EFFECT OF INNOVATION ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMES) (A STUDY OF SOME SELECTED SMES IN ABUJA MUNICIPAL AREA COUNCIL)

BY

ROBERT OKOHUE
NSU/PGD/BAM/0413/18/19

BEING A PROJECT SUBMITTED TO THE SCHOOL OF POSTGRADUATE STUDIES, NASARAWA STATE UNIVERSITYKEFFI, IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF POSTGRADUATE DIPLOMA IN MANAGEMENT (PGDM)

DEPARTMENT OF BUSINESS ADMINISTRATION,
FACULTY OF ADMINISTRATION,
NASARAWA STATE UNIVERSITY
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DECLARATION

I, Robert Okohue humbly declare that, this research work entitled "Effect of Innovation on Performance of Small and Medium Enterprises (SMEs): A Study of Some Selected SMEs In Abuja Municipal Area Council", is a result of my research effort in the School of Postgraduate Studies, Nasarawa State University, Keffi under the supervision of Dr. Vincent Paul and I hereby attest that, apart from the works whose authors have been fully acknowledged in my references, this work is sorely my effort with no materials published or written by any person.

Robert Okohue

25-02-2020
Date

CERTIFICATION

This is to certify that this research project entitled "Effect of Innovation on Performance of Small and Medium Enterprises (SMEs): A Study of Some Selected SMEs in Abuja Municipal Area Council" was carried out by Robert Okohue, NSU/PGD/BAM/0413/18/19, of the School of Postgraduate Studies, Nasarawa State University, Keffi, for the award of Post Graduate Diploma in Management (PGDM) and is accepted for its literary contribution to knowledge.

Dr. Vincent Paul — Date 09/03/2021
Supervisor

Dr. Abdul Adamu — Date 13/4/21
Head of Department

Internal Examiner — Date

Prof. Barnabas Barde — Date 15-04-21
Dean, Faculty of Administration

External Examiner — Date

Prof. J.M Ayuba — Date
Dean, School of Postgraduate Studies

DEDICATION

I dedicate this research work to God Almighty who made it possible for me to undertake this program successfully.

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ABSTRACT

This study examined the effect of innovation on performance small and medium scale enterprises. The specific objectives of the study were to examine the effect of firm product innovation on the performance of SMEs, determine the effect of product innovation on customers' satisfaction and to ascertain the effect of process innovation on performance of selected SMEs. The population of the study consisted of all the SMEs in Abuja Municipal Area Council. A random sample of three hundred (300) SMEs was selected. Collection of data was done through a structured questionnaire. Frequency, percentages and mean score were used to analyze data. A mean score of 2.5 and above was considered significant. Chi-Square was used to test hypotheses. Statistical Package for Social Sciences (SPSS) was used to analyze data. Findings showed that innovation improved the profitability of SMEs, product innovation increases customers' satisfaction while process innovation enhances the productivity and competency of employees. The study recommended that due to the fact that cost of attracting new customers is more than cost of retaining existing customers, SMEs should from time to time launch new products or improve existing ones. They should also adopt process innovation, technological innovation and organizational innovation in order to increase employees' productivity.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The changes that are taking place in the business environment coupled with the rapid evolution of technology, renders it necessary to implement innovation processes in order to increase productivity (Reid & Mitchell, 2010). In an increasingly competitive market, success depends largely on the extent to which organizations are capable of innovating (Madrid & Van, 2009), as this will allow them to grow, increase their productivity and survive in this complex environment. The effect of innovation on an organization performance cannot be over emphasized. According to Schumpeter (1990), innovation has two effects on an organization. This effects are increase in demand and reduction in cost of production. Through innovation, firms are able to introduce new products into the market, open new market. This increases the demand for firms' product. By adopting better technology or methods of production, firms reduce their cost of production

Small and Medium Scale Enterprises (SMEs) have emerged as one of the highly concerned agenda in the global entrepreneurial development. Steier (2008) assert that SMEs is an emerging aspect of entrepreneurship which has evolve over the decades and still in it developing stage. Today, SMEs have been noted to account for the largest percentage of the businesses in many countries of the world (Kuratko & Richard, 2004).

In an era of tight competition today, SMEs are faced with the choice of being innovative or die (Madhoushi & Mihandost, 2011). Innovativeness is describes as the creation of new product, entering a new market, discovering new source of supply, adopting new technology and organizing the enterprise in an innovative manner. According to Zacharakis (1997), good entrepreneurs are always looking for new opportunities for

changes in the market place. Stewart (2003) argue that innovation is inherent. The role of entrepreneurship and it distinguished between entrepreneurs and managers.

A driving force for competitive scuffle in the present chaotic environment is innovation. Introducing new products and services are at the nucleus of economic growth and development. The ability to innovate has caused researchers to study activities leading to initiative advancement of individuals and organisations. Small and medium-sized enterprises (SMEs) furnish a strong increase to employment and economic growth specifically due to their innovative activities which becomes a main force of explaining competitive advantage and firm performance (Ussahawanitchakit, 2012; Keizer & Helman, 2002). Accordingly, the values fashioned by innovations shows potential circumstances that uncovered new ways of doing things or new products and processes that add benefits to economic fortunes. In both developed and developing countries of the world, SMEs companies have proofed to be prominent in terms of employment and added values to gross domestic product, 'yet their full potential remains untapped' Schlogl, (2004) cited in Menna and Ahmed (2013). The support given for the start up of SMEs, necessitate them to becoming important engines for innovation and technological advancement. In 2007, The World business council for sustainable development gave a summary of the weight SMEs lend to government and individuals: SMEs that are properly supervised become means of employment prospect and affluence creation. They aid in the generation of revenue and create communal solidity. Bigger organizations are provided with local services and supplies and communities have access to affordable goods and services at lower costs.

Furthermore, 'by working closely with SMEs, large corporations can develop a new customer base that may not be accessible to the traditional distribution networks of these

corporations' (Menna & Ahmed, 2013). Thus SMEs are a reliable source of supply and have understanding of the pattern of procurement. SMEs, world over have been found to provide jobs for about 75% of the workforce of any country. In periods of liberalization and privatization SMEs especially in emerging economics, has become vital economic tools and bedding seeds for entrepreneurship development and indigenous technology that create employment (Aremu, 2010; Hussein, 2010; Allocca & Kessler, 2006) and are better positioned over bigger firms in their capacity to be innovative (Salavou, Baltas & Lioukas, 2004). However there are barriers to the activities of innovation in SMEs which according to [Hussein, 2010; OECD, 2004; OECD, 2000] include a lack in capital investment, infrastructure, education and training systems, encumber regulations, and in general deficiencies in know-how and skills acquisition. Other barriers include constrained managerial capabilities, difficulty in utilizing technology which results in low productivity among others. Consequently, investing in innovative behaviours strengthens knowledge of employees and individuals that drive resilience of the organizations to create new products, processes, and new behaviour of working that generates improve competitiveness and achievement of necessary goals to shape performance.

Existing literature has described innovation differently. For example, Robert and Tucker (2008) affirmed there are three types of innovation, product, process and strategy or business model innovation. Schumpeter (1934) quoted by Olughor (2015) explains innovation to include five types: new products, new methods of production, new sources of supply, the exploitation of new markets, and new ways to organize business. For Drucker (1985) quoted in Olughor, 2015), innovation is seen as a process of equipping in new, improved capabilities or increased utility. Subramanian, and Nilakanta (1996) categorized organisational innovation into two (a) technological innovation which include

product, service and process; and (b) administrative innovation that includes organisational arrangement, administrative process and program.

With increasing global competition and quickly spreading of knowledge, the future of many businesses depends upon their ability to innovate. In this regard Castells (2010) and Huang and Tsai (2011) argue that most modern economies pursue progressive strategies and policies to develop a responsive and dynamic SMEs sector. This is done with potential to innovate, capability to respond rapidly to evolving economic environments. Emerging opportunities and threats forced companies to investigate and invest more on innovation to decrease risk of becoming uncompetitive. In this regard, innovation is about new solution that offers better value to customers. Organization use innovation to confirm critical decision in responding to technological or market challenges (Gomes, 1996).

The role of innovation as a crucial driving force of economic development is widely acknowledged. In particular within the business setting, innovation is often considered to be a vital source of strategic change, by which firm generates positive outcomes including sustained competitive advantage. As cited by Aminreza (2011) and Davila (2006), organized reasons why enterprises undertake innovation are: to improve quality, create new markets, expand product range, reduce labor costs, environmental change and energy consumption; improve production processes and materials; and replace products or services. For and other reasons, innovation has for many decades been subject to thorough analysis and research.

1.2 Statement of the problem

There have been many reports on the failure of some Nigerian businesses. Nwaigene (2015) assert that most Nigerian businesses fails after 2 or 3 years of startup due to lack

of innovativeness in their operations. Indeed innovativeness among SMEs owners have not been given serious attention, the focus has been on the larger business entities. In Abuja Municipal Area Council, Abuja, it then poses great threat and barrier against the success and survival of SMEs business within the region. In order to close the existing gap that this study examines impact of innovation on the performance SMEs in Abuja Municipal Area Council, Abuja.

