

## Fostering Innovation and Entrepreneurship in Small and Medium Enterprises (SMEs)

Kowo Solomon Akpoviro<sup>1</sup>

**Abstract:** Most of the SMEs in this decade have dealt with difficult market environment and the present financial crises around the world. This has weakened the position of SMEs. This research focuses on Innovation and Entrepreneurship in Small and Medium Enterprises (SMEs). The survey method was adopted. The quantitative research design was employed. The data was analyzed using manual and electronic based methods through the data preparation grid and statistical package for the social sciences, (SPSS). The study made use of statistical tools such as (ANOVA), correlation efficient and regression analysis in testing hypotheses where applicable. The findings from the two hypotheses revealed that product innovation and process innovation influenced SMEs performance significantly. This research revealed that innovation in SMEs is affected by financial resources deficiency, limited prospects for recruiting dedicated workers and innovation portfolios that are small in nature. Enterprises should create their own ideas in the model of innovation and then build, develop, distribute, and sustain these ideas. The study concluded that innovation model enhances SMEs on becoming strongly autonomous. The research recommended that process innovation should be driven by future environmental requirements and a desire to have a more sustainable pre-treatment process in the SMEs.

**Keywords:** Innovation; Product Innovation; Process Innovation; Firm Performance; SMEs.

**JEL Classification:** M10; M19

### 1. Introduction

The purpose of building regulatory, institutional and legal conditions favorable for innovative entrepreneurship is especially demanding for previously planned regional economies that had to build on a market economy setup in a new way (Al-Matari & Aliridi, 2014). Different sectors of enterprises are dynamic specifically for companies willing to drive innovation. It is the driving force of recent economic progress as they increasingly rely on commercialization of outcomes, and development processes (Hult et al, 2014; Camison & Lopez, 2010). Research and Development commercialization is considered as one of the most important elements in the process of innovation. It is important to the versatile relationship of products and service manufacturers, and institutional research. In recent years, the focus of

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<sup>1</sup> Department of Business Administration, Kwara State University, Nigeria, Address: Kwara State University Rd, Malete, Nigeria, Corresponding author: [kowosolomon@gmail.com](mailto:kowosolomon@gmail.com).

economic research has been on innovation and it is a key factor for long-term economic development. The outcomes of innovation research have placed more emphasis on the association between underlying innovation research studies and the efforts of entrepreneurship, which aims at commercializing Research and Development (R&D) (Hatman, 2006; Bakar & Ahmad, 2010). Innovation has been considered as a prerequisite for competitive advantage for enterprises. Similarly, academics and other programmes of R&D suggest that commercialization is becoming the main sustainable and consistent driver of economic growth. According to the Arshad, Asif & Baloch (2012) stated that researchers and market experiment of innovation is probable bringing changes which primarily restructure markets and industries. In addition, experts from European Commission on economics argue that innovation is a strategic aspect of business and investment for creating the capacity to develop and improve products (Morone & Testa, 2008). Current research has focused on irreversible resource commitments for entering new markets, building competitive advantage by output in the value chain. Lan (2010) emphasized that a business cannot become successful if innovation is not included in its overall operations.

## **1.2. Statement of Research Problem**

There is a requirement of SMEs to draw more attention on their networks for finding innovation resources that are missing in their operations, due to their small size, they can be faced with the limitations of the firm earlier than afterwards. Since the world today has become more complex, the life cycles of the products have become short and this behavior for networking has turned out to be even more imperative as compared to the past. Given these reflections, it is anticipated that all the practices of innovation are not completely utilized by large corporations, SMEs must use innovation and adapt to innovation in their operations (Wang, Ong & Lee, 2005). The impression was given by previous research regarding differences in industries for the trends and incidence of innovation. There is a difference of services compared with physical goods for inseparability, heterogeneity, intangibility and perishability. However, it is argued by other researchers that the characteristics are especially more appropriate to producers instead of service oriented organisations. This means that manufacturing firms are normally more inclined to operating in locations that are large geographically and their process of nature is made in such a way that demands high investments in both technologies and capital (Medina & Rufin, 2009).

