicates that rivalrous conditions can raise the payoff to innovative effort. Otache (2024) provides more direct support for a positive interaction, finding that competitive intensity strengthened the innovation-performance relationship among Nigerian SMEs, so that innovation paid off most where rivalry was fiercest; this is the clearest evidence in the reviewed literature for the amplifying view. A second strand suggests that the conditioning effect of the environment is weaker and more bounded. Zhang et al. (2023) find that environmental turbulence moderates the strategy-innovation relationship only within limits, which implies that the environment does not always amplify the returns to renewal and that its influence can be modest. A third strand reports no significant moderation at all. In the Ghanaian SME setting most comparable to the present study, Keelson et al. (2024) found that the moderated hypotheses were not supported, so that the influence of competition on performance did not depend on the level of process innovation. Houessou et al. (2025) reach a similar conclusion for fish-farming firms in Benin, where competitive intensity did not uniformly strengthen the effects of cost leadership and differentiation on performance, and Jeremiah and Akpanuko (2025) report that competitive intensity had no significant direct effect on ICT-firm performance, although it was positively associated with innovation investment, which suggests that competition may influence how much firms invest in innovation without changing how much that innovation pays off. The tension between Otache (2024) on the one hand and Keelson et al. (2024), Houessou et al. (2025) and Jeremiah and Akpanuko (2025) on the other is the central puzzle this hypothesis addresses, and it is notable that the null findings cluster in West African settings close to Ghana's. The balance of theory nonetheless anticipates a positive interaction, on the reasoning that fiercer rivalry raises the premium on being different and therefore the reward to successful innovation. The countervailing evidence is strong, however, and a null or even negative

interaction is plausible where pervasive competition already saturates the market and leaves little additional room for rivalry to sharpen the returns to renewal, as may be the case in the dense urban markets of Greater Accra. The hypothesis is therefore stated in the positive direction to reflect the dominant theoretical expectation, but the test is genuinely open. In sum, the reviewed evidence establishes the innovation-performance link firmly, as set out under H3, but leaves its dependence on competition unresolved, and it is this unresolved boundary condition, rather than the main effect, that H5 is framed to test.

H5: Competitive intensity positively moderates the relationship between innovation and the performance of SMEs in the Greater Accra Region.

Conceptual Framework

Drawing the literature together, the study advances a framework in which competitive strategy influences performance both directly (H1) and indirectly through innovation (H2 and H3, giving the mediation in H4), while competitive intensity moderates the innovation–performance path (H5). Competitive strategy is the independent variable, innovation the mediator, firm performance the dependent variable, and competitive intensity the moderator. Figure 1 presents the framework with the five hypothesised relationships.

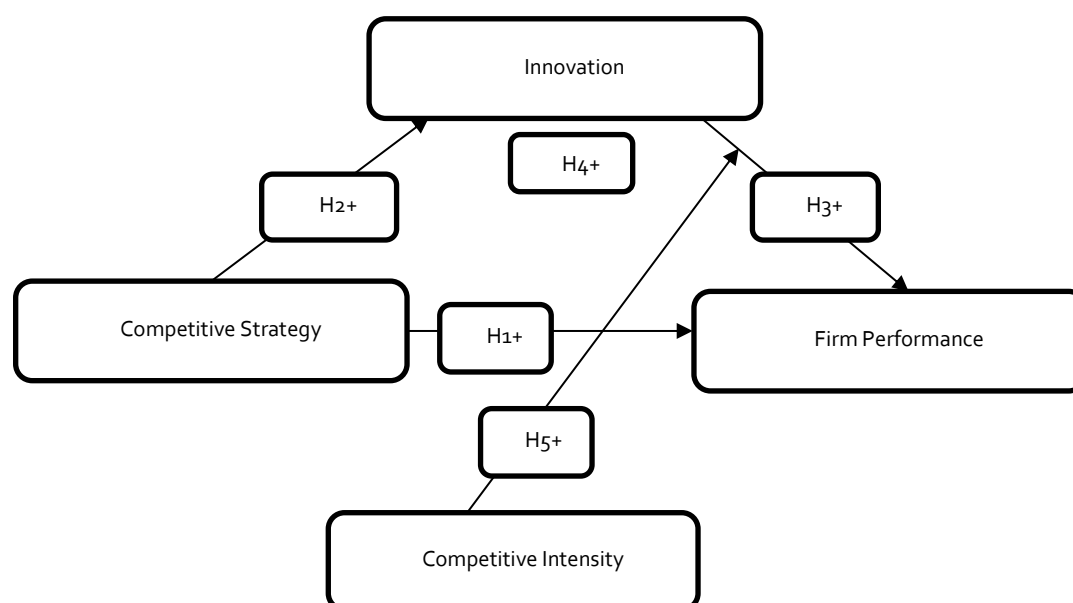


Figure 1: Conceptual framework of the study, showing the five hypothesised relationships (H1–H5).

