# EFFECT OF INNOVATION ON THE PERFORMANCE OF SELECTED MANUFACTURING SMALL SCALE ENTERPRISES IN IBADAN METROPOLIS, OYO STATE, NIGERIA

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**Abstract**

Despite being widely recognized as essential for the growth and survival of firms in competitive markets, the link between innovation and the performance of small-scale enterprises (SSEs) remains a debated topic in empirical research. This study examines the impact of innovation on the performance of selected manufacturing SSEs in Ibadan metropolis, Oyo State, Nigeria. Data were collected via a structured questionnaire from 380 SSEs across various subsectors, including textile/leather/apparel, footwear, wood/furniture, woodworks, and domestic/industrial plastic and rubber, chosen from a total of 6,039 SSEs registered with the Oyo State Ministry of Commerce and Industry. The data were analyzed using SPSS version 23, employing both descriptive and multiple regression analyses. The results reveal that different types of innovation (product, 0.839; process, 0.692; marketing, 0.581; organizational, 0.472) significantly impact SSE performance. Collectively, these innovations account for 58.4% of competitive advantage, efficiency improvements, and sales growth, thereby promoting overall success and sustainability. The study recommends that stakeholders identify and address barriers and enablers specific to each type of innovation, determine best practices for each sector, and create tailored support programs to boost innovation capabilities and performance in the local manufacturing industry.

**Keywords:** Marketing innovation, organisational innovation, process innovation, product innovation

## Introduction

The main tactic and engine of a company's progress and survival in cutthroat competitive markets is innovation, which also promotes the establishment of new SMEs and the growth of already established ones. A country's ability to innovate is a key factor in its development, especially when it comes to developing nations where SMEs and their citizens generate employment, support local entrepreneurship, integrate with larger businesses, and add to GDP (Chang & Chen, 2023). Since SMEs account for over 75% of jobs worldwide (Olughor, 2015), improving their performance is a key topic of discussion in policy discussions everywhere, but particularly in Africa (Naudé & Rossouw, 2018; Audrey & Jaraji, 2016).

Globally, businesses of all sizes are competing harder and with greater technology (Naudé, Szirmai, & Goedhuys, 2023). Companies need to innovate in order to adapt and succeed in the global economy of today. The ability of small businesses to successfully integrate innovation into their plans frequently determines their level of survival. Process innovation guarantees competitive pricing, organizational innovation promotes a flexible and long-lasting organization, and product innovation aids in preserving market share and propelling corporate expansion. By providing a wider range of valued, uncommon, unique, and differentiated items, innovation helps businesses achieve better financial success (Lai & Li, 2023).

The creation and survival of small and medium-sized enterprises (SMEs) are essential for developing nations because these companies frequently hire more of the less skilled laborers who are common in these areas (Makina, 2021). SMEs are acknowledged for their important contribution to economic development

and progress in Nigeria, as they are in many other developing countries. SMEs are more innovative than large enterprises because of their adaptability and quick integration of inventions (Ganco, Ziedonis, & Agarwal, 2018). Research has indicated that SMEs perform better when they participate in innovation-related activities (Garcia, 2014). Gaining an understanding of SMEs also helps stakeholders become more aware of their demands, which make it easier for scientists, businesspeople, and legislators to support and create policies that work (Olayiwola, Oludayo, & Ayodeji, 2023). Notwithstanding its significance, Olayiwola, et al (2023) opined that Nigerian SMEs confront obstacles such as poor infrastructure, ineffective bureaucracy, restricted finance availability, unequal competition, technological divides, a lack of research and development, reliance on imported supplies, and a lack of managerial expertise. Innovation is key to addressing these issues if we want to see their growth and sustainability.

Although scholars and stakeholders generally agree that innovation is a key strategy for firms' growth and survival in competitive business environments, empirical studies on the relationship between innovation and SME performance have produced mixed results. Some studies show a positive relationship (Olayiwola, et al. 2023; Adegoriola, 2021), while others find no impact of innovation on SME performance (Atalay et al., 2013). This inconsistency in research findings necessitates further investigation. Therefore, this study examined the influence of innovation on the performance of selected manufacturing small-scale enterprises in Ibadan metropolis, Oyo State, Nigeria. The main aim of this study is to examine the influence of innovation on the performance of selected manufacturing SSEs in Ibadan metropolis, Oyo State, Nigeria.

