

# Innovative capability, strategic goals and financial performance of SMEs in Ghana

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## Abstract

**Purpose** – This paper aims to investigate the moderating role of innovation capability and strategic goals in the financial performance of small- and medium-scale enterprises (SMEs) in Ghana.

**Design/methodology/approach** – Innovative capabilities and strategic goals in SMEs and their influence on financial performance were recognized and briefly debated according to the existing literature. Hypotheses were tested on research data on 340 SMEs in Ghana, which were conveniently selected. Finally, quantitative analysis was done, followed by a discussion of the research findings.

**Findings** – Results from the study have proved that strategic goals have a strong positive relationship with financial performance. Also, there is a strong, positive and highly significant impact innovative capacity has on financial performance. Finally, the study found that innovative capability moderates the relationship between strategic goals and financial performance. It showed that at high levels of innovative capacity, high levels of strategic goals boost financial performance massively.

**Research limitations/implications** – The findings are limited to SMEs in Ghana. Researchers should study why SMEs may not pursue any innovation capability activities as they have positive impact on their financial performance. They may also focus on strategic goals and financial performance.

**Practical implications** – The study shows a necessity for longer-term innovation perspectives and a higher level of the importance of the application and assessment of strategic goals. Business owners and caretakers need greater awareness about the importance of innovation capability and strategic goals and their influence on the overall financial performance of SMEs. This will help them to adopt right innovate procedures for their businesses.



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**Originality/value** – One of few research works to examine innovation capability and strategic goals on the financial performance of SMEs in a developing country.

**Keywords** SMEs, Financial performance, Moderating, Innovative capability, Strategic goals

**Paper type** Research paper

## Introduction

A country with a large amount of strong-minded entrepreneurs will be vital for the economic advancement of the nation and its free market system (Quaye *et al.*, 2014). The existence of an entrepreneur's company is an individual accomplishment to their company's self-esteem and business measurement about their entrepreneurial performance. Apart from the business people who need enthusiasm toward starting small businesses, the different governments from both developing and developed nations have been dedicated to the improvement of small- and medium-scale enterprises (SMEs) (Burns, 2016).

There have been different definitions provided for SMEs in Ghana, yet the most often used standard is the number of workers of the business (Kusi *et al.*, 2015). The Ghana Statistical Service recognizes businesses with less than ten workers as small-scale enterprises and their colleagues with more than ten workers as medium- and large-sized businesses (Cofie, 2012).

However, the National Board for Small Scale Industries in Ghana explains a small-scale enterprise as a business with less than nine employees and has machinery and plant size (without vehicles, land and buildings) not more than 10m Ghanaian cedis. In defining small-scale businesses in Ghana, Abor and Quartey (2010) use 30 employees as a cut-off point. Osei *et al.* (1993) nevertheless categorized small-scale enterprises into three: i.e. hiring below six workers as micro, hiring six to nine workers as very small and hiring 10-29 workers as small. The current definition was given by Regional Project on Enterprise Development Ghana manufacturing, which classified businesses into micro, small, medium and large enterprise, i.e. five workers, 5-29 workers, 30-99 workers and more than 100 workers, respectively.

The important role part that SMEs have played in the improvement of a nation's economic advancement has been recognized. In South Africa, it is projected that SMEs form 91 per cent of the formal business (Hassbroeck, 1996; Malefane, 2013). Also, 52-57 per cent of gross domestic product (GDP) is supposed to be contributed by SMEs, and SMEs are also to provide 61 per cent of employment to the people (Gumede, 2000; Malefane, 2013). However, it was discovered that in Ghana, SMEs contributed about 85 per cent manufacturing employment in the country. Additionally, they also contributed around 57 per cent to the country's GDP (Abor and Quartey, 2010).

Despite the acknowledgment of the significant impacts SMEs have in these nations, their advancement is to a great extent compelled by various factors, for example, the absence of access to suitable technology; restricted access to global markets; the presence of laws, rules and regulations that hinder the improvement of the sector; the absence of administration abilities and training; weak institutional capacity; and, most significantly, finance (Abor and Quartey, 2010; Cook and Nixson, 2000). In spite of the above limitations, SMEs have been viewed as important contributors to the improvement of economies, mobilization of incomes, major employers of the population and promoters of technology improvement in both developing and advanced nations (Zacharakis *et al.*, 2002).

