





INFLUENCE OF INNOVATION ON THE PERFORMANCE OF SMALL AND MEDIUM-SCALE ENTERPRISES IN KOGI STATE



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ABSTRACT

Article History

Received: 24 December 2019

Revised: 27 January 2020

Accepted: 4 March 2020

Published: 7 April 2020

Keywords

Innovation
Sale growth
Performance
Competitive business
Environment
Employment generation.

The main aim of the study was to investigate the influence of innovation on the performance of Small and Medium-Scale Enterprises in Kogi State, Nigeria. The study examined the significant effects of the dimensions of innovation on the sales growth of SMEs in Kogi State. The study used survey research design. The sample size of 384 was drawn. All data collected were analyzed using descriptive statistics and Multiple Regression Model. Finding shows that market and process innovations have weak linear effects on the sales growth of SMEs in Kogi State. Only product innovation has strong effect on the sales growth of SMEs in Kogi State. The study concluded that innovation is a necessary obligation for SMEs existence today. The study recommended that SME owners should undertake or invest more in market innovation rather than process innovation and product innovation to achieve sales growth in Kogi State.

Contribution/ Originality: This study is the first to investigate the dimensions of innovation against the performance of SMEs in Kogi State, Nigeria.

1. INTRODUCTION

It is no doubt that the SME sector of Kogi State is affected by a number of factors. Some of the factors are harsh economic policies (tax increase, inflation and monetary policies), government policies (border closure and ban on import items), social-cultural factor and security decay (kidnapping, terrorism, banditry and assassin). Studies (Kiraka, 2009; Nafula, 2017) added that technology advancement, globalization, global standards demand, consumer's changing taste/needs and short-lived product lifecycles are few other factors affecting SMEs. Ukpabio, Oyebisi, and Siyanbola (2018) added that "Nigerian SMEs are faced with numerous challenges such as inadequate and non-functional infrastructural facilities, bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities, lack of easy access to funds/credits, uneven competition arising from import tariffs, lack of access to appropriate technology, absence of R&D, high dependence on imported raw materials, lack of scientific and technological knowledge, lack of appropriate managerial and entrepreneurial skills and lack of suitable training and development, fluctuating value of the Naira, government policies and political consideration". These among others are great challenges for SMEs in Kogi State. It thus becomes very significant for SMEs to achieve increased performance to remain a going concern in the business environment of Kogi State.

Nafula (2017) expressed that for “enterprises to remain relevant in national development, they need to develop strategies that will help them develop and sustain their competitiveness”. Innovation is a strategic issue among SMEs in Kogi State, and it would have been a reaction to its competitive business environment. Innovation is a cardinal factor in enterprise’s performance- relative to sales growth (Kiraka, 2009). There is a growing need for SMEs to be innovative to withstand domestic and global competitive forces through superior performance. There is very high pressure on enterprises to innovate today. Studies (such as (Aziz & Samad, 2016; Man, 2009)) advocated that SMEs need to be committed to high level of innovation for sustainability of their competitive position since the resource base of the SMEs is low compared to the large enterprises. SMEs due to their flexibility and ability to promptly and effectively integrate inventions are more innovative than large firms (Li, 2003).

The ability of SMEs to innovate can facilitate their improved performance. Innovation has the potential to enhance the performance of SMEs in Kogi State. Westerberg (2008) argued that the rationale behind SMEs’ engagement in innovation is to facilitate their performances. Studies have been conducted to investigate the relationship between innovation and enterprise’s performance. It was ascertained that there is a significant relationship between innovation and enterprise’s performance. Boachie-Mensah and Acquah (2015) found a significant relationship between innovation and competitiveness and firm performance. The study of Ukpabio et al. (2018) shows that all dimensions of innovation (product, process, market, and organizational) had significant positive relationship with firm performance including the control variable ‘firm size’. They also confirmed that process innovation and organizational innovation influences SMEs performance significantly. Meanwhile, the study conducted by Olughor (2015) revealed that innovation has no significant effects on performance. These are mixed findings, and may be misleading. The fact remains these studies were conducted in different areas and regions.

