CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Micro and small businesses have been of great concern for both developed and especially developing countries due to its immense contribution to the growth of an economy. Its significance ranges from the expansion of the private sector, reducing unemployment rates by directly and indirectly employing individuals who were not absorbed by both government institutions and large firms and they contribute their quota to GDP of a nation.

The growth of SMEs has been a priority area for most governments hence the initiatives to support their growth (Feeney and Riding, 1997; Carsamer, 2009). SMEs contributions do differ from one country to another and between regions. Nonetheless, they play important roles in developed countries as well as low-income countries, making major impact on GDP and employment (Dalberg, 2011). They contribute to innovation in economies by collaborating with huge cooperate institutions. Moreover, in most emerging economics countries in Africa including Nigeria, small and medium enterprises constitute more than 90% of private sector businesses and employs over 50% of the youth who are unemployed and make a tremendous contribution toward Gross Domestic Products (UNIDO, 1999).

The government of Nigeria's unwavering attention has been devoted to micro and small since the inaction of the Structural Adjustment Program (SAP) in 1983 (Barwa, 1995) and the subsequent trade liberalization policies. More specifically, SMEs have been known to foster, sustain and expand investment, inspire economic growth and curb poverty. Statistics in Nigeria shows micro, small and medium businesses play a prominenttask in the production sector and employ about 85% of manufacturing industry of Nigeria (Aryeetey, 2001). According to Abor and Quartey, (2010), Small Medium Enterprises (SME) contributes about 70% of Gross Domestic Product (GDP) and forms about 92% of businesses in Nigeria.

Micro Small and Medium Enterprises (MSMEs) forms over 95% business organizations and up to 99% enterprises depending on the nation. They are capable of creating about 60-70% net jobs in an economy such as OECD countries. MSMEs are responsible for importing new technologies and deploy them to produce goods and services (OECD, 2006). Micro, Small and Medium Enterprises tern to explore untapped areas within the economy develop them into a productive area which goes a long way to augment productivity Nigeria (Aryeetey, 2001). MSMEs are therefore seen at the center of the economy, fuelling growth, creating employment and reducing the poverty level in most Sub-Sahara countries in Africa.

In spite of these socioeconomic benefits developing countries enjoy from SMEs, the sector or industry is bedeviled by the issue of succession and replacing existing owner-entrepreneurs in Nigeria. Replacing an existing owner of a business has presented a lot of challenge to small and medium enterprises and has been attributed to diverse reasons. Distinct from large organizations, where ownership, control, succession and continuity and separated and distributed among a collection of people, the small and medium enterprises invests all those attributes in one person or a family. For instance Microsoft may seem to be a big giant company today but they all started off as a MSMEs and its dream was carried by a young student who received help from a couple of friends and family members. Bill Gate only went to the open market when they developed a saleable product and sought for investment through traditional sources. It must however be statedthat not all SMEs eventually develop into multinational corporations but they are all faced with the same challenge in their early stages and that is source of funding to build up their business and test their product. A family firm in the MSME can compete in the global market when it is innovative in product and process that will reflect on the firm's performance

The increased globalization process require firms to be innovative in their operation to stay up to competition both domestic and international market. The rapid technological changes in the global market coupled with intense competition has forced firms both large and small to be innovate as this contribute in adding value to products and services that already exist in the market. Hence, innovation represent an essential constituent of a firms core plan for various reason which includes a more dynamic production processes, execute better in the market, search for good customer reputation so as to maintain a competitive advantage. According to Gunday et al 2011, entering into a new market, expanding an existing market and providing a competitive edge through innovation is a key instrument to the growth strategies of a firm. In the global world of highly competitive business environment, a firm needs to be ahead of its rivals and create competitive advantages ensuring that innovation is an important strategy.

1.2 STATEMENT OF THE PROBLEM

Over the past decades Micro, Small and Medium Scale Enterprises (SME) has contributed immensely to the growth of GDP in Nigeria hence guarantee employment, stable income and growth. The Government of Nigeria through economic restructure programmes introduced policies that improved on their trade agreement that has resulted in the competitiveness of micro and small enterprises both in the global markets. Subsequently, countries such Asia, Latin America and Africa being in the emerging economies have embarked on changing their business environments through improvement on product/services innovativeness. In addition, African economies through economic liberalization have implemented policies which include sale of state-owned enterprise to private and public companies, remove barriers to foreign trade such as controls on import and restrictions foreign exchange, price controls removed and support local production and other reforms in the banking sector (Debrah, 2002).

According to Acquaah et al (2008), economic liberalization has opened emerging countries to both local as well as global competition in a unique way. Local businesses that were shielded by the government from domestic and the global market competitiveness now experience major transformation in their business setting, as well as a significant challenges in the competition with reputable and international giant organization, hence the need for micro and small firms to be innovative to survive in their competitive industry.

Despite overabundance studies, the primary focus was on the advanced countries which examine the relationship between companies' strategies where on competitive direction and organizational outcomes, with little study on developing countries (Campbell-Hunt, 2000). Research study on competitive strategy of firms' outside the developed countries have concentrated their effort on emerging countries in Europe, Asia, and Latin America (Aulakh, Kotabe and Teegen, 2000). Others examined innovativeness and family firm performance focused on specific resource affecting performance in the developed economies (Hatak et al 2015).

Over the last years, researchers have drifted attention to innovation which has been a focus and demanding area to examine by defining, categorizing and investigating its impacts on performance, as a result of their importance. Firms' overcome their challenges in sustaining their competitive advantage through innovations (Drucker, 1985; Hitt et al, 2001; Kuratko et al, 2005). Acquaah et al (2008) study was on competitive strategy, characteristics of the environment and performance in Africa emerging economies with firms in Nigeria. This study will contributes to the underdeveloped research on innovativeness of small family firms on performance, the moderating role of external characteristics in the developing countries in the world especially Nigeria.

1.3 RESEARCH QUESTIONS

1. What effect does innovation has on performance of micro and small businesses in Ilorin?
2. What effect do business external characteristics have on the performance of micro and small firms in Ilorin?

1.4 OBJECTIVES OF THE STUDY

The general objective of the study is the impact of firm innovativeness on performance of micro and small businesses in Ilorin;

1. To examine the effects of innovativeness on the performance of micro and small businesses in Ilorin.
2. To examine the effects of external characteristics on the performance of micro and small businesses in Ilorin

1.5 SIGNIFICANCE OF THE STUDY

The importance of this study is judged on its theoretical and practical implications. Findings of this study has to be an eye opener to owners and movers of micro and small businesses on the need for thorough consideration of innovation on performance and external environmental features contribution towards being competitive in the industry of operation. Again, the study shall contribute to the existing body of knowledge on micro and small businesses in Nigeria and globally.