SME is a general term for small- and medium-scale enterprises in Ghana. Improving a nation's economy, creating jobs and reducing poverty in developing nations are very reliant on the achievements of the SME sectors (Hallberg, 2000). The SMEs use the highest number

of individuals in developing nations: in this way, the labor market is exceedingly fascinated by the improvement of SMEs in their separate nations (Loza, 2017).

The socio-economic improvement of economies is extremely dependent on the effective advancement of the SMEs' sector in nations, as well as the industrial improvements in the nations. Abor and Quartey (2010) noted that the SMEs were essential to the capacity of the nations to advance economic development and lessen poverty through the capacity of SMEs to create employments for their individuals.

A lot of research was done in the past with respect to what really makes SMEs go bankrupt. These factors involving the absence of funding, high financing costs, inflation and hostile labor relations to unsupportive governments were named in different investigations as explanations behind the failure of these organizations. However, above all was the lack of innovative capability and strategic goals as the primary source of this pandemic (Pang *et al.*, 2014). Past research has additionally discovered that the utilization of innovative capability and strategic goals as an administration instrument in littler organizations such as SMEs is disregarded by the owners/managers of SMEs, as they do not have adequate managerial experience in the functional business areas; these factors have led to the gradual decline in most SMEs (Baptista Nunes *et al.*, 2006).

In Ghana, while the innovative capability and strategic planning concept is being experienced by some big companies, its acknowledgment and application by SMEs in Ghana to improve development is quiet minimal. The study was intended to investigate the moderating effect of innovative capability and strategic goals on the financial performance of SMEs in Ghana.

## Literature review

### *Innovative capability approach*

Innovation capability is suggested as higher-order mix ability, that is, the capacity to mold and manage different capacities. The idea of higher-order mix capacities is created in Lawson and Samson's (2001) study. Businesses having this innovation capability can incorporate the key abilities and assets of their organizations to effectively empower advancement.

The present businesses encounter the test to develop, not simply once in a while but rather regularly, rapidly and with a strong achievement rate (Teece, 2010). The domain of organizational and managerial consideration has extended to join both standard factors (for example, productivity, quality, client responsiveness and speed) and an innovation capability (Kaynak, 2003).

Innovation epitomizes today's competitive edge, held by strong normal capacities in efficiency, speed, quality and flexibility (Neely and Hii, 1998). Innovation can enable businesses to assume a prevailing part in forming the fate of their enterprises (Chesbrough, 2006). High-performing innovators are able to maintain a giant juggling act of capabilities, and reliably convey new high-quality products to the more regularly, market faster, and at a lower cost than competitors (Pasmore, 1994).

In addition, these organizations use method and framework innovation as a way of additionally improving their items and increasing the value to clients (Detert *et al.*, 2000). This mix brings about a dynamic and justifiable strategic position, making the business an always moving focus to competitors (Drejer, 2002). This focuses on the requirement for supervisors to organize daily mainstream operations, while also developing innovation and change in their businesses.

Paradoxically, the need to oversee mainstream competencies effectively is regularly observed as hampering the advancement of positive innovation (Bilton and Cummings,

2010). Mainstream actions like assembling and promoting are frequently the way to current accomplishment with organizational procedures built around stability, profitability and efficiency in creating cash flow (Lawson and Samson, 2001). Procedures are produced “programming” mainstream business units to perform schedules, formalize structures, and not to think outside the square (Scott and Davis, 2015).

Operational difficulties and quarterly income targets additionally strengthen a short-term interest. Alternately, innovation is a power of unpredictability, regularly requiring long-term vision and commitment to harvest outcomes (Hahn *et al.*, 2006). The dynamic and uncertain environment of the innovation uses information to build up the new processes, products and systems that will bring about future achievement.

Literature recommends that innovative companies have vision and methodology; they also should harness the ability base with strong organizational creativity, intelligence and idea management (Lawson and Samson, 2001). Moreover, there are signs of powerful organizational systems and structure, as well as climate and culture, with an effective management of technology (Cormican and O’Sullivan, 2004). Innovative businesses use these components to coordinate and oversee both their new stream and mainstream exercises in a powerful way.

