International Journal of Humanities and Arts
Online ISSN: 2664-7702; Print ISSN: 2664-7699
Received: 05-02-2019; Accepted: 06-03-2019; Published: 13-03-2019
www.humanitiesjournals.net
Volume 1; Issue 2; 2019; Page No. 22-26

Innovativeness and performance of small and medium enterprises in Rivers and Bayelsa States of Nigeria

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Abstract
This study investigated the relationship between innovativeness and performance of small and medium enterprises in Rivers and Bayelsa states of Nigeria. The unit of data generation was the organization and the corresponding level of analysis was the macro-level. A total of three hundred and sixty (360) small and medium enterprises studied constituted the study population, and a sample size of one hundred and eighty-six (186) was drawn using the Krejcie and Morgan table. Data was collected through questionnaires distributed to the respondents. Using the Statistical Package for the Social Sciences version 22, and inferential statistics such as Pearson Product Moment Correlation Coefficients, regression and p-values were calculated in order to ascertain the nature and direction of the proposed relations and for testing the stated hypotheses. Results revealed positive and significant relationship between innovativeness and measures of small and medium enterprises performance. Therefore, the study specifically found that innovativeness led to improved customer satisfaction, growth and social performance of small and medium enterprises in Rivers and Bayelsa states. The study recommended that small and medium enterprises should apply and adopt innovativeness in the operation of their businesses to improve performance.

Keywords: innovativeness, SME performance, growth, customer satisfaction, social performance

Introduction

SMEs are regarded as the bedrock of industrialization. Because a number of them possess a wide knowledge of resources, as well as demand and supply trends, they constitute the main supplier of input to larger firms. They also serve as the major customers to the larger firms; provide all sorts of products ranging from food, clothing, recreation, entertainment, healthcare, education, etc (Etuk, Etuk & Baghebo, 2014) [10]. A Small and Medium Enterprise (SME) is an enterprise that has asset base (excluding land) of between N5million and N500million and labour force of between 10 and 300 people (CBN 2010) [6].

A firm's innovativeness refers to firm's openness to new ideas as part of a firm's culture (Hurley & Hult, 1998) [14], and the preparedness of firms to adopt new ideas (Menguc & Auh, 2006; Woodside, 2005) that can be developed and launched as new products (Calantone, Cavusgil, & Zhao, 2002; Tsai & Yang, 2013) [5, 24]. Innovation is very relevant in firms, as it can be the source of additional revenues from new products or services, can help to save costs or improve the quality of existing processes (Khazanchi, Lewis, and Boyer 2007) [16]. Wang and Ahmed (2004) [27] defined innovativeness as "an organizations' overall innovative capability of introducing new products to the market, or opening up new markets, through combining strategic orientation with innovative behavior and process".

Performance can be described as a measure of how well a mechanism or a process achieves its purpose. In enterprise management, Wu & Zhao (2009) [5] defined a firm's performance as how well the firm is managed and the value the firm delivers for its customers and other stakeholders. Performance is related to achieving stockholder and investor interests. Performance measurement refers to the process of measuring the action's efficiency and effectiveness (Neely, Gregory, & Platts, 2005) [21]. This study is designed to examine the relationship between innovativeness and performance of small and medium enterprises in Rivers and Bayelsa states of Nigeria. It also seeks to provide answers to the following research questions:

1. To what extent does innovativeness relate to growth of small and medium enterprises in Rivers and Bayelsa states?
2. To what extent does innovativeness relate to customer satisfaction of small and medium enterprises in Rivers and Bayelsa states?
3. To what extent does innovativeness relate to social performance of small and medium enterprises in Rivers and Bayelsa states?

Literature Review

Innovativeness

Innovativeness is a firm's tendency and ability to swiftly integrate change in business practices through creation or adoption of new ideas that add value in the form of incremental or revolutionary change. Firms that fail to prioritise innovation are putting themselves at great risk (Kotler, 2003) [17]. It is also argued that due to the increased level of competition and reduced product life cycles, firm's ability to develop innovations may be more important than allowing for improved performance and maintenance of

competitive advantage (Artz, Norman, Hatfield, & Cardinal, 2010). In today's competitive environment it is not surprising to see that innovation has become a necessary objective for all firms (Lipit 2006 sited in Atalay, Anafarta & Sarvan 2013) [3].

SME Performance

SME performance is a measure that describes the health of an SME that may not only depend on the efficiency and effectiveness but also on the market where the SME operates. Laitinen (2002) [18] defines performance as an ability of an object to produce results in a dimension determined priority, in relation to a target. Thus, it is necessary to have, first, an object whose performance is to be considered; second, a dimension in which one is interested; and, third, a set target for the result. This study will adopt three measures of firm performance to determine the performance of SMEs. They are; growth, customer satisfaction and social performance. These measures are more of non-financial measures since most SMEs are not quoted companies and are reluctant to disclose actual financial transaction because of taxation issues.

