MEDIATING ROLE OF ADHOCRACY CULTURE ON THE IMPACT OF MARKETING INNOVATION CAPABILITY AND STRATEGIC AGILITY ON SMALL AND MEDIUM ENTERPRISES (SMEs) PERFORMANCE IN KOGI STATE

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Abstract

SMEs play a vital role in economic growth and industrialization but continue to face performance challenges in turbulent environments. This study examines the mediating role of Adhocracy Culture (AC) on the impact of Marketing Innovation Capability (MIC) and Strategic Agility (SA) on SME performance in Kogi State, Nigeria. Anchored on Dynamic Capability Theory (DCT), data were collected through a cross-sectional survey of 352 SMEs and analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM). The measurement model showed strong reliability and validity across constructs. Thel results indicate that MIC and SA exert significant direct effects on SME performance, while both constructs also significantly influence AC respectively. AC demonstrates a strong positive effect on performance. Mediation analysis confirms that AC significantly mediates the effects of MIC and SA on performance. The model explains 60.4% of the variance in SME performance and 60.1% of the variance in AC, reflecting substantial predictive power. Effect size results show that SA has a large effect on AC ($f^2 = 0.620$), while AC has a moderate effect on performance ($f^2 = 0.179$). The findings reveal that AC strongly mediates the relationships between MIC, SA and SME performance by fostering adaptability, creativity, and risk-taking within SMEs. Theoretically, the study extends DCT by integrating AC as a mediating mechanism, while practically, it recommends that SME managers cultivate an adhocracy-oriented culture that encourages decentralization, innovation, and flexibility. Policymakers should complement financial and infrastructural support with culture-building programs such as leadership development, innovation training, and mentorship. SMEs are further encouraged to leverage digital tools, collaborative partnerships, and data-driven strategies to reinforce agility and sustain innovation-led competitiveness in turbulent markets.

Keywords: Adhocracy Culture, Dynamic Capability Theory, Marketing Innovation Capability, SME Performance, Strategic Agility

Introduction

Small and medium-sized enterprises (SMEs) are globally recognized as a fundamental pillar of industrialization and economic development. They significantly contribute to GDP growth,

job creation, value addition, poverty alleviation, and economic resilience (Pricewater house Coopers [PwC], 2024; Fajarika, Trapsilawati & Sopha, 2024; Ongbali, et al., 2024; Maalouf, El Achi & Balouza, 2025). According to the World Bank (2022), SMEs represent over 90% of businesses globally, generate more than 50% of total employment, and contribute up to 40% of Gross Domestic Product (GDP) in developing countries. The World Bank (2022) further emphasized that in emerging economies, SMEs are the primary creators of jobs and projected that about 600 million jobs will be required by 2030 to absorb the growing global workforce. This projection has led many governments worldwide to prioritize SME development.

Despite their vital role, achieving SME performance remains a recurring challenge. Heightened by high cost of energy, shifting consumer expectations, multiple taxation, inadequate finance, intensified competition, and market volatility have shown persistent performance gap in the SME sector (PwC, 2024). As Matloob, et al., (2023) claimed, underperformance continues to be a leading cause of SME failure, business closures, and the stagnation of entrepreneurial growth. Moreover, many SMEs fall short of performance expectations due to weak strategic orientation, underdeveloped innovation capabilities, and insufficiently adaptive organizational cultures (Akanni & Adedeji, 2021; Ogunleye, Adeyemo, Adesola & Yahaya, 2021). This trend highlights the pressing need for empirical models that investigate innovation and strategy-driven pathways to improve performance and competitiveness.

Marketing Innovation Capability (MIC) enables firms to develop and implement creative marketing strategies that respond to changing market demands (OECD, 2005) and has been recognized as a critical determinant of business performance (Saidu, Abdulahi, Gemu, & Musa, 2024). However, the process through which MIC influences performance remains unclear and underexplored, as existing studies offer limited understanding of the mechanisms that connect marketing innovation efforts to tangible performance outcomes (Fu, Sial, Arshad, Comite, Thu, & Popp, 2021; Saputra & Nasution, 2023). Similarly, Strategic Agility (SA), which comprises strategic sensitivity, collective commitment, and resource fluidity has been recognized as a strategic imperative for thriving in turbulent environments (Doz, 2020; Robert, Dana, & Dmitriy, 2022; Al Shawabkeh, 2024), yet its effectiveness within SME settings remains insufficiently examined (Seyadi & Elali, 2021; Kozhakhmet & Nurgabdeshov, 2022).