It is seen that gap exists considering research into the effects of the dimensions of innovation on the performance parameters in Kogi State. There is observed cleavage in the findings of previous studies. Also, many studies did not proxy performance as the dependent variable. Some studies only investigated innovation and competitive advantage. Sales growth can be used as a good parameter to test if the innovation of a firm is welcome in the marketplace. Sales growth may speak well of how an enterprise’s innovative is. This study bridged the gap.

1.1. Objectives of the Study

The main objective of the study was to investigate the influence of innovation on the performance of SMEs in Kogi State. The specific objective was to determine the significant effect of innovation on the sales growth of SMEs in Kogi State.

2. LITERATURE REVIEW

2.1. Conceptual Framework

SMEs are the foundation of mainstream economic life and are regarded as the driving force for economic growth and job creation (Hafeez, Shariff, Noor, & Mad Lazim, 2012; Hajipour & Ghanavati, 2012). SMEs play a key role in the state economy's system of business development and progress (Hajipour & Ghanavati, 2012; Idar & Mahmood, 2011; Man, 2009; Neagu, 2016; Opeda, Jaiyeoba, & Donatus, 2011). It is expected that the potential of SMEs in job creation can transform the economic position of Kogi State. Studies (such as (Abdullah & Mustapha, 2009; Ismail, 2013)) among others have reiterated the pivot roles of SMEs in the economy, particularly in the aspect of employment generation. As sources of jobs creation and enhancing productivity through efficient use of resource allocation, SMEs have become relevant and also serve as a supplier of goods and services to big enterprises. Empirical investigations have shown that there are major issues and pressures on SMEs to improve on their performance. According to Hinson and Mahmoud (2011) it is challenging for SMEs to adjust to strategies for changes in the market and compete with large enterprises. Susanto (2017) expressed that “SMEs do not have a structured marketing plan, and that business owners do not understand market orientation and focus only on

customers". This may also be attributed to the ability of SMEs to be competitive. SMEs in Kogi State are found to have little tendency of future growth due to the aggressive competition that is militating against them in the business environment. The competitiveness in the context of this study implies the ability of SMEs to be known or distinguished for their ability to take ample opportunities and convert them in such a way that give edge against other competitors. Susanto (2017) added that "competitiveness explains the ability of small industries (SSIs) to generate output revenue and maintain employment levels in the face of domestic and global competition". Importantly, the provisional ground for SMEs to be competitive is to win the heart of the costumers. This will create an avenue for customers to be loyal to SMEs' brands in the market. The first means of being competitive is to establish confidence regarding a brand; this increases the tendency of the customers being satisfied with the value they get for their money.

There is no doubt that sales growth rate has made SME owners to know their enterprise's success and failure. Susanto (2017) attributes SMEs' success and failure to corporate innovation. Gunday, Ulusoy, Kilic, and Alkan (2011) buttressed that innovation is one of the basic instruments (for new growth strategies to enter the market, to increase existing market share and provide enterprises to be competitive). Aziz and Samad (2016) stated that "SMEs should be involved in innovation; this will enhance sales growth and competitive advantage in marketplace". This implies that innovation is a must engage activity for SMEs. Olughor (2015) observed that "the significance of innovation as firms' resources has been shown in the literature by a wide range of definitions". Table 1 present some definitions among many others.

Table-1. Conceptual meaning of innovation.

Author	Definition
Schumpeter (1934)	<ul style="list-style-type: none"> • Introducing a new product or modifications brought to an existing product; • A new process of innovation in an industry; • The discovery of a new market; • Developing new sources of supply with raw materials; • Other changes in the organization.
Thornhill (2006)	Innovation also refers to the process of creating ideas, developing an invention and also introducing a new product, process or service to the market.
Hung (2007)	Innovation is "the first commercial application or a new process or product, or Innovation is the successful exploitation of ideas".
Fairlie and Robb (2007)	Innovation is an instrument or tool which is used by the entrepreneurs for exploiting change as a prospect.
Morone and Testa (2008)	Innovation is a strategic aspect of business and investment for creating the capacity to develop and improve products.
Bayarçelik, Taşel, and Apak (2014)	Innovation could be the implementation of a new or significantly improved product (e.g. change in product properties), process (e.g. changed delivery methods), marketing method (e.g. new product packaging) or organizational method (e.g. changes in workplace organization) in business practices, workplace organization, or external relations.
Ionescu and Dumitru (2015)	Innovation refers to the commercial implementation of the best ideas, work methods and even business models for the company, thus becoming the most important component of the long-term economic growth engine.
Olughor (2015)	Innovation can be viewed as a process of furnishing and improving on products and services to appeal to customers' taste and demand and which expand on workers' aptitudes.
Abdilahi, Hassan, and Muhumed (2017)	Innovation (in business) means novelty, new things being done, or old things being done in new ways to increase the performance in terms of sales, profitability and market shares in an organization.