Growth

Growth is a positive increase in the size of a firm as evidenced in increase in sales or turnover, employees, quality of products and quality of customer relationship that may lead to increase in assets and profit of the firm. Organisational growth has been a focus in the literature with many researchers associating growth with entrepreneurship (Davidsson, Kirchoff, Hatemi-J, & Gustavsson, 2002) [7]. Gartner (1997) [8] identified growth as a major component of entrepreneurship, with growth being one of eight themes associated with the entrepreneurship concept. But growth as a measure of firm performance has had mixed results in the literature. Delmar, Davidsson, & Gartner (2003) [8] opined that one possible reason for this is that researchers use different measures of growth and that growth itself is heterogenous in nature.

Customer Satisfaction

Customer satisfaction is a judgement by a customer towards products or services of a firm that may lead to repurchase intention and willingness to recommend such product or services to other people. The general consensus is that higher customer satisfaction leads to higher levels of repurchase intent, customer advocacy, and customer retention (Lam, Shankar, Erramilli, & Murthy, 2004) [19]. In turn, higher satisfaction and loyalty leads to improved revenue, profitability, and cash flows (Ittner & Larcker, 1998) [15]. The net effect is that these relationships then lead to positive outcomes on the firm's performance which is reflected in turnover, profit margin, stock price and market valuation (Aksoy, Cooil, Groening, Keiningham, & Yalcin, 2008) [1].

Social Performance

Social performance is the actual transformation of a firm's mission into practice in line with accepted social values of a particular locality. Organisations are critically evaluated on their social performance by and towards stakeholders (Porter & Kramer, 2006) [23]. Social performance encompasses applying fair labour practices, ensuring a good work-life balance, using fair trade products and many more sustainable actions as continuously implemented in organisations. Wood (1991, p.693) [28] defines corporate social performance (CSP) as: "A business organization's configuration of principles of social responsibility (institutional: legitimacy, organisational: public responsibility, individual: managerial discretion), processes of social responsiveness (environmental assessment, stakeholder and issues management), and observable outcomes (social impacts, programs and policies) as they relate to the firm's societal relationships."

Firms face increasing pressure to maximize their social performance as well as their financial performance (Grow, Hamm, & Lee, 2005) [13]. A growing body of empirical studies examines the relationship between financial performance and CSP, with mixed results (Orlitzky, Schmidt, & Rynes, 2003; Vogel, 2005) [26]. Those suggesting a negative relationship between corporate social performance and financial performance argue that firms trying to enhance social performance draw resources and management effort away from core areas of the business, resulting in lower profits.

Innovativeness and SME Performance

Murat, Anafarta & Sarvan (2013) [3] conducted a study to examine the relationship between innovation and firm performance in the Turkish automotive supplier industry. The survey of this study was conducted using top level managers of 113 firms operating in the automotive supplier industry which is one of the most innovative industries in Turkey, as of the year 2011. Data obtained from the questionnaire were analysed using the SPSS statistical package program. Results showed that technological innovation (product and process innovation) has significant and positive impact on firm performance, but no evidence was found for a significant and positive relationship between non-technological innovation (organizational and marketing innovation) and firm performance.

In a study to investigate the influence of entrepreneurial innovativeness on firm performance among small and medium-sized enterprises in Kenya, Bor (2018) [4] conducted a study to establish the effect of innovativeness on firm performance. This study employed an explanatory research design with its target population consisting of 600 medium-sized firms that made it to the Nation Media/KPMG "Top 100 Mid-sized Companies" survey in Kenya during the years 2008 to 2013. During the 6-year period, the Nation Media Group and the KPMG conducted an annual survey of Kenyan SMEs to identify the country's "Top 100 mid-sized companies". Questionnaires were used to collect data and analysed using descriptive statistics, Pearson's bivariate correlation, multiple regression, and moderated regression analysis. Results of the study revealed that entrepreneurial innovativeness has a direct positive relationship with performance of SMEs. The study concludes that entrepreneurial innovativeness is a key driver of firm performance of SMEs in Kenya.

Building on these findings this study needs to test the relationship between innovativeness and SME performance in Rivers and Bayelsa states environment and therefore propose the hypotheses as follows:

H_{01}: Innovativeness does not significantly relate with growth

of small and medium enterprises in Rivers and Bayelsa states.

H_{02}: Innovativeness does not significantly relate with customer satisfaction of small and medium enterprises in Rivers and Bayelsa states.

H_{03}: Innovativeness does not significantly relate with social performance of small and medium enterprises in Rivers and Bayelsa states.

Methodology

The study adopted the cross-sectional survey method in the generation of data. The population of this study comprise 360 SMEs retrieved from Business List (www.businesslist.com.ng) with operational base in Rivers and Bayelsa states. The choice of Business List website is because companies on this website are categorised into location, nature of business, number of employees and estimated net worth of the firm. This suited our quest for selection of small and medium enterprises. The SMEs were represented by the decision makers (chief executive officers, executive directors, directors or senior managers) in the organisation who offered valuable and meaningful information to achieve the purpose of the study. A sample size of 186 SMEs was derived using the Krejcie & Morgan (1970) table. Descriptive statistics and Pearson Product Moment Correlation Coefficient were used for statistical analysis with the aid of SPSS version 22.