The more grounded the innovation capability controlled by a business, the more successful will their innovation performance be (Ittner and Larcker, 1998). The literature likewise demonstrates a positive connection between advancement execution and upgraded firm execution. Experimentally, it is demonstrated that innovative businesses are more productive and esteemed at a premium by the offer market with respect to their less innovative partners (Ehrenberg *et al.*, 2004; O’Malley and Tynan, 2000). Anecdotal evidence also underpins the presence of such a relationship. For instance, Akio Morita, the founder of Sony, credits the organization’s prosperity to its capacity to innovate (Anjum, 2014).

### *Strategic goals*

Strategic objectives are the planned goals that a business endeavors to accomplish (Ahlstrand *et al.*, 2001). It is a major step in accomplishing the vision of the company. In the strategic planning setting, an objective is where the company wants to be (Steiner, 2010). The upsurge of competition among companies, owing to globalization, has inspired the need for advancement in production methodologies with heightened sensitivity to market trends.

Managers of companies have to start taking a serious approach to strategic goals. The high rate of business collapse in recent times is because of financial mismanagement, inability to adapt quickly to customer demands and increased risks of errors occurring in business operations (Mellahi and Wilkinson, 2004). Therefore, managements of businesses need to be able to effectively manage the businesses strategically to guarantee their continuous competitiveness in their environment (Sirmon *et al.*, 2007). The derivation and consequent pursuit of strategic goals have been identified by various researchers to add immense value to business operations (Maier and Remus, 2003). The value of strategic goals is noticed more prominently in businesses operating in complex, continuously changing business environments.

Chrysostome and Molz (2014) identified various benefits of strategic management system for the success of a business. Strategic management provides the firm with a clear vision and mission of the company. This implies that the justification of the business existence is identified from the strategic plan. Second, the business is able to identify its strengths and weaknesses through which the company is able to focus on areas where it has the capabilities to succeed in the competitive environment and focus on them.

Kirby (2004) recognized the increased capability of the business to better adjust to the changing business circumstances and ensure the proper functioning of the business operations. The businesses are able to effectively counter the effects of economic changes, advancement in technological development and social changes, which, when effectively managed and resources allocated to, would guarantee the firm's survival.

Lekhanya (2010) similarly suggested that companies that proactively address changes to their business environments tend to outperform their counterparts who adopt a reactive approach to business activities. Strategic goals are developed in various developmental phases, as highlighted in the strategic management literature. The first phase is the management of the financial plan of the business: this entails performing monitoring and control of the company's activities through the management of the company's budget to achieve objectives. The second phase involves performing effective planning activities to enhance growth by forecasting the future. At the third phase, the company establishes an effective plan aimed at tackling the external environment. This would enable the company to better respond to market demands and competitor activities. The fourth and final phase involves the company effectively developing its internal resources to be able to have a competitive edge, which would enhance the future survival of the business. This last phase of strategic management is what has the component of evaluation and control of the business activities to ensure long-term survival.

*The relationship between strategic goals and small- and medium-scale enterprise performance*

The implications of strategic goals for organizational performance have not been thoroughly investigated, although the empirical findings are still inconsistent. While some authors such as Pushpakumari and Watanabe (2009) and Dauda *et al.* (2010) have established a positive correlation between strategic goals and business performance, other researchers such as Yusuf and Saffu (2005) and Efendioglu and Karabulut (2010) argue that strategic goals do not have any meaningful impact on the performance of SMEs. A number of reasons have been cited for this discrepancy in the SME literature. Literature indicates that a large portion of the SMEs, including those in Ghana, does not hone strategic management successfully in their businesses.

Biondi *et al.* (2000) realized that the managers of the SMEs might not have adequate knowledge on the benefits that will be accrued to the business if they practice it. Other common reasons to the low participation of SMEs in strategic processes are that the majority of managers are not aware of strategic goal techniques and methodologies to be able to implement such procedures in their business operations. SME managers have the preconception that strategic goal is only suitable to large companies and not beneficial to smaller companies.