### **Hypothesis One**

*H*<sub>01</sub>: Product innovation is positively associated with firm performance.

### **Hypothesis Two**

*H*<sub>02</sub>: Process innovation is positively associated with firm performance.

## **2.1. Review of Literature on the Concept of Innovation**

According to the Oxford Dictionary of Economics, innovation is the economic application of a new idea. Product innovation involves a new or modified product; process innovation involves a new or modified way of making a product (Beaver, 2002). Hung (2007) also defines innovation as “The first commercial application or a new process or product, or Innovation is the successful exploitation of ideas”. Hsueh et al, (2004) defines an innovation as “the implementation of a new or significantly improved product, service or process, a new marketing method, or a new organisational method in business practices, workplace organization or external relations. Fairlie & Robb (2007) stated that innovation is an instrument or tool which is used by the entrepreneurs for exploiting change as a prospect. Born (2000) argued that innovation can be perceived as a discipline that can be a practice as well as learned by the organisations. Darroch (2005) was never in favor of innovation theory as he recognized that there was sufficient knowledge for developing innovation as a practice and this practice was supported on the basis of when, where and which way it looks systematic for opportunities of innovation and which way judgment is made for chances of their success or threat of failure. From the perspective of Drucker, innovation that is made systematically consists of an organized and meaningful search for transformation and a systematic investigation of prospects; these modifications may offer social or economic innovation (Alergre, Lapiedra & Civa, 2006; Chong, Lan & Sim, 2011). In the 1980s, innovation took place in departments of R&D for large organisations and in different universities (Wang & Ahmed, 2004). Since people of this era wanted to become entrepreneurs and make innovations, they separated themselves from the corporate environment and made their own setup where they were able to launch any innovation (Hung, 2007; Henderson, 2006). More ideas related to innovation have been discussed which include the concept of disruptive innovation. The explanation of disruptive innovation is conducted on extended practice in order to recognize technical change that is radical in various innovation studies conducted by economists (Haneda, Motheb & Thic, 2014; Halila & Rundquist, 2011; Nichter & Goldmark, 2009).

### **2.1.1. Product Innovation**

Product innovation can be defined as the creation of a new product from new materials (totally new product or the alteration of existing products to meet customer satisfaction (improved version of existing products (Hung, 2007; Prajago et al., 2007). It also refers to the introduction of new products or services in order to create new markets or customers, or satisfy current markets or customers (Wang & Ahmed, 2004). Morris, Kuratko and Corin (2008) contend that product innovation can be made by exploiting new ideas. However, Porter (1990) see a problem with introducing new product technology, other than all the uncertainties that need clarification, and planning that needs to be applied. With an inflexible product line

or a highly specific process solution, new process technology can possibly hinder product innovation. Product innovation and process innovation are considered to be interdependent (Hermann, Tomczak & Befurt, 2006). Hult et al, (2014) separates process innovation and product innovation, stating that industrial companies put resources into product innovation instead of process innovation, mainly because process innovation is communicated as a consequence of new developed products. It requires that the technology manager needs to be educated on how to manage teams, data analytics, and development techniques. The competitive market nurtures firms to be responsive to changes in customer expectation and technology. This also requires being fast on identify opportunities and bringing products to the market. This development of the competitive market also means that fewer resources are being utilized to each development project which there by puts demand on efficient engineering, design, and development activities (Bogorzoza &Waal, 2010).