The definitions in the Table 1 reveal that innovation reflects a constant change and improvement in virtually everything that attributes the enterprise such that differentiation is established for the enterprise's products,

process, marketing and operations at the forefront of competition in the marketplace. This definition is based on the fact that innovation is classified into product, process, organizational and marketing innovation (OECD, 2009).

Walobwa, Ngugi, and Chepkulei (2013) opined that there has been confronting bottleneck on the choice of the most appropriate kind of innovation for SMEs. Wanjiku (2011) suggested the need for SME owner to adopt effective approaches that can facilitate the adoption of a specific type of innovation. Importantly, adoption of the best innovation type may translate into favourable outcomes in terms of sales growth. Kaplan and Warren (2007) argued in favour of the position that innovation type is associated with sales growth and survival. They assume that there is no way SMEs can achieve enterprise's survival and growth without making reference to innovation. Enterprise's sales growth interconnects with other performance outcomes to enhance the strategic positioning of SMEs in the business environment. Al-Sulaiti et al. (2010) added that innovations position SMEs strategically to embattle likely challenges that may affect the achievement of sustainability of the enterprise's product among other competing brands.

Few studies according to Spithoven, Bart, and Mirjam (2010) have conducted research into the relationship between innovation and enterprise's performance. Based on the review of Ntiamoah, Li, and Sarpong (2019) it was discovered that the attention of some empirical studies was majorly on the relationship between the dimensions (product, process, organizational and marketing innovation) of innovation and performance. Several studies (such as (Bakar & Ahmad, 2010); (Chong, Chan, Ooi, & Sim, 2011); (Njogu, 2014); (Olughor, 2015); (Gu & Shao, 2015); (Ndesaulwa & Kikula, 2016); (Canh, Liem, Thu, & Khuong, 2019)) are aware of the significance of innovation and have conducted an empirical investigation to unveil the impact of innovation on enterprise's performance. But most of the previous studies focused on either one or two dimensions of innovation (Ar & Baki, 2011; Bakar & Ahmad, 2010; Medina & Rufin, 2009; Zhang & Duan, 2010). This study focused on the effects of three dimensions of innovation dimensions on the sales growth perspectives of SMEs.

3. METHODOLOGY

A survey research design was used for this study. The population of the study consists of Micro, Small and Medium Enterprises in Kogi State. The SMEDAN and National Bureau of Statistics in 2013 provided that the population of MSMEs in Kogi State is 968,275 representing 16.69% of the total population in the Northcentral. Kogi State is a case for innovation among MSME. This is the reason why Kogi State was selected for the study. Meanwhile, only the MSME owner/managers were considered for the survey. The sampling technique used for this study is multi-stage sampling technique. This involved classifying SMEs based on their size, industry and clusters. Furthermore, respondents were classified based on their common characteristics. For instance, the classification was based on age, sex, experience and so on. The sample size of the study for Kogi State was 384. This cuts across gender, age, marital status, educational qualification and work experience. The research adopted Salant and Dillman (1994) method to determine the sample size. Below is the formula:

$$N_s = \frac{N_p (p)(1-p)}{(N_p - 1) \left(\frac{B}{C}\right)^2 + (p)(1-p)}$$

Where:

Ns= completed sample size required.

Np= Sample population.

P= proportion expected to answer in a certain way (50% or 0.5 is most conservative).

