

# Can hybrid strategy improve SME performance? The role of innovation and adaptive capacity

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173

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## Abstract

**Purpose** – This article focusses on the hybrid strategy, a simultaneous combination of cost leadership and differentiation strategy. The study aims to examine the impact of hybrid strategy on firm performance through its anticipated positive effects on process and product innovation. In addition, we study the moderating role of adaptive capacity in the direct relationships of hybrid strategy with process and product innovation.

**Design/methodology/approach** – Structural equation modelling was used to analyse 1,842 Spanish firms with fewer than 250 employees. We randomly selected small and medium-sized enterprises (SMEs) operating in Spain from the Spanish Central Business Directory (2021) database. The overall sample design was based on stratified sampling.

**Findings** – We found that hybrid strategy is positively related to firm performance and to process and product innovation. Additionally, in firms implementing hybrid strategies, process innovation fostered firm performance. Finally, adaptive capacity strengthened the relationships of hybrid strategy with process and product innovation. This sheds light on how and when hybrid strategy is most effective in fostering SME performance.

**Practical implications** – We highlight that SMEs need to establish strategies that use diverse resources and capabilities and not just generate competitive advantage using one strategy (cost leadership or differentiation strategy). This requires an agile and flexible systems and structures.

**Originality/value** – Our research provides novel results by proposing the adoption of hybrid strategies instead of pure strategies (cost leadership and differentiation strategy) as a way for SMEs to survive during crises. Unlike “stuck in the middle” strategies, our study demonstrates the importance of hybrid strategies in a comprehensive model that links them to innovation and firm performance, with adaptive capacity being a determining factor.

**Keywords** Performance, Small to medium-sized enterprises, Product innovation, Process innovation, Hybrid strategy

**Paper type** Research paper

## 1. Introduction

Recent global events, such as the global health pandemic alert and the new war conflicts, have led to a decline in global wealth (He and Harris, 2020) and have resulted in “the new normal”

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(Clauß *et al.*, 2022). This new context is characterised by hypercompetition, high demand instability, disruptive changes in industry structure, unpredictable customer behaviour and instability of economic, social and technological factors (Lapersonne, 2013), with traditional competitive strategies proving ineffective (Anwar and Hasnu, 2017).

The literature highlights that a pure differentiation or cost leadership strategy can cause firms to stagnate, especially when faced with new challenges, thereby encouraging the emergence of new types of competitive strategies that are better adapted to the new normal. Historically, during global crises, firms have tended to combine pure strategies for higher profits and reduced risk because hybrid competitive strategies alleviate pressures from the external environment (Alnoor *et al.*, 2023). Many large companies (e.g. Ikea, Tesco, Honda, and Mercadona) are simultaneously applying such combined strategies and finding success (Baroto *et al.*, 2012; Blanco and Gutiérrez, 2008). Such hybrid strategy enables them to innovate in response to the turbulent environment, achieve competitive advantage, and obtain superior performance (Fatonah and Haryanto, 2022). Innovation is strategic in firms that build competitive advantages (Hutomo and Pudjiarti, 2021). However, because innovation in small and medium-sized enterprises (SMEs) is lower due to their lower resource capacity (AlQershi *et al.*, 2020; Varis and Littunen, 2010), they are more constrained than large firms in achieving superior performance (Lin *et al.*, 2014; Zamani, 2022).

Hybrid strategies are difficult to imitate because they reduce costs and increase quality, thereby enabling the development of unique capabilities that outperform generic ones (Anwar and Hasnu, 2017). In addition, a hybrid strategy gives rise to multiple sources of competitive advantage such as economies of scale, brand loyalty, and improved product quality (Baroto *et al.*, 2012). Therefore, hybrid strategies have been recognised as a particularly interesting avenue of research (Gabrielsson *et al.*, 2016). However, studies have mainly focussed on large companies such as United States multinationals (Gabrielsson *et al.*, 2016) and large European companies (Acquaah and Yasai-Ardekani, 2008; Claver-Cortes *et al.*, 2012) or emerging markets such as China (Li *et al.*, 2009; Li and Li, 2008), with few studies focussing on SMEs (Sofía and Agustine, 2019). Therefore, there is currently a demand for studies that analyse the effect of a hybrid strategy in such companies and incorporate new influential variables relevant to the implementation of the hybrid strategy (Alnoor *et al.*, 2023).

Based on these premises, the first objective of this study is to analyse the impact of implementing a hybrid strategy on SME firm performance. With this aim, our work helps to fill the gap in the literature on the implementation of hybrid strategies and their impact on firm performance, while simultaneously providing results specific to SMEs, regarding which research is scarce. The second objective of the research is to examine the mediating role of product and process innovation in the relationship between hybrid strategy and firm performance. In this way, we gain a better understanding of the functioning of hybrid strategies and increase existing knowledge on implementing hybrid strategies in SMEs. Finally, the third objective is to examine adaptive capacity as a potential moderator in the relationships of hybrid strategy with product and process innovation, as this is an organisational process that depends not only on business strategy but also on the capabilities of the firm (cf. Akgün *et al.*, 2012). Thus, although we expect hybrid strategy have a generally positive impact on fostering higher levels of product and process innovation, a firm's adaptive capacity may be a boundary condition. We argue that the presence of higher levels of adaptive capacity in SMEs can strengthen the relationships of hybrid strategy with product and process innovation. This will help advance the literature by incorporating new influential moderating variables into the hybrid strategy in SMEs. Therefore, SME managers will benefit from this research as it will help them make strategic decisions that enable them to compete in turbulent environments.

In response to these objectives, this study makes several contributions to the literature on SMEs, given their importance as drivers of economic development in the current environment (Kharub *et al.*, 2022; Rubio-Andrés *et al.*, 2022a). First, we help alleviate the dearth of literature

on hybrid strategies and their impact on value-generating variables (i.e. innovation and firm performance; [Alnoor et al., 2023](#)). Specifically, our study reflects on and develops a unified model that has not been previously analysed in the literature and integrates several constructs such as hybrid strategies, innovation, adaptive capacity, and firm performance. Second, it analyses the mechanisms (product and process innovation) through which hybrid strategies can achieve firm performance. Third, we examine the active role that adaptive capacity can play in strengthening or minimising the positive influence of hybrid strategies on (product and process) innovation. Finally, through a survey of 1,842 CEOs of small and medium-sized Spanish firms in the leading sectors (industry, construction, commerce, and services), we contribute to the literature by a developing quantitative study whose empirical findings shed light on the disparate results of previous studies.