### **2.1.2. Process Innovation**

There are different reasons for using process innovation; the most common one is rivalry with the competitive companies that produce similar of the same product (Arshad, Asif & Baloch, 2012). Process innovation can slow down competitors by giving the company advantages from the manufacturing context, such as cost efficiency, production speed, and quality consistency (Cano, Carrillat & Jarimillo, 2006). Gavrea, Ilie and Stegrean (2011) agree on the possibility to gain competitive benefits by implementing process innovations, further adding that the innovation is an important source of increased productivity. Having an increased level of process innovation can also enable the evolvement of the company's products, and from this create more innovation project in the form of product innovation (Dobbs & Hamilton, 2006). Alowaihan (2004) emphasized that technology managers have to deal with more technology innovation, mainly since the innovation in manufacturing companies has increase along with the overall concerns about sustainability

### **2.1.3. The Concept of Entrepreneurship**

More than two centuries ago, J.B. Say, a French economist, said that it is an ability of an entrepreneur to transfer economic resources from lower productivity areas to higher productivity areas. However, he asked: who is this person, an entrepreneur? This view is also discussed by Kemp et al (2003) in the understanding of entrepreneur. Furthermore, he argues that an entrepreneurial business is not necessarily an innovative one. He further identified that entrepreneurs are the people who are able to observe change as standard. According to the Darroch (2005) Entrepreneurs make things happen. An example was presented by Hung (2007) that was related to the genius entrepreneurship in the starting days of McDonalds. It is a fact that Kroc did not invent anything and French fries, hamburgers and soda were offered many years before back. A simple question was asked by Kroc regarding the way in which customers describe value. When he got the answer, he developed,

standardized and branded these items. This is the reason that Peter Drucker considered this as the best example of entrepreneurship. Similarly, Drucker thought that the risk of being an innovator was that the reputation of the company could be ruined as there are not many entrepreneurs that are well aware of what they are doing. Since the example of McDonalds shows that becoming an entrepreneur does not occur automatically with a particular degree of risk, a systematic approach should be made for it and it should be well managed. Moreover, Drucker further added that there should also be a requirement which is based on meaningful information. This has been changed dramatically in different regions, as entrepreneurship is not only based on meaningful information. In various SMEs, the people wanting to implement change in the system are considered as troublemakers for the company and they usually end up starting their own enterprise. The structure of organisations, silos and layers slows down the creativity of the employee and they prevent employees enhancing the overall experience of the customers. In most of the cases, these structures are planned for the stubbornness of the employees and they are no longer left to follow -up with the change (Henderson, 2006; Otero, Lindman & Fernadez, 2009).

#### **2.1.4. Types of Innovations Undertaken by SMEs**

Process innovation can be introduced by SMEs to enhance the ability of production procedures or operations of the supply chain, for example, by reducing cost or increasing reliability. Innovations are developed by the SMEs for their individual use; for instance, internal engineering was utilized for the customization of a particular product. Product innovations can be introduced by SMEs for a new or present market and it can include new functions, improved performance, and additional features of existing products (Bagoroza & Waal, 2010). This type of innovation is normally considered as incremental in which technology could be new for the organization, but it is not new for the world. The radical innovation is a comparatively rare event and it will improve the performance of the product considerably or they can make categories of new products as well (Barbara, Sandy & Allan, 2000). Apart from all these advantages of lead-users, ideas taken from these users can be damaging for the company because lead-users are mostly above average customers; therefore, it is not possible for them to understand the need for an average product. Moreover, firms should take caution because most of the customers only share their experience and they are not going to suggest innovative ideas to which they give more value (Alowaihan, 2014). Another type of innovation is known as "Application Innovation" in which current technology is applied in the market for new users. The creation of value proposition is involved in the innovation model for business which is able to satisfy the needs of the current or new customer through function, problem solution, or building experience by leasing or sale of a product or service. It has been indicated in numerous studies that large firms mostly discharge innovation known as "disruptive", where current customers of the firm do not give

value to the firm or the new market is so small that firms do not take an interest in it (Langley, Pals & Orts, 2005). Henderson (2006) stated that it is the requirement of the business model innovation apart from targeting customers or new value proposition that the value chain should be articulated for producing new products or services and it can plan for maintaining and establishing competitive advantage in front of possible consumers. The various innovation types are imperative for different stages in life cycle of a product; for example, niche strategies can be vital for the firms which offer leading-edge technology to the customers who are early adopters. (Mengistae, 2006; Nichter & Goldmark, 2009).

