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Influence Of Innovation On Financial Performance Of Small And Medium Scale Enterprises In Onitsha

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ABSTRACT
The study evaluated the influence of innovation on financial performance of small and medium scale enterprises in Onitsha. Relevant conceptual, theoretical and empirical literatures were reviewed. Product innovation, process innovation, market innovation and administrative innovation were employed as the independent variable while financial performance was employed as the dependent variable. Survey research design was employed and structured questionnaire was employed as the instrument of data collection. The data generated were analyzed using descriptive statistics and correlation analysis. The study found that product innovation, process innovation, market innovation and administrative innovation have significant influence on the financial performance of small and medium scale enterprises in Anambra State. Based on the foregoing, the study concludes that innovation has significant influence on financial performance of small and medium scale enterprises in Anambra State. The study contends that government should encourage innovative SMEs development through the provision of incentives to SMEs and standing as a guarantor for loans given to aspiring entrepreneurs and innovators.
Keywords: Innovation, Performance, SMEs

INTRODUCTION

The rapid social, political and technological change world over has made the management of business organizations more complex. Globalisation, the borderless world, personal computer and the Internet' have made businesses to become more complex, dynamic and competitive in nature. This has made businesses particularly small and medium scale enterprises to be innovative. Hence, innovation has been identified as one of the important strategies that can help small and medium scale enterprises to be competitive and survive the turbulent business environment. Gunday and Kilic (2011) viewed innovation as the renewal and enlargement of the range of products and services and the associated markets; the establishment of new methods of products, supply, and distribution; the introduction of changes in management, work organization, and the working conditions of the workforce. An *innovation* in the economic sense is accomplished only with the first *commercial* transaction involving the new product, process, system or device. Thus innovation is the utilization of new ideas which stem from the bedrock of ideas and is in essence characterised by change (Robert & Tucker, 2008).

OECD (2005) categorized innovation into four types: product, process, marketing, and organizational innovation. Product innovation involves an increased customer benefits for functional or other improvements in the product or service (Zaefarian, Forkmann, Mitręga & Henneberg, 2017), Besides, process innovation refers to doing business in a new and innovative way (Akgün, Ince, Imamoglu, Keskin & Kocoglu, 2014). Organizational innovation is defined as an introduction to new business practices, workplace regulation, decision-making, and new ways of handling external relations (Polder, Leeuwen, Mohnen & Raymond, 2010). Hassan, Shaukat, Nawaz and Naz (2013) describe that innovation in marketing is implementing a new marketing method involving significant changes in design, placement,

packaging, product promotion, and pricing strategy. Innovation is very vital for small and medium scale enterprises because of their pivotal role in the economy.

SMEs play a significant role in economic growth, just as they are vital for generating employment in many other developing countries (Porter & Kramer, 2011). Small- and medium-sized enterprises (SMEs) are an essential sector of the economy, with the capacity to absorb the bulk of unemployment if they produce both domestic and export markets, contributing to sustainable development. The SME sector provides employment opportunities for a large sector of the labor market (Sulemana, 2014). In both developed and emerging economies of the world, policymakers at all levels have been thinking about the critical role of SMEs in generating employment and wealth and developing innovation (Nyoni & Bonga, 2018). Despite the increasing growth of small and medium scale enterprises (SMEs), the high levels of unemployment and low standard of living have consequently imposed immense economic pressures on most developing economies (Leigh & Blakely, 2016). This can be attributed to the low level of innovation among SMEs (Asiedu, 2016). Also, Odoom, Anning-dorson and Acheampong (2017) indicate that SMEs generally do not have enough resources to compete with foreign companies. The unique advantage of most small and medium scale enterprises is that they can be easily created since they are required in terms of capital and technology; management and even utilities are not as required as in large firms (Sulemana, 2014). As a result of the above characteristics, the small business sector is the most dominant form of business both in developed and developing economies.