Data Analysis and Results

H_{01}: Innovativeness does not significantly relate with growth of small and medium enterprises in Rivers and Bayelsa states.

Table 1: Correlation Analysis Showing the Relationship Between Innovativeness and Growth

Variables	Statistics	Innovativeness	Growth
	Pearson Correlation	1.000	.909**
	Sig (2-tailed)		.000
	N	160	160
	Pearson Correlation	.909	1.000
	Sig (2-tailed)	.000	
	N	160	160

***Source*:** SPSS Output / Research Desk, 2019

**Correlation is significant at 0.01 level (2-tailed).

From table1, the associated *p*-value of the relationship between innovativeness and growth of small and medium enterprises was revealed to be significant (where p = 0.000) which is less than 0.05. The evidence corresponds with the high Pearson correlation coefficient (r = 0.909) indicating that innovativeness is a significant factor and has a high influence on growth of small and medium enterprises effort to enhance their performance.

H_{02}: Innovativeness does not significantly relate with customer satisfaction of small and medium enterprises in Rivers and Bayelsa states.

Table 2: Correlation Analysis Showing the Relationship between Innovativeness and Customer Satisfaction

Variables	Statistics	Innovativeness	Customer Satisfaction
	Pearson Correlation	1.000	.909**
	Sig (2-tailed)		.000
	N	160	160
	Pearson Correlation	.909	1.000
	Sig (2-tailed)	.000	
	N	160	160

***Source*:** SPSS Output / Research Desk, 2019

**Correlation is significant at 0.01 level (2-tailed).

Table 3: Correlation Analysis Showing the Relationship Between Innovativeness and Social Performance

Variables	Statistics	Innovativeness	Social Performance
	Pearson Correlation	1.000	.874**
	Sig (2-tailed)		.000
	N	160	160
	Pearson Correlation	.874	1.000
	Sig (2-tailed)	.000	
	N	160	160

***Source*:** SPSS Output / Research Desk, 2019

**Correlation is significant at 0.01 level (2-tailed).

From table 3, the associated *p*-value of the relationship between innovativeness and social performance of small and medium enterprises was revealed to be significant (where p = 0.000) which is less than 0.05. The evidence corresponds with the high Pearson correlation coefficient (r = 0.874) indicating that innovativeness is a significant factor and a high predictor of social performance in the operation of small and medium enterprises.

Discussion of Findings

Our study revealed that when it comes to problem solving, SMEs value creative solutions more than solutions that rely on conventional wisdom. This is an indication of innovativeness which improved the performance of SMEs in Rivers and Bayelsa states in the area of growth and customer satisfaction. Implementation of new and improved production or methods saw the SMEs in Rivers and Bayelsa states ahead of their competitors in sales growth. This made their competitors regard them as leaders in product development. Most of the SMEs in Rivers and Bayelsa states took the lead in marketing new products and services. In today's competitive environment it is not surprising to see that innovation has become a necessary objective for all SMEs (Lipit 2006 sited in Atalay, Anafarta & Sarvan 2013) [3]. The existing products are vulnerable to changing customer needs and tastes, new technologies, shortened product life cycles, and increased international competition. Therefore, it is generally accepted that all SMEs should innovate regardless of their size or sector in order to compete and survive in the market (Elci &

Karatayli 2009) [9]. SMEs in Rivers and Bayelsa states are not left out as evidenced in the positive and significant relationship between innovativeness and SME performance in both states. Our finding is in agreement with Bor (2018) [4] study of influence of entrepreneurial innovativeness on firm performance among small and medium-sized enterprises in Kenya where results of the study revealed that entrepreneurial innovativeness has a direct positive relationship with performance of SMEs. Our findings also agree with the work of Filser & Eggers (2014) [11] that examined the relationship between innovation and performance of SMEs on the Rhine Valley where they concluded that SME performance was affected by innovativeness. Twaliwi & Isaac (2017) [25] study on impact of innovation on performance of SMEs in Gwagwalada, Abuja revealed that there is significant relationship between innovation and performance of SMEs in Gwagwalada, Abuja. This is in agreement with our findings.

Conclusion and Recommendations

The study revealed that there is a positive and significant relationship between innovativeness and performance of small and medium enterprises in Rivers and Bayelsa states. We therefore conclude that SMEs' adoption of creative solutions more than solutions that rely on conventional wisdoms when it comes to problem solving improved performance of the firms. SMEs' adoption and practice of disruptive innovation keeps them ahead of competitors thereby reaping the advantages that comes with it.

The following recommendations were made:

1. SMEs in Rivers and Bayelsa states should adopt and apply innovativeness in the operation of their business to enhance performance.
2. SMEs in Nigeria should keep and maintain good customer relations. As the saying goes "a satisfied customer will market your product and will always make a repurchase".
3. We recommend that SMEs in Nigeria should prioritize social performance. This will save them the hassle of law suits by the employees, customers and regulatory agencies. Social performance will promote good host community relationship that will enable the SMEs succeed in their operations.

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