Source: Author's construction (2026).

Methodology

Research Design

Because the study tests theoretically derived hypotheses about relationships among clearly defined variables, a quantitative, explanatory design was adopted. A quantitative design is

deductive, proceeding from theory to hypotheses to measurement, and is well suited to establishing the direction and strength of associations (Creswell and Creswell, 2023). The explanatory orientation fits because the study seeks not merely to describe the constructs but to explain how competitive strategy relates to performance and to test the mediating and moderating mechanisms that qualify that relationship. The approach sits within a positivist tradition that treats the constructs as measurable and their relationships as estimable regularities (Ali, 2024).

This commitment fits the study's aims, since the objectives are framed as hypotheses about the direction and strength of effects, and the value of the work lies in producing evidence that owner-managers and policymakers across the region can apply rather than an interpretation of a handful of cases. A survey of many firms, analysed with regression-based techniques, is the natural instrument for that purpose.

Population, Sampling and Sample Size

The population comprises the owner-managers and senior managers of SMEs in the Greater Accra Region, chosen for their informed knowledge of the firms they run. Because there is no public register of SMEs and resources were limited, purposive and convenience sampling were used: purposive sampling to select respondents knowledgeable about the constructs, and convenience sampling to reach owner and senior managers. A total of 365 SME owners and managers responded, which is sufficient for the multivariate analyses and consistent with comparable SME studies in the region. SMEs are defined by the common Ghanaian employment-based convention, with medium enterprises employing up to about a hundred people, and respondents were drawn from each of the main activity sectors. Thus, although the respondents are drawn from small businesses across each of the main activity sectors, the study relies on non-probability (purposive and convenience) sampling, and its findings therefore cannot be generalised statistically to the wider population of SMEs in the region; the sectoral spread nonetheless supports the analytical transferability of the conclusions to comparable small firms operating under similar conditions, a limitation reiterated in Section 6.4.

Instrument and Measurement

Data were collected with a self-administered structured questionnaire in three parts: a demographic and firm-profile section and two sections measuring the constructs. All construct items were measured on a seven-point Likert scale and adapted from established prior research to protect content validity. Competitive strategy was measured through its differentiation and cost-leadership dimensions, innovation through the firm's innovative capability, competitive intensity through perceived industry rivalry, and firm performance through owner-managers' assessments relative to competitors on financial and operational indicators. Table 3.1 summarises the constructs and their measurement.

Table 3.1 Measurement of constructs

Construct	Role	Dimensions / focus	Scale
Competitive strategy	Independent	Differentiation; cost leadership	7-point
Innovation	Mediator	Innovative capability	7-point
Competitive intensity	Moderator	Perceived industry rivalry	7-point
Firm performance	Dependent	Financial and operational indicators	7-point

Source: Author's compilation (2026).

Method of Analysis

The hypotheses were tested with ordinary least squares regression. The three direct effects (H₁–H₃) were estimated with simple regressions; the mediating role of innovation (H₄) was tested by decomposing the total effect of competitive strategy on performance into direct and indirect components, with the indirect effect assessed by the Sobel test and a bias-corrected bootstrap with 5,000 resamples; and the moderating role of competitive intensity (H₅) was tested with a moderated regression using mean-centred predictors and their product. The predictors were screened for multicollinearity using variance inflation factors and tolerance. In addition, to address the potential for common method bias inherent in a self-report, single-source design, Harman's single-factor test was conducted by submitting all construct items to an unrotated principal-components analysis. Respondents' anonymity and voluntary participation were assured, and no personally identifying information was collected.

Results

Demographic Profile

Table 4.1 profiles the 365 respondents and their firms. Men made up 58.1 per cent of respondents and women 41.9 per cent; most were aged 30 to 49 (64.1 per cent) and held middle- or senior-management positions (54.6 per cent). The firms spanned services (32.6 per cent), manufacturing (32.1 per cent), trading (22.7 per cent) and agribusiness (8.5 per cent), and most were family-owned (63.8 per cent) and between five and twenty years old.