Furthermore, managers of SMEs are the main people involved in the daily business operations of their companies and are involved in almost all aspects (Yew Wong and Aspinwall, 2004). Strategic goal and the process of long-term planning are usually quite involving and demand some devotion of time and resources. The SME managers are reluctant to devote adequate time out of the time needed for the normal daily operations to undertake effective strategic planning and goals (Zhou *et al.*, 2005). We argue here that so far as management would commit enough resources and time to participate in strategic processes, the performance of the organization is guaranteed to improve. Afande (2013) also reveals that the pursuit of strategic goals helps firms to achieve greater operational efficiency. Based on the above, it is hypothesized that:

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H1. There is a positive relationship between strategic goals and business performance of SMEs in Ghana.

*The relationship between innovative capability and small- and medium-scale enterprises performance*

Innovative capability, as defined by Frishammar and Åke Hörte (2007), is the tendency of a firm to use and support newness in idea; and also originate, experiment and create processes in which the outcome will be the commencement of new products, processes and models for greater competitive advantage (Camps and Marques, 2014; Salavou and Avlonitis, 2008). There is therefore a positive linkage between a firm's innovativeness and performance (Gronum *et al.*, 2012; Rubera and Kirca, 2012).

SMEs have been identified to be the main drivers of innovation and creativity in most economies of the world. This gives them the flexibility to withstand adverse economic conditions and dynamic market trends (Abor and Quartey, 2010). Companies developing innovation capabilities afford the avenues of meeting clients' needs and demands. The subsequent increase in revenues is necessary for improved competitiveness. Allocca and Kessler (2006) stipulate that highly innovative companies have definite increased market share, high product success, greater returns on investment and long-term returns, unlike less innovative firms.

Moreover, prior studies have suggested that the flexibility of structures and decision-making processes among SMEs have the tendency to promote innovativeness (Teece, 2010). Meanwhile, because of the unique position occupied by SMEs in non-formalized markets, they are also expected to pick up customer feedbacks quicker and easier than large-scale enterprises. It is therefore expected that SMEs that draw on their innovative capabilities will achieve higher performance than their counterparts that do not do so. It is therefore hypothesized that:

H2. There is a positive relationship between innovative capabilities and the performance of SMEs in Ghana.

*The moderating effect of innovative capability and strategic goals on small- and medium-scale enterprises performance*

Strategic goals are debatably significant fixings in the conduct of strategic management (Lewkowicz and Lewkowicz, 2001). The essential objective of a strategic goal is to control a business in formulating its strategic plan and needs and center itself toward understanding the same (Hill *et al.*, 2014). When strategic plan is accessible and well-executed, a business will have a slight or no difficulty in managing changes externally. For organizations to survive, it is recommended that they should have the capacity to work effectively with environmental forces that are unstable and uncontrollable and which can significantly influence basic leadership processes (Lewkowicz and Lewkowicz, 2001). Businesses adjust to these environmental forces as they plan and use strategic exercises.

Meanwhile, the literature suggests that innovative capabilities play a dominant role in helping firms to act quickly and more efficiently to changes in market responses (Augier and Teece, 2009). Innovators who are doing well can keep up a giant juggling act of competences and reliably convey new quality products to the market faster, more often and at a lower cost than their contenders. Additionally, these organizations use procedures and system advancement as a method for enhancing their products more and increasing the

value to their clients. This combination generates a dynamic and workable strategic position, making the business a continually moving focus to competitors (Drejer, 2002).

Research also indicates that SMEs in Ghana use outmoded equipment and have inappropriate human resource development and technologies (Aryeetey, 1994). Agyapong *et al.* (2016) contend that SMEs that are able to build innovative capabilities can aggressively and coherently devise a winning strategy that effectively contrives superior organizational outcomes. Based on the expected benefits derived from pursuing a strategic management programme and building a credible innovative capability, it is assumed that when innovative approaches, systems and knowledge are integrated in the strategic planning, a complementary effect will be harbored, which will augment organizational performance in the long run. It is therefore hypothesized that (Figure 1):

*H3.* Innovative capabilities moderate the relationship between strategic goals and the performance of SMEs in Ghana.