1.6 SCOPE OF THE STUDY

The scope of the study is restricted to the micro and small businesses in Ilorin Metropolis of Kwara State, Nigeria. It would have been interesting to cover the entire country with this study and relate it to the diverse traditions and cultural background. However the study was limited to some selected micro and small businesses within the Ilorin metropolis to enable a detailed and comprehensive study. The scope of literature covered literature on firm’s innovativeness, external characteristic and performance of micro and small businesses. The study area is informed by information accessibility and proximity to micro and small businesses and the fact that the researcher is fluent in the indigenous language of the target group.

1.7 LIMITATIONS OF THE STUDY

Due to time and financial resource constrain, the study sampled firms’ leaving in Ilorin region only. In effect the outcome of this study may sound bias to generalize across all businesses (micro and small) in Ilorin. The reason being that, tradition and cultural differences and believes may account for a significant variations in how firms in Ilorin are being managed contrary to firms in other regions of the nation.

1.8 DEFINITION OF TERMS

Innovation: Innovation is seen as the key instrument to firms’ growth strategies which includes entry to a new market, existing market expansion and providing competitive advantage in the industries they operate.

Innovativeness: Innovativeness according to Lumpkin et al, (1996) is broadly defined as a the tendency of a firm to employ and support new ideas, novel, experiment, and create process that will lead to a new products and new business processes.

Small Scale Enterprises: A small scale enterprise, or more simply, a small business, is one marked by a limited number of employees and a limited flow of finances and materials

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter review significant literature to develop a framework for research and hypotheses to address the research questions posed in Chapter One. Specifically, the following are provided: Definitions of micro and small businesses, characteristics of small family business definition from the Nigeriaian Perspective, View of Innovation and External business analysis. The literature review is culminated with relationship between innovativeness, external business characteristics, and performance.

2.2 CONCEPTUAL FRAMEWORK

2.2.1 Innovation

A firm can competitively survive the global market when it is innovate and this is broadly seen as an important tool, which must be incorporated in the structure, process, product, and service of a business (Gunday et al, 2011). The current global development stresses the significance of the firm capability to develop and launch product innovations (Greve, 2003; Camps and Marques, 2014). Nonetheless, firms must go beyond their ability of developing a product to including taking advantage of new business opportunities and interpret innovation to enhanced firm performance (Rosenbusch et al, 2011; Tsai et al, 2013; Wiklund and Shepherd, 2003)

There have been various definitions on innovation from different researchers. Literally innovation immerges from the Latin word innovare, which means to produce a new thing (Tidd et al, 2001). According to Damanpour (1991) innovation is seen as generate, develop and implement new ideas such as a new products and/or services, a new production processes, a new structures and/or administration systems, or a new program which pertains to firm's members. Research by Dunn (1996) stated that innovation is toadopt an idea or behavior, which may include systems, policies and programs, device, processes, products or services, that is new to the small and medium enterprises that are often family business in many countries. Family businesses can compete and survive in an economy and globally when they are innovative. Smaller businesses show innovativeness and aggressiveness in their market industries as a result of their size, their superior knowledge of their domestic market coupled with their financial independence as compares to bigger corporations.

In addition, innovation is seen as the key instrument to firms' growth strategies which includes entry to a new market, existing market expansion and providing competitive advantage in the industries they operate. Organizational innovativeness according to Lumpkin et al, (1996) is broadly defined as a the tendency of a firm to employ and support new ideas, novel, experiment, and create process that will lead to a new products and new business processes (Camps et al, 2014; Gopalakrishnan et al, 1997; Salavou et al, 2008), which will create a competitive edge for the firm to survive globally.

Previous studies by researchers indicate an optimistic connection to a firms' innovativeness and the consequent result in its performance (Bowen et al. 2010; Rosenbusch et al. 2011; Rubera et al 2012). Accordingly Chirico et al (2010) and De Massis et al (2013) were of the view that the result of innovativeness on family firm performance is vague. Present literature has encouraged active debate on whether this distinctive organizational perspective of family businesses foster or hinder firms' innovativeness and hence translate into enhanced performance (Habbershon and Pistrui, 2002; Memili et al 2014).

Rogers (1998) version of innovation was applying new ideas to products, processing and other function of a firms' operations. Drucker (2002) indicated that innovation forms part of an entrepreneur's specific function that is an entrepreneur will either make new wealth producing resources or provide present resources with superiority to create wealth. Davis et al (2008) emphasize that a firm's innovativeness differ in complex and can vary from small alteration to a product, processing, or service to exceptionally enhance product, processing or service that increase a firms' performance. The various definitions by researchers highlights the newness and or improvements in a product, service or processes from firms' that practice innovation as it is a tool for effective competition and survival in the global market. The word new or improved however could be subjective in the context of innovation that is a term new in on firm may not necessarily be new to a competitor within the same industry and this could cause a degree of complexity relating to the term innovation. There are theory definitions to innovation the technical definition helps us to appreciate how different firm explain innovation concept for their policy making and organizational purpose.

The Organization for Economic Co-operation and Development (OECD) put forward a definition for innovation which is extensively apply to measure and/or interpret the innovation initiations, mainly in the OECD countries. Accordingly, OECD (2005) defines innovation as implementing new or major product (good or service) improvement, processing, a new market technique, or a new organizational system, workplace organization or external relations. The organization recognized four innovation types namely products, processes, marketing and organizational.

2.3 TYPES OF INNOVATION

According to Damanpour (1991) researchers argue the distinctive types of innovation are essential to understand firms' varying actions and to identify determinants of innovation. Schumpeter (1934) summarized five groups of innovation namely introduce new products or an improve on an existing products, introduce a new processes or an existing processes improvement, open a new market, new source of raw material and/or other inputs supply and changes in business organization both inter organizational and intra organizational, which may be to create a control firm or a change in organizational structure.

In the context of change that was created through innovation, three (3) types of innovation was identified by Tidd et al (2001) which includes transformational, radical and incremental changes. Transformational innovation occurs when the firm performs primarily different thing, leading to a revolutionary change in technology or processes that is new to the firm. Radical innovation change has to do with changes customers and suppliers' relationship, restructure marketplace economics, current products displacing and to create entirely new product categories (Salomo, Gemunden and Leifer 2007). Finally, incremental innovation change involves a process where a set of technologies are applied in new ways which results in improved processes or the use of when finest system technologies are used in more innovative ways, that bring enhances products or services by pay attention to the customers. Schumpeter's viewed radical innovation as a main disruptive change, whilst incremental innovation is a continuous progress the process of change.