Scholars argued that SA and innovation capabilities require a supportive internal environment to translate into positive performance outcomes (Oluwa & Ibrahim, 2021; Saidu, et al., 2024). Moreover, given the dynamic nature of MIC and SA, their full impact is more likely to emerge within an enabling culture that promotes adaptability, innovation, risk-taking, and decentralization (Chege, Gichunge & Muema, 2022; Shahin, Chong & Ojo, 2025). As suggested by Saidu, et al., (2024), introducing AC may help to explain the mechanism on how internal culture transforms innovation capabilities and strategic agility into tangible SME performance outcomes. Therefore, this study examines the mediating role of AC on the Impact of MIC and SA on SME performance in Kogi State, Nigeria.

Literature Review

Marketing Innovation Capability

MIC refers to an organization's ability to develop and implement new marketing strategies, processes, and techniques that enhance customer engagement and competitive advantage (OECD, 2005). According to Hult, Hurley, and Knight (2004), MIC is a dynamic capability

that encompasses firm's capacity to identify emerging market trends, leverage digital tools, and apply creative approaches to product promotion, pricing, distribution, and customer relationship management. Businesses with strong MIC can differentiate themselves in dynamic markets, responding effectively to shifts in consumer preferences and technological advancements (Ngo & O'Cass, 2012).This capability is deeply rooted in the Dynamic Capability Theory (DCT), which posits that firms can achieve sustained competitive advantage by continuously adapting to changing market conditions through innovation and resource reconfiguration (Teece, Pisano & Shuen, 1997). MIC enables firms to integrate emerging technologies, leverage data analytics, and create customer-centric strategies that drive superior market performance (Ali, Hao, & Aijuan, 2020). Companies with strong MIC can respond proactively to shifts in consumer behavior, digital disruptions, and competitive pressures, ensuring long-term sustainability (Liu & Atuahene-Gima, 2018). By embedding marketing innovation within their dynamic capabilities, firms can enhance brand positioning, improve customer loyalty, and achieve sustainable growth and performance.

Strategic Agility

SA has gained prominence as a critical organizational capability in the face of increasing environmental turbulence (Clauss, et al., 2021; de Diego & Almodóvar, 2021). Defined as a firm's ability to remain flexible, respond swiftly, and reallocate resources efficiently to navigate market disruptions, technological shifts, and regulatory changes (Clauss et al., 2021; Uddin et al., 2023; Doz et al., 2024), SA enables firms to proactively sense and act on emerging opportunities and threats (Doz & Kosonen, 2008).

Unlike traditional strategic planning approaches that assume environmental stability, SA reflects a continuous adaptive process that preserves long-term strategic goals while facilitating real-time responsiveness. It is widely considered a meta-capability that is fundamentally grounded in Dynamic Capabilities Theory (DCT) (Jafari-Sadeghi et al., 2022; Uddin et al., 2023). SA emphasizes the reconfiguration of internal competencies and the rapid alignment of organizational assets to sustain competitiveness in volatile markets (AlTaweel & Al-Hawary, 2021).

To operationalize SA, Doz and Kosonen (2008) propose a framework comprising three interrelated dimensions: Strategic Sensitivity (SS), Resource Fluidity (RF), and Collective Commitment (CC). SS refers to an organization's ability to detect and interpret early signals of change, often through environmental scanning and market intelligence. RF captures the organization's capacity to rapidly reallocate financial, technological, and human resources across strategic priorities, ensuring timely responsiveness. CC reflects the cohesion and decisiveness of top management in steering strategic direction during uncertainty. Together, these dimensions provide a robust structure for measuring SA and highlight its multifaceted nature, integrating strategic foresight, operational flexibility, and cohesive leadership to foster sustained adaptability and innovation (Doz & Kosonen, 2008).

Adhocracy Culture

AC is a dynamic and innovative-driven organizational culture that emphasizes creativity, flexibility, decentralization, autonomy, and cross-functional collaboration. It thrives in environments characterized by rapid change, technological disruption, and uncertainty. AC empowers individuals and teams to act autonomously and encourages risk-taking, entrepreneurial behaviour, and continuous experimentation features shown to be central to innovation-oriented firms (Cameron & Quinn, 2022; Naranjo-Valencia, Jiménez-Jiménez & Sanz-Valle, 2021). Unlike hierarchical cultures shaped by rigid rules and formal procedures,

AC promotes decentralized decision-making, resource fluidity, and agile, project-based teams capable of addressing emerging strategic challenges (Noone, Lin & Sharma, 2024; Mchaizi, Okwemba & Otsyula, 2023). Such cultures motivate employees to challenge established routines, test new approaches, and iterate creative solutions traits increasingly vital in contemporary, innovative-intensive business environments (Edmondson & Lei, 2024).