The major problem is that the Abuja business environment is dynamic and competitive. As a result, for SMEs to cope with environmental dynamism, competition and achieve significant performance, new business, new product, new market, new technology and new process to market their businesses must be adopted. However, SMEs face a lot of challenges that can hinder innovation. These challenges include: organizational culture that does not favour innovation, inadequate fund, propensity to take risk by managers, low demand, inadequate expertise, inadequate market information, inconsistent government policy, among others. The study sought out how innovation (marketing innovation, process innovation and product innovation) enhances performance of SMEs in Abuja Municipal Area Council.

1.3 Research Questions

The following questions are addressed in the course of this research study.

i. To what extent is firm product innovation impact positively on the performance of SMEs in Abuja Municipal Area Council?

ii. Does product innovation have positive effect on customers' satisfaction?

iii. What is the effect of process innovation on employees' performance of SMEs?

1.4 Objectives of the study

The main objective of this study is to examine the effect of innovation on performance of SMEs in Abuja Municipal Area Council. The specific objectives are as follows:

i. To examine the effect of firm product innovation on the performance of SMEs.

ii. To determine the effect of product innovation on customer satisfaction.

iii. To ascertain the effect of process innovation on employees' performance of selected SMEs.

1.5 Statement of Hypotheses

The hypotheses to be tested are stated below.

$H_0$1: Firm product innovation has no significant impact on the performance of SMES in Abuja Municipal Area Council.

$H_0$2: Product innovation has no significant effect on customers' satisfaction in Abuja Municipal Area Council.

$H_0$3: Process innovation has no significant effect on employees performance of selected SMEs in Abuja Municipal Area Council.

1.6 Significance of the Study

A research on the effect of innovation on performance of SMEs in AMAC would be beneficial to all its stakeholders considering their stake and interest position. The findings of this study would contribute to the understanding of the impact of innovation on SMEs in AMAC. The finding of this study if adopted will assist SMEs to increase their performance through increase in demand for their product and reduction in cost of production. The study will help SMEs to understand different ways of adopting

innovation in their business. In addition to above, the study will help SMEs in AMAC to solve the challenges facing innovation.

The results of this study will also be of importance to investors and creditors as it will provide insight into the activities SMEs. Both investors and creditors can rely on the information drawn from this research to access and make informed decision on their investment position towards SMEs.

This study will help policy makers to make favourable policy towards the development of SMEs in AMAC. It will help to understand the importance of innovation to the growth and development of SMEs which help in formulation of appropriate policies that can promote innovation among SMEs.

This study will contribute to knowledge. The study will help to approve or disapprove the existing theory about the relationship between innovation and performance of SMEs.

1.7 Scope of the Study

The study focuses on effect of innovation on SMEs in Abuja Municipal Area Council, Abuja. To effectively measure the effect of innovation on the performance of SMEs, the study considered SMEs businesses which have been in existence for a period of five years and above irrespective of their sector and nature of operation. The study covers all aspect of business that SMEs are expected to apply innovation. These include product innovation and process innovation.

1.9 Definition of Operational Terms

Innovation: This involves the application of new ideas to production and distribution of goods and services.

Market Innovation: This involves opening of new market, developing of better ways of marketing or distribution of goods and services. It also includes better ways of packaging products.

Organizational Innovation: This involves the implementation of a new organizational method in the firm's business practices, workplace organization or external relations

Performance: This refers to the extent to which an organization achieves its goals or objectives. It includes increase in profit, increase in sales, increase in employees' satisfaction, increase in customer satisfaction, reduction in cost, and increase in demand, among others.

Product Innovation: This involves introduction of new products into the market or improving the existing ones.

Process Innovation: This involves introduction of better methods of production. It includes adoption of new or better technologies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Framework

This section of literature review discusses the concept of innovation, performance and small and medium enterprises.

2.1.1 Concept of Innovation

The term innovation comes from the Latin's word Innovare, which means "to make something new" (Amidon, 2013, Tidd, Jones & Collins, 2005) According to Trott (2010) innovativeness is described as a process of production and implementation of a new or significantly improved production or delivery method; and organizational changes which is the creation or alternative of the structure practice and models, management of staff and improving product design. Arising from this, the concept has hence been viewed differently to the extent of introducing a debate as to what constitutes innovation (Cooper, 1998). It has hence come into view as a multidimensional concept which includes various dimensions like product- process- marketing organization, incremental –radical; and technological – non technological innovation.'

Being one of the first definition it was not as specific; it explained that any shift in the in the production function was to be seen as innovation. Duckers (1985) define innovation as the specific tool of entrepreneurs, the means by which exploit change as an opportunity for a different business or service similarly; Tidd, Bessant and Pavitt (2005) define innovation as a process of turning opportunity into new ideals and putting these into widely used practice. Whereas, Bargemen (2009) defined innovation as the multi-stage process whereby organization transfer ideals into new or improved products, service or processes, in order to advance, compete and differentiate themselves successfully in their

market place. Another dimension of innovation has been the nature of innovation with the two extremes being technological and non- technological. Technological innovation has been used to refer to the process through which technological advance are produced, while non-technological innovation include strategies, processes, structure and management techniques (Eris & Saatcioglu, 2006).

The last decades has been characterised by rapid social, political and technological change. The literature has recognized various phrases such as 'globalisation, global warming, the borderless world, personal computer and the Internet' that have entered the vocabulary of this era. The movement in organizations and business are becoming more complex rather than simple, dynamic than steady and aggressive in nature than tame (Neu &Brown, 2005). In this period, there is confusion in the meaning of innovation and invention.

According to Freeman, (1982) cited in Olughor, 2015), "an *invention* is an idea, a sketch or model for a new or improved device, product, process, or system" whereas "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 (ologhor, 2015). Moreover, in turbulent periods organizational can become flexible when they try incessantly to reinvent their business model [18]. 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 & Tucker 2008) argued that innovation "is the coming up of ideas and bringing them to life". The Grant (2005) 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 (European Commission, 1995) 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.

Wood (2008) opines that creativity of an organization is mainly concerned with the establishment of valuable and useful new product, service or idea and the methods by which individuals work together in a complicated social system. Innovation is basically concerned and defined with the adoption of a product, service and methods that are new for organizations and adopted by them.

Crossan and Apaydin (2010) highlights that innovation is creation or acceptance , adaptation and utilization of a value - added novelty in trade and industry spheres, regeneration and expansion of product , services and markets, making of new ways of product development and establishing new management system. Similarly, Orlikowski (2010), Tsoukas and Vladimirou (2002) and Wierdsma (2004) stated that innovation is the process of development of new outcome by adopting new ways of working and product development. Moreover, this new method of working is concerned with the improvement and better performance of an organization that result in production of a new service, process and product. Innovation is generative renewal and competence of an organization to perform in correspondence to environment. Innovation is seen as a most

important part of an organizational life that emerges in daily activities and interaction of the organizational members while they carry out their work and goals.

Innovation is considered as every day issue for members of organizations in defining their problems, responding to unforeseen events, creation of solutions and development of new ways and procedures to organize work, through the use of experience, skills, motivation and the knowledge accumulated is converted in to production of an innovative product or service (Tsoukas & Vladimirou, 2002; Wierdsma 2004, Kocher et al. 2011, Miettinen et al. 2009). Boer et al. (2005) explains that the organizational practices of the innovation are maintained, established and uses the standard set of actions or systems like designing of an idea or thought, evaluation and managerial efforts and practices for innovation like flexible roles, rotation , for time being projects teams, self organizing groups. Moreover, the formal practices help out and encourage the employees to participate not only in innovation and learning activities but also be a part of designing activities (Wilhelmsson & Döös, 2009, Kianto, 2008).

Tsoukas and Vladimirou, (2011), Jensen et al. (2007) stresses on dualistic nature of innovation between exploration and exploitation, individual and collective, STI (Science, Technology and Innovation) and DUI (Doing, Using and Interaction) mode of innovation and on organizational level between suppleness and competence. Eisenhardt et. al. (2010) suggests that either the complementary processes, harmonization, meta level collective orientation or gather them in constant dialogic relationship in order to have control on both sides. Moreover, Foss et al. (2010) opines that it is not clear that how the activities of exploration/ exploitation and the process of knowledge usage, creation and integration occurs, it is not only concerned with the individual and team level, thus, we can get the complete picture of how the innovations are performed in an organizations.

Wierdsma, (2004) and Yuan and Woodman (2010) state that innovation is seen as rising trend in day to day work of organizational members and on individual level the exploration and generation of an idea is performed by the individual actions and via social interaction. If we talk about in terms of individual it means that capability to express skills and insight that is creation, encouragement and endorsement of new idea in to action. In order to improve the performance of an individual or group of an organization the thought or idea can be taken as a collective practice in order to get the best play of day by day increasing innovation and renewal demands that is the main player between the individual and organizational knowledge.