The remainder of this paper is organised as follows. The second section reviews the extant literature on the theoretical background of our research variables, and hypotheses are developed in the third section. The fourth section describes the research method, including the sample, procedures, measures, and data analyses. In the fifth section, we present the main results. Finally, the sixth and seventh sections present the discussion and conclusions, incorporating implications for theory and practice, along with the limitations and future research directions.

## 2. Theoretical background

### 2.1 Hybrid strategy

Hybrid strategy emerged as an evolution of Porter's generic strategic framework ([Lapersonne et al., 2015](#)) as a source of gaining advantage over rival firms, enabling them to compete in turbulent environments ([Alnoor et al., 2023](#)). According to [Anwar et al. \(2021\)](#), detailed research on hybrid strategy has emerged as a key challenge in competitive strategy research.

Although [Porter \(1980, 1985\)](#) opposes the simultaneous pursuit of low-cost and differentiation strategies, to avoid being "stuck in the middle", some authors defend the compatibility of this approach and establish the possibility of implementing hybrid, mixed, integrated, or combined strategies ([Acquaah and Yasai-Ardekani, 2008](#); [Claver-Cortes et al., 2012](#); [Spanos et al., 2004](#)). Hybrid strategy is an emerging and novel concept that simultaneously emphasises differentiation and cost leadership ([Sofia and Augustine, 2019](#); [Spanos et al., 2004](#)).

To understand the concept of hybrid strategy, [Pertusa-Ortega et al. \(2009\)](#) distinguish between taxonomic and dimensional approaches ([Miller and Dess, 1993](#)). These premises deviate from [Porter's \(1980\)](#) thinking, because the author advocates a categorical approach by defining cost leadership and differentiation strategies as two alternative, inconsistent, and incompatible methods to achieve competitive advantage. In fact, several authors ([Spanos et al., 2004](#)) argue that generic competitive strategies should not be understood as single strategies but as two dimensions in which each firm must choose the position that best suits it. Although *a priori* generic strategies require different competences and resources, two arguments in the literature defend the compatibility between cost leadership and differentiation. On the one hand, achieving a strong competitive position with one strategy can improve the position in the other. On the other hand, there are certain business practices that improve both competitive positions, such as quality improvement ([Grant, 2002](#)) and digital transformation ([Bayo-Moriones and Lera-López, 2007](#)); these help to enhance differentiation by improving responsiveness to market changes and achieve cost reductions as the decision-making process is improved and streamlined ([Pertusa-Ortega et al., 2009](#)).

A hybrid strategy is a strategic choice whose long-term implementation in firms requires management effort ([Leitner and Guldenberg, 2010](#)). It aims to provide more value to customers by combining low costs and high differentiation rates, and improves the performance of SMEs ([Alnoor et al., 2023](#)). The literature on the hybrid strategy of SMEs is summarised in [Table 1](#), where the main articles selected are described considering the variables mentioned.

Author (year)	Type of study	Data and sample	Relevant findings
<a href="#">Alnoor et al. (2023)</a>	Bibliometric analysis	A total of 92 studies from the Scopus and Web of Science database	The hybrid strategy based on the strategies of Miles, Snow and Porter is of global interest because such an approach to an emerging strategy can lead to outstanding performance
<a href="#">Pertusa-Ortega et al. (2009)</a>	Quantitative	Multisectoral sample of 164 Spanish firms	Hybrid strategies are associated with higher levels of business performance, particularly those that emphasise more on strategic dimensions, such as innovation
<a href="#">Acquaah and Yasai-Ardekani (2008)</a>	Quantitative	A total of 200 large and medium-sized companies in Ghana	Positive performance implications of implementing a combined competitive strategy over singular or generic strategies
<a href="#">Claver-Cortés et al. (2012)</a>	Quantitative	A total of 164 large Spanish companies from different sectors	Hybrid strategies are associated with higher levels of performance. Study of organisational design variables associated with the development of hybrid strategies
<a href="#">Salavou and Manolopoulos (2021)</a>	Quantitative	A total of 63 Greek social enterprises	Compared to purely strategic ones, hybrid options are more influentially linked to impact in terms of positive environmental, social, and economic contributions
<a href="#">Gabrielson et al. (2016)</a>	Quantitative	A total of 145 Finnish and 114 Swedish companies	The realisation of a hybrid competitive strategy depends on the internationalisation phase and key resources
<a href="#">Anwar et al. (2021)</a>	Bibliometric analysis	A total of 196 selected articles to identify trends of the most influential journals and papers	Systematic review of the Miles and Snow typology and future strategies. The complexity and constantly evolving global market challenges suggest that a hybrid strategic perspective can produce better results

**Table 1.**  
Prior studies on hybrid  
strategies in SMEs

**Source(s):** Authors' own elaboration

## 2.2 Product and process innovation

Innovation is an important strategic tool that enables entrepreneurs to create competitive advantages and market opportunities to achieve higher business growth driven by changes that allow them to differentiate their businesses from competitors ([Febrianti and Herbert, 2022](#)). Thus, innovation is essential to improve the performance of SMEs, especially in complex and volatile business environments ([Centobelli et al., 2019](#)).

In the organisational context, innovation is primarily classified into two categories: product innovation and process innovation ([Bayraktar, 2017](#); [Murat Ar and Baki, 2011](#)). Process innovation improves business efficiency and effectiveness from an internal point of view ([Centobelli et al., 2019](#)). According to [Das \(2018\)](#), process innovation involves eliminating non-value-adding activities, reducing costs, and boosting business competitiveness.

Product innovation results in the introduction of new or improved products into the market, which requires the prior identification of new customer needs and the improvement of product quality ([Febrianti and Herbert, 2022](#)). Launching innovative products with new or

improved features and functions enables firms to create a competitive advantage for market survival (Munck *et al.*, 2020).

Therefore, based on the literature review and the nature of the research, this study selected process innovation and product innovation, as potential predictors contributing to the SME firm performance.

### 2.3 Adaptive capacity

Adaptive capacity refers to a firm's ability to identify and capitalise on emerging opportunities in the environment and is critical for its evolution and survival in different industries (Wang and Ahmed, 2007). Tuominen *et al.* (2004) point out that this capability is essential as a source of innovation and for the successful development and commercialisation of new products. Therefore, we focus on adaptive capacity which refers to a more effective search for information and superior firm flexibility to respond quickly to market changes and to adopt strategic changes according to business priorities (Heubeck and Meckl, 2022; Rodrigo-Alarcón *et al.*, 2018).

