Innovation in Nigerian Small and Medium Enterprises: Types and Impact

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ABSTRACT

This article seeks to explore 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. The authors 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.

Keywords: Impact, Innovation, Nigeria, Small and Medium Enterprises

INTRODUCTION

The importance of Small and Medium-sized Enterprises (SMEs) to national economies has been widely recognised. Indeed, there is now a worldwide interest in stimulating entrepreneurship and fostering the growth of small businesses through several mechanisms, chief among which is the provision of risk-free capital (Oyefuga et al., 2008). The general argument is that by their very nature, SMEs are highly innovative and extremely impactful as far as
national economic development is concerned. To date, several informative studies have explored the subject of innovation in SMEs but existing gaps in the knowledge about innovation among SMEs beg for more studies. Specifically, studies that explore the types of innovation that SMEs pursue are few and mostly based in the developed country context (e.g., Oke et al., 2004; Rizoni, 1991). Main findings revolve around the facts that product innovations are predominant in SMEs and that there is a significant impact of these on growth of firms’ turnover. The results on whether or not these firms focus on incremental/radical innovations are inconclusive and other dimensions of firm performance apart from turnover have been largely unexplored (see for instance, Oke et al., 2004; Kanter, 1985).

The objective of this article, therefore, based on an innovation survey in Nigeria, is to explore 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. Following Mytelka (2000), we define innovation within our developing country context as the process by which firms master and implement the design and production of goods and services that are new to them irrespective of whether they are new to their competitors, their customers or the world. The article is structured thus. First, we review the literature on innovation in SMEs and define the research questions and hypotheses. Next, we discuss the research methodology employed to carry out the empirical work. Next, the analysis is presented and discussed, followed by the implications these hold for practice, policymaking and future studies.

**LITERATURE REVIEW**

There is no single universally accepted definition of SMEs. For instance, it has been noted in the literature that a small enterprise can be defined along three dimensions: in terms of either employment or investment or turnover, or a combination of any two, or all of the above (Atkins & Lowe, 1997; Bala-Subrahmanya, 2005). Specifically, in Nigeria, ministries, research institutes, agencies, private sector institutions, etc. use different definitions which involve the above three dimensions (Oyefuga et al., 2008). Notwithstanding, Ramachandran (2002) argued that SMEs in the Nigerian context are best defined as those with fewer than 100 employees and below 50 million naira in assets. The lower limit for this characterisation (in terms of employment) beyond which a firm is regarded as a micro enterprise is 10 employees (see Oyefuga et al., 2008).

The subject of innovation has risen in prominence to become a global policy issue. Following this, a plethora of literature on the typology of the innovation concept has emerged. An exhaustive review of such typologies is clearly beyond the scope of this article. However, it is useful to proceed with a clear understanding of the innovation types and effects within the context of this article. Popadiuk and Choo (2006) presented a thorough review of the literature on innovation types; and from them we learn that product and process innovations are sub-sets of technological innovation which can further be resolved into radical or incremental, depending on the degree of novelty (see also García-Muiña & Navas-López, 2007; OECD, 2005; Hadjimanolis, 2003; Souitaris, 2003; Tushman & Anderson, 1986).

Three broad categories of the literature on innovation in SMEs can be identified. A previous similar identification and a relatively systematic and thorough review had been made by Oke et al. (2004). However, unlike Oke et al, we limit our review to studies published within the last decade. We have done this for two main reasons. First, these studies would be more recent and probably more well-informed in terms of methods. Secondly, there are an increasingly higher number of empirical studies carried out in the developing context within the decade.

The first category of research studies investigates the characteristics and entrepreneurial behaviour of owner-managers and how these relate to decisions concerning innovative ac-
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