### Research methodology

This study adopted a quantitative research design, as it intends to test the hypotheses, using statistics. The quantitative strategy includes gathering information in numbers and a brief introduction that will be analyzed with the help of statistical methods (Collis and Hussey, 2013). This research considered every one of the players in the SME business as the population target. The convenient sampling procedure was used to choose 340 respondents. Structured questionnaires were used to solicit information from the respondents. Statistical Package for the Social Sciences (SPSS) was used for the research data analysis.

The six items that were identified as suitable measures of innovative capabilities were product, process, solution, behavioral, IT capability and training for managers adopted from Agyapong *et al.*'s (2017) study. Financial performance is measured via seven items: sales volume, profit levels, return on sales (ROS), growth in sales, return on investment (ROI), market share and growth in profitability.

Finally, strategic goal is measured as a multi-dimensional construct focusing on four items: vision, mission statement, strategies and actions for objectives and finally, prioritized implementation schedule. The dummy variable (Type of Business) was measured with 1 = manufacturing; 0 = others; dummy variable (ownership) was measured with 1 = family-owned; 0 = non-family.

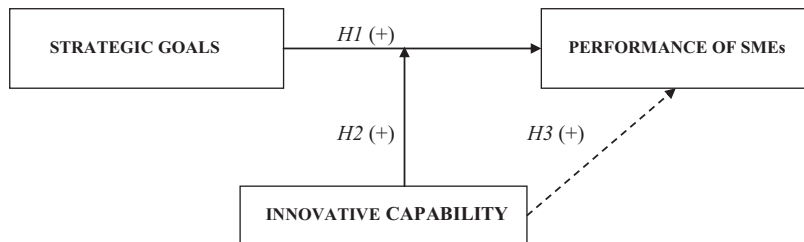


Figure 1.  
Conceptual  
framework

Source: Authors (2017)

*Reliability test*

To check for research consistency amongst the variables for the study so as to analyze data collected on a solid ground, the researcher used a test of reliability. At the end, this is a proof that the study can be relied on, so the use of the Cronbach's reliability test was used. In this test, the Cronbach's alpha value at or above 0.7 announces that the variable is acceptable. When the value is above 0.8, then it is seen as preferable. On this, it is clearly noted that all the Cronbach's alpha values for the study prove that they are preferable or acceptable (Table I).

**Results***Firm characteristics and descriptive statistics of respondents*

In Table II, the researchers found some necessary information about the firms under study. In relation to the ownership type of the organization, it was realized that 213 (64.1 per cent) of the respondents worked with family businesses. However, the rest were with non-family businesses. This showed that there were more respondents from family businesses than there were from non-family businesses for the study. It is interesting to note that 98.8 per cent of the respondents engage in innovative practices.

Variables	Cronbach's alpha	Standardized item alpha	Nos. of items
Performance	0.7624	0.767	5
Strategic goals	0.8048	0.805	6
Innovative capability	0.8465	0.847	7

**Table I.**  
Cronbach's reliability tests

**Source:** Field study (2017)

Variables	Frequency	(%)
<i>Ownership type</i>		
Family business	213	64.1
Non-family	122	35.9
Total	340	100.0
<i>Innovative practices</i>		
Yes	336	98.8
No	4	1.2
Total	340	100.0
<i>Industry type</i>		
Service	167	49.2
Manufacturing	173	50.8
Total	340	100
<i>Maturity</i>		
3-4 years	6	1.7
5-6 years	25	7.3
7-8 years	31	9.0
9-10 years	27	7.9
11+ years	252	74.0
Total	340	100.0

**Table II.**  
Firm characteristics

**Source:** Field study (2017)



However, four (1.2 per cent) of the respondents did not engage in innovative practices. In total, 167 respondents were from the service industry, while 173 were from the manufacturing industry. In all, 49.2 per cent of the respondents were from the service industry, while 50.8 per cent of them were from the manufacturing industry. Most of the organizations had matured over 11 years. In specifics, there were 252 of them, which is 74 per cent of the respondents. Just six of them had matured within 3 to 4 years. Those who had matured within 5 to 6 years were 25 (7.3 per cent of the respondents) and 9 per cent had matured within 7 to 8 years; 27 respondents had 9 to 10 years of maturity, which represents 7.9 per cent.