From a strategic perspective, AC aligns strongly with Dynamic Capability Theory (DCT), which emphasizes the need for firms to sense, seize, and reconfigure resources to respond effectively to environmental turbulence (Teece, 2021; Zahoor et al., 2022). Recent studies confirm that AC enhances a firm's ability to respond swiftly to market opportunities by fostering experimentation, learning, and open communication (Shahin, Chong & Ojo, 2025; Iragi & Kyongo, 2023). For SMEs, AC provides a competitive edge by improving adaptability, knowledge-sharing, and rapid decision-making critical capabilities for sustaining performance in uncertain and competitive environments (Chege, Gichunge & Muema, 2022; Kaibong, Muchemi & Mwasiaji, 2022).

SME Performance

SMEs performance refers to the ability of SMEs to achieve their business objectives through a multidimensional approach, encompassing both financial and non-financial outcomes (Venkatraman & Ramanujam, 1986; Wiklund & Shepherd, 2003). Initially, SME performance was equated with financial strength, profitability, return on investment, and growth, but has since evolved to incorporate broader, market-oriented measures such as customer satisfaction, product quality, innovation, and market share (Venkatraman & Ramanujam, 1986; Neely, Gregory & Platts, 1995). Lumpkin and Dess (1996) and Brush and Vanderwerf (1992) expanded this view by emphasizing the importance of achieving both financial success and strategic objectives. Accordingly, SME performance now reflects not just the ability to sustain financial viability but also the firm's capability to innovate, compete, and satisfy stakeholders.

Moreover, the conceptual evolution of SME performance spans decades, transitioning from early financial-centric models influenced by classical economics (Penrose, 1959; Jauch & Glueck, 1988) to contemporary, resource- and capability-based frameworks. Venkatraman and Ramanujam's (1986) inclusion of non-financial dimensions laid the foundation for broader strategic perspectives, while the Resource-Based View (Barney, 1991) and the Dynamic Capabilities framework (Teece et al., 1997) emphasized internal assets, flexibility, and learning as critical drivers of performance, especially for SMEs operating in uncertain environments. Consequently, measuring SME performance today demands a balanced approach that integrates financial metrics with non-financial indicators (Kaplan & Norton, 1992; Richard et al., 2009).

Marketing Innovation Capability and SME Performance

MIC plays a critical role in enhancing SME performance by enabling firms to develop and implement novel marketing strategies, processes, and practices that meet changing customer preferences and competitive dynamics (Kotler, 2003; Hult et al., 2004). MIC encompasses the ability of SMEs to introduce new product promotions, pricing strategies, distribution channels, and communication approaches that create superior customer value (OECD, 2005). This capability allows SMEs to differentiate themselves in the marketplace, improve customer acquisition and retention, and respond swiftly to emerging market trends. Scholars have affirmed that firms with strong MIC are better positioned to exploit market opportunities and gain sustainable competitive advantage, which directly translates to

improved financial and non-financial performance outcomes (Keskin, 2006; Ngo & O'Cass, 2012).

Moreover, empirical studies indicate a positive and significant relationship between MIC and SME performance (Saidu, et al., 2024; Alhawamdeh, Alafeef, Al-Afeef, Alkhawaldeh, Nawasra, Al_Rawashdeh, Zraqat, Hussien, & Al-Eitan, 2024). MIC enhances strategic responsiveness and market alignment, allowing SMEs to remain resilient in the face of environmental uncertainty. Firms that leverage MIC are more likely to achieve long-term growth by continuously adjusting their marketing mix and value propositions in ways that align with customer expectations and technological advancements (Wang, 2008). Therefore, cultivating MIC is not only a driver of superior performance but also a strategic necessity for SMEs operating in dynamic and competitive environments. Thus, the relationship is hypothesized as follows.

H01: Marketing innovation capability has no significant effect on SMEs performance.

Strategic Agility and SME Performance

SA is critical for enhancing SME performance in dynamic and competitive environments (Nurjaman, et al., 2020; Rumman, 2022). It reflects a firm's ability to detect environmental changes, redeploy resources efficiently, and align organizational members around a shared strategic direction (Doz & Kosonen, 2008; Clauss et al., 2019). Drawing on the dynamic capabilities' perspective, SA enables SMEs to reconfigure competencies in response to environmental shifts, thereby fostering adaptability and long-term growth (Teece, Pisano, & Shuen, 1997). Studies have shown that SMEs with higher levels of SA demonstrate superior responsiveness, competitiveness, and sustainable performance (Nurjaman, et al., 2020; Ogunleye, et al., 2021; Ragazou, Passas, Garefalakis, & Dimou, 2022; Alkandi & Helmi, 2024). Thus, SA provides a pathway for SMEs to thrive in turbulent business landscapes. Based on the above, the relationship is hypothesized as follows.

H02: Strategic Agility has no significant effect on SMEs performance.