Thus, to achieve and maintain a sustainable competitive advantage, it is particularly important for firms to decipher signals from the changing environment, make predictions about volatile consumer preferences and government policies, reconfigure resources and coordinate processes, and respond to environmental changes quickly and flexibly by developing innovations (Chen and Wu, 2011; Pundziene *et al.*, 2022). Biedenbach and Müller (2012) emphasise that adaptive capacity in the early stages of a project has a positive effect on short-term success and firm performance.

### 2.4 Firm performance

Firm performance has emerged as a key concept in management research and is frequently used as a dependent variable (Taouab and Issor, 2019; Tavoletti *et al.*, 2022). Firm performance is defined as the capability of an organisation to efficiently exploit available resources to make achievements consistent with the objectives of the firm (Peterson *et al.*, 2003). Firm performance refers to a company achieving better results than its competitors (Homburg and Jensen, 2007; Liu and Wang, 2022), considering metrics such as competitiveness, efficiency and effectiveness in management, economics, and marketing (Taouab and Issor, 2019).

## 3. Hypothesis development

### 3.1 Hybrid strategy and firm performance

The impact of hybrid strategy on firm performance has also been studied in the literature. Initially, we identified two distinct lines of research. Porter's proponents found empirical evidence that firms implementing hybrid strategies perform worse than their competitors following a pure cost leadership or differentiation strategy (Aulakh *et al.*, 2000). However, other researchers argue that a combination of differentiation and low cost can lead to higher levels of performance (Pertusa-Ortega *et al.*, 2009; Spanos *et al.*, 2004). However, the first line of research is blurred, as even Porter (1985) acknowledges that firms can simultaneously achieve cost leadership and differentiation advantages under specific conditions: primarily with highly competitive firms in highly changing environments (Gabrielsson *et al.*, 2016).

A recent bibliometric literature review concludes that hybrid strategy is closely related to strategic performance (Alnoor *et al.*, 2023). Several studies have corroborated this finding (Acquaah and Yasai-Ardekani, 2008; Claver-Cortes *et al.*, 2012; Kaliappan *et al.*, 2019; Pertusa-Ortega *et al.*, 2009; Spanos *et al.*, 2004). According to these studies, hybrid strategies increase learning and efficiency in multiple firm areas and require a combination of effectiveness and

innovation (Alnoor *et al.*, 2023), thereby allowing firms greater agility and flexibility. In contrast, strategic specialisation can lead firms to run the risk of not considering all their customer needs, making them more easily imitated by competitors and more vulnerable to the challenges posed by a much more dynamic environment (Claver-Cortes *et al.*, 2012).

Considering the above, we formulate the following hypothesis:

*H1.* There is a positive relationship between hybrid strategy and firm performance.

### 3.2 Hybrid strategy and innovation

Companies that integrate generic strategies into their business vision can position themselves appropriately, improve their innovation capacity, and learn new skills and technologies (Sofia and Augustine, 2019). The main reason to use hybrid strategy in SMEs is the simultaneous focus on costs and quality. Studies such as those by Espino-Rodríguez and Lai (2014) and Kaya (2015) provide empirical evidence that hybrid strategy has cost efficiency and innovation advantages. Therefore, the right combination of efficiency and innovation is a prerequisite for SMEs to design a hybrid strategy (Rodríguez-Escobar and González-Benito, 2017).

Consequently, the choice of strategy by SMEs impacts the development of their innovations, which is a vital determinant of competitive advantage (Wronka-Pospiech and Fraczkiewicz-Wronka, 2016). Understanding that hybrid strategy refers to how a company creates value vis-à-vis competitors, based on lower costs and higher differentiation (Batista *et al.*, 2016), will directly affect SMEs' innovation. If SMEs try to gain a competitive advantage through cost leadership, they will focus on reducing internal processes; however, if the strategy pursued is differentiation, they will use an external approach to develop innovation (Suoniemi *et al.*, 2020). In the hybrid strategy, the SME attempts to maximise both competitive advantages to overcome competitors' attacks; thus, the firm can achieve competitive advantage by providing value to customers based on both product features and low prices (Baroto *et al.*, 2012).

When firms achieve higher performance by implementing their individual strategy, they can use the accumulated gains to focus on the gaps and weaknesses in their strategic operations in the market (Leitner and Guldenberg, 2010), with the aim of consolidating and sustaining their competitive advantage (Agyapong *et al.*, 2016). Innovative strategies must be implemented to achieve this goal. By relying on innovation, firms would be engaging in a hybrid strategy that emerged from the prior success of a pure strategy, that is, from the cost leadership or differentiation. Accordingly, we propose the following hypotheses:

*H2a.* There is a positive relationship between hybrid strategy and product innovation.

*H2b.* There is a positive relationship between hybrid strategy and process innovation.

### 3.3 Innovation and firm performance

The relationship between innovation and performance has been studied extensively (Jaruzelski *et al.*, 2011; Yeh-Yun Lin and Yi-Ching Chen, 2007). Innovation is a key predictor of future firm performance (Hirshleifer *et al.*, 2013; Sancho-Zamora *et al.*, 2021) and positively and significantly influences the business value of SMEs (Rubio-Andrés *et al.*, 2022b; Wang *et al.*, 2023).

According to the OECD (2005), innovation can come from several sources, such as the introduction of products, incorporation of new processes, use of other marketing or organisational methods, and relationships with the outside world, whether new or significantly improved. This typology allows us to study the relationship between a particular type of innovation (product or process) and the extent of its performance.

However, studies that exclusively use product innovation to analyse the impact of innovation on firm performance are limited. The most outstanding amongst these is the study by Ramadini *et al.* (2019), which determined the positive impact of product innovation on firm

performance and identified a significant effect of firm size as a control variable. [Agustia et al. \(2022\)](#) provide evidence that firms that create product innovations improve their performance. Several authors have come to the same conclusion and point to the performance variables used in our study, finding, for example, a positive relationship between product innovation and sales growth ([Piening and Salge, 2015](#)). This may be because when firms choose to allocate resources to product innovation, they achieve greater leverage in terms of competitiveness and performance. Continuous product innovation increases the firm's ability to satisfy consumer needs, thus sustaining their loyalty ([Tung, 2012](#)) and achieving sales that are transformed into revenue. Considering these premises, we formulated the following hypothesis:

*H3a.* There is a positive relationship between product innovation and firm performance.