OECD, (2005) differentiates four types of innovation: product, process, organisational and marketing. Product innovation refers to the new or improved product, equipment or service that is successful on the market. A process innovation entails the implementation of a new or enhanced manufacturing or distribution process, or a new course of social service. In addition to product and process innovation, there is organisational innovation. Organisational innovation results in new ways of categorizing internal associations, directing and empowering employees, molding careers and rewarding work with pay and benefits (Ottenbacher & Gnoth, 2005). This leads to more effective use of human resources that are of importance to the successful utilization of ideas (Olughor, 2015).

Marketing innovation engages in the improvement of target mix of markets and how selected markets are attended to. The objective of marketing innovation is to bring about major changes in product design and/or packaging, placement and promotion. Thus according to Van de Ven (1986) cited in Olughor, 2015), 'innovation is intrinsically about identifying and using opportunities to create new products, services or work practices'. More so the report of OECD (2005) had shown that firms decisions to expand on

innovations has brought about improvement in workers capabilities, better wages and salaries and a decisive prospect for employees. Consequently, these effects of innovations on firm performance vary in scale from sales, market share and profitability to output and efficiency.

Akliu (2010) assert that innovation is any good service or ideals that are perceived by someone as new. Besant and Tadd (2007) view innovation in the manufacturing sector as the technical, design, manufacturing, management and commercial activities involved in the marketing of a new (or improved) product or the first commercial use of a new (or improved) process or equipment. Kuratko and Hodgetts (2004) assert that innovation is the creation, a development of an invention and ultimately the introduction of a new product, process or service to the market. Robbins and Coulter (2006) assert that innovation is the process of taking creative ideas and turning them into useful product or work method. However, innovation is the process of totally undergoing new business activities aside existing practice.

2.1.1.1 Types of Innovations

Innovation is the implementation of a new or significantly improved product, or process, a new marketing or organizational method in business practices, workplace organization or external relations (OECD, 2005). However, the broad definition of innovation can be more narrowly categorized as the implementation of one or more types of innovations, for instance technological or non technological innovations. Therefore, four types of innovations are distinguished according OECD, (2005).

(i) **Product innovation:** is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses.

(ii) **Process innovation:** is the implementation of a new or significantly improved production and/or delivery method for the creation and provision of services.

(iii) **Marketing innovation** is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion and pricing that is use of new pricing to market whereas,

(iv) **Organizational innovation** is the implementation of a new organizational method in the firm's business practices, workplace organization or external relations.

2.1.1.2 Innovation and Firms' Performance

A firm performance is related to the ability of the firm to gain profit and growth in order to achieve its general strategic objectives (Hult, Hurley & Knight, 2004). It is a consequence of the interaction between actions taken in relation to competitive forces that allow the firm to adapt to the external environment, thereby integrating competence and usefulness (Miller, 1998). Keizer (2001) emphasized that the firm's innovation performance depends on the opportunities provided by their external environment. This implies that SMES becomes very competitive in an emerging market environment. Essentially, the key reason for innovativeness is the desire of firms to obtain increased business performance and increased competitive edge.

To investigate the relationship between firms performance and its familiarity with innovation and research, it was found that outlook of firms towards innovations has high score in the competitive environment so as to gain higher competitive lead. Through an integrated innovation performance analysis carried out on 184 manufacturing firms operating in turkey, the effect of organizational, product, process and marketing innovation was explored on different aspects of firm performance-innovation, production,

and market and financial. The result showed an evidence of a positive relationship of innovation on firm's performance (Carton, 2004).

The study of the relationship between learning orientation, firm innovation and firm performance in U.S firms found that learning orientation is significant for innovation and performance. With an investigation of 600 firms in the manufacturing sector, the study results showed that, innovation strategy is a key driver to performance of SMEs, which do not appear to implement innovation culture in a strategic and structured manner, the conclusion of the study was that SMEs performance is likely to improve as they increase the degree to which they realize that innovation culture and strategy are closely aligned throughout the innovation process. The study of 320 SMEs operating in ICT industry in Malaysia was investigated, the investigation revealed that organizational learning contributes to innovation capability and in turn innovation is positively related to firm (Cooper, 1998).

Yahya, Marwan, and Muna (2005), emphasized that the firm's innovation performance depends on the opportunities provided by their external environment. This implies that SMEs becomes very competitive in an emerging market when they give importance to innovative activities that build their reputation in the market environment. Essentially, the key reason for innovativeness is the desire of firms to obtain increased business performance and increased competitive edge (Gunday, & Kilic, 2011).

McAdam and Keogh (2004) investigated the relationship between firms' performance and its familiarity with innovation and research. It was found that; outlook of firms towards innovations has high score in the competitive environments so as to gain higher competitive lead. Through an integrated innovation-performance analysis carried out by Yahya, Marwan, and Muna (2005) on 184 manufacturing firms operating in Turkey, the

effect of organizational, product, process and marketing innovation was explored on different aspects of firm performance-innovation, production, market and financial. The results showed an evidence of a positive relationship of innovations on firms' performance.

The study of McAdam and Keogh (2004) 'the relationship between learning orientation, firm innovation and firm performance' in US firms found that learning orientation is significant for innovation and performance. Terziovski 2010) considered innovation practices and its effects on performance of SMEs in Australians. With an investigation of 600 firms in the manufacturing sector, the study results showed that, innovation strategy is a key driver to performance of SMEs, which do not appear implement innovation culture in a strategic and structured manner, The conclusion of the study was that SMEs performance is likely to improve as they increase the degree to which they realized that innovation culture and strategy are closely aligned throughout the innovation process. The study of 320 SMEs operating in the ICT industry in Malaysia was investigated by (Salim & Sulaiman, 2011). The investigation revealed that organizational learning contributes to innovation capability and in turn innovation is positively related to firm. In the work of Shefer and Frenkel (2005) where 1,091 samples of SMEs in Spanish manufacturing firms was studied, the finding showed innovation (product, process and administration system) was related to performance.

2.1.1.3 Barriers to Innovation

One of the several different approaches to innovation concentrates on the main barriers that is, obstacles to innovation usually as perceived by the top management of the firms. This approach is sometimes extended to include factors motivating innovation that is facilitators. The aim of the research on barriers is initially to find out their nature, origin,

and importance. It attempts then to identify their point of impact in the innovation process and to measure their affects or consequences.

The measurement of effects is the really difficult part. Barriers can be classified in various ways, a usual one differentiates between external to firm or exogenous and internal or endogenous ones (Piatier, 1994). External can be further subdivided into demand, and environment related. Supply barriers include difficulties in obtaining technological information, raw materials and finance. Demand barriers have to do with customer needs, their perception of the risk of innovation, and domestic or foreign market limitations. Environmental ones include various government regulations, anti-trust measures, and policy actions. Internal barriers can be further subdivided into resource related, for example, lack of internal funds, technical expertise or management time, culture and systems related, for example out-of-date accountancy systems (Rush & Bessant 1992), and human nature related, for example, attitude of top manager to risk or employee resistance to innovation.

Barriers may even act as innovation stimulants in some cases rather than inhibitors. Successful innovation has been associated with subsequent growth and therefore performance of the firm (Freeman, 1982). It is expected then that barriers to innovation will also affect negatively the economic performance of a firm. The reservation for their possible positive effect on the success of an organization in some cases makes make it impossible to know the direction, however the direction of association between barrier and performance includes small and medium Enterprises (SMEs), even industrialized countries are expected to face relatively more barriers to innovation than large firms due to inadequate internal resources and expertise. This is why more emphasis has been given to SMEs in studying their barriers to innovation SMEs need, therefore, to obtain

technology and resources from external sources through strategic network and as a consequence the interactive character of innovation, in their case is even more intense than in large firms (Rothwell & Dodgson, 1991). It is assumed that the higher the importance attached to barriers, the higher the networking propensity. In under-developing nations, SMEs faces apart from the above mentioned problems, the inadequate technological and policy infrastructure studies on barrier to innovation in such contexts are relatively rare.

Baranano (2005) revealed two barriers to innovation when he conducted a study on five Portuguese SMEs. The barriers are the lack of qualified human resources and a huge absence of external communication between the knowledge generations (universities and investigation institutes). Fernandes and Nicolas (2002) conducted a study that related the localization and innovation dynamic of the Portuguese entrepreneurial, the low formal investigation due to paucity on human and financial resources. Cardoso, Lima and Costa (2004), promoted a study on organizational barriers to the introduction of new technologies. The results reported in the study showed that the leading opposition to new technologies is structural in nature. The observation of the Portuguese business community in order to understand the longevity of companies recognize the following as barriers to innovation: the high economic cost and risk associated with innovation, lack of funding, organizational rigidity, lack of skilled human resources, lack of market information and technology, government regulation, weak capacity to approach the Client as well as lack of cooperation with centres of learning (Vieira, 2007).

The barriers to innovation faced by Spanish SMEs in a study conducted by Madrid-Guijarro, Garcia and Auken (2009) are: the external environment, human resources, risk and , the financial position. The authors also conclude that the cost of innovation affects

more small and medium sized enterprise and that the different barriers promote different impacts on different types of innovation.