B= acceptable level of sampling error (0.05 = ±5%; 0.03 = ± 3%).

C= Z statistic associated with the confidence interval (1.645=90% confidence level; 1.960=95% confidence level; 2.576=99% confidence level).

Therefore;

$$Kogi State = \frac{968,275 (0.5)(1 - 0.5)}{(968,275 - 1) \left(\frac{0.05}{1.96}\right)^2 + (0.5)(1 - 0.5)}$$

Where:

Ns= 384.0080499 (Approximately 384)

Np= 968,275

P= 50% or 0.5

B= 0.05 or $\pm 5\%$

C= 1.960

To determine the instrument's reliability, the Cronbach Coefficient alpha (α) was used. The coefficient alpha is the most commonly applied estimate of a multiple-item scale's reliability with a coefficient of 0.70 and above considered to have good reliability.

Table-2. Test of reliability.

Variables	Construct	Cronbach's Alpha	Items
Innovation	Product innovation	.874	3
	Process innovation	.714	3
	Market innovation	.864	3
Performance	Sales growth	.708	2

Source: Field survey (2019).

Table 2 shows that product innovation has the reliability of 0.874 with three items; process innovation has the reliability of 0.714 with three items; and market innovation has the reliability of 0.864 with three items. Sales growth has the reliability of 0.708 with two items. All the constructs are seen to be reliable. All data collected was presented and analyzed using frequency distribution table. Multiple Regression analysis was adopted to facilitate inferences which led to drawing of conclusions. The model (1) is specified below to explain the dependent and independent variables of the study:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + e \quad (1)$$

Where X= The independent variable.

X₁ = Product innovation.

X₂ = Process innovation.

X₃ = Market innovation.

Y= The dependent variable (sales growth of SMEs).

β = independent variable coefficients.

e = Error margin.

4. DATA PRESENTATION AND ANALYSIS

Table-3. Questionnaire administration.

Questionnaire	Frequency	Percentage
Administered	384	100
Returned	224	58.3
Unreturned	160	41.7

Source: Field survey, 2019.

Table 3 shows that 384 questionnaires (100%) were administered; 224 questionnaires (58.3%) were returned while 160 questionnaires (41.7%) were not returned. The 58.3% of the administered questionnaires is large enough, and analysis premised on the data from the returned questionnaires.

Table-4. Showing the demographic variables of respondents.

Variables	Responses	Frequency	Percent
Gender	Male	143	63.8
	Female	81	36.2
	Total	224	100.0
Age bracket	Below 20 Years	21	9.4
	21-25 Years	29	12.9
	26- 30 Years	76	33.9
	31-35 Years	42	18.8
	36- 40 Years	34	15.2
	41- 50 Years	15	6.7
	Above 50 Years	7	3.1
	Total	224	100.0
Marital status	Single	38	17.0
	Married	94	42.0
	Widow	28	12.5
	Separated	40	17.9
	Divorced	24	10.7
	Total	224	100.0
Academic qualification	Primary	28	12.5
	Secondary	36	16.1
	College of Education	102	45.5
	University	58	25.9
	Total	224	100.0
Business experience	Below 1 Year	18	8.0
	1-2 Years	26	11.6
	2-4 Years	32	14.3
	4-6 Years	71	31.7
	6-10 Years	44	19.6
	10-15 Years	21	9.4
	Above 15 Years	12	5.4
	Total	224	100.0

Source: Field survey, 2019.

Table 4 above shows the gender of respondents. It is observed that 143 respondents (63.8%) were male; and 81 respondents (36.2%) were female. This indicates that majority of the respondents in the study area were male.

The Table 4 above shows the age bracket of respondents. It is observed that 21 respondents (9.4%) were below 20 years; 29 respondents (12.9%) were 21 to 25 years; 76 respondents (33.9%) were 26 to 30 years; 42 respondents (18.8%) were 31 to 35 years; 34 respondents (15.2%) were 36 to 40 years; 15 respondents (6.7%) were 41 to 50 years and 7 respondents (3.1%) were above 50 years. The implication of this is that majority of respondents in the study area were 26 to 30 years.

