

# The Mediating Role of Innovation Strategy on the Relationship between Relational Capability and the Performance of Small and Medium Enterprises (SMEs) in Developing Economies of Africa

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## Abstract

This study aims to evaluate the influence of relational capability on innovation strategy and performance of SMEs. The study conceptualizes relational capability as SMEs strategic dynamic capability that facilitates the development and implementation of effective innovation strategy which in turn enhance performance. Data were collected from 238 owner/managers of food and beverage manufacturing SMEs in Nigeria. The study found that relational capability positively influences SMEs performance. Equally, relational capability significantly impacts on product innovation and administrative innovation strategies. The findings also demonstrate that both the product and administrative innovation strategies positively affects SMEs performance. The result further confirmed that process and administrative innovation strategies mediate the relationship between relational capability and SMEs performance. However, relational capability negatively relates with SMEs process and product innovation strategies. Equally process innovation negatively relates to SMEs performance. On the other hand, process and administrative innovation mediates the relationship between the relational capability and SMEs performance.

*Keywords:* Relational capability, Innovation strategy, SMEs performance.

## 1. Introduction

The growing global competition and market changes compel business firms to ensure frequent and superior quality innovation. The implication of this global competitive environment is that SMEs firms must reconsider their competitive strategy. Innovation strategies have been identified as the most effective firm's competitive strategy (see Kaliappen and Hilman [24]). Although SMEs firms in developing economies have acknowledged the role of innovation, however the lacks strategies to innovate (see Abu Bakar and Ahmad [12]). Neely, Filippini, Forza, Vinelli, and Hii, ([43]) posit that innovation strategy entails innovation culture; which comprises the firm's culture that promotes innovation by encouraging and supporting internal processes capability: that

is the SMEs ability to combine important information, skills, knowledge and other resource from various sources and ensure cooperation that leads to innovation; and the capability to understand environment: the capability to recognize and relates with the business environment in order to be familiar with technological and market development. This can be efficiently achieved with effective relational capability.

Relational capability creates viable competitive advantage by empowering SMEs firms to develop and leverage inter-firm relationships to create relational benefits. It allow firms to work closely with partners to develop competitive advantage and achieve common benefits (see Shou et al. [63]). Relational capability significantly influences firm's alliance portfolio performance (see Luvison and de Man [31]). Thus firms purposely design and form strategic networks and collaborative relationship to strengthen their sources of competitive advantage ahead of competitors (see Ziggers and Henseler [76]). Relational capability is defined in this study as the SMEs ability to establish and manage beneficial relationship with relevant partners so as access valuable resource and information the business cannot independently provide to effectively strategize in product, process and administrative innovations which facilitate the attainment of superior performance.

Thus, the role of relational capability in influencing the development and implementation of business models and strategies can never be emphasize (see Pham et al. [51], Ghane and Akhavan [16]). Accordingly, SMEs must expand the perspectives of their strategies and capabilities development beyond consideration of internal factors that help consolidate competitive position over competitors to take into account external factors where relationship play vital role in upholding the level of firm's attraction and profitability (see Rodríguez-Díaz and Espino-Rodríguez [55]). Khan and Terziovski [25] established that innovativeness mediates the relationship of relational capital and performance of Australian SMEs. Conversely Hauser, Tellis, and Griffin, ([19]) advocates that factors influencing successful innovation vary from one geopolitical area to another. SMEs in Nigeria and other African countries largely focused on routine production of product on imitation mostly of firms from Asian and Europe with no concerned to long term strategies (Oyelaran-Oyeyinka and Abiola Adebawale, 2012). The degree and intensity of innovation adopted by business firms affect their performance (see Namusonge, Muturi, and Olaniran [41]). However, Oyelaran-Oyeyinka and Adebawale, ([49]) proclaimed that with effective relationship with suppliers, customers and R&D institutions SMEs in Nigeria can acquire technical and marketing knowledge and skills to enhance innovativeness that improve performance.

Nevertheless, most of the extant studies (see Yusr [68], Ozkaya [44]), Khan and Terziovski [24]) were mostly grounded on RBV, however, the dynamic capability theory guides this study. Dynamic capability theory demonstrates why and by what mean certain business firms develop and maintained competitive advantage under fast changing operating environment (see Teece, Pisano, and Shuen [66]). Consequently, dynamic capability theory aimed to bridge the gap created by existing firm's competitive theories in elucidating how certain competitive position is maintained under steady operating condition, but decline to explain how these competitive advantages were attained in

the first place and how this can be sustained in dynamic operating environments (see MacInerney-May [34]).

Similarly, prior studies measured the concept of innovation as single construct (Khan and Terziovski [25], Obeidat [47]), while, this study examines the mediating role of innovation strategy on multi-dimensional constructs (product, process and administrative innovation strategies). Nevertheless, a dearth of literature on the role of innovation strategy on the relationship between relational capability and SMEs performance from developing economic of Africa like Nigeria exist. This study therefore, wants to answer the following questions:

- (1) Does relational capability significantly relate to SMEs performance in Nigeria?
- (2) To what extent relational capability affect SMEs innovation strategy in Nigeria?
- (3) How innovation strategy does relate to SMEs performance in Nigeria? and
- (4) Does innovation strategy mediate the relationship between relational capability and SMEs performance in Nigeria?