The UK companies face three main barriers to innovation which are the time of development of innovation, risk aversion and poor market knowledge (Toustiga & Birschall, 2007). The German reality shows the following low budget, difficulty in recruiting adequate human resource, bureaucracy and poor cooperation between enterprises as being the most frequent barriers to innovation (Tiwari & Buse, 2007). Tiwari (2010) also emphasis the lack of the target market, bureaucratic constraints and the inability to find or decide on the better partner for strategic cooperation. A study carried over SMEs in Syprus showed the following conclusions; the internal most significant barriers are lack of time, the inadequacy of R & D activities, the design and testing within the company and inadequate financial resource (Hadjimarrolis, 1999).

Demirbas (2010) conducted a study on barriers to innovation in Turkey and reached some conclusions. The entrepreneurs who are innovative are those with greater perception of barriers to innovation. The results show as barriers to innovation in Turkey: (1) lack of state policies to support technology and R & D activities (2) the negative impact of the economy in the level of investment (3) the high cost of innovation (4) lack of appropriate means of financing and (5) lack of qualified personnel.

Necadova and Scholleva (2011) identified as barriers to innovation in the (Zech republic the items described: (1) high cost (2) lack of specialists (3) extremely long payback period of investment (4) equipment technology (5) standards and legislation (6) lack of capital (7) lack of consumer response (8) resistance to change (9) the fear of risk (10) ignorance of the market and (11) the infrastructure of the business.

According to Comtesse, Hodgkinson and Krug (2002), the Swiss business sector faces the following barriers to innovation. The cultural levels are as follow: risk aversion, public complacency , non- recognition of high value innovation , provincialism and closed networks. The educational levels are: the inability of frame work tools for innovation in education, limited human capital, the absence of functional models and lack of entrepreneurial mindset. At the political level: poor access to financing, legal barriers, insufficient political vision and growth, underutilized infrastructure and intellectual capital.

Mussi and Spuldaro (2008) studied the following barriers to innovation in Brazilian SMEs: (1) the risk associated with excessive specialization of human resources (2) the super enhancement of production process or service by its practitioners (3) the limitation in the allocation of financial and human resources and (4) the limitation on market access (for example, concessions).

Observing the Iranian case, Kamalian, Rasiki and Arbabi (2011) unveiled as barriers to innovation (1) excessive economic risks (2) the insufficiency of economic resource (3) the unavailability of funds and (4) the high cost associated with innovation. The authors also divulged lack of response by the consumers as lack of qualified personnel.

Murakali and Hansson (2007) on their study about innovation barriers on the civil construction activity in Uganda, identified the following barriers described in importance order: the domestic market dimension, the security level, governmental intervention, the faxing on new products or services, lack of access to internal, market and the discouraging policies of labour mobility.

2.1.2 Concept of Performance

Organizational performance is the degree or extent of achievement of organizational goals and objectives. Daft (2000) considered organizational performance as the achievement of an organization's objectives using fewer resources. This achievement can be in terms of economy, efficiency or effectiveness. Different dimensions have been used by scholars to measure organizational performance. Salem (2003) used three dimensions to measure organizational performance: economy, efficiency, and effectiveness. According to her, economy measures are concerned with the operational level, and deals with procurement of resources', efficiency measures are deals with the tactical and centered on use of resources. While effectiveness measures focus on the strategic level of an organization and are concerned with achievement of goals.

Carton (2004) identified ten dimensions of organizational performance: efficiency, growth, profit, liquidity, market share, leverage, size, survival, operational, and market. Kerandi, Peter and James (2014) classified organizational performance into two types: financial and non-financial measures. Chong, Jones and Philip (2011) used reduction of cost, minimization of lead-time, inventory turnover, as well as avoidance of product return or reject and effectiveness in meeting customer needs as dimensions in measuring performance. Gautam (2015) used the followings to measure organizational performance: rate of innovation, employee commitment and satisfaction, labor productivity, product quality, financial performance, and market share.

Based on the following definitions, one can conclude that basically organizational performance can be classified into financial and non-financial. Financial Performance is widely measured through the financial success of the organization. The major measure of financial measure of a profit driven organization is profitability (Davis, Bogozzi &

Warshaw (2000). The profitability of an organization is an important financial indicator to reflect the efficiency of the organization and the owners/managers ability to increase sales while keeping the variable costs down (Davis, et al. 2000). The common measures of financial performance according to Robinson (2000) are: Profit Margin, Return On Assets (ROA), Return On Equity (ROE), Return On Investment (ROI), and Return On Sales (ROS). Non-Financial Performance measures include job satisfaction, organizational commitment, and employee turnover (Robinson, 2000).

2.1.3 Concept of Small and Medium Scale Enterprises: The Nigerian Context

Numerous scholars have attempted to define the concept of SME in Nigeria. For instance, according to Omisakin (1999), the Central Bank of Nigeria states that in the area of commercial banks, small scale industries are those with annual turnover not exceeding N5 million. The Nigerian Industrial Development Bank (NIDB). Now Bank of Industry (BOI) defines as Small Scale, Industries with project cost (investment and working capital) not exceeding N3 million. Moreover, the National Economic Reconstruction Fund (NERFUND) defined small-scale industries as those with fixed assets other than land but inclusive of the cost of new investment as not exceeding N10 million. In the Federal Ministry of Commerce and Industry's guidelines to the Nigerian Bank for Commerce and Industries (NBCI) in 1981/82, Small Scale enterprises are those with total investment cost no more than N500, 000 (excluding cost of land but including working capital). However, the NBCI in its agreement with the World Bank, over the same period, defined small scale enterprises as one with project cost not exceeding N300,000 and with cost per job created not more than N7,500. Yet some states and institutions in Nigeria have reduced the capital base for the industry to as low as N150, 000 and 250,000 respectively (Olayiwola & Adeleye, 2005). The centre for industrial

Research and Development (CIRD) at the Obafemi Awolowo University, Ile-Ife (1979) had defined a small scale industry as an enterprise having a capital base excluding land of between N1 and 20 million and employing fewer than 50 full time workers (Johnson, 2006).

As in developed economies, Nigeria with the introduction of the National Policy on Micro, Small and Medium Scale Enterprises (MSMEs) has recently addressed the issue of definition as to what constitutes micro, small and medium enterprises. The definition adopts a classification based on dual criteria, employment and assets (excluding land and buildings) as shown below.

i. Micro Scale Enterprises are those enterprises whose total assets (excluding land and buildings) are less than Five Million Naira (N5, 000,000) with a workforce not exceeding ten employees.
ii. Small Scale Enterprises are those enterprises whose total assets (excluding land and building) are above Five Million Naira but not exceeding Fifty Million Naira (50,000,000) with a total workforce of above ten, but not exceeding Forty – Nine employees.
iii. Medium Scale Enterprises are those enterprises with total assets (excluding land and building) above Fifty Million Naira (N50, 000.000), but not exceeding Five Hundred Million Naira (N500,000,000) with a total workforce of between 50 and 199 employees.

2.1.3.1 Contributions of SMEs to the Nigerian Economy

SMEs have contributed to the Nigerian Economy in some ways. A few years ago SME represent about 90 percent of the Industrial Sector in terms of number of enterprises and further more they contribute a scanty 1 percent of gross domestic product (NIPC, 2002).

This is significant when compared to countries like Indonesia, India and Thailand, where SMEs contribute almost 40 percent of their GDP. In many other countries SMEs form an important part of the business landscape, but they are faced with significant challenges and obstacles that compromise their efficient ability to function and to give or contribute to Nigerian economy. The corporate Affairs commission in Abuja estimates that 90 percent of all Nigerian businesses in 2001 employed less than fifty people. Similarly, a study that was conducted by the International Finance Corporation at the same period estimated 96 percent of all business in Nigeria is SMEs, compared to 53 percent in the USA and 65 percent in the EU. The SMEs in these two parts of the world accounts for 50 percent of their respective country's GDP. This shows clearly that given the necessary support, SMEs could become an important play maker in the development processes of the Nigerian Economy. It has proved to be one of the most viable sectors with economic growth potential. A broad insight into the investment activities and the earnings of SMEs can be gained by examining and analyzing the findings of the Nigerian Institute of Social and Economic Research.

NISER has been surveying business conditions, experience, expertise and expectations of the operators of Nigeria manufacturing sector for almost decade. The survey has enormously included SMEs in Major Industrial Cluster (Kano, Asaba – Onisha – Nnewi, Kaduna – Jos and Lagos) in Nigeria. Another significant role of the SMEs in Nigeria shows that they have been identified as the source through which several problems have been approached and solved e.g Job creation, poverty alleviation and Industrialization growth.

SMEs has gradually and steadily become an important topic in the recent years, apart from the numerous goods produced by SMEs; they provide a veritable large scale

employment because they are labor intensive, they also provide training groups for entrepreneurs, mainly because they rely more on the use of local materials.