Within the organizational context, innovation may be linked to positive changes in efficiency, productivity, quality, competitiveness, and market share. However, recent research findings highlight the complementary role of organizational culture in enabling organizations to translate innovative activity into tangible performance improvements **(**Salge & Vera, 2012). Organizations can also improve profits and performance by providing work groups opportunities and resources to innovate, in addition to employee's core job tasks **(**West, 2002). Innovation culture has been pronounced as a pre-condition for improving organizational, marketing, and managerial entrepreneurship in a competitive market (Aksoy, 2017). As a result, businesses need to adopt more appropriate innovative strategies that can help enhance financial performance. Anning-Dorson (2016) opined that innovation is required to make a company different, thus achieving a competitive advantage. Agyapong, Agyapong and Poku (2017) noted that the innovative capability of companies and individuals in the company has causal relationship with SME performance. Hence, this study is hypothesized to examine the influence of innovation on the financial performance of small and medium scale enterprises in Nigeria. Specifically, the study examined the influence of product innovation, process innovation, market innovation and administrative innovation on the performance of small and medium scale enterprises in Onitsha.

LITERATURE REVIEW

Innovation

Innovation is the implementation of new and improved knowledge, ideas, methods, processes, tools, equipment and machinery which leads to new and better products, services and processes. Innovation in business is about turning an invention such as an idea, technology or techniques into a product, process or service that is successful because it meets the needs of the customers (Gontur & Davireng, 2015). Similarly, Mehta and Sharma (2010) see innovation as the generation and application of new ideas and skills to produce new products, processes and services that improve economic and social prosperity. It is re-designed method of application of new ideas, knowledge and processes to present and improve the prevailing condition. Ekoh (2015) defines innovation as integral part of the process of constantly improving know-how as well as generating new sustainable ideas and practices applicable in working life.

Innovation is the utilization of new ideas which stem from the bedrock of ideas and is in essence characterized by change (Andy & Jasper, 2008). Moreover, in turbulent periods organizational can become flexible when they try incessantly to reinvent their business model (Grant, 2005). The accomplishment of innovation can be reached through technological facilities, trained workforce and management support for innovation. The significance of innovation as firms' resources has been shown in

the literature by a wide range of definitions. Robert and Tucker (2008) argued that innovation "is the coming up of ideas and bringing them to life". The European Commission (1995) defined innovation as 'the renewal and enlargement of the range of products and services and the associated markets; the establishment of new methods of products, supply, and distribution; the introduction of changes in management, work organization, and the working conditions of the workforce'. The Innovation Union (2007) classified innovation as "change that speeds up and improve the way we conceive, develop, produce and access new products, industrial processes and services…". In line with the different definitions given, innovation can therefore 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.

Small and Medium Scale Enterprises

SMEs are defined differently across various industries, sectors, regional economic groupings and countries. The term SME encompasses a diversity of definitions and measures that vary across countries and sources reporting SME statistics. Gibson and Van der Vaart (2008) argue that the absence of a uniform definition of SMEs amongst different countries has caused problems in the design, implementation, coordination and evaluation of SME-related policies. To define SMEs, various countries, regional economic groupings and multilateral institutions have adopted several different methods. AlQudah, Osman and Safizal (2014) contend that generally, the number of employees, total net assets, sales and investment levels are used as criteria to define SMEs. The definition of the size of the enterprise and their classification into micro, small, or medium has been generally based on criteria such as volume of sales turnover, number of workers in employment, or value of assets and investments. Arshada, Raslib, Arshadc, and Zainc (2014) assert that the definition of small and medium scale enterprises varies according to context, author and country. Classification in USA, Britain and Canada is defined in terms of annual turnover and the number of paid employees whereas in Japan, it is conceptualised as type of industry, paid up capital and number of employees.

In Nigeria, there have been different definitions of SMEs by different institutions. These institutions include the Central Bank of Nigeria (CBN), the Small and Medium Industries Equity Investment Scheme (SMIEIS), the Nigerian Institute for Social and Economic Research (NISER), Federal Ministry of Industry (FMOI), the National Association for Small and Medium Enterprises (NASME), and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). For instance, an SME has been defined by CBN as an outfit with a total capacity outlay (excluding land) of between N2 million and N5 million, while SMIEIS recognizes an SME as any industry with a maximum asset base of N200 million, excluding land and working capital, and with the number of staff employed by the enterprises not less than 10 and not more than 300 (Onwe, 2014).

Small and Medium Scale Enterprises (SMEs) as defined by the National Council of Industries (2009) refer to business enterprises whose total costs excluding land is not more than two hundred million naira (N200,000,000.00) only. Although, there exists no consensus among policy makers and scholars concerning the point at which a business firm is deemed to be small or medium. Indeed, there is no universally or even nationally acceptable standard definition except that the scale of business needs to be defined for a specific purpose.