### **2.1. Theoretical Framework**

The theory of dynamic capability (DCT) maintained that firm's capabilities can be deploy in the development of effective strategies and business models which becomes sources of achieving competitive advantage. Teece [67] urged that DCT offers critical conceptual bases for the appreciative of the firm's competitiveness, and the procedures through which firms formed, configured and integrate their strategic resources and capabilities to effectively respond to the environmental changing. Therefore, SMEs firms that effectively build it relational capability may easily outperform competitors in their industry. This capability may effectively enable SMEs firms coordinate it affairs, identify, acquire and exploit new technologies as well as access and organize knowledge that may assist SMEs reinforce their market position. Engaging strategic partners in the process of new product development may strategically make sense, given the partners specific resources and expertise.

This means that SMEs firms must adopt innovation strategy that reduce the time and cost for product development and improve the value offered to customers. The participation of collaborative partners particularly suppliers and customers in product development is prospective to generate more benefits in relation to product quality, product development cost, production cost and time-to-market of the new product (Wagner and Hoeg [69]). This process can also help SMEs firms develop new capabilities, share risks, conserve resources and move faster into the new markets. Moreover, collaboration with strategic partners can enable SMEs firms to create knowledge-sharing routines, access collaborative assets and complementary resource endowments to enhance product innovation strategy.

## 2.2. Literature Review and Hypotheses Development

This section presents the views, findings and arguments of previous studies on the various relationships this study wants to investigate. Accordingly, based on the reviewed literature hypotheses was developed.

### 2.2.1. Relational capability and SMEs performance

SMEs firm that successfully developed its relational capability create superior competitive advantage in its industry. Relational capability help SMEs coordinate and reinforce its market position through efficient identification, sourcing and assimilation of external knowledge and technologies with existing ones. Therefore, developing strategic relationship with partners in the process of market development may purposefully make sense, if the cooperative partners possess unique resources and expertise. It may however, prove highly difficult for individual project to capitalize on such strategic benefits (Wagner and Hoeg [69]). Cooperative relationship significantly affects firm's resilience through robustness and agility which in turn enhance customer value in the supply chain (see Wieland and Wallenburg [70]).

Therefore, developing relationship with strategic partners is worthwhile when it lead to additional benefits. In this regard, to sufficiently create rent out of external relationship, the firm's integration process must be effective to simplify and eliminate activities and resources that do not generate value to the firm (see Rodríguez-Díaz and Espino-Rodríguez [56]). Obayi et al. [46] established that relational capability improve firm's performance with active absorptive capacity and organizational interoperability. Absorptive capacity exhibits SMEs firms ability to ascertain, adapt and utilize exterior knowledge and resources to create new value (see Zahra and George [75]). Organizational interoperability measures the degree to which SMEs synchronize their technical, technological and socio-cultural systems with strategic partners to effectively utilize the resource exchanged (see Clark and Jones [10]).

Consequently, relational capability enable firms convert knowledge and information from customers into specific market demand which affects the use of technology, cost optimization, customer value creation and financial performance which represent firm's competitiveness (see Sánchez-Gutiérrez et al. [59]). Hietajärvi et al. [21] reveals that relational capability is the greatest influential organizational capabilities in the whole project life cycle. Ziggers and Henseler [76] in their study demonstrated that relational capability significantly and positively influence supplier and buyer performance. It equally help firms deal with increasing stakeholders pressures and facilitate top management commitments to these stakeholders' pressures which in turn improve firm's performance (see Chen and Kitsis [9]).

Relational capability engenders maintainable competitive advantage by empowering SMEs firms to develop and leverage inter-firm relationships to create relational benefits. It allow firms to work closely with partners to develop competitive advantage and achieve common benefits (see Shou et al. [63]). Relational capability significantly influences firm's alliance portfolio performance (see Luvison and de Man [33]). Thus firms

purposely design and form strategic networks and collaborative relationship to strengthen their sources of competitive advantage ahead of competitors (see Ziggers and Henseler [76]). Relational capability enhance SMEs firms relational value base and innovation performance (see Cheng et al. [10]). Relational capability significantly affects firm's internal, suppliers and customers quality integration which positively enhance performance (see Yu and Huo [73]).

Through effective deployment of relational capability SMEs can successfully pursue markets and adopt new technologies that could not be done alone (Mavondo and Matanda [38]). Martins [37], identified relational capabilities that SMEs firms can exploits to effectively access and leverage external resources. These according to him includes, frequent meeting with suppliers and customers, exchange of ideas with government to stimulate policies that support research and technology transfer, corporative actions for commercialization of product, involvement in science and technological agreements, active participation in sector associations, purposefully establishing connections with entrepreneurship supporting bodies, developing human resources through technical training institutes; and systematic relationship with universities. However, these famous relational capabilities require organized communication process and collaborative management capabilities to support and enable learning and absorptive capacity in inter-firm relationship.