2.1.4 Government Contributions towards SMEs in Nigeria

SMEs, considering their characteristics of Small capital investment, low profit margin, small sizes and small management staffs, they cannot afford all the technical and support that they need for a successful business operation. However, acknowledging that the SMEs hold the biggest prospect of growth for Nigerian economy. The government over the years has begun to address the problems that impede the growth by putting several programmes and policies that would provide an empowering operating environment. These support programmes and policies in NIPC (2002) and Akinbinu (2003). They include export promotion, technical services for innovation, financial services, training and investment promotion.

Furthermore; much of these government interventions are targeted at approaching the institutional and market failures, and the constraints to the survival and growth of SME were affected through the financial and support programmes. The financial support programmes include incentives in the form of targeted subsidized credit schemes administered through (DFIs) development finance institutions and sectoral interventions through selective credit controls contained in the credit guidelines issued by the (CBN) Central Bank of Nigeria. The others are technical training support and the classification of SMEs as a preferred sector.

The first systematic effort at supporting SMEs was the setting up of the Industrial Development Centre's (IDC). Each State stating with Zaria, Owerri, and Oshongbo; these were complemented with the establishment of DFIs such as the Nigerian Industrial

Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI), National Economic Recovery Fund (NERFUND) and the Nigerian Export and Import Bank (NEXIM). Subsequently, the specialized and subsidized targeted credit schemes such as NERFUND and World Bank SME 1 and SME2 loans were established. These credit schemes provided interest rate subsidy and included that participated of the commercial banks and merchant banks to administer the loan.

2.2 Empirical Reviews

In an appraisal on the effect of several innovation dimensions on SMEs performances, a study conducted in 2013 targeted 284 SMEs in the food and beverage, textiles and clothing and wood-based sub-industries across Malaysia. Using a hierarchical regression analysis, the study finds that product innovation and process innovation affect firm performance significantly; impact of the former being stronger (Rosli & Sidek, 2013). A number of studies prior to this study, conducted in different countries, also conclude that innovation affects SMEs/firms performances positively. Geroski and Van Reenen, (1993); Han and Srivastava (1998); Raymond & St-Pierre, (2010) and Salim and Sulaiman, (2011) are among these studies.

Accordingly, a recent study by Terziovski, (2010) which investigates the relationship between innovation and performance of wooden furniture manufacturing SMEs in Indonesia finds that innovation has a positive effect on firm`s performance. Moreover, a research conducted in Kenya by Ndalira, Ngugi and Chepkulei, (2013) went on to affirm that innovation plays a significant role in the growth of SMEs.

Twaliwi & Isaac (2017) probe the effect of innovation on SMEs performance in Gwagwalada-Abuja. Data was collected from 348 SMEs in five consecutive years (2010

to 2015), and then carried out regression analysis by using Ordinary Least Squares (OLS) Method to estimate the effect. The study reveals that innovation has a positive effect on the performance of SMEs in Gwagwalada-Abuja. It specifically finds that the (positive) effects of product innovation, process innovation and marketing innovation are statistically significant. In spite of this, the study uncovers that SMEs in Gwagwalada-Abuja do not frequently adopt innovation, and thus, recommends for these SMEs to adopt new innovation methods in order to improve their performances. Our study adopts the regression model from this study, and expands the model to avoid likely endogeneity problem.

Nham *et al.* (2016) in their study revealed that organizational innovation positively affects the performance of firms. Their findings showed that the higher the innovation activities of firms, the higher their innovative performance. Also, Della and Solari (2008) in their study of medium-sized Milanese firms found that organizational innovation is related to business performance.

McAdam and Keogh (2004) investigated the relationship between firms' performance and its familiarity with innovation and research. It was found that; outlook of firms towards innovations has high score in the competitive environments so as to gain higher competitive lead. Through an integrated innovation-performance analysis carried out by Yahya, Marwan and Muna (2005) on 184 manufacturing firms operating in Turkey, the effect of organizational, product, process and marketing innovation was explored on different aspects of firm performance-innovation, production, market and financial. The results showed an evidence of a positive relationship of innovations on firms' performance.

The study of Calantone, Cavusgil and Zhao (2002) 'the relationship between learning orientation, firm innovation and firm performance' in US firms found that learning orientation is significant for innovation and performance. Terziovski (2010) considered innovation practices and its effects on performance of SMEs in Australians. With an investigation of 600 firms in the manufacturing sector, the study results showed that, innovation strategy is a key driver to performance of SMEs, which do not appear implement innovation culture in a strategic and structured manner, The conclusion of the study was that SMEs performance is likely to improve as they increase the degree to which they realized that innovation culture and strategy are closely aligned throughout the innovation process. The study of 320 SMEs operating in the ICT industry in Malaysia was investigated by Salim and Sulaiman (2011). The investigation revealed that organizational learning contributes to innovation capability and in turn innovation is positively related to firm. In the work of Van Auken, Madrid & García (2008) where 1,091 samples of SMEs in Spanish manufacturing firms was studied, the finding showed innovation (product, process and administration system) was related to performance.

Roper and Love (2002) found, on a sample of UK and German manufacturing companies, that product innovators had more inclination towards exporting than non-innovating firms; however, the innovation factor was not in a statistically significant correlation with export propensity (growing scale of export). Basile (2001) showed, on a sample of Italian manufacturing firms, that innovation strategies positively influenced the export intensity, and also checked for the additional influence of firm size, ownership structure, location and labour cost per unit of product. On a sample of Chinese industrial firms Guan and Ma (2003) showed that export growth was closely related to improvement of innovation capabilities. They also elaborated that the core innovation assets (R&D, manufacturing, marketing) were not sufficient for the sustainability of innovation growth, but rather the

other four innovation capabilities (learning capability, organisational capability, resource exploiting capability, strategic capability).

Damanpour, Walker, and Avellaneda (2009) showed that the combined effect of different types of innovation positively influenced organisational performance and pointed out the significance of non-technological innovation in service firms. Koellinger (2008) also confirmed the positive relationship of product and process e-business innovators with turnover and firm growth, showing that innovative firms are more likely to grow. Developing the prior work, we formed a research question to explore whether there is a significant difference between innovators, social innovators and non-innovators in terms of business performance in the sample of Adriatic-region based SMEs.

A meta-analysis of empirical papers on this relationship by Rosenbusch, Brinckmann and Bausch (2011) shows that the results vary because of the influence of the contextual factors on the nature of the relationship (age of the firm, type of innovation, cultural context). In that sense, exploring this relationship between innovation and performance further, with an additional focus on social innovation specificities (prerequisites) can create relevant points for future research.

2.3 Theoretical Framework

The theories discussed in this study are Schumpeter Theory of Innovation, Technology-Organization-Environment Model (TOE) and Technology Acceptance Model (TAM).

2.3.1 Schumpeter Theory of Innovation

The Innovation Theory of Profit was proposed by Joseph. A. Schumpeter, who believed that an entrepreneur can earn economic profits by introducing successful innovations. In

other words, innovation theory of profit posits that the main function of an entrepreneur is to introduce innovations and the profit in the form of reward is given for his performance. According to Schumpeter, innovation refers to any new policy that an entrepreneur undertakes to reduce the overall cost of production or increase the demand for his products. Thus, innovation can be classified into two categories; the first category includes all those activities which reduce the overall cost of production such as the introduction of a new method or technique of production, the introduction of new machinery, innovative methods of organizing the industry (Schumpeter, 1990).

The second category of innovation includes all such activities which increase the demand for a product such as the introduction of a new commodity or new quality goods, the emergence or opening of a new market, finding new sources of raw material, a new variety or a design of the product, among others (Schumpeter, 1990).

The innovation theory of profit posits that the entrepreneur gains profit if his innovation is successful either in reducing the overall cost of production or increasing the demand for his product. Often, the profits earned are for a shorter duration as the competitors imitate the innovation, thereby ceasing the innovation to be new or novice. Earlier, the entrepreneur was enjoying a monopoly position in the market as innovation was confined to him and was earning larger profits. But after some time, with the others imitating the innovation, the profits started disappearing (Schumpeter, 1990).

An entrepreneur can earn larger profits for a longer duration if the law allows him to patent his innovation. Such a design of a product is patented to discourage others to imitate it. Over the time, the supply of factors remaining the same, the factor prices tend to rise as a result of which the cost of production also increases. On the other hand, with the firms adopting innovations the supply of goods and services increases and their prices

fall. Thus, on one hand the output per unit cost increases while on the other hand the per unit revenue decreases (Schumpeter, 1990). There is a point of time when the difference between the costs and receipts gets disappears. Thus, the profit in excess of the normal profit disappears. This innovation process continues and also the profits continue to appear or disappear.

2.3.2 Technology-Organization-Environment Model (TOE)

Tornatzky and Fleischer (1990) stated that innovation adoption depends on technological, organizational and environmental factors. There are a number of research studies as Borgman (2013) and Ifinedo (2011), have adopted the model in the adoption process and used of the technology. Moreover, the model incorporates the three qualities of the technology, organizational factors, and macro-environment factors (Okechi & Kepeghom, 2013). Ifinedo (2011) reveals from his studies based on the TOE framework factors that affects e- business acceptance and usage in small and medium enterprises included variables as organizational readiness, top management support, financial resources, perceive cost of deploying ICT. The model adopts three perspective which affects ICT adoption, this involved technological, environmental, and the organization perspective.