Financial Performance

The most important part of an organization is the performance, where performance is viewed as the success of an organization in achieving valuable outcomes, such as high returns (Memon & Tahir, 2012). Based on Smith & Reece (1999), business performance is defined as the organization's ability to meet the desire result as determined by the company's major shareholders. On the other hand, it is to determine whether the actual output of an organization is as what has been targeted (Al Qudah *et al.*, 2014). Thus, to achieve high business performance, organizations need to attain and sustain competitive advantages. For this reason, many researchers had argued that strategic planning makes organizations have competitive advantages and the ability to stay in business against competitors. They need to know the correct performance level is important due to it enable the organization to determine its current position and find ways to improve business if necessary. Consequently, the measurement of business performance has

captured the attention of many scholars due to its complexity (Suklev & Debarliev 2012; Matsoso & Benedict, 2014).

Different researchers have different ways to measure performance. Mandy (2014) summarized in his review that the best way to evaluate performance is by effectiveness, growth and productivity, efficiency, individual employee sales, the value of exports, organization total assets and operation profit ratio as a measurement. Researcher such as Arshada *et al.* (2014) measured performance using financial indicator. Financial measure is done by measuring the sales, market share, number of employees, return on capital employed, inventory turnover, return on investment, growth and profits. However, these indicators focus on the short term rather than long term strategy (Lonbani, Sofian & Barato, 2014). While, other researchers such as Anyieni (2014) suggested to perform benchmarking to compare performance with the relative competitors. Besides, Anyieni (2014) also suggests to benchmark with the pre-set target. Moreover, Dubihlela and Sandada (2014) suggested to use perception of the owner or managers regarding the organization's success.

The different type of measurement that has been applied has been classed as an objective or subjective. Tang and Zhang (2005) explained that an objective measure is measuring the financial records while subjective measures used the managers' perceptions regarding the organization performance. Nevertheless, many studies suggest using subjective measures due to the data for objective criteria could be inappropriate, misleading and difficult to obtain. If the data are available, the data may not genuinely represent the actual organization performance as the information may be manipulated (Siti & Perera, 2011). It is as well determined by the industry factors which make it unsuitable for cross industry comparison. Therefore, Falshaw and Glaister (2005) concluded that the objective measures are unsuitable for the purpose of research. In comparison, subjective measures are an easier way to measure performance. It is an effective manner because it permits the organization to carry out benchmark across firms. Subjective measure also enables organizations to measure the growth in sales, market share, productivity, customer satisfaction and product quality (Haber & Reichel, 2005). In fact, Falshaw *et al.* (2005) establish that the subjective and objective measures provide the same outcomes. Therefore, using subjective measures in the research provides more accurate information. In the context of SMEs, Tang and Zang (2005) found that researchers began to use subjective measures to assess the performance of SMEs. This is because, studies by Haber & Reichel (2005) found that objective measures are hard to practice in SMEs due to the managers or owners refused to share their financial position. Moreover, Wijetunge and Pushpakumari (2014) affirms that if the objective measures used to measure the performance of SMEs in different industries, this will cause confusion because of inconsistency. Therefore, this study adopts subjective measures in order to measure the SMEs performance in Nigeria.

Theoretical Framework

This research work is anchored on Schumpeter theory of entrepreneurship. The process of entrepreneurship activity reducing unemployment situation in the economy is termed "Schumpeter effect". In Schumpeter's account, it is the entrepreneur who creates innovation. And innovation is not only invention. Schumpeter vividly characterized innovation as "industrial mutation," which "incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in. Schumpeterian evolutionary change is punctuated rather than gradual – the disruptions of entrepreneurial innovation occur, as Schumpeter put it, at "irregularly regular" intervals. Schumpeterian competition drives innovation, but it also begets imitators, "swarms" of which copy their rival's innovation, attracting investment, and leading to a boom. When the original innovator's profit advantage is eliminated, investment moves elsewhere, and the sector may even shrink, until the next disruptive innovation, which restarts the cycle. But the Great Depression seemed to challenge Schumpeter's vision: why were entrepreneurs not jump-starting the economy?

If one follows the Schumpeterian tradition in describing the search for new combinations as the key characteristic of entrepreneurship, the distinction between entrepreneurship and innovation is hard to make. Is there really any difference between entrepreneurship and innovation? In a book that attempts to

link two research traditions on respectively entrepreneurship and innovation, we need to clarify the relationships between these concepts.