Table III summarizes the details gathered about the firms for the study. Results seen below indicate that the levels of strategic goals of most of the SMEs in Ghana are moderate (mean = 4.43, SD = 1.010). Likewise, the mean (4.5738) for innovative capacity shows that the innovative capability amongst the SMEs for the study is not very high.

The standard deviation figure (1.013) also supports the fact that there is variation in the levels of innovative capability amongst the respondents is not much. There is also a clear indication that their performances are moderate. According to Table III, most of the SMEs' performances are moderate (mean = 4.68, SD = 0.938). It is also clear that there are very little variations amongst the performances of the firms.

*Correlation analysis*

In achieving the objectives of the study, there was the need to use the correlation analysis matrix (Table IV) to ascertain the relationships between innovative capabilities of firms and financial performance and also determine the relationship between strategic goals and

Variables	N	Mean	Median	SD	Minimum	Maximum
Ownership type	334	2.13	2	1.170	1	5
Age	340	2.51	2	1.428	1	5
Firm size	337	4.6491	4.75	0.945	1.5	7
Strategic goals	335	4.4261	4.5	1.010	2	7
Innovative capability	336	4.5738	4.6	1.013	1.2	6.8
Performance	340	4.6813	4.6	0.938	1.4	6.6

**Table III.** Descriptive summary **Source:** Field study (2017)

Variables	1	2	3	4	5	6
Industry type	1					
Firm size	-0.019	1				
Firm age	0.048	-0.220**	1			
Strategic goals	0.039	0.002	0.068	1		
Innovative capability	-0.064	0.066	-0.041	0.458**	1	
Firm performance	0.033	0.172**	0.005	0.382**	0.435**	1

**Table IV.** Correlation analysis **Notes:** \*Correlation statistic significant at less than 5%; \*\*correlation statistic significant at less than 1% **Source:** Field study (2017)

financial performance. The relationship between the other variables for the study and firm performance is also presented in [Table IV](#).

First, it is seen that firm size has a significant positive relationship ( $r = .172, p < 0.01$ ) with firm performance. Industry type and firm age have shown to have no significant relationship with firm performance. Furthermore, innovative capability has a strong positive relationship with firm performance ( $r = .435, p < 0.01$ ). This relationship has proved to be significant; hence, innovative capability has a toll on firm performance. Finally, the results indicate that there is a relationship between strategic goals and firm performance.

This relationship is strong and significant ( $r = .382, p < 0.01$ ). The findings from the correlation matrix also indicate that advancement in innovative capability will improve firm performance by 43.5 per cent. Besides, it is seen that as strategic goals increase, firm performance also increases by a 38.2 per cent margin. These factors are unquestionably necessary for the improvement of firm performance.

### *Regression analysis*

The researchers, having established the relationships between the variables for the study through the correlation matrix, found it necessary to extract the impact of these relationships established. There was then the need to use regression analysis ([Table IV](#)). The table reveals the hierarchical multiple regression model from the SPSS. The model simultaneously shows the impacts of the variables on financial performance, which is the dependent variable. There are four models in [Table V](#). The first model brings to play the control variables for the study: these are ownership type, firm's age and types of business and CEO *locus*.

The second model does the analysis on strategic planning and the control variables. It is seen that the third model incorporates innovative capacity as an addition to simultaneously ascertain the impacts of the variables for the study on financial performance. The last model involves the interactive variable (strategic goals  $\times$  innovative capability) so as to realize its effects on financial performance of SMEs in Ghana.

From the impacts realized amongst the control variables, type of business and CEO *locus* prove to have positive and significant effects on the financial performance. The former indicated a beta ( $\beta$ ) value of 0.109 ( $p < 1.0$ ) while the latter showed 0.427 ( $p < 0.01$ ) for its beta ( $\beta$ ) value. For direct effects, the addition of strategic goals in Model 2 showed that strategic planning had a strong impact ( $\beta = 0.183, p < 0.01$ ) on financial performance. In the same model, types of business and CEO *locus* still indicated significant impacts on the financial performance of SMEs. Model 3 reveals that with the involvement of innovative capability in the running of an organization, there is a strong significant boost in financial performance ( $\beta = 0.316, p < .01$ ).