Tidd et al (2001) developed a matrix of change which was in two forms: the first look at the product (goods or services) that a firm offer and secondly the change in the way in which the products are created and delivered (the process). There are numerous typologies to innovations advance in literature (Damanpour 1991), but three (3) have gained most audience which includes the administration and technical, product and process and radical and incremental. This research will focus on three types ofinnovation which include; i) product innovation, ii) technical innovation iii) customer service innovation.

2.3.1 Product innovation

According to Amara and Landry (2005), the definition of product innovation is to create a new product from new raw material to form an entirely new product or the modification of existing product to meet customer demand (being an improve product). Product innovation could be described as new developed product in those actions that are carried out to ensure that the core product are conveyed and is it more attractive to consumers/customers. This type of innovation makes use of new technologies or knowledge and combines existing technologies or knowledge to produce a new or improve product that meet customer satisfaction. These include major improvement in technical specification, component and material, built-in software, user friendliness or other functional characteristics (OECD, 2005).

Firm’s can compete effectively and cope with competitive pressures, changes in customer taste and preferences, changes in technology to meet varying demand pattern, short product life cycle and focused more on customer requirements through product innovations. Hence product innovativeness is the output of an organization.

2.3.2 Technological innovation

Kemeny (2010) defined technology as rule and idea that direct the way good and service are produced. This means that technological or technical innovation is linked to the producing a good and/or service by applying new or improved technological methods. This involves a scientific doctrine that is quite different from existing products, services or processes and this can be achieved through technological breakthrough (Chandy and Tellis, 1998).

Technological innovation contribute to higher and improved levels of economic output and this can lead to a change in human lives and competences through the delivery of new products and services (Naudé and Szirmai, 2013). In addition, growth and changes in inevitable hence it relation to the nature of innovation. Tang and Hussler (2011) consider the latecomers approach to technological edge and its strategies have to drift from replication to innovation. These technological innovations have given opportunities for firms’ to come out from state of art advancement, following generation of technology to new technology. This has resulted in major technical changes, equipment and software.

2.3.3 Customer Service Innovation

According to Matthyssens et al (2006), firms can compete in the global markets through the use of resources to offer service that improves the worth of their product or service and this leads to competitive advantages. Due to high competition in the global market firms are transiting from product orient towards a more service orient which represent a focal change the customer from purely business relationships (Oliva and Kallenberg, 2003; Brax, 2005; Neu and Brown, 2008). Hence major firms have develop their customer service offering such as training or after-sales service, offer service that support the customer (SSC), particularly, customer process that relate to the product (Mathieu, 2001). For instance, a service may include a takeover of customer repairs function or management of spare-parts and/or provide guidance to improve customer operating process (Gebauer and Fleisch, 2007).

Firms that are product focused turn to be incomplete as they are transaction based customer relationship but those who go beyond the product to customer services move to a totally offer relational based customer relationship (Penttinen and Palmer, 2007).

Consequently, industries in manufacturing sector are developing their customer services offering as part structuring the organization and strive increase service orient hence customer service innovation has become more central.

2.4 INNOVATIVENESS AND FIRM PERFORMANCE

Firms’ performance is of importance to business owners or managers. The general performance depends on strategic fit of firm characteristics and objectives. Research works put forward innovation as one potential device through which competing firms’ obtain advantage in the global market with resources that are unique to the organizational (Barney, 1991; Damanpour and Evan, 1984). The outcome of innovation is likely to result in change in organization that can influence a firm performance (Rothwell, 1992). Most studies support the case that successful innovation is a tool for the performance of a firm (Baker and Sinkula, 1999; Calantone et al, 2002; Craig and Dibrell, 2006; Damanpour and Evan, 1984). Hence innovation offers an organization to meet the needs of its customers' that subsequently leads to sales growth and consequently improve firm performance. However, past research studied was on the direct linkage between organizational learning and performance of a firm and also innovation and firms' performance, none has empirically tested the consequence of innovativeness of market dynamism and firm performance. Research work done by Teece et al (1997) paints that innovation is capable of being a guide to the core capabilities development that can enhance organizational performance. Thus, it was proposed that firms' innovativeness to a degree influence the connection between the dynamics of the market and performance of a firm.

2.4 FIRMS EXTERNAL CHARACTERISTICS

The business environment is characterized by both internal and external forces of a firm. The internal factors that form the internal characteristics are those that the firm have control over. These include the size, structure and characteristics of members who form part of the organization (Hurley and Hult, 1998) which pertains to the cultural behaviour of employees.

The external factors are those forces that affect the firm either separately or collectively as an industry and such includes the customer, supplier, firm competitiveness, social, political and legal. These environmental forces could be interrelated or dynamic in nature and are uncertain as it keeps on changing. These factors are firms' specific factors that could be complex or have moderate effect on the industry. These specific factors are;

macro-economic stability such inflation and monetary controls, production cost and borrowing cost in an economy, macro-economic policies and regulations such as tax policies, business registration procedures, pricing on inputs mechanisms, trade agreements, presence of enabling infrastructure such as reliable energy and water sources, roads, communication networks and other infrastructure needed for the firm tooperate successfully (Reinikka and Svensson, 2001). These factors, the firms have little control over.

External factors generally affect certainty of the environment in which the firm operate. Business decisions are crucially affected by this environment (Aldaba, 2008). Uncertainty in an economy increases risk and given the occurrence of long-term capital accumulation in most developing economies in Africa, large corporations, foreign investors and small businesses depend on the government ability to execute sound and constant macro-economic policies for business to thrive (Bigsten et al, 1999). According to World Bank Invest Report(2004) indicate that businesses can make sound business decision when budget deficit and inflation are low and there is stability and clear currency administration, yield of competitive exchange rates in an economy and this helps ensure there is stability to businesses. A survey conducted by Shiffer and Weder (2001) shows that inflation and exchange rates affect SME growth more than larger enterprises as a result of lower opportunities in hedging that is made available to smaller businesses.

Studies in some part of Asia and Eastern Europe on small businesses have constantly emphasize the same major restraint that affect growth which include access to financing, rapid technological change, and skills in addition to gaps in information and complexity to the quality of product and marketing (FINEX and ACERD, 2006; Tecson, 2004; Fukumoto, 2004). From their studies it clearly shows that accessing finance is the limitation of small business expansion and a key determinant of the willingness to invest.