Adhocracy Culture and SME Performance

SMEs operate in increasingly dynamic and competitive environments, where organizational culture plays a crucial role in determining performance outcomes. Among various cultural dimensions, AC marked by adaptability, innovation, risk-taking, and entrepreneurial spirit has been recognized as particularly beneficial for SMEs striving for growth and sustainability (Cameron & Quinn, 1999). This culture fosters creativity and flexibility, enabling SMEs to rapidly respond to market changes and customer demands, thereby improving both financial and non-financial performance (Oluwa & Ibrahim, 2021).

Empirically, studies have demonstrated that an adhocratic environment significantly enhances SME performance (Hardcopf, Liu, & Shah, 2021; Kaibong, Muchemi, & Mwasiaji 2022). Similarly, Naranjo-Valencia, Jiménez-Jiménez, and Sanz-Valle (2011) established that innovation-oriented cultures directly impact a firm's capacity to innovate and remain competitive, especially in turbulent sectors. In SMEs, where structures are often less formalized and more adaptable, the influence of AC is even more pronounced, enabling quicker decision-making, better strategic alignment, and improved responsiveness (Chang, Hu, & Keliw, 2021). Therefore, cultivating an AC serves as a strategic lever for enhancing SME performance. Based on the above, the relationship is hypothesized as follows.

H03: Adhocracy Culture has no significant effect on SMEs performance.

Marketing Innovation Capability and Adhocracy Culture

MIC and AC are closely related constructs in organizational and innovation management literature, particularly within the framework of dynamic and competitive environments. MIC requires not only technical expertise but also an internal environment that encourages experimentation, creativity, and proactive responsiveness to market signals (Kotler, 2003; Hult, Hurley, & Knight, 20040. AC, as conceptualized by Cameron and Quinn (1999), is characterized by flexibility, external orientation, risk-taking, and strong emphasis on innovation and entrepreneurial behavior. Such a culture fosters the conditions necessary for marketing innovation by supporting unconventional thinking, quick decision-making, and openness to new ideas.

Studies have shown that AC significantly enhances an organization's innovation capabilities, by promoting a climate that values continuous learning (Zheng, Yang, & McLean, 2010; Naranjo-Valencia, Jiménez-Jiménez, & Sanz-Valle, 2011). In an adhocratic setting, employees are empowered to challenge the status quo and experiment with new marketing methods, which aligns with the firm's pursuit of innovative solutions in marketing practices. Thus, firms with a strong AC are more likely to develop and sustain high levels of MIC, positioning themselves competitively in volatile and innovative-driven markets (Tellis, Prabhu, & Chandy, 2009). Based on the above, the relationship is hypothesized as follows.

H04: Adhocracy Culture has no significant effect on Marketing Innovation Capability.

Strategic Agility and Adhocracy Culture

SA and AC are mutually reinforcing constructs that empower organizations particularly SMEs to navigate complexity and drive innovation. SA comprises three core dimensions: strategic sensitivity, resource fluidity, and collective commitment (Doz & Kosonen, 2010). Strategic sensitivity refers to an organization's ability to detect environmental changes and emerging opportunities, which is enhanced in cultures that promote openness, experimentation, and decentralized decision-making hallmarks of an adhocracy culture (Cameron & Quinn, 1999). Resource fluidity, the capability to redeploy and reconfigure resources quickly, thrive in adhocratic environments where cross-functional collaboration and adaptive structures are encouraged. The flexibility and empowerment inherent in AC lower bureaucratic barriers, allowing for more efficient resource movement and strategic responsiveness (Sherehiy & Karwowski, 2014).

Moreover, collective commitment, the shared dedication of organizational members to strategic goals is strengthened in a culture that values autonomy, innovation, and risk-taking. AC fosters intrinsic motivation and shared purpose by supporting individual contributions and emphasizing learning and growth (Nafei, 2016). This cultural backdrop enables firms to rally around common objectives with agility and resilience, enhancing their capacity to implement strategic changes swiftly and cohesively. So, organizations with strong adhocracy cultures are better positioned to develop and sustain strategic agility (O'Reilly & Tushman, 2013). Therefore, AC acts as both a catalyst and a foundation for the successful enactment of the dimensions of SA, reinforcing the organization's ability to innovate, adapt, and sustain high performance in uncertain and dynamic environments. Based on the above, the relationship is hypothesized as follows.

H05: Adhocracy culture has no significant effect on strategic agility.

Mediating Effect of Adhocracy Culture on the Relationship between Marketing Innovation Capability and SME Performance

MIC plays a critical role in performance by supporting differentiation, enhancing customer satisfaction, and driving growth in SMEs (Ngo & O'Cass, 2012). However, its performance outcomes are not automatic but largely depend on organizational culture. This assertion is supported by DCT which posits that capabilities create value only when embedded within enabling contexts (Teece, et al., 1997; Teece, 2007), and studies have shown that innovation yields the strongest effects in cultures that encourage creativity, flexibility, and risk-taking (Naranjo-Valencia, Jiménez-Jiménez, & Sanz-Valle, 2011; Zuraik & Kelly, 2019).