Equally, to generate values from business relationship SMEs must develop integrative capability to strategically combine and deploy the resources accumulated. Mavondo and Matanda [38] upholds that integrative capability empowers SMEs firms to diffuses the payoff of resources and information from collaboration with partners into competitive performance. Relationship network with trust help the firms to develop pricing and selling capabilities which brings significant positive impacts on overall performance (see Pratono [53]). Sukoco et al. [65], reported that relational capital positively influences joint sense-making, which in turn influence information sharing and knowledge integration and performance. Equally, Rungsithong et al. [57] demonstrated that relational capability directly impacted positively on the operational performance of Thai partnership business, and indirectly through knowledge sharing and other complementary capability related to their strategic performance. Hence, this study hypothesized that:

H1: *Relational capability positively relates to SMEs performance.*

### **2.2.2. Relational capability and innovation strategy**

The greatest technological challenges, high customer's demands for quality product and accessibility has poise on to the businesses the need for networking with relevant partners. Recently, business firms have recognized the opportunities offered by the concepts of collaborative innovation. The development of innovation by a firms is contingent upon a variety of activities stimulated by the networking with partners such as firms, research institutes, government and educational centers who provide knowledge through collective learning arrangements (se Asheim et al. [6]). Shou et al. [63] established that relational

capability facilitates firm's innovation through interaction with customers. Therefore, the operating business environment nowadays requires not only working with business innovation partners, but also networking with both private and public entities to draw on the external resources and ideas to improve innovation process (see Kolk et al. [27]). There is increasing evidence that achieving successful innovative strategy is possible with collaborative strategic partners.

It has been established that small and medium enterprises (SMEs) finds it difficult to enter into an unfamiliar market and engage in marketing activities in new environment mainly due to resource constraint and core competencies (see Pham et al. [51]). However, through relational capability firms can effectively acquire new knowledge, techniques and connect with strategic partners to foster development (see Martins [36]). Ghane and Akhavan [16] maintained that for a business to effectively execute program and strategy to reduce customer's complaints and enhance satisfactions that create distinctive competitive market position must develop strong relational capability to ensure cordial relationship with relevant partners. Therefore, successful collaborative firms must persistently cultivate and leverage relational capability to create and provide superior utilities to customers (see Lado et al. [28]).

While the ultimate challenges face by SMEs in developing economies has been the identification and development of various strategies to meet up customers' needs. Innovation strategy have been recognize as an effective firm's strategy to develop distinctive valuable product and customers utilities (see Kaliappen and Hilman [24]). This underscores the important of collaboration with relevant partners in innovation activities. Even those firms at the cutting edge of research, the alternative of snubbing external innovation sources is not tenable. Hence a firm's in-house innovative strategies are not going to compete with that coalition of firms engaged continued and exited experimentation of best talent and strategies from the domain (see Pratap [52]).

SMEs firms in emerging and developing economies lack the supporting legal framework and institutional infrastructure as well as resources in effective management, thus relationship with strategic and competitive partners in economic dealing are vulnerable to the power imbalance, opportunism and tradeoff (see Yang et al. [71]). Perhaps in today's operating environment SMEs firms must not think of confining themselves into innovation process (see Pauget and Dammak [50]), rather collaborate with strategic partners to draw on the required missing inputs, hence the need for special attention to the development of effective relational capability. As a strategy for innovation, SMEs develop relational capability to tap external knowledge and ideas and blend them with existing one to distinctively innovate (Mu [40]). Therefore developing an effective relational capability is a key to successful strategic collaboration. Yang et al. [71] established that relationship with partners create beneficial opportunity for sharing treasured resource and information to enhance performance through effective networking of knowledge and relationship management that is facilitated by superior information technological capability. Relational capability helps firm's reconfigure its collaborative relationship and learning at all organizational level and enhance innovation delivery (see Manley and Chen [35]).

Relational capability is a powerful open innovation strategy for SMEs particularly new venture to develop sustainable competitive advantage and growth (see Mu [40]). Through open innovation SMEs with inspired leadership and good ideas can become powerful innovative pioneers notwithstanding their little internal research and inadequate technological capabilities (Chesbrough [11]). Therefore, SMEs need to develop relational capability from the beginning so as to tap up the limited resource and compete favorably with larger counterpart and competitors. To maintain beneficial relationship with strategic partners in operating environment characterized by frequent changing relationship and market requirements, the strengthening of firm's relational capability is essential (see Ngugi, et al. [44]). This is specifically important for SMEs firms in developing economy like Nigeria where the operation of SMEs were constrained by capabilities and resource to effectively response to various changes in relationship and markets requirements.

Innovation strategy contributes significantly to the enhancement of business performance of firms in various sectors (see Hilman and Kaliappen [22]) and it is crucial for firm's survival, growth and competitive position (see Kaliappen and Hilman [24]). Relational capability facilitates the development of effective innovation strategy which enhances joint innovation, where SMEs in relation with other strategic partners create new value through building new capabilities and risk sharing (see Ngugi et al. [40]). Thus Mu [40] urged that SMEs firms must build relational capability to leverage resources to effectively innovate, create value and appropriately develop various types of economic rent. Anning-Dorson, et al. [4] in their study established that firm's customer relational capability enable firms create strong customers involvement. Thus the firms capitalized on the customer's competencies to improve their innovative outcomes which in turn significantly enhance the firm performance. Therefore, this study hypothesized that:

H2: *Relational capability positively relates to product innovation strategy.*

H3: *Relational capability positively relates to process innovation strategy.*

H4: *Relational capability positively relates to administrative innovation strategy.*

### **2.2.3. Innovation strategy and performance**

Increasing consideration is being attached to innovation strategy as a success factors for achieving sustainable competitive advantage and better financial and on-financial performance. Innovation, which is described as the creation of something new; product, process or an idea has been studied for decades (see Hurley and Hult [23]) and recently (Kaliappen and Hilman [24]). Previous studies have demonstrated that firms with effective degree of innovation strategy achieved superior performance and sustained competitive position (Kaliappen and Hilman [24], Ndubisi et al. [42]). Nybakk and Jenssen [45] maintained that business firms need to have comprehensive innovation strategies. Top management of firms can achieve this by ensuring that firms innovation strategy prioritize product, process and administrative innovation. However, innovation strategy takes various forms as demonstrated by the extant literature. Nybakk and Jenssen [45] symbolizes innovation strategy four important dimensions comprises product, process, expenditure

in research and development (R&D) and business system. Hilman and Kaliappen [22] operationalize innovation strategy as process and service innovation. Ndubisi et al. [42]) demonstrated that innovation strategy comprises product, process and administrative innovation.