Although process innovation is a growth strategy for SMEs and a source of competitive advantage, it is under-researched ([Hervás-Oliver et al., 2014](#); [Ramos-González et al., 2022](#)). Process innovation has sometimes been coupled with product innovation, although, alone and independently, it can be studied for its impact on efficiency improvement ([Reichstein and Salter, 2006](#)). However, for some authors, process innovation most often comes from the direct incorporation of technology and sometimes from investment in R&D ([Rouvinen, 2002](#)). [Barney \(1991\)](#) links process innovation to the resource-based view because of its internal character and relationship with performance achievement ensuing from good resource management and improvements in organisational routines. Traditionally, the impact of process innovation has been measured using performance variables, such as sales achieved and return on investment ([Ramadani et al., 2019](#)), as proposed in our study. Nonetheless, [Hervás-Oliver et al. \(2014\)](#) prefer to replace such variables with the performance of the production process despite it being more complex to measure.

According to [Suwignjo et al. \(2022\)](#), the main objective of process innovation is to achieve greater process effectiveness by reducing costs and improving productivity and competitiveness; subsequently, there is a positive effect on performance. Occasionally, the source of cost reduction is the achievement of economies of scale ([Qin, 2007](#)) due to the introduction of new production methods and technology ([Wang and Ahmed, 2007](#)). Furthermore, [Hilman and Kaliappen \(2014\)](#) empirically demonstrate that process innovation is positively associated with organisational performance. Considering these premises, we propose the following hypothesis:

*H3b.* There is a positive relationship between process innovation and firm performance.

### *3.4 The mediation of innovation on the relationship between hybrid strategy and firm performance*

The arguments above suggest that firms that develop a hybrid strategy can increase their likelihood of higher firm performance by improving their processes and product innovation. By establishing a hybrid strategy, firms improve their ability to adapt to environmental changes ([Sofia and Augustine, 2019](#)), which naturally moves them to develop product and process innovation ([Suoniemi et al., 2020](#)). Innovation (in processes and products) is a resource that a company can utilise to grow, develop, and successfully adapt to market changes ([Jaruzelski et al., 2011](#)), all of which are essential elements for improving firm performance ([Rubio-Andrés et al., 2022b](#)). Thus, we argue that in SMEs that develop hybrid strategies, process and product innovation mediate the relationship between hybrid strategies and firm performance. Hence, we propose the following hypotheses:

*H4a.* Product innovation mediates the relationship between hybrid strategy and firm performance in such a way that hybrid strategy will have a positive indirect effect on firm performance through product innovation.

*H4b.* Process innovation mediates the relationship between hybrid strategy and firm performance in such a way that hybrid strategy will have a positive indirect effect on firm performance through process innovation.

*3.5 The moderating role of adaptive capacity*

Although the above hypotheses indicate that, in most contexts, all the above-described relationships are valid, the intensity of the relationship between hybrid strategy and innovation (process and product) may differ according to the capabilities of the firm (cf., Teece, 2018). Adaptive capacity is defined as a firm’s ability to identify and capitalise on emerging opportunities in the environment and is critical for its evolution and survival (Wang and Ahmed, 2007). Given this, we believe that the relationships considered in the hypotheses may differ depending on a firm’s adaptive capacity (Ali et al., 2022; Oktemgil and Greenley, 1997).

Adaptive capacity is necessary to overcome environmental changes (Teece et al., 1997) as it provides the necessary sensitivity in a firm’s strategy to focus on the development of further innovation (Akgün et al., 2012). Through adaptive capacity, firms can: (1) recognise technical and market opportunities in their environment and decide to explore them, (2) identify new customer needs and seek new products and services to diversify offers or enter new markets, and (3) continuously evaluate competitors’ products to exploit their weaknesses and develop improved products to meet customer needs (Akgün et al., 2012; Rubio-Andrés et al., 2021; Ruiz et al., 2014). Thus, hybrid strategy can be oriented towards readjusting a firm’s internal and external knowledge to respond quickly and appropriately to market changes through the development of processes and product innovation. Therefore, we propose the following hypotheses:

*H5a.* Adaptive capacity will moderate the relationship between hybrid strategy and product innovation, in such a way that hybrid strategy will have a more positive effect on product innovation when the level of adaptive capacity increases.

*H5b.* Adaptive capacity will moderate the relationship between hybrid strategy and process innovation, in such a way that hybrid strategy will have a more positive effect on process innovation when the level of adaptive capacity increases.

Figure 1 shows the conceptual model we intend to test.

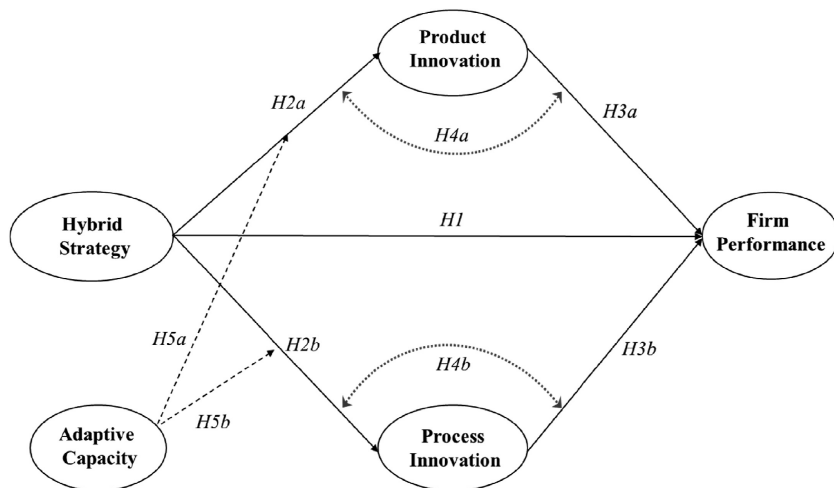


Figure 1.  
Theoretical model

Source(s): Authors’ own elaboration

## 4. Method

### 4.1 Sample and procedure

We randomly selected SMEs operating in Spain from the [Spanish Central Business Directory \(2021\)](#) database. The selection framework was the SABI (Iberian Balance Sheet Analysis System) database accessed through the FAEDPYME (*Foundation for Strategic Analysis and Development in SMEs*). The sampling was conducted by stratifying the population (stratified sampling). We established the stratification criteria in accordance with the aims of the study and the information available concerning the population structure. Within each stratum, the selection was made using simple random sampling of up to 2,000 questionnaires. Subsequently, incomplete questionnaires were eliminated. A total of 1,842 completed surveys were returned and used for further analysis (response rate: 29.48%, sampling error: 2.9%, for a confidence level of 95% and the least favourable situation of  $p = q = 0.5$ ).