2.3.3 Technology Acceptance Model (TAM)

Technology Acceptance Model (TAM) is designed to explain determinants of user acceptance of a wide range of end-user computing technologies (Davis, 2009). In addition, TAM is not only parsimonious but also can provide empirical support to explain determinants of innovation adoption (Agarwal & Prasad, 2009). It claims that user's adoption of ICT is determined by intention to use, which in turn is driven

by the user's attitude and belief about the system. TAM further explains that perceived usefulness and perceived ease of use are helpful in explaining difference in users' intention (Davis, 2009). In short, it can be concluded that TAM emphasizes on three factors that can influence usage of technology, namely attitude, perceive usefulness and perceive ease of use. Attitude is a mental and neural state of readiness, organized through experience. Exerting a directive or dynamic influence upon the individual's response to all objects and situations with which it is related (Horne, 1995).

Davis, (1999) defined perceived usefulness as the degree to which a person believes that using a particular information systems would enhance his or her job performance. In this study, perceived usefulness is defined to the extent to which innovation would be useful in improving the performance of SMEs.

Mahmood, (2000) stressed that attitude is an important part of innovation mainly because a positive attitude is usually an indicative of technology acceptance, this will strengthen the believe that innovation will assist and enhance his or her tasks performance. According to (Meso & Musa, 2008), perceived usefulness and perceived ease of use, greater reliability of the technology and easier access to innovation are the factors that contribute towards greater use of technology. Furthermore, available literatures provide evidence on the influence of perceived usefulness on intention to use ICT (Morris, 2000). Besides, there have been extensive researches that explore the relationship between perceived ease of use and intention to use a technology (Venkatesh & Davis, 1996). Interestingly, when a community perceived that a technology is useful, it will create a sustainable usage of technology among the community (Rogers, 2003). Rogers, furthermore explained

that the perceived benefits must exist and continuous. In order for a technology to be perceived useful it must be low cost, have the ability to reach wider market, able to gather large information within a short time and lower cost of sending email (Laudon, 2000). Technology acceptance model opens ways for better use of technology which creates avenues for better performance of SMEs.

i) Technological Perspective

According to Okechi and Kepeghom, the organization should demonstrate understand of the ICT innovation characteristics which help in redesigning and aligning of business activities to be integrated in the ICT service applications and current systems to boost SMEs performance. There should be installation and integration of ICT with the existing business services which meets the end users requirements.

ii) Environmental Perspective

Raravi and Timmanagoudar, (2014) point out that environmental perspective involves influences surrounding the business such as the government policies. Angeles, (2013) reveals that these external factors affect the way SMEs interprets the need for innovation and deployment where they can either support or deny technological innovation. The government regulation can affect SME's activities where costs of production can rise due to mandatory regulations policies criteria's.

iii) Organizational Perspective

There is wide range of characteristics as firm size, managerial structure complexity and managers support. The top executives can strengthen the organizational growth by enhancing and collaborating a distinct image of the SMEs ,goals, strategies and core values and facilitating consistent linkages within and outside on ICT interaction (Angeles, 2013). The TOE models are significant to the study in that it is able to bring

out the independent variables which do underpinned the study. These include manager's support, government regulations and policies, ICT services and ICT infrastructure.

2.4 Summary

Innovation remains the major strategy and driving force for firms' growth and survival in any competitive business environment. The introduction of novel products and services has remained the thrust behind the spring-up of new SMEs and the expansion of the existing ones. The growth and development of developing nations lies in the innovative ability of its citizens and SMEs within the nation. The essential role of SMEs in the growth and the development of nations' economy cannot be gainsaid. The chapter reviewed conceptual, empirical and theoretical framework on the effect of innovation on the performance of small and medium enterprises.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

Design according Arevik Avedian (2014), simply means planning and implementing a study. A research design shows how data will be collected, the instruments that will used for data collection, how the instrument will be used and how the data collected will be analyzed. This study will employ cross sectional survey research design and correlation design. Data will be collected from a random sample selected from the population. The data will be collected at a point in time. Survey research designs according to Osuala (2001) are procedures in quantitative research in which investigators administer survey to a sample or to the entire population to describe the attitude, opinion, behaviours or characteristics of the population. Cross sectional survey helps to collect current information on the phenomenon under study. Correlation was used to estimate the relationship between innovation and family business.

3.2 Population, Sample Size and Sampling Technique

The population of the study consists of all the SMEs in Abuja Municipal Area Council. The population of the study is two thousand and twenty five (2,025). The population consists of all the managers and owners of SMEs in Abuja Municipal Area Council. The population includes enterprises like barbing, tailoring, restaurant, shoe-making, pure water business, clinics, schools, retailers, among others. In sum, the population covers small manufacturing enterprise, service enterprise and trade and commercial enterprise.

A sample size of three hundred and twenty – five (325) staff was selected. The questionnaire was administered, personally to the respondents. All the questionnaires were filled and retrieved

3.3 Method of Data Collection

The two methods of data collection used in this study include:

(a) **Primary source of data:** Primary data is data collected by the researcher on on his behalf from field. Primary sources of data include that questionnaire, interview and observation. The primary data for this study consist of raw data generated from responses to questionnaires.

(b) **Secondary source of data:** Secondary data include information obtained from published and unpublished sources. These sources include journals, textbooks and periodicals.

3.4 Questionnaire Administration

Questionnaire is a primary method of data collection in which questions relating to the objectives of a study are printed and presented to respondents. A structured questionnaire measured on five –Point Likert scale as strongly agreed (5), Agreed (4), Undecided (3), disagreed (2), strongly disagreed (1) will be used to solicit responses from the respondents. To determine the validity of the questionnaire, the questionnaire was presented to the supervisor and other lecturers in Business Administration Department. Pilot survey was conducted to test how reliable the questionnaire.

3.5 Method of Data Analysis

The descriptive statistics was used to analyze the data. Percentage, mean score and standard deviation were used to analyze data. The standard means score would be 2.50. A mean score greater than 2.50 is considered significant. Chi-square will be used to test hypothesis.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Presentation of Data

This section of chapter four presents the data collected. The data are presented in tables and arranged based on the research questions.

Table 4.1: Number of Questionnaires Distributed and Returned

Variables	Frequency	Percentage
Questionnaires Returned	300	92.3
Questionnaires Not Returned	25	7.7
Questionnaires Distributed	325	100

Source: Field Survey, 2020

Table 4.1 shows that 145 questionnaires were distributed while one hundred and twenty (120) were retrieved. The response rate is 92.3%.

Table 4.2: Sex of Respondents

Variables	Frequency	Percentages
Male	140	46.7
Female	160	53.3
Total	**300**	**100**

Source: Field Survey, 2020

Table 4.2 shows that 140 respondents representing 46.7% of the respondents are male while 160 representing 53.3% of the respondents are female. From the table above, one can infer that there are more female entrepreneurs in Abuja than female entrepreneurs.

Table 4.3: Age of Respondents

Variables	Frequency	Percentages
18 -29	30	10.0
30 -39	133	44.2
40 -49	87	29.2
50 -59	30	10.0
60 and above	20	6.7
Total	**300**	**100.0**

Source: Field Survey, 2020

Table 4.3 in the above shows that 30 respondents representing 10% of the respondents fall between 18 -29 years inclusive, 133 of the respondents representing 44.2 % fall between 30-39 years inclusive, 87 respondents representing 29.2% fall between 40-49 years inclusive, 20 respondents representing 10.0% fall between 50 and 59 inclusive while 20 respondents representing 6.7% fall between 60 and above.

Table 4.4: Qualification of Respondents

Variables	Frequency	Percentages
M.Sc.	20	6.7
B.Sc.	80	26.7
HND	80	26.7
NCE	68	22.5
ND	52	17.5
Total	**300**	**100.0**

Source: Field Survey, 2020

Table 4.4 above shows that 20 respondents representing 6.7% of the respondents have M.Sc., 80 representing 26.7% have B.Sc., 80 respondents representing 26.7% have HND, 68 representing 22.5% of the respondents have NCE while 52 respondents representing 17.5% have ND.

Table 4.5: Organization Improved Products Since Started Business or Joined as Employee

Variable	**Frequency**	**Percentages**
Yes	188	62.5
No	74	25.0
No idea	38	12.5
Total	**300**	**100.0**

Source: Field Survey, 2020

Table 4.5 shows that 188 representing 62.5% of the respondents said that their organization had improved their products since they started business or joined as employee, 74 representing 25.0 % of the respondents said no while 38 representing 12.5% has no idea.

Table 4.6: Mean and Standard Deviation of the Concerning Improvement in Firms Product since they Started the Business or Joined as Employee

Variable	N	Mean	Std. Deviation
Response	300	3.0000	.71007

Source: Field Survey, 2020

Table 4.6 shows that the mean of has your organization improved its products since you started the business or joined as employee is 2.00 while the standard deviation is 0.71.