#### 2.2.4. Product innovation and performance

Löfsten [32] urge that product innovation strategy is essential firm's strategic activities, therefore scheming new product is a communal activity which entails planning of the product manufacturing process, the distribution channels, factory layout and sales activities. Consequently firms engaging in product innovation must develop structural and cultural bases and orientation for the new product and the market (see Reid and Brady [54]). Hence a business firm that is more focus on market may seek to improve its product innovation strategy (see Ndubisi et al. [42]). Therefore, operational product innovation strategy allows firms to attain, maintain and increase its market share (see Baker and Sinkula [7]), thus it has been recognized as necessary factor in achieving everlasting advantage (see Reid and Brady [54]). Moreover, Shan and Jolly [62] demonstrated that product innovation strategy enable firms achieve distinctive performance in a highly competitive market environment full of changing consumer preference and shorter product life cycle. Thus the desire to wing customer loyalty, increase market share, and stay ahead of competitors motivate firms to focus on product innovation (see Damanpour and Gopalakrishnan [13]). Various studies have established that product innovation significantly influence firm's performance (see Shan and Jolly [62], Reid and Brady [54]). Thus this study hypothesized that:

H5: *Product innovation strategy positively relates to SMEs performance.*

#### 2.2.5. Process innovation and performance

Process innovation has been acknowledge as a firm's strategic techniques to introduce new or modify work arrangement, methods, procedures and structure, group and individual behavior (see Damanpour and Gopalakrishnan [13]). Process innovations are sometime intended to bring about cultural and behavioral changes among employees to facilitate administrative innovation (see Sisaye and Birnberg [64]). The goals in ensuring quality control and improvement motivate the firm to emphasize process innovation to improve efficiencies (see Damanpour and Gopalakrishnan [13]). Process innovation involves appropriate changes in the innovation management approach to downsize the overall cost of operation, increase efficiencies than competitors and achieve cost advantage and superior performance (see Kaliappen and Hilman [24]).

Although process innovation stimuli cost reduction and application of scarce resources, it also support firms to expand product innovation and achieve product competitiveness (see Damanpour and Gopalakrishnan [13]). Process innovation helps firms to effectively respond to the environmental pressure to increase and sustain performance (see Sisaye and Birnberg [64]). Process innovation to some extent edge is effective than



service innovation in achieving superior performance (see Hilman and Kaliappen [22]). Process innovation is essential innovation strategy in enhancing the quality of firm performance particularly at international front (see Ndubisi et al. [42]). Therefore, this study hypothesized that:

H6: *Process innovation strategy positively relates to SMEs performance.*

### 2.2.6. Administrative innovation strategy and performance

Administrative innovation strategy is essential to the business survival in this changing operating environment (see Lin and Chen [31]). Administrative innovation entail implementing new and/or extensively improved firm's strategies, introducing advance management techniques, redesigning organizational structure and reengineering business process (see Yeh [72]). Administrative innovation strategy expedite the firm's changes in administrative and structural change related to rudimentary activities to enhance performance (see Carmen and José [8]). Usually, administrative innovation that SMEs firm practice is determine by its strategies and the environment. Hence SMEs firms must outline it strategic goals of increasingly competitive business models, service, product, and implement best strategy driven administrative innovation (Yeh [72]). Administrative innovation is indispensable innovation strategy in improving the quality of firm performance particularly at global market (Ndubisi et al. [42]). Therefore, to achieve internal operational efficiencies management must ensure improvement in administrative innovation (see Ndubisi et al. [42]). Hence this study hypothesized that:

H7: *Administrative innovation strategy positively relates to SMEs performance.*

### 2.2.7. The Mediating role of innovation strategy

Kim et al., ([26]) acknowledged that external resources acquire through relationship provide synergistic opportunity for value creation; however, achieving this may be challenging and insufficient for creating new and more value for the businesses. Thus, it requires a strategy to effectively understand, employed and redeploys the pool of external resources to achieve objective. Innovation strategy expedites the achievement of firm's long-term goals such as survival competitiveness and accomplishment. In line with Schumpeterian innovative theory; new products or changes in product lines, developing new process of R&D, introducing new methods of production, developing new systems as well as implementing new procedures are considered the resultant effect of firm innovative strategy (see Namusonge, et al [41]). Ozkaya [48] uphold that evolving innovation strategy is indispensable for businesses operating in today's dynamic environment; where customers' need, taste and preference change rapidly, quick delivery, rapid changing technologies and shorter product life-span (see Yusr [74]).

Therefore, to endure the competitiveness of this turbulence environment SMEs must cultivate innovative strategy to survive (see AbdulHamid and Tasmin [1], Ozkaya [48]). Accordingly, Al-janabi [3] opined that for business firm to stand in this dynamic competitive operating environment and effectively adjust to the rapid changes in market

demand, it must maintain effective innovation strategy. Hence, without effective innovation strategy the impacts of external resources acquired may not adequately exploit in this competitive operating environment. Numerous studies have established the mediating role of innovativeness in influencing (see Obeidat [47], Yusr [74], Leal-Rodríguez et al. [29], Ozkaya [48]). Hemmati and Hosseini [20] in their study conducted on 194 experts, managers and supervisors of software firms have proved that firm's innovativeness mediates the relationship between knowledge management and performance.