These external factors form the external characteristics and are summarized as the power of competition and networking, and the extent of change in the business environmentthat have effect on the demand and supply and price of a firms product. These could be categorized into market dynamism and industry sector.

2.4.1 Market Dynamism

According to researchers, market is said to be active when it is characterized by a high rates of entry and exist. Others also look at the effect of changing pricing that affect demand and supply of a product that leads to a firms profitability hence survival.

According to Audretsch et al (2001) the difference connecting static and dynamic market largely the level of competition. The differentiation stems from market competition which is price drives competition (static markets) and the market innovation through product and technological plays a more important role (dynamic markets). Burke et al (2006) indicate that competition policy is needed to prevent an excessive market power and its abuse by few players and this Caves (1998) added the rationale behind competitive policy as a high market power or high rate of concentration. This is unfavorable not only to consumers' interests but also to the performance of other competing firms within the industry.

Another instrument to competition in the market is being innovation and this is a counter-attack strategy to harsh competition (Umidjon et al, 2014). For a firm to survive and grow in a competitive market it needs to come out with something unique that distinct its product or services from others. The intense market competition in an industry determines the need for a firm to be innovative (Schumpeter, 1942; Ahn, 2002). Radas (2009) indicated that the survival on a competitive market requires innovations happen. There are several theoretical cases which clarify behaviour of competition in terms of innovation. The Darwinian effect theory considers intensity on product that isthe product market competition which became the focus of most managers in through the adoption of new technology. Another theory looks at the close competition effect where competition is between firms with equal technology that affect firm's inducement to increase its technological lead over its competitors. Keen competition positively affects firm's preference to carry out research and development which is the key innovation activity (Kumar, 1996). Gabsi (2008) examined innovation and its implication on companies and the increase market concentration of firms in Tunisian. A firm with a better strategy in a competitive market can compete effectively in comparison with other firms within the industry and hence expected to adopt low cost method of innovation than a monopoly (Sunku, 2010). Lean markets tend to suppress innovation whereas active marketplace with multiple buyers and sellers conditions private innovations thrive (PwC, 2010).

2.5 RELATIONSHIP BETWEEN SMALL BUSINESS INNOVATIVENESS AND PERFORMANCEIN NIGERIA.

Research studies on family businesses argued that firms go beyond the family and a firm (Habbershon et al, 2003) to acquire a distinctive characteristic that is capable to provide competitive advantages advantage (Memili et al, 2013) over firms within the industry to survive. According to Habbershon and Williams (1999), to assess the unique nature of a family businesses and their link to a marketplace benefit require researcher to recognize the firm's precise strategies, resources, and skills.

A firm's innovativeness defined on Lumpkin and Dess (1996) as the tendency of a firm to employ and support newness in idea, originate, experiment and create process in which the outcome will be the commencement of new products through product innovation (Camps and Marques, 2014; Gopalakrishnan and Damanpour, 1997; Salavou and Avlonitis, 2008), implement new business model through organizational innovativeness (Lumpkin and Dess, 1996; Gopalakrishnan and Damanpour, 1997), and processes innovation (Garcia and Calantone, 2002; Frank et al., 2010). Previous research work shows that there exist a positive linkage between firm's innovativeness and consequent performance (Bowen et al, 2010; Rosenbusch et al, 2011; Rubera and Kirca, 2012), there is an unclear consequence of innovations on the performance of a family firm (Chirico and Nordqvist, 2010; De Massis et al, 2013).

Family firms are frequently condemned for accepting approaches that are not conducive to innovativeness as they want to maintain the firm's stability (Vago, 2004) and are reluctant to take risk (Morris, 1998; Chen and Hsu, 2009). However, current research offer a more versatile view of family businesses that recognizes need to develop and launch new products that constitutes a necessary condition for family-firm succession (Carnes and Ireland, 2013; Kellermanns et al, 2012). Prior studies were of the view that family firms possess uniqueness that promotes innovativeness (Craig and Dibrell, 2006; Özsomer et al, 1997) which may be due the flexibility of structures and decision making process and are less prone to formalized monitoring and control procedures found in a publicly owned organization (Daily and Dollinger, 1992; Geeraerts, 1984; Zahra et al, 2008).

In addition, to foster innovativeness should be of strategic interest to the family business, thereby given that the firm has a strategic prospect that can extent to generation to come (Sharma and Irving, 2005; Ward, 1988; Zellweger, 2007). Also family firm should not concentrate on the present performance but the returns in the foreseeable future. Family firms that have greater influence on its innovativeness can create competitive performance in the foreseeable future (Craig and Dibrell, 2006) although this could notbe achieve in the short term. Current research work analyse their study to the innovativeness to the family firm's ability to develop and launch new product or the improvement of existing products as a result of work by Damanpour (1991) and Naldi et al (2007) in his a meta-analysis that performance of a firm is mostly associated to product innovation rather than the other forms of innovation.

2.6 RELATIONSHIP BETWEEN MARKET DYNAMISM AND PERFORMANCE OF SMALLBUSINESS IN NIGERIA

In the past decade, firms have increasingly expanded across the globe resulting in fierce competition among player in the industry. Trade liberalization has resulted in the reduction of trade barriers, increase improvement in technology and low costs for communication and effective transport system have enable firms to compete international. The variations of source of performance among firm have been rooted in the intensity of the industry forces and the firm's uniqueness. The industry forces byPorter (1980) included buyers (consumer and/or customer), suppliers, new entrants, substitutes, and competitors.

Porter further argues that a firm's success performance could be attributable to its strengths and weaknesses within the industry forces it operates. Advocates of the industrial organization view suggest that industry forces are very important for a firm to develop and constrain business strategies which generate and reflect the executive insight to industry forces (Matsuno and Mentzer, 2000). O'Cass and Julian (2003) and Zahra (1987) both indicated that a firm that adopts different strategies tends to view their environment differently. Indeed, firms who recognize the dynamism within their industry forces turns to be more proactive and innovative (Miles and Snow, 1978), hence strategies of firms are expected to differ in view of their complex industry forces (Zahra, 1987).

The performance of a firm could be hindered as a result of environmental characteristics which play a key role in achieving desired results the degree of market orientation and this is vital to the development of strategic orientations (Kotler, 1977; Porter, 1979). Porter stressed the need for stronger relationship between environment analysis, planning, and control that leads to effective marketing. The findings, makes it very important to that enforcement of competition which include market regulation is necessary to effectively market goods and services in a well-functioning of the economy. In addition competition is seen as a vital tool that can influence productivity through innovation. Authors have recognized that there is a relationship between innovation that increases dynamic efficiency through technological improvements in the production processes or create new products. Finally, de-regulation or trade liberalization such as reduced trade barriers, barriers to entry and increase in consumer competition of a product market can influence performance of a firm. To sum up, external characteristics can have a significant relation on performance.