The largest group of participating firms was from the service sector (34.8%), followed by industry (32.6%), retail (18.9%), and construction (13.7%). Additionally, most firms were small, with 10–49 employees (52.4%), followed by micro-SMEs with 6–9 employees (34.9%), medium-sized SMEs with 50–249 employees (12.1%), and those without employees (0.7%). By company type, 29.5% were non-family SMEs and 70.5% were family SMEs. With regard to the age of the companies, 8.7% had been competing in the market for less than 9 years, 19.5% for 10–19 years, 50.4% for 20–40 years, and 21.4% for more than 40 years. Finally, in terms of CEO education, 54.3% of the CEOs had completed higher education (see [Table 2](#)).

As the research design was cross-sectional and involved various self-report measures, common method variance (CMV) and social desirability bias (SDB) were potential concerns,

	Number	%
<i>Age (years)</i>		
0–9	160	8.7
10–19	359	19.5
20–29	518	28.1
30–39	410	22.3
>40	395	21.4
<i>Sector</i>		
Industry	600	32.6
Construction	253	13.7
Retail	348	18.9
Service	641	34.8
<i>Number of employees</i>		
No employees	12	0.7
Micro-sized (1–9)	643	34.9
Small-sized (10–49)	965	52.4
Medium-sized (50–250)	222	12.1
<i>CEO qualification</i>		
Higher education	1,001	54.3
Basic education	841	45.7
<i>Family business</i>		
Yes	1,299	70.5
No	543	29.5
Total	1,842	100

**Note(s):** Sampling error: 2.9%. Confidence level 95%

**Source(s):** Authors' own elaboration

**Table 2.**  
Sample of SMEs  
in Spain

and several recommended procedural remedies were used (cf. Podsakoff *et al.*, 2003, 2012). For example, to reduce SDB, anonymity was guaranteed as the survey asked for vague demographic information. Additionally, to mitigate CMV, (1) the survey included a psychological separation between predictors and criterion variables to make them appear unrelated; (2) the study variables were intermingled with other variables related to entrepreneurial intention, which acted as distractors; and (3) all items were kept simple, specific, and concise. Additionally, findings using the marker test (e.g. Khosravi *et al.*, 2020) showed that our efforts concerning method variance were successful. Specifically, one marker item (i.e. the gender of the CEO) was unrelated to any of the target constructs. The mean correlation between the marker item and each study variable was 0.04, which was below the recommended 0.05 threshold (Rönkkö and Ylitalo, 2011). Moreover, there were no significant changes in the parameter estimates in the model in which the marker was free to relate to the study variables. Thus, common method variance is unlikely to be a concern in our data.

#### 4.2 Measures

When measures are used to examine a latent construct, the researcher can design reflective or formative indicators (MacKenzie *et al.*, 2005). While reflective measurements are highly correlated indicators that may be caused by the latent construct, formative measures involve indicators that determine the construct without necessarily being correlated (Hair *et al.*, 2017). Following the four criteria proposed by MacKenzie *et al.* (2005) to distinguish between these two types, all the variables in our survey were reflective.

We adapted all the measures linguistically, semantically, and culturally. Mode A composites (linear combinations of reflective indicators) were used for all the major variables (Hair *et al.*, 2017), together with a five-point Likert response format.

*Hybrid strategy.* This construct was measured through the interaction between two indicators: differentiation strategy, measured through one item capturing the production of the product or provision of the service under quality criteria, and cost leadership strategy, measured through one item capturing the efficiency of internal processes.

*Product innovation.* We used indicators that assess the degree of importance of product innovations in SMEs, such as product innovation as changes or improvements in existing products or services, substantial improvements in products or services, and launching new products in the market with or without a direct relation to the core product. The indicators used in this construct have been validated by Burdon *et al.* (2015), Cegarra-Navarro *et al.* (2016), Oke *et al.* (2007).

*Process innovation.* We used three indicators to assess the degree of importance of process innovation in SMEs. Process innovation considers indicators of changes or improvements in the production process, acquisition of new capital goods, and changes in procurement management. The indicators used in this construct have been validated by Lichtenthaler (2017) and Harel *et al.* (2021).

*Firm performance.* This was the main endogenous variable; all the latent variables of the model converged on this variable. The indicators to measure this construct were profitability (Delaney and Huselid, 1996; Pinheiro *et al.*, 2021; Richard *et al.*, 2009), business growth (Christensen *et al.*, 2003; Piperopoulos and Scase, 2009; Szczygielski *et al.*, 2017; Vaccaro *et al.*, 2010), and customer satisfaction (Rasoulzadeh *et al.*, 2013; Saeidi *et al.*, 2015; Clark, 2000; Pekovic and Vogt, 2021; Rasoulzadeh *et al.*, 2013; Saeidi *et al.*, 2015; Sridhar and Mehta, 2018).

*Adaptive capacity.* This variable was measured using an indicator to assess the SME's adaptability to changes in the market, defined as the firm's increased understanding of new opportunities in the environment (Eshima and Anderson, 2017; Oktengil and Greenley, 1997).

*Control variables.* In our initial analysis, we controlled for firm size (number of employees), sector (service, industry, retail, or construction), and type of company (family or non-family).

Our analysis was reported without these controls as they did not affect our findings (cf. Bernerth and Aguinis, 2016).

4.3 Data analysis

To test our hypotheses, we used partial least squares (PLS) with Smart PLS 3.2.7 (Ringle et al., 2015). The PLS is a distribution-free approach that allows for non-interval-scaled data and both reflective and formative measures (Hair et al., 2017). Thus, it was suitable for testing our model, which included different measurement scales (nominal, ordinal, and interval-scaled variables) and approaches (formative and reflective constructs). In addition, like other structural equation modelling techniques, PLS is especially suitable for testing the mediation and moderation hypotheses included in our study (James et al., 2006). Bootstrapping (5,000 resamples) was used to generate standard errors, and *t*-statistics were used to test the hypotheses (Hair et al., 2017) and whether the indirect effects were significant (an important criterion for establishing mediation).