Correspondingly, Vincent et al. [68] testified that product innovation mediate the relationship of environmental factors and firm's financial performance. While the study of Obeidat [47] validated that innovation moderately mediates the association of strategic orientation and performance. Whereas Setyanti et al. [61] reported that the relationship of management capability and SMEs performance is significantly mediated by innovation capability. Similarly, Lee and Wong [30] established that cooperative innovation and process innovation mediate the associations of innovation process and performance. While Arias Perez et al. [5] found that product innovation mediates the relation of process innovation and performance of firms. Accordingly, study conducted by Yusr [74] have confirmed the mediating role of innovation on the relationship of TQM and SMEs performance. Equally, Galende, Perdomo-Ortiz and Gonzalez-benito [15] disclose that the correlation between TQM and technological innovation is mediated by firm's innovativeness. Furthermore, Moghaddam et al. [39] established that innovation mediate the relationship of knowledge management sand financial performance of SMEs. Khan and Terziovski [25] reported that innovativeness mediates the links between structural, human and relational capital and the performance of SMEs firms.

From the foregoing literature one can clearly establish the influence of innovation on the relationship of several organizational orientations, strategies, capabilities and performance. Innovation strategy is critical not only to the performance of SMEs directly, but also influences the effects of other operational factors on firm's performance. Innovation strategy is essential in enhancing market orientation and competitive strategies (see Kaliappen and Hilman [24], Hilman and Kaliappen [22]). Nybakk and Jenssen [45] demonstrated that innovation strategy influence the impacts of several SMEs firm's internal resources such as capabilities and strategies in achieving and maintaining better performance. Furthermore, Leal-Rodríguez et al. [29] corroborate that innovation strategy enables firms not only to effectively deal with the dynamic and turbulent environment but also expedites internal factors in the attainment of sustainable competitive advantage. Firms employ innovation strategy to respond to the changes in technological knowledge, industrial competitions, customer's expectation, industry and top management desire creating unique capabilities in improving performance (see Damanpour and Gopalakrishnan [13]). Therefore, in this environment where operational skills, market condition and consumer preference change rapidly, developing effective innovation strategy is indispensable in achieving and maintaining superior performance (see Yusr [74]).

Nevertheless, the existing literature (see Yusr [74], Ozkaya [48]), Khan and Terziovski [25]) mostly explore the influence of innovation from RBV perspective, whereas this study employ dynamic capability theory to explain the effect of innovation strategy.

Relational capability as a VRIN business resource helps achieve competitive advantage in operating business environment. However, the environment within which businesses operate is dynamic in nature; hence evaluating relational capability on the perspective of dynamic capability may establish the robustness of relational capability in achieving and sustaining competitive advantage in dynamic operating environment. Similarly, previous studies that established the mediating role of innovation on the relationship of relational capital and SMEs performance, measured the concept of innovation as single construct (Khan and Terziovski [25], Obeidat [47]), however, innovation this study was examined on multi-dimensional constructs (product, process and administrative innovation strategies). Therefore, this study hypothesized that:

H8: *Product innovation strategy mediates the relationship between relational capability and SMEs performance.*

H9: *Process innovation strategy mediates the relationship between relational capability and SMEs performance.*

H10: *Administrative innovation strategy mediates the relationship between relational capability and SMEs performance.*

### 3.1. Methodology

The data used for this study were collected from food and beverage manufacturing SMEs in Nigeria. The sampling frame for the study was drawn from the data base of Manufacturers Association of Nigeria. The list of membership obtained provides detailed information of the firms which facilitates accessibility of the respondent. Personal delivery and collection method was adopted. A total of 370 questionnaires were administered to SMEs operating in Bauchi, Kano and Niger states of northern Nigeria. After relentless efforts, 241 questionnaires were retrieved, 3 questionnaires were identified as suspicious and consider not suitable for the analysis. Consequently, 238 valid questionnaires were used for in the analyses. SmartPLS 3.0 version was used to analyze the data. Broadly there are 3 variables in this study: relational capability, innovation strategy and SMEs performance, however, innovation strategy was adopted in this study as multidimensional consisting of product, process and administrative innovation strategies. Therefore, each of the dimensions were measured and tested independently. All the items used to the variables were adapted from previous research and measured on a five-point likert scale ranging from (1 = Strongly disagree; 2 = Disagree; 3 = Neither agree nor disagree (Neutral); 4 = Agree; 5 = Strongly agree). Specifically, performance was measured with 6 indicators adapted from Santos and Brito [60], product innovation, process innovation and administrative innovation were measured with 5 items each adapted from Ndubisi et al. [42], while relational capability were measured with 9 indicators adapted from Pham et al. [51].

Table 1 below presents the measurement of all the variables used in this study.

Table 1: Measurement of the Study Variable.