2.7 THEORETICAL REVIEW

2.7.1 Schumpeterian Theory of Innovation

Ever since the late 1880s, there have been reports on the use of the term “innovation” to mean something unusual, none of first precursors of innovation have been as influential as the Schumpeter. According to him, consumer preferences are already given and do not undergo spontaneity. It implies that consumer preferences cannot cause economic change. Moreover, in the process of economic development consumers play a passive role.

According to Schumpeter, innovation is the application of novel ideas to products, processes or other parts of the activities of an organization that cumulates into an increment in ‘value.’ This value is described in a wider way to include higher value added for the company and benefits to consumers or other firms.

Schumpeter identifies two vital definitions. Product innovation: the introduction on a entire new product or adding extra value to an existing product. Process Innovation: the introduction of a total new process or modifying the existing process of producing or delivering goods and services.

Schumpeter argued that innovation and technological change of a country originates from its entrepreneurs, or wild spirit. He developed the term UnternehmerJ; eist,in German which means "entrepreneur-spirit", and claimed that "the doing of new things or the things that are already being done in a new way" stemmed directly from the efforts of entrepreneurs. Small scale enterprises (SSEs) owners are basically considered as entrepreneurs. The acknowledgement that SSEs play an important role in innovation has led to a variety of insights about the mechanisms by which SSEs improve and introduce new products and services. SMEs can have an innovative advantage as a result in different management structures.

2.7.2 Resource-Based View (RBV) Theory

RBV theory explains the variances in performance among firms (Gaya, Struwig & Smith, 2013; Grant, 2010; Miles et al.., 2006). This theory attributes competitive advantage to the ownership and control of unique bundles of competitive resources. The origin of RBV has been traced to the work of Penrose (1959), (Werner felt, 2014; Gaya et al.., 2013). However, it is Werner felt (1984) who coined and introduced the term, "resource based-view" and argued that the challenge facing an organization in owning a resource is comparable to difficulties facing the firm when entering an industry. As a result, "the resource-based view developed as an explanation of performance differences among firms in the strategic management literature" (Thompson, Peteraf, Gamble & Strickland, 2012). The resource-based view is used to determine whether the firm's initial bundle of resources and subsequent resource configurations are the sources of a particular firm's competitive advantage (Grant, 2010; Miles et al.., 2015; Thompson et al.., 2012) and to what extent the process of customer value creation is resource dependent (Gaya et al..,2013).Customer value creation processes involve how a firm combines core competencies or recombine activities of a firm with the competitive resources to create value for the customer through process and service differentiation, low cost structure and superior customer focus through superior customer responsiveness (Hill & Jones, 2009).

Resources, which are the basic unit of analysis for RBV, can be defined as those assets that are tied semi-permanently to the firm (Werner felt, 2014). It includes financial, physical, human, commercial, technological, and organizational assets used by firms to develop, manufacture, and deliver products and services to its customers (Barney, 2014, Gaya et al.., 2013). To be sustainable, a firm resource must be valuable, rare, and imperfectly imitable and non-substitutable in order to be source of a sustained competitive advantage (Barney, 2014; Day, 2012; Qureshi et al.., 2010).

2.8 EMPIRICAL REVIEW

Audrey and Jaraji (2016) empirically examined the impact of innovation on small scale enterprises performance in Tanzania. The study employed desktop method to investigate the relationship between innovation and performance of small scale enterprises in Tanzania. The study concluded that innovation positively impacts on the efficiency and performance of firms.

Rexhepi (2015) examine the impact of innovation in the performance of Small and Medium Enterprises to be competitive in this dynamic world. A thorough research of secondary data has been undertaken for the SMEs in Kosovo. The main contributor is the Business Support Centre Kosovo, who developed a survey for 500 SMEs in Kosovo carried out in December 2011 with the aim to analyze the profile of entrepreneurship and SMEs. The results show that SMEs are focused on the improvement of the existing products. Only 19.6% of SMEs in 2010 conducted entrepreneurial activities during the past three years while in 2011, it increased to 22.1%. During the past three years, 15.9% of new products and services were introduced in SMEs in 2010, while in 2011 it decreased to 8.5%. This study provides findings valid for SMEs in Kosovo, and should not be generalized to SMEs in the region or beyond.

Egbetokun, Siyanbola, Olamade, Adeniyi and Irefin (2018) examine the types of innovation that are predominant in SMEs in developing countries and to investigate the impact of these innovations on different dimensions of firm performance based on an industry-wide innovation survey carried out in Nigeria in 2007. Although innovation is important for superior firm performance, our result found that the type of innovation that SMEs pursue is not a critical consideration in their performance. While there was no difference found in the focus of SMEs on either of product or process innovations, evidence showed that SMEs would focus more on incremental product and process innovations. Incremental innovation was found to be very important for Nigerian SMEs and a significant predictor of product quality and not of revenue. We conclude that SMEs chooses to pursue such innovations that most fit their strategies and available resources. Such level of innovation affords Nigerian SMEs to more extensively exploit the domestic market but cannot support extensive new product development required to enter export markets.

Godswill, Oyedepo and Willie (2017) investigate how innovation affects the performance of manufacturing Small and Medium enterprises (SMEs) in a developing Nation. In order to enrich the literature, this paper evaluates the effects of various innovation dimensions on the performance of manufacturing SMEs in Nigeria. A total of 305 samples was obtained from SMEs in the textile/leather/apparel and footwear subsector; wood/furniture and woodworks subsector; and domestic/industrial plastic and rubber subsector in Southwestern Nigeria. Data collected was analyzed using correlation analysis and hierarchical regression analysis. The correlation result shows that all dimensions of innovation (product, process, market, and organizational) had significant positive relationship with firm performance including the control variable ‘firm size’. However, the regression result confirmed that process innovation and organizational innovation influences SMEs performance significantly. Additionally, product innovation had significant impact on innovation with the exclusion of other innovation dimensions from the model and marketing innovation had significant impact on the performance of SMEs with the exclusion of organizational innovation from the model. Overall, innovation accounts for about 55.7% of variation in the performance of the manufacturing SMEs. The study concludes that all dimensions of innovation, and specifically process and organizational innovation are critical elements for the enhancing the performance of SMEs in Nigeria. Therefore, owners and managers of SMEs should pay critical attention to implementation of innovation activities in their firms as it positively impact performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter outlines the design and methodology of the research. This includes the study design, population, sample selection and size, data collection and data analysis strategies. Finally, it presents information on the profile of the study area and with consideration to ethical issues that were observed during the study.