The table shows that the respondents agreed that their organizations have improved their products since they started the business or joined as employee.

Table 4.7: Innovation in Products Impacted on Organization's Profitability Over the Last Three Years

Variable	**Frequency**	**Percentages**
Positively	115	38.3
Negatively	87	29.2
Neutral	60	20.0
Don't Know	38	12.5
Total	**300**	**100.0**

Source: Field Survey, 2020

Table 4.7 above shows that 115 representing 38.3% of the respondents said that innovation has impacted on the profitability of their firm positively, 87 representing 29.2% said negatively, 60 representing 20% did not respond at all while 38 representing 15% said they do not know. The table shows that majority of the respondents said that innovation impact on their organization positively

Table 4.8: Mean of Innovation has Impacted on the Profitability of Organization's Profitability Over the Last Three Years

Variable	N	Mean	Std. Deviation
Response	300	2.8417	1.98728

Source: Field Survey, 2020

Table 4.8 shows that the mean of innovation has impacted on the profitability of their firm positively are 2.84 while the standard deviation is 1.99. The table shows that innovation has impacted on the profitability of their firm positively

Table 4.9: The Range of Services or Products Offered by Firm Consistent with the Latest Technological Innovation

Variable	**Frequency**	**Percentages**
Strongly Agree	83	27.5
Agree	118	39.2
Undecided	25	8.3
Disagree	37	12.5
Strongly Disagree	37	12.5
Total	**300**	**100.0**

Source: Field Survey, 2020

Table 4.9 shows that 83 respondents representing 27.5% of the respondents strongly agreed that the range of services or products offered by their firm is consistent with the latest technological innovation, 118 representing 39.2% agreed, 25 representing 8.3% undecided, 12.5% disagreed while 12.5% strongly disagreed.

Table 4.10: Mean of the Range of Services or Products Offered by Firm Consistent with the Latest Technological Innovation

Variable	N	Mean	Std. Deviation
Response	120	3.4333	1.34560

Source: Field Survey, 2020

Table 4.10 shows that the mean of the range of services or products offered by their firm is consistent with the latest technological innovation are 3.43 while the standard deviation is 1.34. The table shows that the respondents agreed that the range of services or products offered by their firm is consistent with the latest technological innovation.

Table 4.11: Introduction of New Product or Improvement in the Existing Products a Significant Factor Influencing the Demand for Firm's Product

Variable	**Frequency**	**Percentages**
Strongly Agree	88	29.2
Agree	88	29.2
Undecided	43	14.2
Disagree	50	16.7
Strongly Disagree	31	10.8
Total	**300**	**100.0**

Source: Field Survey, 2020

Table 4.11 88 representing 29.2% of the respondents strongly agreed that introduction of new product or improvement in the existing products is a significant factor influencing the demand for their firm's product, 88 representing 29.8% agreed, 43 representing 14.2% undecided, 50 representing 16.7% disagreed while 31 representing 10.8% strongly disagreed.

Table 4.12: Mean of Introduction of New Product or Improvement in the Existing Products a Significant Factor Influencing the Demand for Firm's Product

	N	Mean	Std. Deviation
Response	300	3.4917	1.35346

Source: Field Survey, 2020

Table 4.12 shows that the mean of introduction of new product or improvement in the existing products is a significant factor influencing the demand for their firm's product is 3.49 while the standard deviation is 1.35. The table shows introduction of new product or

improvement in the existing products is a significant factor influencing the demand for a firm's product.

Table 4.13: New Changes in Firm's Products Increases Customer Satisfaction

Variable	**Frequency**	**Percentages**
Strongly Agree	70	23.3
Agree	120	40.0
Undecided	53	17.5
Disagree	25	8.3
Strongly Disagree	32	10.8
Total	**300**	**100.0**

Source: Field Survey, 2020

Table 4.13 shows that 70 representing 23.3% of the respondents strongly agreed that new changes in your firm's products increases customer satisfaction, 120 representing 40.0% agreed, 53 representing 17.5% undecided, 25 representing 8.3% disagreed while 32 representing 10.8% strongly disagreed.

Table 4.14: Mean of New Changes in Firm's Products Increases Customer Satisfaction

	N	Mean	Std. Deviation
Response	120	3.5667	1.24167

Source: Field Survey, 2020

Table 4.14 shows that the mean of new changes in your firm's products increases customer satisfaction is 3.57 while the standard deviation is 1.24. The table shows new changes in your firm's products increases customer satisfaction.

Table 4.15: Improved Process has Positive Impact on Employees' Productivity

Variables	**Frequency**	**Percentages**
Yes	207	69.2
No	50	16.7
No idea	43	14.2
Total	**300**	**100.0**

Source: Field Survey, 2020

Table 4.15 shows that 207 representing 69.2% of the respondents said that improved process has positive impact on employees' productivity, 50 representing 16.7 % said no while 43 representing 14.2% have no idea.

Table 4.16: Mean of the Respondents on Improved Process

	N	Mean	Std. Deviation
Response	300	2.5500	.73164

Source: Field Survey, 2020

Table 4.16 above shows that the mean of the respondents on improved process has positive impact on employees' productivity is 2.55 while the standard deviation is 0.73. The table shows that the respondents agreed that improved process has positive impact on employees' productivity.

Table 4.17: Adopting Better Technologies Increases Employees Competency

Variable	**Frequency**	**Percentages**
Strongly Agree	74	24.8
Agree	115	38.0
Undecided	47	15.7
Disagree	32	10.7
Strongly Disagree	32	10.7
Total	**300**	**100.0**

Source: Field Survey, 2020

Table 4.17 in the above shows that 74 representing 24.8% of the respondents strongly agreed that adopting better technologies increase employees competency, 115 representing 38.0% agreed, 47 representing 15.7% undecided, 32 representing 10.7% disagreed while 32 representing 10.7% of the respondents strongly disagreed.

Table 4.18: Mean of Adopting Better Technologies Increases Employees' Competency

	N	Mean	Std. Deviation
Response	300	3.5750	1.25466

Source: Field Survey, 2020

Table 4.18 shows that the mean of adopting better technologies increases employees competency is 3.57 while the standard deviation is 1.25. The table shows adopting better technologies increases employees' competency.

Table 4.19: Significant Changes in Products Increases the Demand for a Firm's Products

Variable	**Frequency**	**Percentages**
Strongly Agree	70	23.3
Agree	113	37.5
Undecided	47	15.8
Disagree	**35**	**11.7**
Strongly Disagree	**35**	**11.7**
Total	**300**	**100.0**

Source: Field Survey, 2020

Table 4.19 shows that 70 representing 23.3% of the respondents strongly agreed that significant changes in products increases a firm's product, 113 representing 37.5% agreed, 47 representing 15.8% undecided, 35 representing 11.7% disagreed while 35 representing 11.7% strongly disagreed.

Table 4.20: Significant Changes in Products Increases the Demand for a Firm's Products

Variable	N	Mean	Std. Deviation
Response	300	3.4917	1.28988

Source: Field Survey, 2020

Table 4.20 shows that the mean of significant changes in products increases their firm's product, is 3.49 while the standard deviation is 1.34. The table shows that the respondents agreed that significant changes in products increase the demand for a firm's product.

Table 4.21: Improvement in Production Process Reduces Cost of Production in the Long Run

Variable	**Frequency**	**Percentages**
Strongly Agree	98	32.5
Agree	105	35.0
Undecided	47	15.8
Disagree	25	8.3
Strongly Disagree	25	8.3
Total	**300**	**100.0**

Source: Field Survey, 2020

Table 4.21 shows that 98 representing 35.2% of the respondents strongly agreed that improvement in production process reduces cost of production in the long run, 105 representing 35.0% agreed, 47 representing 15.8% undecided, 25 representing 8.3% disagreed while 25 representing 8.3% strongly disagreed.

Table 4.22: Mean of Improvement in Production Process Reduces Cost of Production in the Long Run

Variable	N	Mean	Std. Deviation
Response	120	3.7500	1.23159

Source: Field Survey, 2020

Table 4.22 show that the mean of improvement in production process reduces cost of production in the long run is 3.75 while the standard deviation is 1.23. The table shows that innovation reduces cost of production in the long run.

4.2 Test of Hypotheses

The formulated hypotheses in the previous chapter are tested below.

Ho1: Firm's product innovation has no significant impact on performance of SMEs.

In order to test hypothesis one, the researcher used Table 4.11 which discussed introduction of new product or improvement in the existing products a significant factor influencing the demand for firm's product

Table 4.23: Chi-square Test for Hypothesis One

Variable	Observed Frequency	Expected Frequency	Residual
Strongly Agree	88	60.0	28.0
Agree	88	60.0	28.0
Undecided	43	60.0	-17.0
Disagree	50	60.0	-10.0
Strongly Disagree	31	60.0	-29.0
Total	300		
Chi-square	28.417		
Df	4		
Asymp.Sig	0.000		

Table 4.23 above shows that Chi-square statistic (28.417) is greater than critical value of Chi-square at 5% level of significance, 4df (0.000). Therefore, the null hypothesis is rejected.