Latent Variable	Codes	Items Descriptions
Performance	FP001	Over the past few years, our firm have being recording success.
	FP002	Our firm profit have improved over the past few years.
	FP003	Over the past few years our employee's satisfactions have improved.
	FP004	Over the past few years our customer's satisfactions have improved.
	FP005	Over the last few years our firm's social performance have improve.
	FP006	Over the past few years our firm's performance in environmental protection have improved.
Relational Capability	RC001	Our firm has the capability to create relationship with new relevant partners.
	RC002	Our firms has the ability to maintain relationship with existing partners.
	RC003	Our firm has the capability to develop mutual trust with strategic partners.
	RC004	Our firm have the ability to develop mutual goals and commitment with strategic partners.
	RC005	Our firm have the capability to build on the strength of our strategic partners.
	RC006	Our firm have develop the capacity to effectively communicate with relevant partners.
	RC007	Our firm have the ability to engage with partners collectively in problem solving.
	RC008	Our firm have the capacity to achieve target while negotiating with relevant partners.
	RC009	Our firm has the capability to achieve win-win with relevant partners.
Process Innovation	PR001	Over the past few years, our firm have relentlessly set its operating system to global standard.
	PR002	To increase productivity, our firm have constantly updates its work practice over the past few years.
	PR003	Over the past few years, our firm have been regularly using technology in improving the quality of our product.
	PD004	Over the past few years, our firm have been investing adequately in developing new operating system.
	PR005	Over the past few years, our firm have been regularly training its employees on new technology.
Product Innovation	PD001	Over the past few years, our firm have presents numerous new product to the market.
	PD002	Over the past few years, our firm have been modifying its product.
	PD003	Over the past few years, our firm have been regularly assessing the need for new product.

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	PD004	Over the past few years, our firm have introduces many new product than competitors.
	PD005	Over the past few years, the new product we have been introducing has cause substantial changes in a positive fashion within the industry we serve.
Administrative Innovation	AI001	Over the past few years, our firm has been regularly introducing new ways of managing our affairs.
	AI002	Over the past few years, our firm have been investing substantially in updating administrative techniques.
	AI003	Over the past few years, our firm have been empowering employees to initiate.
	AI004	Over the past few years, our management have been regularly assessing for new administrative system.
	AI005	Over the past few years, our administrative system has served as a benchmark to competitors

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#### 4.1. Analyses of the study findings

Table 2 below presents the statistical values of the study Cronbach's alpha, composite reliability and the average variance extracted (AVE). Cronbach's alpha and composite reliability are used to evaluate the study variables internal consistencies reliability. Composite reliabilities and Cronbach's alpha indicate internal consistency which means the measures consistently represent the construct under study. Both the requirements for Cronbach's alpha and composite reliability were made in this study. The statistical values for all the constructs ranges from 0.75 (administrative innovation) to 0.94 (relational capability) has meet up the acceptable criterion (0.6) for Cronbach's alpha. Equally, the composite reliability of the construct was achieved, with values ranged from 0.84 to 0.95 which meet up the threshold for composite reliability. Furthermore, the AVE values were used to evaluate the convergent validity of the study constructs. The acceptable value for AVE is 0.5 (see Hair et al. [17]), therefore the statistical AVE values for all the constructs has satisfied the requirement for convergent validity as we can observe from the table 2 below.

Table 2: Reliability of the Study Variables.

Constructs	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Performance	0.88	0.92	0.69
Relational Capability	0.94	0.95	0.78
Product Innovation	0.93	0.87	0.59
Process Innovation	0.78	0.84	0.51
Administrative Innovation	0.75	0.84	0.57

To examine the issues of multicollinearity among the study constructs, the discriminant validity test were assessed. Discriminant validity evaluates the variance-extracted estimates of the study measurements with the square of the parameter estimate between the measurements. Discriminant validity issues exist if the variance-extracted values are bigger than the value of the square of the correlations of the two constructs (see Hair et al. [17]). Therefore, based on the above arguments, this study established that the values of the correlation between the pairs of the main construct are smaller than the respective square root of the average variance extracted, as indicates by the Fornell-Larcker criterion boldly in the Table 3.

Table 3: Discriminant Validity.

Variable	ADMI	PERF	PRCI	PRDI	RCAP
ADMI	<b>0.757</b>				
PERF	0.399	<b>0.836</b>			
PRCI	0.185	0.117	<b>0.714</b>		
PRDI	0.059	0.295	0.509	<b>0.768</b>	
RCAP	0.125	0.335	0.307	0.125	<b>0.885</b>

#### 4.2. Result of the hypothesis test

To evaluate the hypotheses, bootstrapping techniques were employed. Using 5000 bootstrapping resampling of 238 cases was run to obtain the statistical values to analyze the hypotheses. Table 4 below presents the statistical results of the direct hypotheses testing. The result indicates a support for four (4) of the hypotheses tested. Specifically, relational capability was found to be significantly and positively relates to the performance of SMEs ( $\beta = 0.359$ ;  $t = 4.258$ ;  $P < .000$ ), hence H1 is supported. This means that the higher the level of SMEs relational capability, the better the financial and non-financial performance of the firms. Similarly, H4 was also supported. This indicates that relational capability positively influences SMEs administrative innovation strategy (ADMI) as reveals by the result of the hypotheses test ( $\beta = 0.128$ ;  $t = 2.154$ ;  $P < .016$ ). Furthermore, administrative and product innovation strategies positively and significantly impacted on manufacturing SMEs performance as demonstrated by the result of the empirical test ( $\beta = 0.386$ ;  $t = 5.443$ ;  $P < .000$ ) and ( $\beta = 0.374$ ;  $t = 2.024$ ;  $P < .019$ ) respectively. Therefore, H5 and H7 were supported.