3.2 RESEARCH DESIGNS

Research design is a plan or a framework that guides the study. A survey is use in the research design which enables the researcher to employ fewer groups of people to make inferences about larger groups which was prohibitively expensive to study (Holton and Burnett, 1997). This study had adopted quantitative research design since it intends to test number of hypotheses using statistics. The quantitative research was explained in the next sub- section.

3.2.1 Quantitative approach

The purpose of the quantitative research design is to assess the external characteristics, firm innovativeness and small family business performance in the Ashanti region of Nigeria. The study applied a survey design with a questionnaire (which is structured self-administered) and structured record reviews. The study also deployed statistical tools such as regression, correlation, frequencies, percentages and chi-squares to estimate the impact of external characteristics, firm innovativeness on performance of small family business.

3.3 POPULATION

A population is defined as a group of people or objects that forms the theme of study. It consists of all elements or individuals, items or objects whose characteristics are being studied (Saunders et al, 2007). The study examined the influence of external characteristics, firm innovativeness and performance of small businesses in the Ilorin Metropolis. Target population of the study includes all registered small businesses in the metropolis within the last two years. The specific population includes; Manufacturing, Hotel/Guest house and catering services, craft works, carpentry and furniture making and afro-businesses. The respondents were the managers of the various businesses.

3.4 SAMPLE SIZE AND SAMPLING TECHNIQUES

This section considers the sample size and sampling technique of the project report. The population targeted for the study was too large for the researcher to survey all hence a small and carefully chosen sample was used to represent the population. The sample reflects the characteristics of the population from which it is drawn. Quota to each division was determined by using the formula;

This equation was used to generate the table 3.1 below.

CATEGORY OF BUSINESSES	TOTAL POPULATION	SAMPLE SIZE	SAMPLING TECHHIQUE
Manufacturing	$\frac{40 \times 100}{200}$	20	Purposive
Hotel/Guest house and catering services	$\frac{39 \times 100}{200}$	20	Purposive
Craft works	$\frac{38 \times 100}{200}$	19	Purposive
Carpentry and furniture making	$\frac{48 \times 100}{200}$	24	Purposive
Afro-business	35 x 100	17	Purposive

	200		
Total	200	100	

Source: Author’s Computation, 2024

After carefully calculating the quota for each sub sector the purposive sampling technique was then used to select units from each sub sector to put a total sample that represents all industries. A purposive sampling defines a form of non-probability sampling in which the decision concerning the individuals was included in the sample taken by the researcher and was based on a selection of criteria which include specialist knowledge of the research issue, or capacity and willingness to participate in the research. Some types of research design necessitate researchers taking a decision about the individual participating in the research would be most likely to contribute appropriate data, both in terms of relevance and depth.

3.5 SOURCES OF DATA COLLECTION

Primary and secondary data were used in this thesis. Data collected at the first hand from responses is known as primary data and was the main tool used in data collection. The primary data is questionnaires and secondary data is the collection of an accessible data. Secondary data for this research work were collected from literature (journals, articles, books, magazines, etc.) database and the internet. The firms’ operational manual and policy documents were also studied for some information. Data was sourced from books from libraries, publication and online and this formed the considerable part of the literature review.

3.6 INSTRUMENTS OF DATA COLLECTION

The nature of the research topic requires the use of questionnaire as the main and appropriate tool to gather date. This is because questionnaire has been identified as economical way of gathering data from large number of respondents at a relatively cheaper cost. Thoughts were given to the words of individual questions and this ensures that questions were objectively answered by respondents in the questionnaire.

The questionnaires have five sections. Section A; dealt with the background information of the respondents. Section B; examined the effects on innovativeness of the performance of small family business. Section C; dealt with the effects of external characteristics on small family business performance. Section D; assessed the performance of small family business. All the questions were closed or forced choice-format. Respondents decided on a given option through the use of closed format as this format is quick and easy fill and also minimizes discrimination against the less educated as this is a self-administered questionnaire or the less articulate (in interview questionnaire). It was easy to code, record, and analyze results quantitatively and easy to report results. How each variable was operationalized was explained in the subsequent section.

3.7 VALIDITY AND RELIABILITY

Validity of a questionnaire refers to the extent to which it measures what it claims to measure (Mugenda, 2003). In testing validity, the researcher prepared questionnaires and present them to the supervisor for scrutiny and suggestions on the relevance, clarity and suitability of the information. The supervisor then make suggestions which were incorporated into the final draft. Reliability of research instrument refers to the measure of degree to which research instrument yield consistent result or data after repeated trials. To establish the reliability of the research instruments, the researcher administered the questionnaires and pilot test them using 5 (five) respondents after which the researcher made the necessary corrections to the questionnaires.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 INTRODUCTION

This section focuses on the data analysis with the purpose of studying the how external characteristics leverage the impact of firm innovativeness on performance of micro and small family businesses. The chapter is divided into three sections. The first section focuses on the descriptive summary of the respondents to explore the attributes and characteristics of the respondents sampled. The second section then examines the relationships between the variables whereas the third and final section focuses on the discussion of results.

4.2 DEMOGRAPHIC ANALYSIS OF SAMPLE

The demographic analysis of sample was conducted to examine the characteristics of respondents and firms included in the study. Table 4.1 and 4.2 focuses on the sample characteristics of respondents and firm attributes respectively. From Table 4.1 it is revealed that 77.4% representing 137 out of 177 total respondents sampled were males; whiles the remaining 22.6 percent were females. It is also demonstrated on the same table that most of the respondents, 148 representing 83.6% are about 35-39 years. This is followed by those who are between 30-34years representing 14.1% of the total sample. Those whose ages fell below 29 years as well as those who were 40 years and above at the time of the survey were found to be very small in the sample. Put together, they did not represent more than 2.5% of the total sample.

On the issue of turnover, reports on Table 4.1 illustrate that most of the respondents had more than 10 years of experience in their fields of endeavors. Demographic analysis shows that they represented about 74% of the total sample. This is followed by those who had about 5-10 years of experience. Put together, results indicates that they represented 24.8% (44 out of 177) of the sample.