The results also reveal that with the involvement of innovative capability, the impact of strategic goals on financial performance increases to  $\beta = 0.258$  ( $p < 0.01$ ). This addition causes type of business to become insignificant; the impact of CEO *locus* on financial performance improves ( $\beta = 0.325, p < 0.01$ ) and firms' age gains a little significance, as it impacts on financial performance ( $\beta = 0.093, p < 1.0$ ). The last model (Model 4) gets into play with the interactive variable (strategic goals  $\times$  innovative capability). The results indicate that at this involvement, the impact of strategic goals on financial performance gets another boost ( $\beta = 0.322, p < 0.01$ ), while the impact from innovative capacity reduces by a little margin ( $\beta = 0.314, p < 0.01$ ).

The interactive variable itself contributes massively ( $\beta = 0.249, p < 0.01$ ) by significantly affecting financial performance amongst the SMEs. From [Table V](#), the change in  $R^2$  (0.127), with the addition of strategic goal announces that because of the involvement

**Table V.**  
Standardized  
regression results

Variables	Model 1		Model 2		Model 3		Model 4	
	$\beta$	(t-value)	$\beta$	(t-value)	$\beta$	(t-value)	$\beta$	(t-value)
<i>Controls variables</i>								
Firm age	0.057	(0.934)	0.047	(0.836)	0.093	(2.579)*	0.065	(1.181)
Ownership type <sup>1</sup>	0.053	(0.879)	0.058	(1.053)	-0.049	(-1.410)	0.077	(1.414)
Type of business <sup>2</sup>	0.109	(1.821)*	0.090	(1.63)*	0.024	(0.440)	0.073	(1.352)
CEO locus	0.427	(6.905)***	0.309	(5.101)***	0.325	(5.206)***	0.290	(4.956)***
<i>Direct effects</i>								
Strategic goals			0.183	(2.931)***	0.258	(3.941)***	0.322	(4.390)***
Innovative Capability					0.316	(4.533)***	0.314	(4.394)***
<i>Moderating effect</i>								
Strategic goals × Innovation							0.249	(3.407)***
Adjusted R <sup>2</sup>	0.194		0.321		0.352		0.392	
ΔAdjusted R <sup>2</sup>	0.194		0.127		0.031		0.040	
F-statistic	12.050***		16.460***		16.541***		46.157***	

**Notes:** t-values are in the parenthesis; <sup>1</sup> dummy variable (Type of business); 1 = manufacturing; 0 = others; dummy variable (Ownership); 1 = family-owned; 0 = non-family; \*p < 0.05 (two-tailed); \*\*p < 0.01 (two-tailed)

of strategic goal, financial performance increases by 12.7 per cent. Innovative capability adds 3.1 per cent to the improvement of financial performance, and the interactive variable from the change in  $R^2$  adds 4.0 per cent variance to the financial performance of SMEs in Ghana.

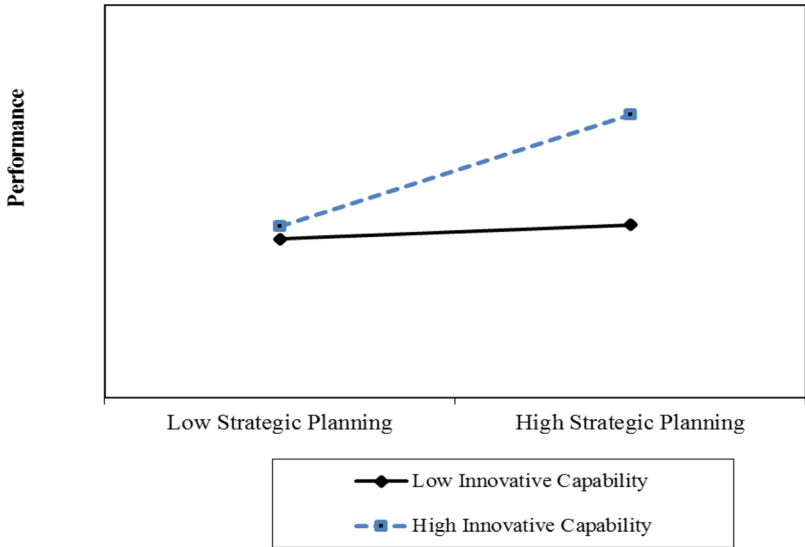
There is clearly a significant relationship between strategic goals and financial performance. The current study shows that innovative capability also has a significant impact on the financial performance of SMEs in Ghana. Part of the analysis reveals the extent to which strategic goals affect financial performance, as innovative capacity lingers in there as a moderating factor.