## Literature Review

### Theoretical Review

### Dynamic Capabilities Theory

The dynamic capacities theory places a strong emphasis on an organization's ability to adapt quickly to changes in the business environment by integrating, reconfiguring, and adjusting both internal and external resources. Mele, Capaldo, Secundo, and Corvello (2023) draw attention to the theory's emphasis on firms honing their capacities for innovation and quick adaptation to market changes, placing more emphasis on continuous learning, flexibility, and strategy renewal than on fixed strategic approaches. This paradigm is essential for comprehending how businesses preserve their competitive edge in the face of uncertainty. It helps businesses see and seize opportunities quickly while maintaining their competitive edge over time (Wang, Zhao, & Wang, 2023).

The potential of small-scale enterprises (SSEs) to innovate, adapt, and strategically reallocate resources in response to changing market conditions is shown when this approach is applied to SSE performance and innovation (Mele et al., 2023). It emphasizes how crucial it is to navigate possibilities and dangers with intelligence, agility, and proactive management. SSEs can develop unique talents that provide them with a competitive edge, explore new markets, and foster a culture of continuous innovation by utilizing their dynamic capacities. Szhou, Jzhou, Feng, and Jiangs (2019) assert that this strategy gives businesses the ability to take advantage of both internal and external growth prospects, which improves their performance in demanding business settings. In the end, dynamic capabilities theory provides a tactical framework for boosting entrepreneurial endeavors inside businesses, resulting in higher output, steady expansion, and resistance to market upheavals (Helfat & Peteraf, 2015).

## Conceptual Review

### Innovation

According to Liao, Fei, and Chen (2023), innovation is the propensity of businesses to participate in and foster originality, fresh concepts, creative processes, and experiments that lead to new technological advancements or products. Another way to think about innovation is as creative destruction, in which new ideas upend established markets and inspire rivals to create new demands. It includes any concept, behavior, or item that people or groups acknowledge and accept as novel and ready for adoption (Serna, Martinez, & Guzman, 2013). To present it clearly, innovation is a concept or method that is recognized and adopted by an individual or organization in order to improve operations, management, marketing, and goods (Adegoriola, 2021).

According to Le, Le, Pham, and Vo (2023), innovation is essential to small-scale enterprises' performance because it makes it possible for them to compete, adapt, and flourish in dynamic market contexts. SSEs that embrace innovation are better positioned for sustained growth and profitability, whether through organizational innovation to foster agility and resilience, process innovation to enhance efficiency and reduce costs, marketing innovation to effectively reach and engage customers, or product innovation to maintain competitiveness and capture new markets (Liao et al., 2023). Together, these innovation-related factors enable SSEs to adapt to changing market demands, set themselves apart from rivals, and succeed over the long run in their particular sectors (Liao et al., 2023).

### Dimensions of Innovation

#### Product Innovation

To expand into new markets or satisfy current ones, product innovation in the manufacturing SSEs entails introducing new or enhanced goods (Gao, Zhou, & Zhang, 2023). According to Liao, Welsch, and Stoel (2020), this innovation produces fresh outputs but also necessitates varied organizational tactics and distinct inputs. A variety of managerial contexts have been studied for product innovation, including emerging market entrepreneurial firms (Cui & Wu, 2017), continuous innovation in established firms (Schindler, Kallmuenzer & Valeri, 2023), collaborative networks (Dahlander & Piezunka, 2019), R&D spillovers (Acemoglu, Akcigit, & Kerr, 2016), organizational culture and human resource systems (Sikora, Ferris & Van Iddekinge, 2015), and leadership (Anderson, Eshima, & Hornsby, 2019). For manufacturing SSEs, product innovation, which results from producing and commercializing new goods or services with enhanced performance characteristics, helps these enterprises differentiate themselves from competitors and address individual or national challenges.