In the Schumpeterian tradition, the entrepreneur is the hero of dynamic capitalism. The entrepreneur typically creates new combinations: new products, new markets, new materials, and new forms of organization (Schumpeter 1934). Entrepreneurship and innovation are almost synonymous. However, on the basis of Schumpeter's later work (Schumpeter 1943), one needs to distinguish between two types of competition, often referred to as Schumpeter Mark I and Schumpeter Mark II. In Mark I, it is the entrepreneurs and the smaller enterprises that are responsible for innovation.

In Schumpeterian competition Mark II large oligopolistic firms predominate. Innovation takes place in R&D laboratories and the entrepreneurial function has become routinized in a managerial bureaucracy. Innovation has become divorced from entrepreneurship. The disadvantage of the identity of entrepreneurship and innovation is that it does not allow us to distinguish different types of entrepreneurship: innovative entrepreneurship, non-innovative entrepreneurship, stagnant entrepreneurship, destructive entrepreneurship, high-growth entrepreneurship, or survival entrepreneurship (Naudé 2010). Also, it does not recognize that much innovation is generated in firms that are run by managers rather than entrepreneurs. From a developmental perspective, it therefore makes analytic sense to distinguish entrepreneurship and innovation as distinct key forces in development. Some entrepreneurs are much more innovative than others and firms managed and owned by entrepreneurs are not the only sources of innovation.

Empirical Review

Olughor (2015) investigated the effect of innovation on the performance of SMEs organizations in Nigeria. Data was collected from 200 respondents of six SMEs companies based in Nigeria. Innovation was measured using the OECD Oslo scale (2005). The study demonstrated that there is a high correlation among factors used to measure innovation. And secondly, innovation was found to influence business performance.

Ukpabio, Oyebisi and Siyanbola (2019) investigated the effects of innovation on performance of manufacturing SMEs in Nigeria. The study evaluated the effects of various innovation dimensions on the performance of manufacturing SMEs in Nigeria. A total of 305 samples was obtained from SMEs in the textile/leather/apparel and footwear subsector; wood/furniture and woodworks subsector; and domestic/industrial plastic and rubber subsector in Southwestern Nigeria. Data collected was analyzed using correlation analysis and hierarchical regression analysis. The correlation result shows that all dimensions of innovation (product, process, market, and organizational) had significant positive relationship with firm performance including the control variable 'firm size'. However, the regression result confirmed that process innovation and organizational innovation influences SMEs performance significantly.

Ndesaulwa and Kikula (2016) investigated the impact of innovation on performance of small and medium scale enterprises (SMEs) in Tanzania. Secondary data were used and content analysis was employed in analyzing the data. The literature survey reveal that the studies on innovation and its effect on performance are observed to have concentrated to Western, Middle and Far East and very little empirical evidence is noticeable in Africa. The issue of innovation and how it relate to firm`s performance and specially SMEs is therefore yet to be exhaustively explored. The results from review further find that no consistent results on whether the innovations altogether influence firms performance. The conclusion is therefore not generally viable. The nature of the empirical results reported in this paper indicates a need for such studies especially in Africa where the research fissure is widely observed in this area.

Aktan and Bulut (2008) also examined the effects of four sub-dimensions of corporate entrepreneurship (i.e. pro-activeness, risk-taking, innovation, and competitive aggressiveness) against the financial performance of 312 firms. The study uses return on investment (ROI), return on equity (ROE), growth of sales and market based measurement (i.e. economic value added, market value added) and concludes that all the correlation coefficients across the corporate entrepreneurship dimensions and the financial performance components are positive and significant. The findings demonstrate that all the four

dimensions of corporate entrepreneurship examined impacts positively and significantly on financial performance.

METHODOLOGY

The study adopted survey research method. The study was carried out in Onitsha. Onitsha is one of the major cities in Anambra State popularly regarded as the commercial hub of the state. Primary data were employed for the study. The population of study is made up of management and employee of small and medium scale enterprises in Onitsha. Convenience sampling technique was employed to select a sample size of 150 respondents. Questionnaire was employed as the instrument of data collection. The data generated were analyzed using descriptive statistics and correlation analysis.

RESULTS

In this section, the data generated were analyzed using descriptive statistics and correlation analysis.