Table 4 shows marital status of respondents. It is observed that 38 respondents (17.0%) were single; 94 respondents (42.0%) were married; 28 respondents (12.5%) were widow(er); 40 respondents (17.9%) were separated; and 24 respondents (10.7%) were divorced. The implication of this is that majority of respondents in the study area were married.

Table 4 above shows the academic qualification of respondents. It is depicted that 28 respondents (12.5%) were primary school certificate holders; 36 respondents (16.1%) were secondary school certificate holder; 102 respondents (45.5%) were holders of college of education certificate; and 58 respondents (25.9%) were holders of university certificate. This shows that the majority of respondents in the study area were holders of college of education certificate.

Table 4 above shows business experience. It is observed that 18 respondents (8.0%) have below 1 year of business experience; 26 respondents (11.6%) have 1 to 2 years of business experience; 32 respondents (14.3%) have 2 to 4 years of business experience; 71 respondents (31.7%) have 4 to 6 years of business experience; 44 respondents (19.6%) were 6 to 10 years; 21 respondents (9.4%) were 10 to 15 years and 12 respondents (5.4%) were above 15

years. The implication of this is that majority of respondents in the study area have 4 to 6 years of business experience.

Table-5a. Regression model summary of innovation dimensions and sales growth.

Model	R	R square	Adjusted R square	Std. Error of the estimate
1	.493 ^a	.243	.240	.95033
2	.675 ^b	.456	.451	.80786
3	.732 ^c	.536	.530	.74718

Note: Predictors: Market, Process and Product innovation. Dependent Variable: Sales Growth.

Table 5a shows the R^2 for the first variable to be 0.243 given the standard error of the estimate to be 0.95033. This implies that 24.3% change in the sales growth of SMEs in Kogi State is determined by their market innovation. The linear effect of this is that market innovation has the predictive power of 24.3% over the sales growth of SMEs in Kogi State. This appears to be below 50%; it is thus a weak predictor. The remaining 75.7% unexplained variation shows that there are other essential predictors that can determine the sales growth of SMEs.

The table also shows the R^2 for the second variable to be 0.451 given the standard error of the estimate to be 0.80786. The implication of this is that 45.1% variation in the sales growth of SMEs in Kogi State is explained by process innovation. The predictive power of process innovation is below average (50%). Meanwhile, the remaining 54.9 unexplained variation signifies that there are other variables that can predict the sales growth of SMEs in Kogi State apart from process innovation.

The table also shows the R^2 for the third variable to be 0.536 given the standard error of the estimate to be 0.74718. The table shows that product innovation accounts for 53.6% variation in the sales growth of SMEs. Other variables may account for the remaining 46.4% unexplained variation in the sales growth of SMEs. Product innovation however predicts well with the strength which is a little above average (50%). This shows that product innovation has a strong predictor over the sales growth of SMEs in Kogi State.

Table-5b. ANOVA of innovation dimensions and sales growth.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	64.465	1	64.465	71.379	.000 ^b
	Residual	200.495	222	.903		
	Total	264.960	223			
2	Regression	120.728	2	60.364	92.493	.000 ^c
	Residual	144.232	221	.653		
	Total	264.960	223			
3	Regression	142.140	3	47.380	84.869	.000 ^d
	Residual	122.820	220	.558		
	Total	264.960	223			

Note: Predictors: Market, Process and Product innovations. Dependent Variable: Sales Growth.

From the Table 5b, the significance of variables is tested and the degree of variability within the regression models is determined. The ANOVA table depicts that there is no guess work in the model. The mean square residual values (0.903 for market innovation, 0.653 for process innovation and 0.558 for product innovation) are smaller, indicating less deviation between the observed and fitted values. The P -value for the F test statistic (71.379 for market innovation, 92.493 for process innovation and 84.869 for product innovation) are less than 0.001. The coefficient of determination in Table 5a for market innovation ($R^2 = 0.243$), process innovation ($R^2 = 0.456$) and product innovation ($R^2 = 0.536$) reveals the significant effects of the dimensions of innovation on the sales growth of SMEs in Kogi State.