5. Results

5.1 Evaluation of the measurement model

Item reliability was satisfactory as the values were above the recommended 0.707 threshold (Hair et al., 2017, Table 3). Additionally, the internal consistencies, composite reliability indices, and Cronbach’s alphas all exceeded the 0.70 cut-off (Hair et al., 2017, Table 3). Convergent validity was supported as the average variance extracted (AVE) for the constructs was above 0.50 (Hair et al., 2017, Table 3). Finally, discriminant validity was

Construct	Item/first order construct	Loading	Cronbach’s alpha	Construct reliability		AVE
				Dillon-Goldstein (pc)	Dijkstra-Henseler (pA)	
Hybrid strategy (HS)			1	1	1	1
Product innovation (PTI)	HS1	1	0.83	0.88	0.83	0.65
	PTI1	0.81				
	PTI2	0.80				
	PTI3	0.81				
Process innovation (PSI)	PTI4	0.84	0.74	0.83	0.76	0.66
	PSI1	0.87				
	PSI2	0.73				
	PSI3	0.84				
Firm performance (FP)			0.71	0.81	0.71	0.59
	FP1	0.78				
	FP2	0.78				
Adaptive capacity (AC)	FP3	0.74	1	1	1	1
	AC1	1				

Source(s): Authors’ own elaboration

**Table 3.** Item loadings and weights, construct reliability and convergent validity

supported, with the AVE exceeding the square correlations between the composites in all cases (Hair *et al.*, 2017, Table 3). Moreover, heterotrait-monotrait ratio of correlations (HTMT) indices were below 0.85, as recommended (Hair *et al.*, 2018; Henseler *et al.*, 2015, Table 4).

5.2 Evaluation of the structural model

We used two models to test the hypotheses described above. H1 was supported since, in an unmediated model, hybrid strategy was positively associated with firm performance ( $\beta = 0.58, p < 0.001$ ; see Figure 2a). As anticipated, hybrid strategy was also positively linked to product innovation ( $\beta = 0.13, p < 0.01$ ; see Figure 2b) and process innovation ( $\beta = 0.11, p < 0.01$ ; see Figure 2b), supporting H2a and H2b. However, the relationships of product and process innovations to firm performance yielded different results. While product innovation had no significant effect on firm performance ( $\beta = -0.03$ , not significant; see Figure 2b), meaning H3a was rejected, process innovation did have positive effects on firm performance ( $\beta = 0.07, p < 0.05$ ; see Figure 2b), leading us to accept H3b. Finally, the mediating effect of product innovation on the positive relationship between hybrid strategy and firm performance was not significant (indirect effect =  $-0.004$ , not significant; see Figure 2b), thus invalidating H4a. In contrast, process innovation significantly mediated the relationship between hybrid strategy and firm performance (indirect effect =  $0.008, p < 0.05$ ; see Figure 2b), supporting H4b. Although the size of the individual betas was substantial, the mediation linked to process innovation in the relationship between hybrid strategy and firm performance had only a small effect size ( $f^2 = 0.05$ ; Table 5).

The findings also support H5a and H5b regarding the moderating role of adaptive capacity in the relationships of hybrid strategy with product and process innovation. The results revealed that, after mean-centring the independent variables and the moderator (Aiken *et al.*, 1991), the resulting interaction term was positive and significant in both cases: product innovation ( $\beta = 0.14, p < 0.01$ ; Figure 2b) and process innovation ( $\beta = 0.19, p < 0.05$ ; Figure 2b). The graph of the high versus low adaptive capacity regression lines (+1 SD and -1 SD; Aiken *et al.*, 1991) showed that, in the case of product innovation, the positive impact of the hybrid strategy was stronger (the slope is more pronounced) in high than in low adaptive capacity conditions (Figure 3). Thus, H5a was confirmed.

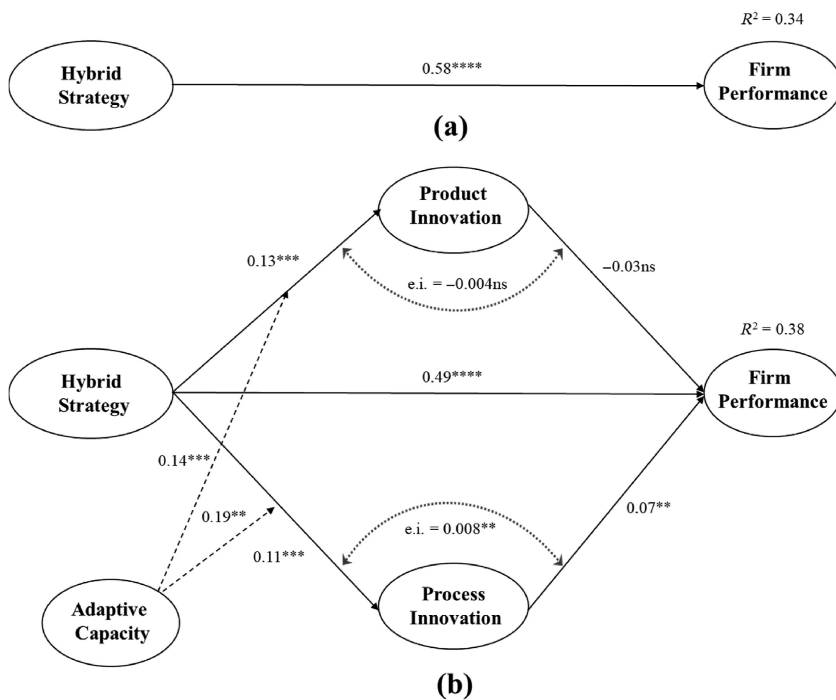
Similarly, in the case of process innovation, the graph of the high versus low adaptive capacity regression lines showed that the positive impact of the hybrid strategy was stronger

Constructs	Mean	SD	1	2	3	4	5
1. Hybrid strategy	13.83	5.28	<u>1</u>	<i>0.23</i> <i>[0.18, 0.29]</i>	<i>0.24</i> <i>[0.16, 0.32]</i>	<i>0.68</i> <i>[0.57, 0.79]</i>	<i>0.47</i> <i>[0.39, 0.56]</i>
2. Product innovation	1.99	1.37	0.20**	<u>0.80</u>	<i>0.78</i> <i>[0.67, 0.89]</i>	<i>0.18</i> <i>[0.12, 0.25]</i>	<i>0.21</i> <i>[0.12, 0.31]</i>
3. Process innovation	2.20	1.44	0.21**	0.69**	<u>0.81</u>	<i>0.24</i> <i>[0.18, 0.31]</i>	<i>0.27</i> <i>[0.19, 0.35]</i>
4. Firm performance	3.68	0.85	0.58**	0.17**	0.14*	<u>0.77</u>	<i>0.71</i> <i>[0.63, 0.80]</i>
5. Adaptive capacity	3.77	0.86	0.47**	0.20**	0.24**	0.59**	<u>1</u>

**Note(s):** \* $p < 0.05$  \*\* $p < 0.01$  or better (two-tailed test). SD = standard deviation. Underline values on the diagonal are the square roots of the AVE. Off-diagonal elements below the diagonal are correlations between the constructs. Off-diagonal elements in italics and above the diagonal are the HTMTs and their 95% confidence intervals (CI). As the HTMTs are below 0.85 and CIs do not include 1, there is discriminant validity (Hair *et al.*, 2017)