AC, characterized by innovation, flexibility, risk-taking, and entrepreneurial orientation (Cameron & Quinn, 1999), provides the mechanism for translating MIC into performance. From a theoretical lens, DCT suggests that capabilities must be supported by cultural mechanisms to generate sustainable value (Teece, 2007). Empirically, the study of Deshpandé, Farley, and Webster (1993) showed that adaptability and innovation strengthen market responsiveness, while Naranjo-Valencia, Jiménez-Jiménez, and Sanz-Valle (2011) highlighted the role of adhocratic values in exploiting innovation for performance gains. In resource-constrained SMEs, AC further enables agility and decentralization, allowing firms to swiftly leverage MIC to meet shifting customer needs and navigate turbulent markets (Zuraik & Kelly, 2019). Thus, AC can mediate between MIC and performance by fostering a supportive climate where innovative marketing practices translate into tangible outcomes such as customer loyalty, market share, and profitability. Therefore, the mediating relationship is hypothesized as follows.

H06: Adhocracy culture does not mediate the relationship between marketing innovation capability and SMEs performance.

Mediating Role of Adhocracy Culture on the Relationship between Strategic Agility and SME Performance

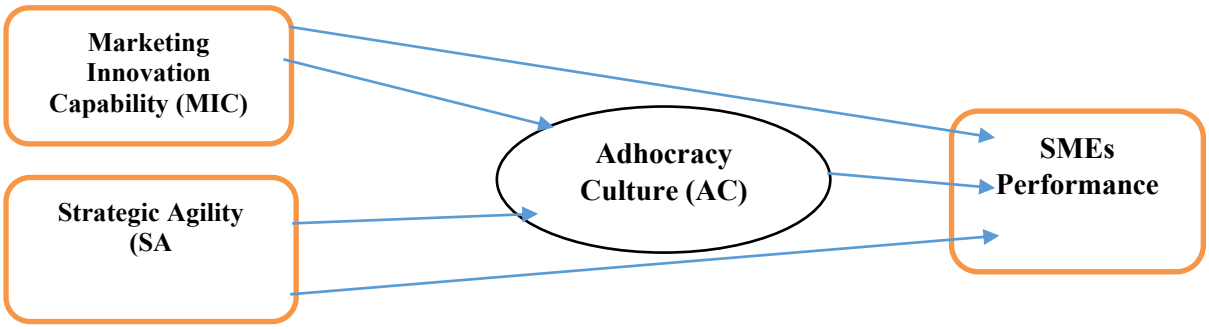
SA enables SMEs to respond swiftly and effectively to environmental turbulence by sensing opportunities, reallocating resources rapidly, and aligning leadership decisions with market shifts (Doz & Kosonen, 2008). While SA has been proved to positively influence SME performance through improved innovation, adaptability, and competitive responsiveness (Clauss et al., 2019), its effectiveness is significantly shaped by internal organizational culture. Specifically, AC can facilitate the association between SA and performance outcomes by reinforcing the behavioral and structural conditions necessary for agility to thrive (Cameron & Quinn, 2006; Chang, Hu, & Keliw, 2021). In environments where AC is dominant, firms are better positioned to translate agile strategies into sustainable competitive advantages and improved performance (Lam, Nguyen, & Tran, 2021).

In SMEs, where decision-making is often decentralized and resource constraints are prevalent, AC helps in streamlining the execution of agile strategies by empowering employees, promoting cross-functional collaboration, and encouraging learning from failure. This cultural backdrop enhances the firm's capacity to adapt quickly to external changes and internalize agility into day-to-day practices, thereby improving overall performance (Wang et al., 2019). Consequently, the presence of AC not only reinforces the agility-performance linkage but also explains how and why agile firms achieve superior outcomes, making it a critical factor in the SA–SME performance relationship. Therefore, the mediating relationship is hypothesized as follows.

H07: Adhocracy culture does not moderate the relationship between strategic agility and SMEs performance.

Conceptual and Theoretical Framework

Figure 1: Conceptual Framework



Dynamic Capability Theory (DCT) offers a robust theoretical foundation for examining the mediating role of AC in the relationship between MIC, SA, and SME Performance. DCT posits that firms must continuously integrate, build, and reconfigure internal and external competencies to address rapidly changing environments (Teece, Pisano, & Shuen, 1997). Within this framework, MIC and SA represent dynamic capabilities that enable SMEs to respond to market turbulence and exploit innovation-driven growth opportunities (Zahoor, Golgeci, et al., 2022). However, the effectiveness of these capabilities is contingent upon enabling culture. AC, characterized by its emphasis on innovation, flexibility, and risk-taking (Cameron & Quinn, 2006), can mediate the impact of MIC and SA by fostering an environment that nurtures experimentation, collaborative learning, and quick adaptation key requisites for dynamic capability deployment. Thus, DCT underlines the centrality of AC as a facilitating mechanism that enables MIC and SA to translate into superior SME performance outcomes, particularly in volatile and complex business contexts.