However, relational capability negatively and significantly related to process and product innovation strategies as shown by the empirical result ( $\beta = -0.113$ ;  $t = 1.688$ ;  $P < .044$ ) and ( $\beta = -0.317$ ;  $t = 6.459$ ;  $P < .000$ ) respectively. The statistical results further indicates a negative relationship between process innovation strategy and the performance of manufacturing SMEs ( $\beta = -0.289$ ;  $t = 3.116$ ;  $P < .000$ ). Therefore, H2; H3 and H6 were not supported. This negative relationship demonstrates that the higher the relational capability of manufacturing SMEs the less the effectiveness of their product and process innovation strategies. The significant negative relationship between

relational capability and process and product innovation may be attributed to lacks of integrative capability and absorptive capacity. Another potential reason may be lacks of commitment and trust in the relationship from management.

Table 4: Total Direct Effects.

Path	Sample Mean	Standard Deviation	T-Statistic	P-Value
RCAP → PERF	0.358	0.047	4.258	***.000
RCAP → PRDI	-0.113	0.074	1.688	** .044
RCAP → PRCI	-0.317	0.047	6.459	***.000
RCAP → ADMI	0.128	0.057	2.154	** .016
PRDI → PERF	0.374	0.239	2.024	** .019
PRCI → PERF	-0.289	0.114	3.116	***.001
ADMI → PERF	0.386	0.077	5.443	***.000

Note: \*\*\*, \*\* indicates the relationship is significant at  $p < .01$  and  $p < .05$  respectively.

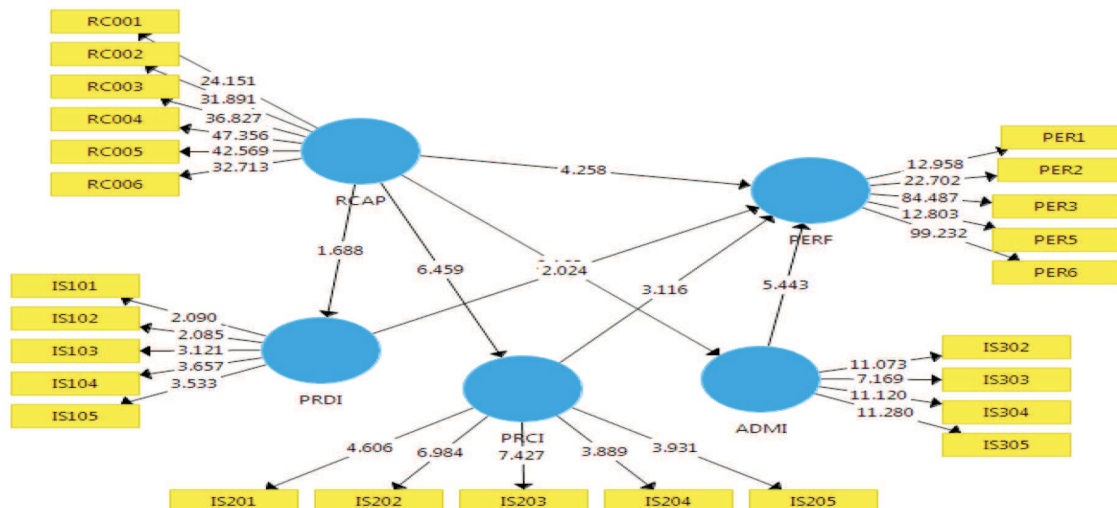


Figure 1: PLS-SEM Bootstrapping.

Equally, bootstrapping techniques of the smart PLS 3.0 was used to test the mediating role of innovation strategy on the relationship between relational capability and SMEs performance. Three (3) hypotheses were developed to test the mediating effects. Specifically, mediating role of product innovation, process innovation and administrative innovation strategies were tested. Two out of the 3 hypotheses were supported as indicates by the statistical value ( $\beta = 0.50$ ;  $t = 1.191$ ;  $P < .023$ ); ( $\beta = 0.92$ ;  $t = 2.915$ ;  $P < .002$ ), specifically, administrative and process innovation strategies mediates the relationship between relational capability and manufacturing SMEs performance. Hence, H9 and H10 were supported. Contrarily, H8 was not supported. This means that product innovation strategy does not mediate the relationship between relational capability and

SMEs performance as shown by the statistical test ( $\beta = -0.052$ ;  $t = 2.061$ ;  $P < .02$ ). This significant negative mediating effect of product innovation in the relationship of SMEs relational capability and performance may not be unconnected with the facts that introducing new or improve product may require substantial amount to resources, time and commitment of the firms to attract and maintain customers. Hence, SMEs firms may be conscious enough in committing their resource, particularly in Nigeria where the market is fully dominated by imported foreign product.

Table 5: Mediating Effects.

Path	Sample Mean	Standard Deviation	T-Statistic	P-Value
RCAP $\rightarrow$ PRDI $\rightarrow$ PERF	-0.052	0.030	2.061	**0.020
RCAP $\rightarrow$ PRCI $\rightarrow$ PERF	0.092	0.038	2.915	***0.002
RCAP $\rightarrow$ ADMI $\rightarrow$ PERF	0.050	0.026	1.191	**0.023

Note: \*\*\*, \*\* indicates the relationship is significant at  $p < .01$  and  $p < .05$  respectively.