**Source(s):** Authors' own elaboration

**Table 4.** Descriptive statistics, correlation matrix and discriminant validity



Note(s): \* $p < 0.10$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$ ; \*\*\*\* $p < 0.001$

Source(s): Authors' own elaboration

Figure 2. Result model

Indirect effect	Variance explained			Size of the mediation effect
	$R^2$ included	$R^2$ excluded	$R^2$ variance explained	( $f^2$ )
Hybrid Strategy → Process Innovation → Firm Performance	0.37	0.34	0.03	0.05 (small effect)

Note(s):  $f^2 = (R^2 \text{ included} - R^2 \text{ excluded}) / (1 - R^2 \text{ included})$ ; effect sizes of  $f^2 \geq 0.02$ ,  $\geq 0.15$ , and  $\geq 0.35$  are small, medium and large, respectively (Cohen, 1988)

Source(s): Authors' own elaboration

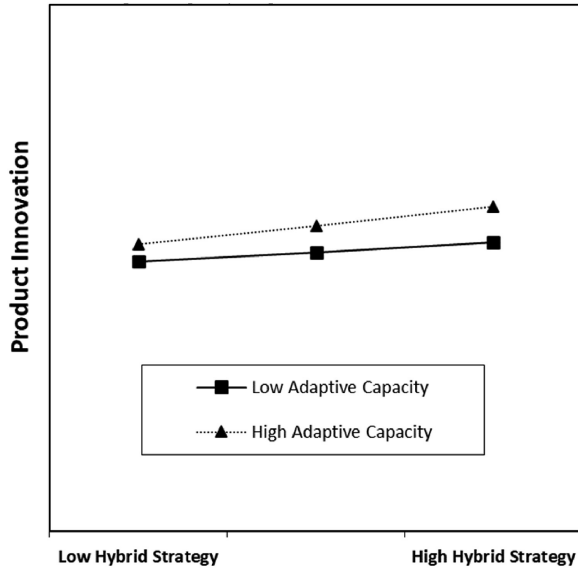
Table 5. Mediation effect size of process innovation

in high adaptive capacity conditions than in low adaptive capacity conditions (Figure 4). H5a can therefore be confirmed.

## 6. Discussion

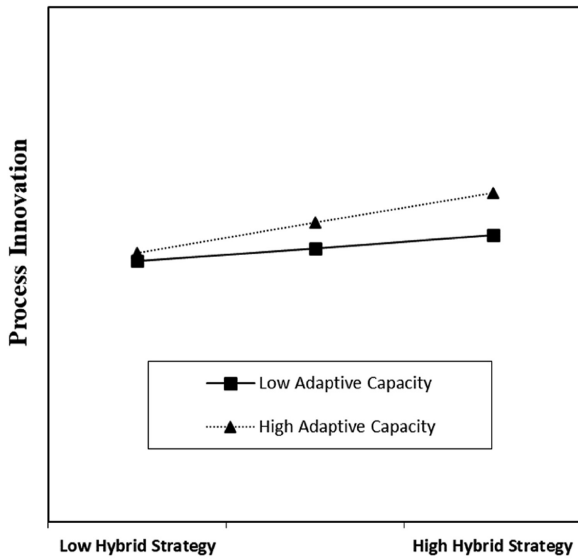
Studies over the past decades have not conclusively determined the specific conditions under which it is preferable for a firm to pursue a combined or hybrid competitive strategy, rather

**Figure 3.**  
Interactive effect of  
hybrid strategy and  
adaptive capacity on  
product innovation



Source(s): Authors' own elaboration

**Figure 4.**  
Interactive effect of  
hybrid strategy and  
adaptive capacity on  
process innovation



Source(s): Authors' own elaboration

than a single (or pure or generic) competitive strategy of differentiation or cost leadership (Gabrielsson *et al.*, 2016). Studies such as those by He and Wong (2004) argue that the skillset needed to achieve the cost leadership strategy differs from that of the differentiation strategy,

such that maintaining both skill sets is often not feasible, especially for smaller firms with fewer resources.

However, recent studies show that firms that adopt strategies based solely on cost leadership or differentiation (pure strategies) are not effective in today's environment, where change is unpredictable, competition is fierce, and decision-making is increasingly complex (Anwar and Hasnu, 2017). Along these lines, Alnoor *et al.* (2023) emphasise that a pure strategy may mean that companies are unable to compete in the new scenarios resulting from the changes that have occurred in recent years. It is highly likely that these turbulent and uncertain environments, characterised by the unstable economic, social, and political factors (Lapersonne *et al.*, 2015), have been decisive in forcing SMEs to adapt in order to survive. They do so by adopting hybrid strategies that optimise all their available resources and capabilities, thus outperforming generic strategies and obtaining better results than those based solely on differentiation. Therefore, more studies are required to analyse the effects of developing a hybrid strategy (Alnoor *et al.*, 2023). Thus, our study seeks to shed light on the results obtained by SMEs after applying hybrid strategies.

First, our results confirmed the positive relationship between hybrid strategy adoption and business performance (H1), thus differentiating hybrid or combined strategies from the stagnant or "stuck in the middle" strategies described by Porter (1980, 1985). Owing to their small size and high flexibility (Gubitta and Gianecchini, 2002), SMEs can effectively design their competitive strategy to adapt to the changing environment.

Second, our research has shown that SMEs that implement hybrid strategies can improve their product and process innovation (H2a and H2b). These results are in line with recent studies such as Albers and Rundshagen (2020), who established that a hybrid strategy improves innovation and enables better crisis management. In a similar study, Claver-Cortés *et al.* (2012) report that their empirical results confirm that a hybrid competitive strategy enhances innovation such that the more hybrid the strategy, the more innovative the firm. Similarly, Alnoor *et al.* (2023) suggest that the use of hybrid strategies in different sectors leads a firm to obtain higher market share, improve quality, increase flexibility, strengthen innovation, improve lead times, and reduce costs.

Third, we examined the relationship between each type of innovation (product and process) and its impact on firm performance. This study found no empirical evidence of a positive relationship between product innovation and company performance (H3a), confirming only a positive relationship between process innovation and performance (H3b). These findings confirm previous empirical studies (i.e. Cheah *et al.*, 2022), which find a positive relationship between process innovation and performance in SMEs. Therefore, our study contributes to the literature by identifying how a particular type of innovation (process innovation in our case) is key to maintaining in SMEs performance. This may be because SMEs managers consider their competitive advantage is, to a greater extent, a result of internal (process) innovation rather than product innovation, since SMEs have fewer resources than large companies to communicate their results (Baumann-Pauly *et al.*, 2013).