Materials and Method

A cross-sectional approach and survey design was employed in the study. Data was collected from SMEs owners and managers in Kogi State between June and July 2025. The study population comprised 12,517 SMEs operating in Kogi State across various sectors that registered with Small and Medium Development Agency of Nigeria (SMEDAN) which include wholesale and retail trade, manufacturing, education, accommodation and food services, agro- business, transportation and other services (SMEDAN, 2021). A sample of 370 SMEs was drawn using Krejcie and Morgan (1970). To avoid poor response issue, the sample size was increased by 50% which made up to 555 SMEs used for the study. Stratified random sampling was used to divide the population of the sector into various stratum, and simple random sampling was used to select the population sample which is believed to be true representative of the population. A total of 352 questionnaires were completed and returned representing 63.5% of the whole questionnaires distributed for the study. The data collected was analysed using Smart Partial Least Square Structural Equation Modelling (PLS-SEM) 4.1.1.4 version.

Instruments and Measurement

Variables used for the study includes; MIC with six items adopted from Calik, et al., (2017), SA was measured using six items adapted from previously validated scales developed by Doz and Kosonen (2008) while AC as mediator was measured using six items adapted from the

Competing Values Framework (CVF) developed by Cameron and Quinn (1999), and SMEs performance (SP) with ten items was adapted from Wiklund and Shepherd (2003). The questionnaire utilized a 5-point Likert scale ranging from 'strongly disagree' to 'strongly agree'.

Results and Discussion

In this study, measurement model and structural model analysis were carried out in different phases. The first phase of the analysis was the measurement model which showed the internal consistency reliability and convergent validity of the construct presented in Figure 1. The second phase is the structural model used to assess the path coefficient, R-square and the effect size. Moreover, Table 1 present the respondent profile.

Table 1: Demographic Characteristics of the Respondents

Gender	**Frequency**	**Percentage (%)**	**Cumulative %**
Male	209	59.5	59.5
Female	143	40.5	100.0
Total	**352**	**100.0**	
Respondents Age Distribution			
18 - 27 Years	38	10.9	10.9
28 - 37Years	89	25.4	36.2
38 - 47 Years	132	37.5	73.7
48 – 57 Years	73	20.8	94.5
58 Years and Above	19	5.5	100.0
Total	**352**	**100.0**	
Educational Qualification			
Primary School	7	2.0	2.0
Secondary School	56	15.9	17.9
Diploma/NCE	89	25.2	43.1
Graduate	162	46.0	89.1
Postgraduate	38	10.9	100.0
Total	**352**	**100.0**	
Business Location			
Lokoja	135	38.4	38.4
Okene	128	36.5	74.9
Kabba	89	25.1	100.0
Total	**352**	**100.0**	
Types of Business			
Accommodation & Food services	81	22.9	22.9
Education	130	36.9	59.8
Manufacturing	29	8.1	67.9
Transport & logistics	4	1.0	68.9
Other Services activities	49	14.0	82.9
Agric-Business	35	9.9	92.8
Wholesales & Retail trade	25	7.2	100.0
Total	**352**	**100.0**	

Numbers of Employees				
10 - 49	274	77.7	77.7	
50 - 199	78	22.3	100.0	
Total	**352**	**100.0**		