Table 4.1: Characteristics of Respondents

		Frequency	**Percent**
Gender	Male	137	77.4
	Female	40	22.6
	Total	177	100.0
Age	26-29	3	1.7
	30-34	25	14.1
	35-39	148	83.6
	40+	1	.6
	Total	177	100.0
Turnover	3-4yrs	2	1.1
	5-6yrs	19	10.7
	7-8yrs	10	5.6
	9-10yrs	15	8.5
	11+	131	74.0
	Total	177	100.0

Having examined the general pattern of respondents in the sample, Table 4.2 presents the firm characteristics. It is shown that most of the businesses sampled were one-man owned. They represented about 94.4% of the total sample. Only 10 firms representing 5.7% were formed by partnership and limited liability. Not surprising, it is also shown that out of the total number of firms sampled, 160 firms representing 98.8% indicated that there were some form of family involvement in management and decision making processes.

131 firms representing 74% had been established for more than decade. Meanwhile, 43 of these enterprises representing 24.2% had been formed between 5-10 years.

4.2: FIRM CHARACTERISTICS

		Frequency	Percent
Type of business	Sole	167	94.4
	Partnership	6	3.4
	Limited Liability	4	2.3
	Total	177	100.0
involvement	Yes	160	98.8
	No	2	1.2
	Total	162	100.0
Industry	Service	87	49.2
	Manufacturing	90	50.8
	Total	177	100
Age	3-4yrs	3	1.7
	5-6yrs	13	7.3
	7-8yrs	16	9.0
	9-10yrs	14	7.9
	11+	131	74.0
	Total	177	100.0

4.3 DESCRIPTIVE STATISTICS AND CORRELATION ANALYSIS

4.3.1 Descriptive Statistics

Table 4.4 reports the descriptive summary of key variables and controls. Results indicate that average level of customer service innovation is high (mean of 5.28) compared to technological innovation (mean of 4.74) and product innovation (mean of 4.69). Standard deviation results indicates that a significant variation exists among firms in terms of technological innovation than product innovation (SD = 0.64) and customer service innovation (SD = 0.44) respectively. In reference to performance and MD, it is shown on Table 4.4 below that performance is moderate high (mean of 4.72); meanwhile the dynamic nature of the market was shown to be relatively high with a mean of 5.8.

Table 4.3 Descriptive Summary of Variables

Variable	N	Mean	Std. Dev.	Min	Max
PI	177	4.69	0.64	2.6	6
TI	177	4.74	0.87	2.167	6.3
CSI	177	5.28	0.44	2.875	6.5
MD	177	5.80	0.62	3.8	7
Industry Sector	177	0.51	0.50	0	1
PFM	177	4.72	4.72	2.67	6.3
Age	177	5.45	1.04	2	6
Involvement (Involve)	162	0.01	0.11	0	1
Type Of Business (Type)	177	0.08	0.34	0	2

Age (measured as the number of years of establishment), family involvement and the type of business were introduced as control variables in the analysis. Family involvement (1 = yes; and 0 = otherwise) and the type of business (0 = one-man business, 1= partnership, 2 = limited liability) were measured as a dummy variables; whereas age was measured as an ordinal variable (1= less than 3 years, 2 = 3-4yrs, 3 = 5-6yrs, 4 = 7-8yrs, 5= 9-10yrs and 6 = 11 and above). As shown on Table 4.4 above the youngest firms had operated for about 3-4 years whereas the oldest firms had operated for more than 11 years. However on average, each firm had operated for between 9-10 years.

4.3.2 CORRELATION ANALYSIS

Table 4.5 presents the correlation matrix specifying the degree of association between the independent and dependent variables. Per the study objectives industry and MD are introduced as moderators whilst PI, TI and CSI are handled as the independent variables. PFM is the dependent variable whilst business type, involve and age are introduced as the control variables. Correlation statistics indicates that have a significant relationship with performance (PFM) with a positive relationship observed for MD (correlation statistics, r = 0.162) whereas industry was observed to have a negative association with performance (correlation statistic, r = -0.378). All the independent variables were observed to have a positive correlation with performance, though results show that they not strong correlate.

Similarly, with the exception of family involvement (involve), all the control variables were observe to have a weak degree of association with performance. Precisely, the correlation statistic of 0.028 shows that age has a positive association with performance indicating that performance increase with an increase in firms' age. Results show that business type (correlation statistic of -0.090) and family involvement (correlation statistic of -0. 162) have a negative relationship with performance.

Focusing on the moderators, results indicate that only CSI has a strong correlation with the MD (correlation statistic = 0.178) and the industry sector (correlation statistic = -0.237). This means that the family firms are expected to increase customer service innovations when the market becomes more volatile; however customer service innovations is higher for manufacturing oriented firms than service based firms.

Table 4.4: Correlation Matrix

	Business Type	involve	age	Industry	PI	TI	CSI	MD	PFM
Business Type	1.00								
Involve	-.022	1.00							
Age	-.355**	.052	1.00						
Industry sector	.095	.113	.091	1.00					
PI	.004	.056	.065	.268**	1.00				
TI	-.036	.011	.111	.418**	.635**	1.00			
CSI	-.152*	-.058	.281**	.237**	.423**	.587**	1.00		
MD	-.360**	.023	.505**	.029	-.040	.104	.178*	1.00	

PFM	-.090	-.162*	.028	-.378**	.012	.048	.121	.162*	1.00

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

*. Correlation is significant at the 0.05 level (2-tailed).

The rest of the independent variables did not have any significant degree of association with the MD; however for the industry sector it is shown on Table 4.5 above that both technological innovation (correlation statistic = 0.418) and product innovation (correlation statistic = 0.268) have a strong positive correlation with industry. Thus it is suggested that all the three forms of innovation are adopted at a higher degree within the manufacturing sector than the service sector; this could be due to the stiff level of competition present within the manufacturing sector than in the service sector. With reference to the relationship between the control variables and the mediator variables, it is generally deduced that one-man business entities and old established firms are more rampant in more dynamic markets than in stable markets.

4.4 REGRESSION RESULTS

The Hierarchical Multiple Regression (HMR) technique was used to explore the impact of the independent variables on performance whilst also examining the individual effect of the moderators on the estimated empirical relationship. The strength of the Hierarchical Multiple Regression is its ability to examine interactive effects aside direct relationship between variables.

The analysis involved the estimation of four interconnected models. In Model 1 the study focuses on estimating the effects of the control variables on family firm performance. For model 2, the three forms of innovation (i.e. product innovation, technological innovation, and customer service innovation) are then included into the model. The purpose is to examine their direct impact whilst controlling for the firm specific variables. For model 3, the moderator variable (either industry sector or market dynamism) is added to the previous variables to examine the direct contribution of the moderator variable on family firm performance. The fourth and final stage of the analysis then involved the addition of interactive terms to statistically examine the interactive effects. All the interactive terms were constructed based on centered values of the moderator variables and the independent variables. See appendix for details on how each interactive term was created.