Product innovation is a major source of competitive advantage since it raises the caliber of products and services, which boosts the competitive edge and performance of the company (Nguyen & Chau, 2020). Ozkaya, Droge, Hult, Calantone, and Ozkaya (2015) assert that prospects for a first mover advantage arise from product innovation, which protects a company from competitors and dangers. Product innovation and organizational performance are positive and significant correlates, according to Chen and Liu (2023). According to Lichtenthaler (2020), there is a significant and positive correlation between company performance and the product innovation component. Huarng and Mas-Tur (2016) and Zhang, Zhang, and Li (2023) also attested to the beneficial effects of product innovation on business performance.

#### Process Innovation

Process innovation in manufacturing SSEs refers to modifications made to the production or development of products, encompassing new technologies, production lines, raw materials, logistics, and processes. To improve manufacturing efficiency and quality, this kind of innovation frequently derives from

organizational or product innovation and uses new technologies. Implementing new or enhanced production procedures as well as incorporating new equipment, technology, or expertise into the process of making products are examples of process innovation (Smith, Johnson, & Williams, 2023). Manufacturing requires process innovation to give businesses a competitive advantage. According to studies (Gutiérrez & Álvarez, 2023; Rahman, Uddin, & Hossain, 2023; Tuan et al., 2016), process innovation and firm success are positively correlated. Smith et al. (2023) also observed a connection between business performance and new technology, which is a stand-in for process innovation. Chen, Wu, and Zhou's (2023) recent findings have confirmed the considerable correlation between process innovation and innovative performance.

**Marketing Innovation**

In manufacturing SSEs, marketing innovation entails applying new marketing strategies along with notable modifications to product design or packaging, placement, promotion, or cost (OECD, 2022). It plays a critical role in meeting market needs and exploiting market opportunities, concentrating on market mix and selection to match customer expectations (Duan, Wang, & Liu, 2023). According to Chen et al. (2023), marketing innovation means coming up with new ways to satisfy consumer requirements, breaking into untapped markets, or arranging products in a way that will maximize sales. Price tactics, product packaging design, location, and advertising are some of the methods used to accomplish this (Solomon, Marshall, & Stuart, 2020). Research has demonstrated that marketing innovation increases product demand, which boosts sales growth and increases profitability for creative businesses (Nguyen, Nguyen & Nguyen, 2023; Kuo & Smith, 2018). Furthermore, marketing innovation has been shown to have a favorable effect on business performance by López-Cabrera, Sánchez-Peinado, and Ruiz-Palomino (2023), and Jung and Shegai (2023) confirmed this relationship.

**Organisational Innovation**

Organizational innovation in manufacturing SSEs refers to modifications made to a company's structure and management, such as extending access to new markets and improving human resource management (Liu & Yang, 2020). It includes applying fresh organizational strategies to workplace structure, business operations, and external relations (OECD, 2022). By lowering administrative and transaction costs, raising worker productivity and job satisfaction, getting access to non-tradable assets like outside expertise, and cutting supply costs, organizational innovations can improve business performance (OECD, 2023). This kind of innovation entails bringing novel approaches to assigning duties and decision-making among staff members, as well as new ways to set up routines and procedures. Research has demonstrated the beneficial impact of organizational innovation on business performance. For instance, Tuan et al. (2016) discovered that a greater level of inventive performance is correlated with increasing innovation activities. Likewise, Salge and Vera (2020) found a substantial correlation between organizational innovation and corporate success, finding that medium-sized Milanese enterprises that integrated innovative work organization techniques with cutting-edge technologies saw notable productivity improvements.

**Small Scale Enterprises**

In Nigeria, the classification of micro, small, and medium-sized enterprises (MSMEs) is defined by specific national parameters. The implementation of the National Policy on MSMEs has standardized this categorization, focusing primarily on two criteria: assets and employment, excluding land and buildings.

**Table 1: Classification of Micro, Small and Medium Enterprises**

| S/N | Size Category | Employment | Assets (Naira, million excluding land and building) |
|---|---|---|---|
| 1 | Micro Enterprises | Less than 10 | Less than 5 |
| 2 | Small Enterprises | 10 to 49 | 5 to less than 50 |
| 3 | Medium Enterprises | 50 to 199 | 50 to less than 500 |

Source: National Policy on MSMEs Report, 2015.