Figure 2: Measurement Model

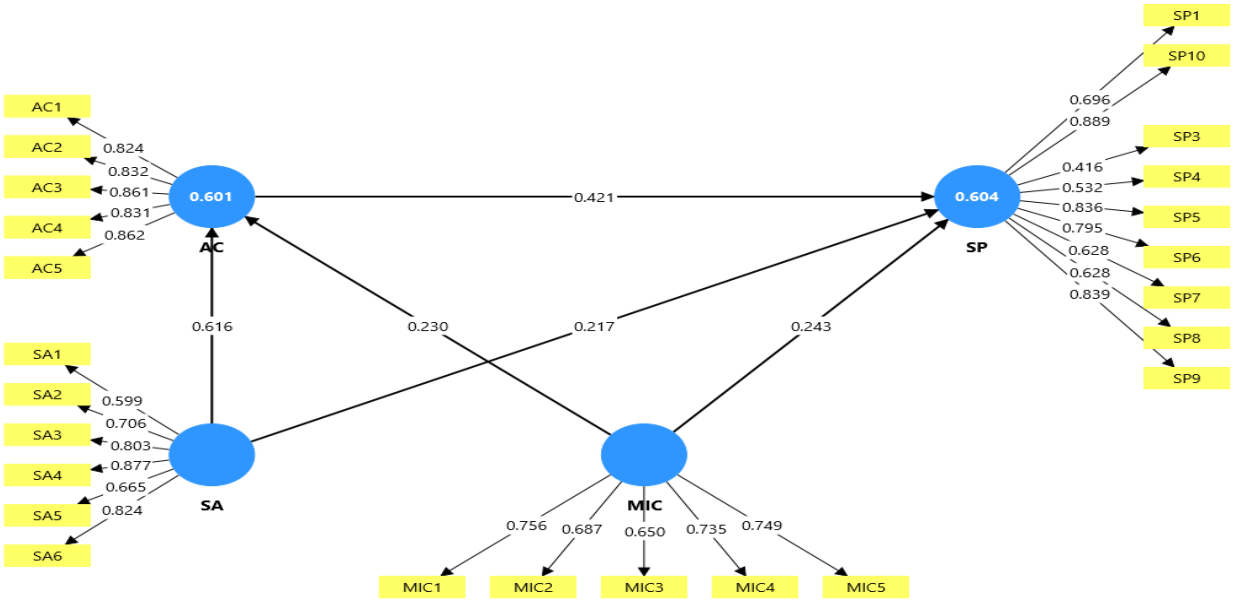


Table 2: Construct Reliability and Validity

	Codes	Loadings	Composite Reliability	Average Variance
SMEs Performance	SP1	0.696	**0.905**	**0.710**
	SP10	0.889		
	SP3	0.416		
	SP4	0.532		
	SP5	0.836		
	SP6	0.795		
	SP7	0.628		
	SP8	0.628		
	SP9	0.839		
Marketing Innovation Capability	MIC1	0.756	**0.778**	**0.514**
	MIC2	0.687		
	MIC3	0.650		
	MIC4	0.735		
	MIC5	0.749		
Strategic Agility	SA1	0.599	**0.852**	**0.566**
	SA2	0.706		
	SA3	0.803		
	SA4	0.877		
	SA5	0.665		
	SA6	0.824		
Adhocracy Culture	AC1	0.824	**0.899**	**0.710**
	AC2	0.832		
	AC3	0.861		
	AC4	0.831		
	AC5	0.862		

Table 2 presents the composite reliability (CR) and average variance extracted (AVE) for construct validation. The measurement model demonstrates that all constructs exhibit satisfactory reliability and validity despite the presence of a few items with low loadings. For SME Performance, although SP3 (0.416) and SP4 (0.532) load below the recommended threshold, the construct still shows strong internal consistency (CR = 0.905) and high convergent validity (AVE = 0.710), indicating that these weaker indicators do not undermine the overall construct quality. Similarly, Strategic Agility includes one relatively low-loading item (SA1 = 0.599), yet the construct achieves acceptable reliability (CR = 0.852) and validity (AVE = 0.566). Marketing Innovation Capability and Adhocracy Culture both demonstrate robust measurement properties, with CR and AVE values exceeding the acceptable thresholds. Thus, the results affirm that the constructs are psychometrically sound, and the presence of a few low-loading items does not adversely affect their reliability or validity, making it unnecessary to drop them.

Table 3: Discriminant Validity Result using Heterotrait-monotrait ratio (HTMT)

	AC	MIC	SA	SP
AC				
MIC	0.688			
SA	0.861	0.698		
SP	0.787	0.709	0.758	

Table 3 present the results of the Discriminant Validity result using Heterotrait-monotrait ratio (HTMT). The results indicate acceptable distinctions among the study constructs. According to Henseler, Ringle, and Sarstedt (2015), HTMT values below 0.85 suggest a high degree of discriminant validity, while values between 0.85 and 0.90 remain acceptable in social science research. In this study, most inter-construct correlations fall within acceptable limits: MIC–AC (0.688), SA–MIC (0.698), SP–MIC (0.709), and SP–SA (0.758), confirming that these constructs are empirically distinct. However, the HTMT value for AC–SA (0.861) slightly exceeds the stricter 0.85 threshold but remains within the broader 0.90 criterion, suggesting a close conceptual relationship between AC and SA while still meeting the requirements for discriminant validity. Generally, the results demonstrate satisfactory discriminant validity, confirming that the constructs capture unique dimensions without significant overlap.