4.5 DISCUSSION OF RESULTS

This study explores the effect of organizational innovation on the performance of micro and small businesses in Nigeria. The significance of the study lies in the fact that whereas the family firms have been widely acknowledged as the foundation of innovation; they survival rate of family firms across the world is poor although the relevance of innovation to firm performance and competitive survival has been widely established in literature, (see, Damanpour, 1991). This could be attributed to the harsh and dynamic business environment most firms operate and the fact that firms might be focusing on some dimensions of innovation which may not be beneficial to their survival. Due to this there was the need to look at the various forms of firm innovativeness – customer service innovation, product innovation and technological innovation - and how it impinges on family firm performance. The focused on unique dataset, family firms in Nigeria; which are known to be highly affected by increased globalization and institutional barriers. A hierarchical multiple linear regression technique was used to arrive at the research objectives. The study results supported the assertion that firm innovation leads to increased organizational performance. It was observed that product innovation, technological innovation and customer service innovation have a positive influence on family firm performance; however, the results suggests that customer service innovation is more relevant the performance of small and micro businesses than product and technological innovation. This is in contrast to the view that product innovation is relevant to businesses. Naldi et al (2007) and Damanpour (1991) has argued that innovation leading to the development and the consequent launching of a new product translates into better performance than any area of innovation. However due the weak institutional support and inadequate resource capacity, small and micro firms in Nigeria and for that matter Africa are not likely to build and compete with the large sized multinational companies on the basis of product and technological innovation. In the highly industrialized and developed economies; property rights and strong regulatory systems are religiously implemented and protected. This could give businesses the platform to invest and reap from pursuing product and technological innovation, but this is unlike Nigeria. The implication therefore is that because family firms have a comparative advantage in network capital within the market; innovation is geared towards customer service approach to gaining competitive advantage. Astrachan and Strider (2005) conclude that the level of social capital of micro and small businesses is high and can be used as a strategic asset. The resource-based view also posits that it is beneficial for firms to focus resources on the areas of comparative advantage to create valuable, rare, imitable, and non-substitutable.

Tokarczyk et al (2007) add that by observing that businesses, they have distinctive capabilities that provide an advantage on competition due to the “tacitness” rooted in their resources. Barney (1991) also argues that an organization’s processes will invincible should it capture the exclusive past condition, path reliance, fundamental uncertainty, and social complexity associated with the firm. Thus the innovativeness of small and micro firms should be built in the area of customer service activities. That is surely to lead to an upward thrust in competitive survival. Meanwhile the concentration customer service innovation has its limitations, the results show that as the market becomes more dynamic, the effect of customer service innovation on micro and small firms’ performance reduces. The implication is that customer service innovation may be more relevant in stable and less dynamic markets than in high dynamic market. In high dynamic market, the study results reveal that technological innovation is relevant for micro and small firms.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter discusses the summary of key findings to reiterate the key findings obtained in the study. It also attempts to draw some conclusions based on the key findings and then offer recommendations for the enhancement of business performance in Nigeria.

5.2 SUMMARY OF FINDINGS

The purpose of this study was to examine the moderating role of business external characteristics on the effect of small firm innovativeness on business performance. A total of 200 small and micro firms in Nigeria were sampled for this survey, however after thorough checks, 177 responses were passed as credible. A business external characteristic was measured using market dynamism. Firm innovativeness was also examined using three main themes – product innovation, technological innovation and customer service innovation. The hierarchical linear regression technique was then used to examine the study relationships and to obtain answers to the research questions. Some interesting findings were obtained at the end of the survey.

5.2.1 The Effect of Innovativeness on Small Business Performance

It was realized that impact of innovativeness on small family firm performance is positive. Reports indicate that product innovation, technological innovation and customer service innovation generally have a positive effect on small firm performance. This indicates that firms can pursue innovation to increase performance.

5.2.2 The Effect of External Characteristics on Small Business Performance

It is shown that the external business environment significantly affects firm performance. However the effect of the external environment on firm performance is not homogenous. For instance it is revealed that market dynamism positively affects performance. Thus one can expects that as firm performance will relatively be higher for businesses in more volatile markets than those in stable markets. This result is interesting because in more stable markets, market forces are less likely to vary and businesses can easily predict market trends and adjust; however it is shown that as markets move from stable conditions to more dynamic conditions firm performance increases. This could be attributed to the aggressive approach of businesses under such conditions.

5.2.3 The Role of External Characteristics

Reports indicate that the moderating role of external characteristics on firm innovativeness and performance is mixed. This study shows that the leveraging effect of external characteristics is dependent on the specific type of innovation and the external force at play. For instance results show that market dynamism negatively moderates the effects of product innovation and customer service innovation on firm performance. However, it is expected to positively moderate the relationship between technological innovation and performance of small firms in Nigeria.

5.3 CONCLUSIONS

From the study results, it can be concluded that though the effect of innovation on firm performance is expected to be positive; however the strength of impact is dependenton other external factors surrounding the business. In dynamic markets, the evidence shows that customer service innovations are more relevant if the firm is interested in extracting direct gains its innovativeness. However, such an approach must be exercised with caution, this is due to the fact that when customer service innovation is integrated with the market dynamism; the gains from CSI reduce. This will only be possible if the firm is caught in the web of altering the customer service approaches as radically as the market conditions changes. Under such circumstance the firm is seen as unfocused as customer services keep changing with no clear culture in mind. Contrary, reports show that in dynamic markets family firms must be highly technically innovative. That is technological approaches must be adjusted and modified as constant as the market conditions demands it. This is because technologies become easily obsolete in dynamic markets than in stable markets. In dynamic markets, obsoletes technologies become inefficient and results in avoidable costs.

5.4 RECOMMENDATIONS

It is generally recommended that small and micro firms in Nigeria should invest in technological innovations and customer service innovation. However, such investment must consider the external environment within which the firm operates. Investments in customer service innovations are beneficial in stable and less dynamic markets. Managements are however advised on the rate at which customer service approaches and policies are modified. When the company wants to invest in innovation to keep up with the changing market environment, it must do so with technological adjustments and not on the shoulders of its customer service policies. Altering the customer service as rapidly as the market conditions alter, is seen to be detrimental; however, innovating based on technical lines is relevant under such conditions. The results also generally portray the detrimental effect of increased family involvement in the operations of smallfirms. Firms are therefore advised to reduce the extent of influence in the general management and operations of the business as this is shown to reduce firm performance. Especially decisions that alter the management decisions and governance alter the financial efficacy and the firm and leads to poor performance.

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