### 4.3. Discussion and implications

From the result presented and analyzed above, the study prosper some important implications for both knowledge and practice. Based on the results, the study makes tremendous contributions to the body of knowledge and literature on relational capability and innovation strategy. The study offers some insight on role of relational capability on firm's innovation strategy and performance. Underperformance of SMEs in developing economies like have been attributed to lacks of innovativeness (see Salisu, et a. [58]). However, it has been established that SMEs firms in developing economies have acknowledge the role of innovation in achieving sustainable competitive advantage and superior performance, but lacks the strategy to innovate (see Abu Bakar and Ahmad [2]). On the other hand the role of relational capability in influencing the development and implementation of business models and strategies have been established (see Pham et al. [51], Ghane and Akhavan [16]). Nevertheless, a dearth of literature on the role of innovation strategy on the relationship between relational capability and SMEs performance exist. This study therefore, filled in this important gap.

Relational capability is critical to manufacturing SMEs performance in developing economies. It demonstrated that the higher the firm's relational capability, the better the ability of the firms to collaborate with strategic partners such as competitors, customers and suppliers to enhance performance. According to Anning-Dorson et al. [4], Pham et al. [51], Rungsithong et al. [52], and Wieland and Wallenburg [70] relational capability is crucial in enhancing performance and other operational strategies. Accordingly, relational capability is indispensable ingredients in improving SMEs administrative innovation strategies. Relationship with external partners such as customers, suppliers, research institutes and universities enable SMEs to draw resources and learns techniques that facilitates the development and implementation of effective innovation strategy. This



means that through relational capability SMEs firms consolidate and reinforce their operational capabilities by concentrating the outsourcing skills and resources to develop operational strategies and core competencies, to stimulate continuous improvement in product, process and administrative innovation strategies as well as overall firms' performance. This underscores the arguments of previous studies (see Fawcett et al. [14], Ghane and Akhavan [16], RodríguezDíaz and EspinoRodríguez [56]).

Product and administrative innovation strategies significant factors influencing SMEs performance, thus these innovation strategies are essential in the attainments and sustenance of competitive position and exceptional performance in this rapidly changing market demands. The extant literature (see Kaliappen and Hilman [24], Hilman and Kaliappen [22], Ndubisi et al. [42], Shan and Jolly [62], Nybakk and Jenssen [45]) have demonstrated the essential of innovation strategy in achieving and maintaining efficient competitive advantage and performance. SMEs firms must therefore, ensure that, the strategies adopted to innovate is always effective to respond to the changing operating environments. Accordingly, SMEs in Nigeria must demonstrate commitment and truthfulness in their relationship with relevant partners. Rungsithong et al. [57] recognized that trust expedite the success of firm's relational capability. Hasaballah et al. [18] underscore this view by linking the success of strategic relationship to the cooperation, trust, conflict resolution and commitment of partners.

Another theoretical implication of this study is the confirmations of the mediation role of process and administrative innovation strategies on the relationship between relational capability and the performance of food and beverage manufacturing SMEs. Innovation strategy particularly, process and administrative innovations are important strategies that facilitates SMEs flexibility in identifying and exploring opportunities ahead of competitors. Thus through innovation strategy, F&B manufacturing SMEs can adjust to changing operating environment and customers' demand, which becomes a source of sustainable competitive edge. Therefore, innovation is considered as a major determinant of firm's survival and growth, thus firm unmindful to this reality of innovativeness is clearing its path out of existence. Accordingly, the study found that relational capability impacts positively on SMEs firm's innovation strategy which in turn significantly influences the overall performance. The findings extended Pham et al. [51], Ghane and Akhavan [16] assertions that firm's operational capabilities like relational capability influence the changes in the effectiveness of business models and strategies. The study demonstrates the relational ability of SMEs firms enhances their collaborative engagement with strategic partners in a purposeful networks and alliance which help to effectively develop innovation strategies that improve the quality of their value creation. Therefore SMEs must endeavor to align their relational capabilities with innovation strategy to create and maintain superior competitive advantage in this global competitive market environment.

## 5. Conclusion

As business strive to compete in the global market that is now guided by sophisticated technology, perpetual demands for quality product, they must ensure effective

innovation strategy to address the increasing market requirements so as to remain relevant and competitive in the markets. The findings of the study demonstrated that relational capability influences SMEs performance and complement the effect of process and administrative innovation strategies to significantly improve performance. Manufacturing SMEs are therefore advised to develop their relational capability as a prelude to successful innovation and superior competitive advantage and performance. Manufacturing SMEs in particular and SMEs in general may draw synergistic advantages through innovation strategies that were developed from strategic collaboration with relevant partners. Hence manufacturing SMEs should strive to create competitive position through the configuration of their relational capability and innovations strategies. To achieve this, SMEs firms in Nigeria must enhance their relational capability by exhibiting serious commitments by devoting more effort and resources and developing trust in their dealings with strategic partners. This study suggests that SMEs owner/manager in Nigeria must strengthen their strategic planning that takes into consideration other operational capabilities and strategies such as commitment, integrative and absorptive capacities to augment the effectiveness of their relational capabilities in supporting the process of sourcing valuable resource their cannot exclusively provide to improve their performance. Nevertheless, the findings of this study must be considered in the light of some shortcomings. The study evaluates relational capability in a one-dimensional approach; therefore, examining relational capability from multiple dimensions may provide more comprehensive data. Similarly, the cross-sectional nature of the data and the specific context may limit the generalization of the study outcomes, hence longitudinal study and in different cultural setup are required in future.

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