Figure 2 explains that at low levels of strategic goals, there is just a little increase in financial performance, even with the involvement of high innovative capability. Yet, at high strategic goals, the improvement of financial performance is terrific when high innovative capacity comes into play. This result clearly indicates that innovative capability has a moderating effect on financial performance.

**Discussion of results**

In effects, the findings above have unveiled very vital issues. Before delving into the analyses, the researchers considered the characteristics of the respondents and those of the firms involved in the study. It was seen that most of the SMEs engage in innovative practices but have moderate levels of innovative capabilities. Their strategic goal levels were moderate and their financial performance was also moderate. These results were proved to be reliable through the use of the Cronbach’s reliability test. The involvement of the analytical tools for the study was to test the hypotheses deduced from the study. The following are the results of the test.

First, the initial research objective for the study was to find the relationship between strategic goals and financial performance. Per the use of the correlation



**Figure 2.**  
The moderating effect of innovative capability on the strategic planning–performance relationship

Source: Field Study (2017)

analysis, it was realized that there is a significant positive relationship between strategic goals and financial performance. This confirmed Pevros' (2012) study on strategic goals and business performance and identified a positive correlation between strategic goal and the success of businesses. The study also showed, through the regression analysis, that in the relationship established, strategic goals have a positive significant impact on financial performance. With this established, *H1* is fully supported by the current study. This supported Hunger and Wheelan's (2006) assertion that the formation and application of strategic goals yield tremendous benefits to businesses over time. Again, [Dauda et al. \(2010\)](#), in their study on strategic goals and corporate performance amongst SMEs in Lagos, realized that majority of the SMEs surveyed were practicing some aspect of strategic management in their business operations. Companies practicing strategic management were realized to have an improvement in their market share and a positive relationship with their profitability. Furthermore, strategic goals contribute significantly to the improvement of financial performance.

In addition, *H2*, which stated that there is a positive relationship between innovative capability and financial performance, was tested. Through the use of the correlation analysis, the study came to settle that there is a positive significant relationship between innovative capability and financial performance. It later came to light that the involvement of innovative capability has a significant impact on financial performance, and that it also contributes to the improvement of financial performance by some percentage. Consequently, the study proves to fully support *H2*. The same views were articulated by [Hiitt et al. \(1997\)](#) and [Calantone et al. \(2002\)](#) that there is a positive linkage between a firm's innovativeness and performance.

Finally, the study sought to find out the moderating effects of innovative capability on the relationship between strategic goals and financial performance. This goal was met, in that the results showed that high innovative capabilities at high levels of strategic goals give rise to tremendous financial performance. It also revealed that when innovative capacity is low, even high strategic performance contributes just a little to the improvement of financial performance. This research, therefore, has demonstrated that there is a moderating effect of innovative capability on the relationship between strategic goals and financial performance. This study, therefore, fully supports *H3* ([Table V](#)).

### Conclusion

In contributing to the means through which the SMEs in Ghana can improve on their financial performances, so as to drift from the rampant bankruptcy occurrence, the following was realized.

Most of the respondents indulge in innovative practices, according to this study; but the innovative capability available in the city amongst SMEs is moderate. The study has revealed that there is a significant relationship between strategic goals and financial performance. Moreover, the involvement of high innovative capacity would shoot the financial performance of SMEs high. It was also demonstrated that the low levels of innovative capability, even amongst high levels of strategic goals, contribute just a little to the improvement of financial performance. This is to say that even though most of the SMEs in Ghana indulge in innovative practices and a moderate number indulge in strategic goals, there is the need to improve their innovative capability to see tremendous boost in their financial performance.

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## Recommendations for small- and medium-scale enterprises management

With regard to recommendations made through this study for management of SMEs, the following was looked at: first, management of SMEs should improve upon their innovative capability. Management must treat innovative capability as a life blood of their companies. Also, management of SMEs must consider strategic goals as a vital input which would improve their financial performance and use goals in the running of their organizations.

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