Fourth, we analysed the mediating role of both types of innovation in the positive relationship between hybrid strategy and firm performance (H4a and H4b). We confirmed that only process innovation mediates this relationship. Therefore, we advance the notion that a particular type of innovation, process innovation, is key to SMEs sustaining their entrepreneurial businesses (Singh *et al.*, 2022).

Finally, the implementation of a hybrid strategy requires more flexible and organic structures (Claver-Cortés *et al.*, 2012) that allow for high adaptability. This study empirically demonstrated that SMEs with higher adaptive capacity achieve better innovation outcomes from their hybrid strategies than those with lower adaptive capacity (H5a and H5b). Therefore, we confirmed the findings of Oktemgil and Greenley (1997) on how highly adaptive firms perform better than low-adaptive firms despite the impacts of higher costs,

because high adaptive capacity involves a market orientation that allows firms to operate in more turbulent external environments.

## 7. Conclusions

### 7.1 Theoretical implications

Our findings advance the existing literature in several ways. First, this study expands the current theoretical knowledge on how firm performance is formed from a strategic point of view. In doing so, we developed a unified model that has not been previously analysed. Our model integrates several constructs: hybrid strategy, innovation (processes and products), adaptive capacity, and firm performance. Thus, the study provides a better understanding of what happens in the first stages of the process that leads to improved firm performance. When considering a hybrid strategy, this study helps researchers understand that process innovation plays a specific mediating role between hybrid strategy and firm performance and that higher levels of a company's adaptive capacity enhances innovation development (in processes and products).

Second, over time, many publications, empirical works, and case studies on [Porter's \(1980, 1985\)](#) competitive strategies have served to guide many companies to improve their competitive positions in the market. However, this theory perceives competitive strategies as dichotomous and does not focus on their potential to be understood as simultaneous strategies, that is, as combined or hybrid strategies that are of interest in the turbulent environments in which SMEs compete. Thus, SMEs that develop a hybrid strategy can overcome the weaknesses of a pure competitive strategy (cost leadership or differentiation) because they combine the advantages of both strategies ([Leitner and Guldenberg, 2010](#)). Hence, achieving a cost-leadership strategy drives SMEs to achieve differentiation strategies, and vice versa. This finding implies that a dual strategy, although derived from highly divergent organisational philosophies, is not prohibitively difficult to implement successfully in SMEs if the company has adequate resources and competencies to do so. However, contrary to our prediction that a hybrid strategy would allow the development of process and product innovation and, in turn, improve firm performance, this is only possible through process innovation. This may be because SME managers consider their competitive advantage to be, to a greater extent, the result of internal (process) innovation rather than product innovation as SMEs have fewer resources than large companies to communicate any product-innovation results ([Baumann-Pauly et al., 2013](#)).

Finally, while research on hybrid strategies reveals significant benefits in terms of higher levels of product and process innovation ([Kaya, 2015](#)), it has not examined the active role of dynamic capabilities in increasing or minimising the positive influence of hybrid strategies on innovation. Our results show that adaptive capacity moderates the effects of hybrid strategy on product and service innovation. Thus, under conditions of high adaptive capacity, the relationships of hybrid strategy–product innovation and hybrid strategy–process innovation are strengthened, whereas under conditions of low adaptive capacity, these relationships are weakened.

In summary, our study helps advance the knowledge of the application of hybrid strategies in SMEs in the current times of high uncertainty, thus opening the door to new theories that complement previous ones.

### 7.2 Practical implications

Beyond theory, our empirical findings have significant implications for both practice and policymaking. The finding that hybrid strategies should be recommended for any manager facing of the difficulty that always exists in decision-making: based on their initial

competitive strategy, our advice would be to invest resources and capabilities to achieve innovation, allowing the competitive strategy to be improved. For example, according to our findings, if a strategy is based on differentiation to compete in a turbulent environment, the focus should be on process innovation, which allows cost improvement. In contrast, in the case of a cost strategy, the focus should be on innovation, allowing the firm to achieve differentiation.

The results of this study offer interesting ideas for both managers and professionals, especially for managers of SMEs. First, this study highlights that SMEs need to establish strategies that capitalise on all types of resources and capabilities and not limit themselves to generating competitive advantages in a single direction, such as differentiation or cost leadership. In situations of dramatic change such as the current scenario, SME managers must be aware that applying hybrid or combined strategies may be the best way to ensure their company's survival.

Second, implementing a hybrid strategy requires agile and flexible systems for greater and faster adaptation to changes. It also requires a combination of efficiency and innovation in both products and processes to deliver better business results than competitors that implement pure strategies (focussing solely on differentiation or cost reduction), thereby limiting their use of resources.

Third, organisations exist for a purpose: to continually improve their firm performance. Our results suggest that SME managers and leaders can improve performance through process innovation. This can be a key weapon in fighting competition through the design of sustainable and innovative processes.

Fourth, managers and leaders need to invest a significant amount of time and organisational resources to develop high levels of adaptive capacity because adaptive capacity significantly facilitates product and process innovation when a company uses a hybrid strategy. In other words, firm innovation largely depends on a firm's intention to improve its adaptive capacity. As companies develop and implement these types of capabilities in their routines, systems, and organisational processes, innovation becomes a reality and helps companies remain competitive.

Finally, managers can use hybrid strategies to generate process innovation, making it more difficult for competitors to imitate them.

### *7.3 Limitations and future research directions*

Although our study has numerous implications for theory and practice, it is not without limitations, which offer possibilities for future research. First, one of the limitations of the study is the use of a database, which limits the study to variables that are part of the survey; therefore, we lack information about how the culture or beliefs of the company affect the implementation of a hybrid strategy. Determining the contingency factors in the implementation of this type of strategy would be much more enriching. As a line of future research, we propose identifying both internal (e.g. organisational culture) and external factors (e.g. sector dynamism) that favour the hybridisation of competitive strategy to improve both innovation and business performance.

Second, our study focussed on SMEs, and we thus suggest that future researchers use our framework to undertake a comparative study between SMEs and large companies to determine the differences in terms of the direct and indirect effects between hybrid strategy, innovation, adaptive capacity, and firm performance.

Finally, the results of this study are based exclusively on quantitative information. Therefore, to arrive at solid implications for both theory and practice, we suggest that future research use a mixed-research design that combines quantitative and qualitative information to compensate for the weaknesses of each data source.

Despite the aforementioned limitations, the results of this study provide several vital insights for theory, researchers, organisations on hybrid strategies, and innovation and firm performance in the context of SMEs.

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