### **Barriers to Innovation**

#### **The Lack of Knowledge for Available Technologies**

The barriers of knowledge for innovation relate to the lack of knowledge of available technologies, knowledge sources and markets and past research has confirmed the presence of considerable barriers to innovation related to knowledge of technologies and markets, accessing finance and the deficiency of skilled labor. Econometric analysis results revealed that firms that are not a division of a big business group or SMEs are more likely to experience barriers of knowledge (Kemp et al., 2003). The main cause of this barrier is that a large organization or allied grouping has an advantage of size and they can increase fixed costs related to activities of knowledge sourcing or measures management of internal knowledge for an outsized output. Therefore, SMEs have a drawback that they mostly do not have enough money to discover information about technologies and markets in a systematic way (Ozgulbas, Koyuncugil & Yilmaz, 2006).

#### **Financial Barriers for the Firms**

One more barrier that restrains the activity of innovation is considered as financial barriers towards innovation for the firms. Past studies have revealed that financial barriers have an advanced impact on innovation for young firms as well as SMEs (Mohdrosli & Syasuriana, 2013). The huge organisations or companies which are division of a business groups are less likely to experience these issues and because of their size it is not difficult to set up collateral funds inside the groups. Barriers related to finance are mainly vital for SMEs with narrative technologies and products (Espallardo & Ballester, 2009). It was shown in the past research that firms which are less concentrated are furthermore expected to experience financial barriers (Bayus, Erickson & Jacobson, 2003).

### 3. Methodology

The survey method was adopted. For the purpose of this research, the quantitative research design was employed. The study population refers to the entire number of employees in the six selected SMEs fast in Lagos state. The six (6) companies include, Adestar & Son Nigeria Ltd., M & M Enterprises Nigeria Ltd, Galead Investment Nig Ltd, Ebefem Nigeria Ltd, Soloking and Sons Nigeria Ltd and Fiogret Nigeria Ltd. Yamane formula was used to determine the sample size. This formula is concerned with applying a normal approximation with a confidence level of 95% and a limit tolerance level (error level) of 5%.

**Table 3.1. Names of organizations and Population**

<b>Fast Food</b>	<b>No. of Staff</b>
Adestar & Son Nigeria Ltd	25
M & M Enterprises Nigeria Ltd	19
Galead Investment Nig Ltd	27
Ebefem Nigeria Ltd	28
Soloking and Sons Nigeria Ltd	26
Fiogret Nigeria Ltd	22
<b>Total</b>	<b>147</b>

*Source: Field Survey 2018*

To this extent the sample size is determined by  $[n = \frac{N}{1 + N_e^2}]$

$$1 + N_e^2$$

Where: n= the sample size

N= population

e= the limit of tolerance

$$\begin{aligned} \text{Therefore, } n &= \frac{147}{1 + 147(0.5)^2} \\ &= \frac{147}{1 + 147(0.0025)} \\ &= \frac{147}{1 + 2.5} \\ &= 107 \text{ respondents} \end{aligned}$$

A sample size of one hundred and seven (107) employees out of the one hundred and forty seven (147) employee population of the selected SMEs Firms in Ogun State as calculated above. The simple random sampling technique was adopted. The face validity approach was adopted whereby four Professors from faculty of management

sciences, Kwara state University Nigeria examined the questionnaire, made relevant corrections which were implemented and was subsequently approved based on the belief that the instrument was appropriate. Towards this end, the test re-test reliability approach was adopted for the convenience of the researcher. Reliability was ensured by test re-test which yielded  $r = 0.69$  and internal consistency was measured by Cronbach Alpha of 0.885. The detail of the reliability statistics table is shown below. The data was analyzed using manual and electronic based methods through the data preparation grid and statistical package for the social sciences, (SPSS). The study made use of statistical tools such as (ANOVA), correlation efficient and regression analysis in testing hypotheses where applicable.

