

**INNOVATION AND THE PERFORMANCE OF SELECTED SMALL AND MEDIUM
SCALE ENTERPRISES IN NIGERIA**

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ABSTRACT

The study investigated the product innovation features of small and medium scale enterprises (SMEs) and determined the extent of process innovation among Nigerian SMEs. It also analysed the marketing innovation, assessed organizational innovation among the SMEs and examined the influence of the various types of innovation on SMEs' performance in Nigeria. These were with a view to examining the effect of innovation on the performance of SMEs in Nigeria.

Secondary data were obtained from Nigeria innovation survey database (2011), undertaken among 500 small and medium scale enterprises with about 41% response rate. The instrument used in the survey was guided by Oslo manual, standardised through validation workshops under the New Partnership for Africa's Development African Science Technology and Innovation Indicators (NEPAD ASTII) initiative. Primary data were used to complement the secondary data on SMEs in selected local government areas in South-West Nigeria. A structured questionnaire was used to elicit information from selected respondents in the three selected States of Lagos, Oyo and Ogun (because of the large presence of SMEs in the selected States and local government areas). Simple random sampling technique was adopted in selecting a sample size of 400. The data obtained were analysed using percentages, binary and ordered logistics regression techniques.

The result revealed that improved goods (56%), product innovation developed mainly by enterprise (28%), product innovation developed by enterprise with other enterprise/institutions (85%), product innovation developed by other enterprises/institutions (96%) and product innovation developed mainly by enterprises modifying of others (79%) were product innovation features of SMEs.

Finding also showed that improved production methods (49%), improved logistics, delivery and distribution (52%), improved support services (52%), process innovation developed by enterprise/group (29%), process innovation by enterprise with other enterprises (85%), process innovation developed mainly by other enterprises/institution (96%), process innovation developed by enterprise by modifying innovation of others (78%) portrayed the extent of process innovation among Nigerian SMEs. In addition, the result revealed that improved packaging (48%), improved sales and sales method (51%) and new technologies for product promotion (53%) were the marketing innovation adopted by the SMEs. Furthermore, the result showed that improved knowledge management system (43%), major changes to workplace organization (40%), improved relationships and (61%) were peculiar organizational innovation among the SMEs. Finally, the result that revealed organizational innovation ($t = 3.194, p < 0.05$), marketing innovation ($t = 2.359, p < 0.05$), product innovation ($t = 2.393, p < 0.05$) and process innovation ($t = 2.359, p < 0.05$) had significant influence on firm performance.

The study concluded that innovation had significant effect on the performance of SMEs in Nigeria

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Over the years, the contribution of small and medium scale enterprises (SMEs) to economic development has received considerable attentions from existing literature of finance and enterprise development (Guimaraes & Langley, 1994), Alegre, Lapiedra & Chi va, 2006). The compromise among the researchers is that SMEs is susceptible to innovations far as national development is concerned (Liñán & Chen, 2009), (Bakar & Ahmad, 2010), (Georgellis, 2000), (Johne, 1999).

Across different economic players, the contribution of innovation is significant to the growth of an economy especially on SMEs. For example, in some European country and China, the size of SMEs to the total number of enterprises is about 99% while in the United States, result shows that for more than 200 million small and medium sized enterprises, in fact about 98% are SMEs out of total number of enterprises (Liu, 2012). Also, in Turkey, small and medium sized entrepreneurs constitute 99.9% of total number of enterprises, 76% of employment, 53% of wages and salaries, 63% of turnover, 53.3% of value added at factor cost and 53.7% of gross investment in tangible goods (Kumar, Rajan, & Zingales, 2001). SMEs are considered the life blood of many economies and Nigeria is not left out. There are 17, 284, 671 SMEs in Nigeria, provided work for 32, 414, 884 natives and contributing 46.5% of the Nigerian's GDP in Nominal/ostensible terms (Enterprise Baseline assessment, 2012). In general, SMEs make up about 99.7% of the enterprises worldwide (Agarwal & Ashwani, 2008).

Innovation in economic development was developed by Joseph Schumpeter, an economist that hails from Germany. To him innovation/ Novelty have been acknowledged as a driver/ mover of organizations and country/nations building mechanism as it leads to private enterprise/entrepreneurship and consequently economic prosperity/richness (Schumpeter, 1934). In his view innovation comprises creativeness, follow a line of investigation and development Research and Development (R&D), new process, new products/ goods or services and advance in scientific/technologies (Lumpkin & Dess, 2001). In addition, innovation is the creation of new wealth or the alteration and improvement of obtainable resources to create new prosperity (Kuratko & Hodgetts, 2004). Due to current economic crisis and trend in the level of unemployment, innovation through entrepreneurship is today recognized as the answer to the increasing burden of unemployment and growing societal unrest. Most of the developing economies of the world are facing significant challenges of rapid societal change, volatile economy and insufficient number of skilled youths. Developing countries like Nigeria are similarly coming to terms with the need to foster entrepreneurial drive more vigorously.

Innovation, in various writing of scholars represent a very important perception that gives birth to companies values and sustainable spirited advantages in a multifaceted and rapidly changing business atmosphere, (Cannarella, & Piccioni, 2003). Organisations that boast of advanced Innovation/ Novelty potentials are more flourishing in responding to changing conditions and increasing new competence to adopt changes and as a consequence achieve better performance (Montes, Moreno & Fernandez, 2004). Innovation is related to organizations' adoption of a new idea or behavior (Zaltman, Duncan & Holbeck, 1973). Innovation is derived in some key operating areas of any venture. Some of which are; Product, Process, Service, Marketing, H-tech, and Organizational Innovations (Sundbo, 2003). Spirited advantage gives a

Company over its competitors and an ability to engender greater worth for the company and its shareholders. Hence, to guarantee continued existence in a extremely competitive atmosphere such as the same as in Nigeria, SMEs should embrace Innovation that will enhance excellence products and distinctive product features.

Moreover, the existence as well as continuity of SMEs in developing countries (especially Nigeria) depends on their capability to generate Innovation/novelty in acting in response to related alterations and opportunities without directorial interruption, unnecessary time and costs, or loss of performance/outcome (Buganza & Verganti, 2006). Thus, most countries have to realize that orchestrating increasing and supporting these organizations are not only significant, but will also engender the formation of fresh job, maintain lasting managerial flexibility and stimulate innovation/novelty and creativity (Oncidiu, 2013). The perception of entrepreneurs is that improvement in the superiority of products or process will have optimistic financial return on the SMEs (Tan & Nasurdin, 2011). Every SME thus has convinced business targets which guide their operations and evaluation of performance in the light of set goals.

Performance has been considered at the same time as the achievement of specified task measured against predetermined or identified values of precision, wholeness, cost and momentum. In an employment agreement for instance, attainment is the achievement of a obligation in such a manner that release the performer from all legal responsibility laid down on the agreement (Cannarella & Piccioni, 2003). Firm's performance/success is a function of the employee performance/commitment because human resource are the critical capital resources of the organization and they perform a very important role in the growth/increase and its performance/result.

Innovation inculcation is an important vehicle for organization to showcase change and improvement on its performance conditioned, especially with the general level of scarce resources, in the frequently business atmosphere, strong competition and overpowering changing customers demand for improved quality (Jansen, Van Den Bosch & Volberda, 2006).

It has been clearly stated that the role of Innovation/novelty in the entrepreneurial/managerial process is similar to “creative destruction” thus wealth/more opportunities is created when