Table 4.1: Demographic profile of respondents (n = 365)

Characteristic	Category	Freq.	%
Gender	Male	212	58.1
	Female	153	41.9
Age	Under 30	49	13.4
	30–39	133	36.4
	40–49	101	27.7
	50–59	62	17.0
	60+	20	5.5
Position	Owner/CEO	65	17.8
	General Manager	75	20.5
	Senior Manager	94	25.8

Characteristic	Category	Freq.	%
	Middle Manager	105	28.8
	Other	26	7.1
Firm sector	Manufacturing	117	32.1
	Service	119	32.6
	Trading/Retail	83	22.7
	Agribusiness	31	8.5
	Other	15	4.1
Family-owned	Yes	233	63.8
	No	132	36.2
Firm age	Under 5 yrs	62	17.0
	5–10 yrs	119	32.6
	11–20 yrs	111	30.4
	Over 20 yrs	73	20.0

Source: Field survey data (2026).

Reliability and Common Method Bias

All five constructs were internally reliable, with Cronbach's alpha ranging from 0.925 to 0.953, comfortably above the 0.70 threshold (Table 4.2).

Table 4.2: Reliability of constructs

Construct	Items	Cronbach's α	Decision
Differentiation (competitive strategy)	9	0.950	Reliable
Cost leadership (competitive strategy)	7	0.936	Reliable
Innovation	5	0.925	Reliable
Competitive intensity	6	0.927	Reliable
Firm performance	10	0.953	Reliable

Source: Field survey data (2026).

Harman's single-factor test was used to gauge common method variance. All construct items were entered into an unrotated principal-components analysis, and the first factor accounted for 62.99 per cent of the total variance, with only one further component exceeding an eigenvalue of 1.0 (Table 4.2a). As this exceeds the 50 per cent guideline, common method variance cannot be excluded, and the result is reported transparently. Two considerations temper its interpretation. First, Harman's test is a lenient, relatively insensitive diagnostic and is treated here as indicative rather than conclusive; because the four constructs are theoretically related, part of the shared variance reflects genuine covariance rather than method artefact. Second, procedural remedies were applied: respondents' anonymity and confidentiality were assured to reduce evaluation apprehension, and items were drawn from validated scales and presented in separate, clearly labelled sections. Common method bias is nonetheless acknowledged as a limitation (Section 6.4), and future research using multiple data sources or temporally separated measurement is recommended.

Table 4.2a: Harman's single-factor test (total variance explained)

Component	Eigenvalue	% of variance	Cumulative %
1	23.305	62.99	62.99
2	1.186	3.20	66.19

Note. *Unrotated principal-components analysis of all 37 construct items (n = 365). Only two components had eigenvalues above 1.0. The first component accounted for 62.99% of the total variance, exceeding the conventional 50% guideline. This indicates the possibility of common method variance, although the Harman single-factor test alone does not establish its presence or severity. Each of the remaining 35 components explained less than 2.5% of the variance.*

Source: Field survey data (2026).

Descriptive Statistics and Correlations

On the seven-point scale the constructs recorded above-midpoint means: competitive strategy 5.28 (SD 0.89), innovation 5.25 (0.94), competitive intensity 5.24 (0.99) and firm performance 5.06 (0.91), indicating that the sampled SMEs generally pursue clear strategies, innovate actively and rate their performance favourably. All inter-construct correlations were positive and significant, with competitive strategy correlating most strongly with performance ($r = 0.90$), followed by innovation with performance ($r = 0.85$) and competitive intensity with performance ($r = 0.84$) (Table 4.3). As shown in Table 4.3a, the variance inflation factors ranged from 4.02 to 4.29 and tolerances from 0.233 to 0.249, each within the accepted thresholds ($VIF < 5$; tolerance > 0.20), so multicollinearity was not a concern.

Table 4.3: Descriptive statistics and correlation matrix

Construct	Mean	SD	1	2	3	4
1. Competitive strategy	5.28	0.89	1.00			
2. Innovation	5.25	0.94	0.86	1.00		
3. Competitive intensity	5.24	0.99	0.86	0.82	1.00	
4. Firm performance	5.06	0.91	0.90	0.85	0.84	1.00

Note. *All correlations significant at $p < 0.01$.*

Source: Field survey data (2026).

Table 4.3a: Multicollinearity diagnostics (variance inflation factors)

Predictor	R ² (on other predictors)	VIF	Tolerance
Differentiation (DIFF)	0.751	4.02	0.249
Cost leadership (COST)	0.757	4.11	0.243
Innovation (INN)	0.767	4.29	0.233
Competitive intensity (CI)	0.759	4.15	0.241

Note. *VIF = variance inflation factor; tolerance = $1 - R^2$. VIF < 5 and tolerance > 0.20 indicate no problematic multicollinearity.*

Source: Field survey data (2026).