Ho2: Firm's product innovation has no significant impact on customer satisfaction.

In order to test hypothesis one, the researcher used Table 4.13 which discussed new changes in firm's products increases customer satisfaction.

Table 4.24: Chi-square Test for Hypothesis Two

Variable	Observed Frequency	Expected Frequency	Residual
Strongly Agree	70	60.0	10.0
Agree	120	60.0	60.0
Undecided	53	60.0	-7.0
Disagree	25	60.0	-35.0
Strongly Disagree	32	60.0	-28.0
Total	300		
Chi-square	38.250		
Df	4		
Asymp.Sig	0.000		

Table 4.24 above shows that Chi-square statistic (38.250) is greater than critical value of Chi-square at 5% level of significance, 4df (0.000). Therefore, the null hypothesis is rejected.

$H_0$3: Process innovation has no significant effect on employees' performance.

In order to test hypothesis one, the researcher used Table 4.17 which discussed adoption of better technologies increases employees competency.

Table 4.25: Chi-square Test for Hypothesis Three

Variable	Observed Frequency	Expected Frequency	Residual
Strongly Agree	74	60.0	14.0
Agree	115	60.0	55.0
Undecided	47	60.0	-13.0
Disagree	32	60.0	-22.0
Strongly Disagree	32	60.0	-28.0
Total	300		
Chi-square	38.917[a]		
Df	4		
Asymp. Sig.	0.000		

Table 4.25 above shows that Chi-square statistic (38.250) is greater than critical value of Chi-square at 5% level of significance, 4df (0.000). Therefore, the null hypothesis is rejected.

4.3 Discussion of Findings

This study has shown that firm's product innovation has significant effect on the performance of SMEs. The study showed that significant changes in products increases demand, innovation in products increases firm's profit. The findings of this study is supported by Davila (2006), who found out that product innovation is a vital source of strategic change which generates positive outcomes for firms.

The study also showed that product innovation has positive impact on customers' satisfaction; New changes in product has significant impact on customers' satisfaction. This buttress the initial finding that significant changes in products increases demand for

a firm's products. The above finding is supported by Schumpeter innovation theory which states that innovation activities such as introduction of new commodity or new quality goods increase the demand for a product.

This study has shown process innovation has significant positive effect on employees' performance of SMEs in Abuja Municipal Area Council. The study revealed that improved process has positive impact on employees' productivity while adopting better technologies increases employees' competency. The result in the above is in consonance with OECD (2005), who found that technological innovation increases productivity of labour.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study examined the effect of innovation on performance of small and medium enterprises (SMEs). The major problem is that the Abuja business environment is dynamic and competitive. As a result, for SMEs to cope with environmental dynamism, competition and achieve significant performance, new business, new product, new market, new technology and new process to market their businesses must be adopted. However, SMEs face a lot of challenges that can hinder innovation. These challenges include: organizational culture that does not favour innovation, inadequate fund, propensity to take risk by managers, low demand, inadequate expertise, inadequate market information, inconsistent government policy, among others. The study sought out how innovation (marketing innovation, process innovation and product innovation) enhances performance of SMEs in Abuja Municipal Area Council. Chapter one of the project focused on the general background of the study, statement of the problem, research questions, statement of hypotheses, significance of the study, scope and limitations of the study and operational definition of terms.

Chapter two based on literature review. It explained the works of various authors, scholars and research on innovation and small and medium enterprises performance and chapter three dwelled on research methodology. Also chapter four focused on presentation, analysis and interpretation of data administered through questionnaires and the study shows that firm's product innovation has significant effect on the performance of SMEs in Abuja Municipal Area Council, significant changes in products increases demand for a firm's products, innovation in products impacted on your organization's

profitability. The test of hypothesis showed that firm's product innovation has significant positive impact on performance of SMEs.

The study also revealed that product innovation has significant positive impact on customers' satisfaction, new changes in firm's products increases customer satisfaction. The test of hypothesis shows that firm's product innovation has no significant impact on customer satisfaction. The study showed that process innovation has significant impact on employees' performance; productivity and competency of employees increases as a result of process innovation.

5.2 Conclusion

The SMEs account for a substantial share of every country's economy. The importance of that segment of the economy calls for an examination of these enterprises' performance. The fact that the SMEs performance strongly relies on their innovativeness attaches vital importance to the analysis of innovation activities and their effects. The ultimate goal of innovation is to improve business performance. Given that presently, the business environment is continually changing and given the competition that exists among firms, innovation becomes a competitive advantage through increase in productivity of employees arising from improvement method of production or production processes. Through innovation, firms offer better or high quality products to customers adopt better technology, improves production process or methods of distribution or marketing of products. The effects of innovation on business firms is increase in demand, decrease in cost of production which subsequently resulted in increase in profitability, improvement in productivity of employees and increase in customer satisfaction. Through innovation, firms improve existing products or produce new ones. This prevents customers from switching to

other firms.

5.3 Recommendations

Based on the findings of the research study, the following are recommends:

i) Firm's product innovation has significant effect on the performance of SMEs and there should improve the quality of their products as this will increase profitability, increase market share, customer demand and loyalty.

ii) There should be encouragement of product innovation by SME operators so as to increase customers' satisfaction and encourage customer patronage.

iii) There should be improved process innovation by SMEs to impact on employees' productivity while adopting better technologies increases employees' competency

5.4 Limitations of the Study

The limitations the researcher faced in the process of conducting this include financial constraint and limited time. There was no sufficient fund to carry out the study. Also, the researcher was expected to complete the study within one academic session coupled with other academic work.

5.5 Suggestions for Further Studies

The researcher suggests that this research study can be extended in the following areas:

i) The impact of barriers of innovation on performance of SMEs in Abuja should be carried out.

ii) The impact of innovation on long run cost of production of business organization should be carried out.

iii) The effect on product innovation on performance of service firms should be examined.

iv) The impact of technology innovation on performance of manufacturing firms should be examined.

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APPENDIX I

School of Postgraduate Studies

Nasarawa State University,

Keffi, Nasarawa Sate.

The Manager,

Abuja.

Dear Sir/Madam,

RE-REQUEST TO CONDUCT RESEARCH STUDY IN YOUR ORGANISATION

I am a postgraduate student of the above named institution carrying out a research study on the ""Effect of Innovation on Performance of Small and Medium Enterprises: a study of some selected SMEs in Abuja Municipal Area Council" being a requirement for the award of a Postgraduate Diploma in Management (PGDM) of the above named institution.

You are hereby assured that any information given in the process of this research study shall be treated with utmost confidentiality.

Thank you.

Yours faithfully,

Robert Okohue

APPENDIX II: QUESTIONNAIRE

Kindly answer the questions below by ticking (√) in the box that corresponds to your answer. Please answer the questions concisely and accurate.

Section A: General Information

Please complete the following questionnaire items in each section by ticking (√_) in the brackets or fill the most appropriate category that best represents your opinion

(1) Sex : Male [ ] Female [ ]

(2) Age : 18 -29 [ ], 30 – 39 [ ], 40 – 49 [ ], 50 - 59 [ ], 60 and above [ ]

(3) Qualification : MSc [ ], BSc [ ], HND [ ] , NCE [ ], ND [ ]

Section B

Please tick the following statements by indicating the level of agreement that you agree or disagree with the activities below:(i) Strongly Agree (ii) Agree (iii) Undecided (iv) Disagree (v) Strongly Disagree

1) Has your organization improved its products since you started business or joined as employee?

   (a) Yes [ ] (b) No [ ] (c) No idea [ ]

2) The range of services or products offered by your firm is consistent with the latest technological innovation. (a) SA [ ] (b) A [ ] (c) U [ ] (d) D [ ] (b) (e) SD [ ]

3) Significant changes in products increase the demand for a firm's products?

   (a) SA [ ] (b) A [ ] (c) U [ ] (d) D [ ] (e) SD [ ]

4) How has innovation in products impacted on your organization's profitability over the last three years? (a) positively [ ] (b) negatively [ ] (c) neutral [ ] (d) I don't know [ ]

5) Introduction of new product or improvement in the existing products a significant factor influencing the demand for your firm's product

(a) SA [ ] (b) A [ ] (c) U [ ] (d) D [ ] (e) SD [ ]

6) New changes in your firm's products increase customer satisfaction?

(a) SA [ ] (b) A [ ] (c) U [ ] (d) D [ ] (e) SD [ ]

7) Do you think improved process has positive impact on employees' productivity?

(a) Yes [ ] (b) No [ ] (c) No idea [ ]

8) Adopting better technologies increases employees competency

(a) SA [ ] (b) A [ ] (c) U [ ] (d) D [ ] (e) SD [ ]

9) Improvement in production process reduces cost of production in the long run.

a) SA [ ] (b) A [ ] (c) U [ ] (d) D [ ] (e) SD [ ]