Table-5c. Coefficients of innovation dimensions and sales growth.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.106	.122		9.068	.000
	Market Innovation	.418	.049	.493	8.449	.000
2	(Constant)	1.911	.135		14.139	.000
	Market Innovation	.549	.044	.648	12.380	.000
	Process Innovation	-.451	.049	-.486	-9.285	.000
3	(Constant)	2.067	.128		16.209	.000
	Market Innovation	.647	.044	.764	14.717	.000
	Process Innovation	-.332	.049	-.358	-6.794	.000
	Product Innovation	-.282	.045	-.347	-6.193	.000

Source: Field survey, 2019.

4.1. Dependent Variable: Sales Growth

Table 5c shows three variables against the dependent variable (sales growth of SMEs in Kogi State). The coefficient of market innovation (unstandardized beta- 0.418) shows a positive relationship with the sales growth of SMEs in Kogi State. The coefficient for market innovation (standardized beta- 0.493; p-value = 0.01) shows about average contribution to the sales growth of SMEs. Comparing market innovation and process innovation; the former entered the model with positive sign and the later entered with negative sign. The market innovation has average coefficient of 54.9% for unstandardized beta. The standardized beta appears to be 64.8% showing very strong contribution to sales growth of SMEs when process innovation is included in the model. Meanwhile, process innovation shows negative 45.1% coefficient for unstandardized beta below average. Its contribution (48.6%) to sales growth of SMEs is negative but below average. Thus, the contribution of process innovation to sales growth of SMEs is negative with an inclusion of market innovation. The coefficient for product innovation (unstandardized beta) is -0.282, showing 28.2% when it is also included to market and process innovation. The coefficient for product innovation (standardized beta) is -0.347. This implies that product innovation has negative contribution to sales growth of SMEs in Kogi State. The inclusion of product innovation made the strength of market innovation to increase. It is however observed that the three variables have significant contributions to the sales growth of SMEs in Kogi State given their p-values equal to 0.01.

5. DISCUSSION OF FINDINGS

Finding shows that market and process innovations have weak linear effects on the sales growth of SMEs in Kogi State. Only product innovation has strong effect on the sales growth of SMEs in Kogi State. However, the effects of these variables were determined on individual basis. From the result of the study, it was revealed that product innovation accounts for 53.6% variation in the sales growth of SMEs. On the ground of combination of innovation strategies, market innovation shows the highest positive contribution to the sales growth of SMEs. This aligns with the finding of Walobwa et al. (2013) that among the types of innovation analyzed, marketing innovation contributed most to the growth of garment SMEs in Jericho market, Nairobi. The contributions of process innovation and product innovation to sales growth of SMEs was found negative. Process innovation has more negative contribution to sales growth of SMEs in Kogi State. The finding of this study advances the study of Kaplan and Warren (2007) which discovered that innovation type is associated with business growth. This is because this study is able to associate each of the innovation type with sales growth of SMEs in Kogi State.

6. CONCLUSION AND RECOMMENDATION

Innovation is a necessary obligation for SMEs existing today. The business environment is growing tough day-by-day, demanding strategic approach (such as innovation) to take advantage of sales growth. Sales growth is

panacea for effective and efficient SMEs. Since innovation has been conceived as strategic point for enterprises, this study empirically investigated its effects on sales growth.

The empirical position of the sales growth of SMEs can be achieved with one or more dimensions of innovation. Finding proved that market and process innovations have weak linear effects on the sales growth of SMEs in Kogi State. This means that market and process innovations can only influence the sales growth of SMEs in Kogi State to a low extent. On the contrary, product innovation was found to have strong linear effect on the sales growth of SMEs in Kogi State. By implication, product innovation can influence the sales growth of SMEs in Kogi State to a great extent. The study recommends that SME owners should undertake or invest more in market innovation rather than process innovation and product innovation to achieve sales growth in Kogi State. This is because market innovation contributes to the sales growth of SMEs positively, and process innovation and product innovation contribute to sales growth of SMEs negatively.

Funding: This study received no specific financial support.

Competing Interests: The authors declare that they have no competing interests.

Acknowledgement: Both authors contributed equally to the conception and design of the study.

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