Test of Hypotheses

Direct Effects (H₁, H₂ and H₃)

The three direct hypotheses were tested with simple regressions and all were supported. Competitive strategy had a strong positive effect on firm performance (standardised $\beta = 0.902$; unstandardised $B = 0.921$; $t = 39.87$; $p < 0.001$), explaining 81.4 per cent of the variance and supporting H₁. Competitive strategy had a strong positive effect on innovation (standardised $\beta = 0.861$; unstandardised $B = 0.912$; $t = 32.32$; $p < 0.001$), explaining 74.2 per cent and supporting H₂. Innovation had a strong positive effect on performance (standardised $\beta = 0.851$; unstandardised $B = 0.821$; $t = 30.86$; $p < 0.001$), explaining 72.4 per cent and supporting H₃. Because each direct effect is estimated in a single-predictor model, the standardised coefficient equals the bivariate correlation in Table 4.3 and its square equals R^2 (for example, $0.902^2 \approx 0.814$); the unstandardised coefficients are reported alongside because the mediation decomposition is expressed in unstandardised terms.

Table 4.4: Unstandardised (B) and standardised (β) coefficients for the direct effects

Hyp.	Path	B	β	t	p	R ²	Result
H1	Competitive strategy → Performance	0.921	0.902	39.87	< 0.001	0.814	Supported
H2	Competitive strategy → Innovation	0.912	0.861	32.32	< 0.001	0.742	Supported
H3	Innovation → Performance	0.821	0.851	30.86	< 0.001	0.724	Supported

Note. B = unstandardised coefficient; β = standardised coefficient. For a single-predictor model β equals the bivariate correlation and β^2 equals R^2 .

Source: Field survey data (2026).

Mediation of Innovation (H₄)

The mediating role of innovation was tested by decomposing the total effect of competitive strategy on performance. The total effect was 0.921 (unstandardised B ; $p < 0.001$). With innovation entered alongside strategy, the direct effect fell to 0.670 ($p < 0.001$) while innovation retained a significant effect on performance ($b = 0.275$, $p < 0.001$), and the two predictors together explained 83.5 per cent of the variance. The indirect effect was 0.251, significant on the Sobel test ($z = 6.65$, $p < 0.001$), with a bias-corrected bootstrap 95 per cent confidence interval of [0.176, 0.330] that excludes zero. Because the direct effect remained significant, the result indicates partial rather than full mediation, with innovation carrying about 27.3 per cent of the total effect. H₄ is supported.

Table 4.5: Mediation analysis (competitive strategy → innovation → performance) [unstandardised coefficients]

Effect	Coefficient	Test statistic	p / 95% CI	Interpretation
Total effect (c)	0.921	$t = 39.87$	$p < 0.001$	Significant

Effect	Coefficient	Test statistic	p / 95% CI	Interpretation
Direct effect (c')	0.670	t = 22.6	p < 0.001	Significant
Innovation → performance (b)	0.275	t = 6.7	p < 0.001	Significant
Indirect effect (a×b)	0.251	Sobel z = 6.65	p < 0.001	Significant
Bootstrap 95% CI (indirect)	0.251	5,000 resamples	[0.176, 0.330]	Excludes zero
Proportion mediated	0.273	—	—	Partial mediation

Source: Field survey data (2026).

Moderation by Competitive Intensity (H5)

The moderating role of competitive intensity was tested with a moderated regression using mean-centred predictors. Innovation (b = 0.438, p < 0.001) and competitive intensity (b = 0.406, p < 0.001) both had significant main effects, but their interaction was not significant (b = 0.006, t = 0.31, p = 0.75) and added no meaningful explanatory power ($\Delta R^2 = 0.0001$). H5 is not supported.

Table 4.6: Moderation analysis (innovation × competitive intensity on performance)

Predictor	b	t	p	Decision
Innovation (centred)	0.438	—	< 0.001	Significant
Competitive intensity (centred)	0.406	—	< 0.001	Significant
Innovation × Competitive intensity	0.006	0.31	0.75	Not significant
Change in R ² from interaction	0.0001	—	—	Negligible

Source: Field survey data (2026).

Discussion

The three direct effects confirm that competitive strategy raises both performance and innovation and that innovation raises performance, in line with Keelson et al. (2024) and Agyapong et al. (2024). The magnitude of these direct effects, with each single-predictor model explaining between 72 and 81 per cent of the variance in its outcome, is large by the standards of SME survey research, which is why the reliability, multicollinearity and common method bias diagnostics reported in Section 4 matter for their interpretation. The more informative results concern the mechanism and the boundary condition.