Descriptive Analysis

This section presents the descriptive statistics on the influence of innovation on financial performance of SMEs in Onitsha. The aim of the analysis is to examine the performance of the innovation variables in relation to financial performance. The analysis of the individual characteristics of these variables is presented in the table below:

Table 1 Descriptive Characteristics of the Variables

Variables	Mean	Standard Deviation
Financial Performance	20.26	3.332
Product Innovation	17.89	3.751
Process Innovation	18.74	4.070
Market Innovation	18.25	3.951
Administrative Innovation	17.72	4.264

Source: SPSS Version 21.0

This table present the summary of statistics used in the analysis. It provides information about the mean and standard deviation of the variables used in the study. The mean value for financial performance is 20.26 while the standard deviation is 3.332. Product innovation and process innovation recorded a mean value of 17.89 and 18.74 with a standard deviation of 3.751 and 4.070 respectively. Market innovation and administrative innovation have mean value of 18.25 and 17.72 with standard deviation of 3.951 and 4.264 respectively. Low values of standard deviation indicated a consensus on statements regarding the influence of innovation on financial performance of SMEs in Anambra State.

Correlation Analysis

Here, Pearson correlation was employed to measure the strength and relationship between independent variables. The Pearson correlation coefficient is a measure of the strength of a linear association between two variables and is denoted by r. Table 2 below shows the summary of correlation coefficient.

Table 2 Correlation Matrix

		Financial Innovation	Product Innovation	Process innovation	Market Innovation	Administrative Innovation
Financial Performance	Pearson Correlation	1	.639	.594**	.698**	.536*
	Sig. (2-tailed)		.000	.003	.004	.038
	N	150	150	150	150	150
Product Innovation	Pearson Correlation	.639	1	.002	.072	.260**
	Sig. (2-tailed)	.000		.981	.276	.000
	N	150	150	150	150	150
Process Innovation	Pearson Correlation	.594**	.002	1	.081	.062
	Sig. (2-tailed)	.003	.981		.220	.345
	N	150	150	150	150	150
Market Innovation	Pearson Correlation	.698**	.072	.081	1	.050
	Sig. (2-tailed)	.004	.276	.220		.450
	N	150	150	150	150	150
Administrative Innovation	Pearson Correlation	.536*	.260**	.062	.050	1
	Sig. (2-tailed)	.038	.000	.345	.450	
	N	150	150	150	150	150

Source: SPSS Version 21.0

The table above shows the extent of association between the dependent and independent variables used in the study. The correlation between product innovation and financial performance shows the value of 0.639, which indicates that product innovation has a positive strong influence on financial performance of small and medium scale enterprises in Onitsha. Process innovation recorded a correlation coefficient of 0.594 with financial performance which shows that process innovation has a positive moderate influence on financial performance of small and medium scale enterprises in Onitsha.

Furthermore, the correlation between market innovation and financial performance recorded a correlation coefficient of 0.698. This indicates that market innovation has a positive strong influence on financial performance of small and medium scale enterprises in Onitsha. Also, administrative innovation recorded a correlation coefficient of 0.536 with financial performance. This shows that administrative innovation has a positive strong influence on financial performance of small and medium scale enterprises in Onitsha.

CONCLUSION

The study investigated the influence of innovation on financial performance of small and medium scale enterprises in Nigeria. Data generated from the sampled SMEs were subjected to empirical analysis and the following were observed. The study found that product innovation has a positive strong influence on financial performance of small and medium scale enterprises. The study further found that process innovation has a positive moderate influence on financial performance of small and medium scale enterprises. The study also indicates that market innovation has a positive strong influence on financial performance of small and medium scale enterprises. Finally, the study found that administrative innovation has a positive strong influence on financial performance of small and medium scale enterprises. Based on the foregoing, the study concludes that innovation influence on financial performance of small and medium scale enterprises in Onitsha.

The study recommends that government should encourage innovative SMEs development through the provision of incentives to SMEs and standing as a guarantor for loans given to aspiring entrepreneurs and innovators. Government should also provide an enabling environment like steady power supply access roads, grants credits facilities to SMEs and innovators. The unemployed should venture into innovation to help reduce the incidence of unemployment that affects the economy negatively. Entrepreneur need to be

innovative especially in the area of product development, business process and marketing in order to remain competitive in their business environment.

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