#### 4. Data Presentation

**Table 4.1. Distribution of respondents and response rate**

Respondents Occupation	Questionnaire administered (sampled)	Percentage of total response (%)
Top Level	22	22.4
Middle Level	56	57.2
Level Lower	20	20.4
Total	98	100.0
Gender/Category	Questionnaire administered (sampled)	Percentage of total response (%)
Male	91	92.9
Female	7	7.1
No of Returned	98	91
No of Not Returned	9	9
Total no of Questionnaires	107	100

*Source: Field Survey 2018*

**Table 4.2. The Descriptive Statistics of Innovation and Entrepreneurship in Small and Medium Enterprises (SMEs)**

Responses	Total (N)	Mean
<b>Product Innovation and the SMEs Performance.</b>		
This culture of innovation is significant for SMEs	98	4.36
Product innovation is positively related with SMEs performance	98	3.88
Product innovation helps SMEs to identify opportunities and bring products to the market	98	3.79
Product innovation and process innovation are considered to be interdependent	98	3.89
With an inflexible product line or a highly specific process solution, new process technology can possibly hinder product innovation	98	3.67
<b>Process Innovation and SMEs Performance.</b>	<b>Total</b>	<b>Mean</b>
Innovation is a key on-going element in your organizational culture	98	3.89



There is an outcome for a company that continuously implements innovation in products/services?	98	3.99
Process innovation is communicated as a consequence of new developed products.	98	3.78
Process innovation enable the evolvement of the company's products and from this create more innovation project in the form of product innovation	98	3.84
The development of process innovation is deeply connected to external factors.	98	3.72
Process innovation is positively related with SMEs performance	98	3.85

Source: Field Survey 2018

## Test of Hypothesis and Interpretation of Results

### Test of Hypothesis One

Ho<sub>1</sub> : Product innovation is positively associated with SMEs performance.

**Table 4.3. Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.337 <sup>a</sup>	.113	.104	.688

Source: Field Survey 2018

a. Predictors: (Constant), PRODUCT INNOVATION

**Table 4.4. ANOVA<sup>b</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.813	1	5.813	12.274	.001 <sup>a</sup>
	Residual	45.463	96	.474		
	Total	51.276	97			

Source: Field Survey 2018

a. Predictors: (Constant), PRODUCT INNOVATION

b. Dependent Variable: SMEs PERFORMANCE

The results from the model summary table above revealed that the extent to which the variance in which PRODUCT INNOVATION can be explained by SMEs PERFORMANCE is 11.3% (R square = .113). The ANOVA table shows the Fcal 9.880 at 0.002 significance level. PRODUCT INNOVATION significantly assists in enhancing SMEs PERFORMANCE.

**Table 4.5. Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.371	.158		15.039	.000
PRODUCT INNOVATION	.211	.060	.337	3.503	.001

Source: Field Survey 2018

a. Dependent Variable: SMEs PERFORMANCE

The coefficient table above shows the simple model that expresses how PRODUCT INNOVATION could be adopted to enhance SMEs PERFORMANCE. The model is shown mathematically as follows;

$Y = a + bx$  where  $y$  is product quality and  $x$  is productivity,  $a$  is a constant factor and  $b$  is the value of coefficient. From this table therefore, SMEs PERFORMANCE =  $2.371 + 0.211$  PRODUCT INNOVATION. This means that for every 100% change in SMEs PERFORMANCE, PRODUCT INNOVATION contributed 21.1%.

### Decision

The significance level below 0.01 implies a statistical confidence of above 99%. This implies PRODUCT INNOVATION significantly assists in enhancing SMEs PERFORMANCE. Thus, the decision would be to reject the null hypothesis ( $H_0$ ), and accept the alternative hypothesis ( $H_a$ ).

### Test of Hypothesis Two

$H_{02}$ : Process innovation is positively associated with SMEs performance.