H4 was supported: innovation partially mediated the strategy–performance relationship, carrying roughly a quarter of the total effect while a substantial direct effect remained. This supports Farida and Setiawan (2022), who showed innovation to be an important pathway from strategy to advantage, and it extends the argument by showing that the strategy–performance relationship among SMEs does not run only through a direct route. The result fits the dynamic-capabilities view, in which firms convert strategic intent into performance by renewing capabilities (Teece et al., 1997), and the Schumpeterian view, in which

innovation is the concrete process that generates returns (Schumpeter, 1934). Indeed, it is consistent with Gautam et al. (2025), who identified business-model innovation as a mechanism linking strategy to SME performance.

H₅ was not supported: competitive intensity did not moderate the innovation–performance link. This differs from Otache (2024), who found competition strengthened the relationship among Nigerian SMEs, but it agrees with Keelson et al. (2024), whose Ghanaian evidence found no significant moderation, and with Houessou et al. (2025), where competitive intensity did not uniformly strengthen the effects of strategy. The absence of moderation suggests that the contribution of innovation to SME performance is stable rather than one that rises only under intense competition, which may reflect the already competitive urban markets in which Greater Accra's SMEs operate.

Overall, the results answer the study's central question. Competitive strategy does not translate into performance entirely through a direct route: innovation carries a meaningful part of the effect, while the remainder runs through other strategic routes, and the returns to innovation are stable across levels of competition. The four theories together explain the pattern, and the study contributes a more precise account of the strategy–performance relationship among SMEs in Greater Accra.

Conclusions and Recommendations

Summary of Findings

The study examined whether competitive strategy leads to SME performance in the Greater Accra Region, and tested the mediating role of innovation and the moderating role of competitive intensity. Competitive strategy had a strong positive effect on performance and on innovation; innovation had a strong positive effect on performance; innovation partially mediated the strategy–performance relationship, accounting for about 27 per cent of the total effect on both the Sobel test and a bootstrap; and competitive intensity did not significantly moderate the innovation–performance relationship.

Conclusions

The answer to the research question is clear: competitive strategy does not always ensure performance. The performance benefit of a differentiation or cost-leadership strategy is fully realised only once that strategy is translated into innovation, so innovation is a critical component in converting strategy into results. That the direct strategy–performance effect also remained strong shows that other routes contribute as well; strategy and innovation are complementary. Because competitive intensity had no moderating effect, SMEs need not condition their innovation decisions on the level of competition in their industry, likely because these firms already operate in highly competitive urban markets.

Recommendations

Recommendations for Practice

For owners and managers of SMEs, innovation must be treated as the work that connects strategy to performance, not an activity for spare time. In practice this means aligning each strategy with a concrete innovation commitment: a stream of product, service and marketing innovations for a differentiation strategy, and disciplined process innovations that drive down unit costs for a cost-leadership strategy. Because the returns to innovation did not depend on the level of rivalry, managers should support innovation investment continuously through the business cycle. Practical habits help: a standing expectation that each quarter delivers a tangible improvement to the offering or to the process behind it; low-cost feedback loops with customers that generate a steady flow of ideas; and the adoption of affordable digital tools for sales, payments and record-keeping as a process innovation that also cuts cost. None of these requires the research budget of a large firm, and all of them help ensure that the firm's stated strategy is actually enacted rather than merely declared.

Recommendations for Policy

For policy and business-support institutions, the priority is to strengthen the innovation environment in which small firms operate: widen access to low-cost financing and innovation funding, expand capacity-building in product development, process improvement and digital marketing, and lower the cost of experimentation. Because the returns to innovation were general rather than confined to the most competitive markets, such support should be broad rather than targeted only at high-rivalry sectors.

Limitations and Future Research

Three limitations qualify the findings. The design is cross-sectional and self-report from a single source, so common method bias cannot be excluded (Section 4.2) and causal claims are made with caution. The sample is non-probability, which limits statistical generalisation beyond the studied firms. And performance is measured through managers' relative assessments rather than audited accounts. Future research should use longitudinal or multi-source designs, probability samples where a register allows, and objective performance data to test the robustness of these results.

Declarations

Data Availability Statement

The data used in this study were collected from SMEs in the Greater Accra Region of Ghana through a structured questionnaire. The dataset is not publicly available because the data were collected from individual respondents and contain information obtained under conditions of confidentiality. However, the data may be made available by the author upon reasonable request, subject to appropriate ethical and confidentiality considerations.

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Conflict of Interest Statement

The author declares that there is no conflict of interest associated with this study.

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