Table 4: Path Coefficient for Direct and Mediation Relationship

Hypotheses	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
AC -> SP	0.421	0.424	0.045	9.448	0.000
MIC -> AC	0.230	0.230	0.041	5.669	0.000
MIC -> SP	0.243	0.244	0.039	6.260	0.000
SA -> AC	0.616	0.617	0.036	17.116	0.000
SA -> SP	0.217	0.215	0.055	3.905	0.000
MIC -> AC -> SP	0.097	0.097	0.019	5.131	0.000
SA -> AC -> SP	0.260	0.262	0.034	7.609	0.000

Table 4 presents the path coefficient results demonstrate significant direct and mediation effects among the constructs. Specifically, AC exerts a strong positive influence on SME Performance (SP) ($\beta = 0.421$, $t = 9.448$, $p < 0.001$), indicating its critical role in driving performance outcomes. Both MIC and SA show significant direct effects on AC ($\beta = 0.230$, $t = 5.669$, $p < 0.001$; $\beta = 0.616$, $t = 17.116$, $p < 0.001$, respectively), suggesting that these variables enhance the development of an adhocracy-oriented environment. Moreover, MIC ($\beta = 0.243$, $t = 6.260$, $p < 0.001$) and SA ($\beta = 0.217$, $t = 3.905$, $p < 0.001$) also directly improve

SP, highlighting their independent contributions to performance. In terms of mediation, AC significantly mediates the relationships between MIC and SP ($\beta = 0.097$, $t = 5.131$, $p < 0.001$) and between SA and SP ($\beta = 0.260$, $t = 7.609$, $p < 0.001$). These results suggest that while MIC and SA directly enhance performance, their effects are significantly improved when channeled through AC.

Table 5: R Square (R^2) and Effect Size (f^2)

Indicator	**R^2**	
SME Performance	0.604	
Adhocracy Culture	0.601	
Indicator	**F^2**	**Effect Size**
AC -> SP	0.179	Medium
MIC -> AC	0.087	Small
MIC -> SP	0.089	Medium
SA -> AC	0.620	Large
SA -> SP	0.048	Small

Table 5 presents the coefficient of determination (R^2) and the effect size (f^2) of the model. The R^2 values indicate that the model explains a substantial proportion of variance in the dependent constructs. Specifically, SME Performance (SP) has an R^2 of 0.604, showing that 60.4% of its variance is explained by the predictors, while AC has an R^2 of 0.601, suggesting that 60.1% of its variance is accounted for by MIC and SA. These values reflect strong explanatory power, demonstrating the robustness of the model in predicting both AC and SP. The effect size (f^2) results reveal the relative contribution of each predictor (Cohen, 1988). SA has a very strong effect on AC ($f^2 = 0.620$), highlighting it as the dominant driver of AC. AC also shows a moderate effect on SP ($f^2 = 0.179$), pointing out its central role in enhancing SME performance. Meanwhile, MIC contributes modestly to AC ($f^2 = 0.087$) and SP ($f^2 = 0.089$), while SA has a small direct effect on SP ($f^2 = 0.048$). Collectively, the findings indicate that although MIC and SA independently influence performance, their impacts are profoundly actualized through the mediating role of AC. This culture functions as a critical organizational mechanism, enabling the effective translation of dynamic capabilities into enhanced SME performance outcomes.

Conclusion and Recommendations

Conclusion

Based on the findings, the study concludes that MIC and SA serve as crucial drivers of SME performance, operating effectively through the mechanism of an adhocracy-oriented culture. This cultural context promotes creativity, flexibility, and responsiveness, which collectively enhances the firm's ability to transform innovation and agility into tangible performance gains. The findings are consistent with prior research (Saidu et al., 2024; Alhawamdeh et al., 2024), which emphasizes the centrality of innovation and agility in maintaining competitiveness and adaptability within dynamic business environments.

In line with the DCT (Teece et al., 1997; Teece, 2007), the study affirms that firms' ability to sense opportunities, seize them, and reconfigure resources forms the foundation for sustained competitive advantage. Within this framework, MIC and SA serve as essential dynamic capabilities, while AC functions as the underlying mechanism that enables these capabilities to operate effectively. Specifically, an adhocracy culture fosters creativity, experimentation, and flexibility, which collectively enhance the translation of innovation and agility into

superior business performance. Thus, AC stands as the cultural conduit through which dynamic capabilities are actualized, reinforcing sustainable growth and competitiveness among SMEs.

Recommendations

This study recommended that SME managers should institutionalize an adhocracy-oriented culture that encourages creativity, flexibility, and decentralized decision-making to optimize the outcomes of MIC and SA. Embedding routines for environmental scanning, innovative strategy implementation, and rapid resource reconfiguration will strengthen organizational adaptability. Managers should also leverage digital technologies, data-driven insights, and collaborative networks to enhance strategic agility and sustain innovation-led growth in dynamic markets.

At the policy level, SME development programs should prioritize culture-oriented interventions that promote innovation training, leadership development, and mentorship, rather than focusing solely on funding or infrastructure. Institutions such as business associations, incubators, and innovation hubs should integrate adaptability, digital transformation, and collaborative learning into their capacity-building initiatives. Such culture-embedded policies will enhance SMEs' ability to sense, seize, and reconfigure resources effectively, ensuring sustained competitiveness in turbulent environments.

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