**Table 4.6. Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.716 <sup>a</sup>	.513	.508	.710

Source: Field Survey 2018

a. Predictors: (Constant), PROCESS INNOVATION

**Table 4.7. ANOVA<sup>b</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	50.950	1	50.950	100.980	.000 <sup>a</sup>
	Residual	48.437	96	.505		
	Total	99.388	97			

Source: Field Survey 2018

a. Predictors: (Constant), PROCESS INNOVATION

b. Dependent Variable: SMEs PERFORMANCE

The results from the model summary table above revealed that the extent to which the variance in which PROCESS INNOVATION can be explained by SMEs PERFORMANCE is 51.3% (R square = .513). The ANOVA table shows the Fcal 9.880 at 0.002 significance level. PROCESS INNOVATION significantly assists in enhancing SMEs PERFORMANCE

**Table 4.8. Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.695	.163		4.271	.000
	LOCATION	.626	.062	.716	10.049	.000

Source: Field Survey 2018

a. Dependent Variable: SMEs PERFORMANCE

The coefficient table above shows the simple model that expresses how PROCESS INNOVATION could be adopted to enhance SMEs PERFORMANCE. The model is shown mathematically as follows;

$Y = a + bx$  where  $y$  is process quality and  $x$  is productivity,  $a$  is a constant factor and  $b$  is the value of coefficient. From this table therefore,  $SMEs\ PERFORMANCE = .695 + 0.626\ PROCESS\ INNOVATION$ . This means that for every 100% change in SMEs PERFORMANCE, PROCESS INNOVATION contributed 62.6%.

### Decision

The significance level below 0.01 implies a statistical confidence of above 99%. This implies PROCESS INNOVATION significantly assists in enhancing SMEs PERFORMANCE. Thus, the decision would be to reject the null hypothesis ( $H_0$ ), and accept the alternative hypothesis ( $H_a$ ).

### Conclusion

In line with Hypothesis 1 and 2, product innovation and process innovation impacted firm performance positively and significantly with  $SMEs\ PERFORMANCE = 2.371 + 0.211\ PRODUCT\ INNOVATION$  and  $SMEs\ PERFORMANCE = .695 + 0.626\ PROCESS\ INNOVATION$  respectively. Such innovation contributed superior performance to those who were more innovative. The research proves that SMEs rely more on product and process innovation as compared to large firms where the amount of collaboration deals are divided by the number of employees, therefore

calculating the intensity for open innovation. The current evidence confirms that product innovation is more imperative for SMEs instead of large firms. It could be argued that the latest patterns of research in innovation management focus on product innovation, but it has been primarily studied in large companies that operate in technology oriented markets having large departments of R&D. The findings prove that process innovation has not received much attention in SMEs and present research conducted for SMEs is not comprehensive and they are not able to exhibit the creative usage of innovation which many innovative SMEs use and implement in their operations. The findings from the respondents reveals that SMEs that are mostly new in the market make more contribution to the system of innovation by launching new products for the consumers or adapting current products in a new manner according to the requirements of the consumers. The findings confirmed both hypotheses that product innovation and process innovation influenced SMEs performance significantly. It has been concluded in this work that innovation in SMEs is affected by financial resources deficiency, limited prospects for recruiting dedicated workers and innovation portfolios that are small in nature.

### **Recommendations**

- i. Process innovation should be driven by future environmental requirements and a desire to have a more sustainable pre-treatment process in the SMEs. The product innovation project must be supported through the creation of focus groups to strategically plan approach. Conducting workshops will assist SMEs to find new opportunities for innovation.
- ii. There should be clarifying of objectives with the process innovation in SMEs. A clear linkage between suppliers and uncertainty reduction in the process innovation must be observed which reduced uncertainties in process times, for the current state and the future.

### **Suggestions for Further Studies**

- i. Future study could be carried out to examine new trends in services, and innovative approaches for rendering services by SMEs to their customers.
- ii. A larger sample size comprising of several SMEs as case study can be used in order to generate wider findings and establish more reliable generalizations.

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