Medium enterprises in Nigeria typically employ between 50 to 199 workers and possess assets ranging from N50 million to N499.9 million, excluding land and buildings (Yahaya, Geidam, & Usman, 2016). According to the National MSMEs Survey (2015), there are approximately 4,670 medium enterprises in Nigeria, predominantly found in sectors such as manufacturing, transportation, ICT, agro-allied industries, and oil & gas. Small enterprises, on the other hand, employ between 10 to 49 workers and hold assets ranging from N5 million to N49.9 million, excluding land and buildings (Yahaya et al., 2016). The survey reports approximately 68,168 small enterprises in Nigeria, comprising mostly sole proprietorships but with a significant number as incorporated businesses. Micro enterprises are characterized by employing less than ten people and having assets less than N5 million, excluding land and buildings (Yahaya et al., 2016). The National MSMEs Survey (2015) estimates there are approximately 36.99 million micro enterprises in Nigeria, employing a minimum of 57.84 million people.

**Small Scale Enterprises Performance**

The accomplishment of a company's internal and external goals is referred to as the performance of small-scale enterprises (SSEs) (Chang & Hughes, 2020). Growth is another word for performance (Chen & Li, 2023). Three key areas are included in Jones, Smith, and Brown's (2023) definition of organizational performance: The three main aspects of performance are (a) financial (profits, return on assets, return on investment, etc.), (b) product market (sales, market share, etc.), and (c) shareholder returns (economic value added, total shareholder return, etc.). Financial or non-financial performance metrics are also possible. Return on assets, return on investment, return on equity, return on capital employed, net profit margin, gross profit margin, profit before tax, profit after tax, and market share are examples of financial performance. For the purpose of this study, market share has been chosen as the research metric.

**Empirical Review**

Adegoriola (2021) investigates how innovation affects the performance of SMEs in the Abuja Municipal Area Council (AMAC), Federal Capital Territory (FCT), Abuja. 265 SMEs in the Garki, Wuse, and Utako areas of AMAC, FCT, are given structured questionnaires as part of the study's descriptive research approach. 786 SMEs made up the study population, and respondents were chosen at random using simple random sampling. Product innovation and SMEs' performance in AMAC are significantly correlated, according to data analysis using ANOVA. Furthermore, it was found that the performance of SMEs and marketing innovation are significantly correlated.

Alyahyaei, Husin, and Supian (2020) collected and analyzed data on the effect of innovation on the performance of SMEs in Oman using a quantitative methodology. Their research, which involved using a self-administered questionnaire, showed a strong and favorable correlation between Omani SMEs' business performance and creativity. The study emphasizes how important innovation is to SMEs' development both

domestically in Oman and internationally. Innovative businesses are better able to adapt to shifting consumer needs, thrive in a fiercely competitive industry, and diversify their product and service offerings.

The effect of transformative leadership (TL) on innovation and marketing success in small and medium-sized service organizations was examined by Afriyie, Du, and Ibn Musah (2019). In an emerging economy with a service industry that is expanding quickly, they gathered cross-sectional survey data from 437 SME service businesses. To evaluate the hypotheses, quantitative approaches were used, notably partial least squares structural equation modeling (PLS-SEM) with bootstrap processes. The results show that innovation and marketing performance are positively correlated, with transformational leadership moderating this link. The analysis emphasizes how strong these effects are in the firm's industry.

The study conducted by Ukpabio, Oyebisi, and Siyanbola (2017) investigated the effects of innovation on manufacturing SMEs' performance in developing countries. A self-administered questionnaire was used to collect primary data from 305 manufacturing SMEs, and hierarchical regression and correlation analyses were used to analyze the results. The results of the correlation study showed that, even when controlling for "firm size," all aspects of innovation—product, process, market, and organization—exhibited a statistically significant positive association with firm success. Furthermore, the regression analysis confirmed that organizational innovations, marketing, processes, and products all had a major impact on SMEs' performance. All things considered, innovation accounted for about 55.7% of the variance in manufacturing SMEs' performance.

## Methodology

The study used a survey research design in the Ibadan metropolis, Oyo State, Nigeria. The city was selected for the study because it was historically significant as the former capital of Southwest Nigeria and a major commercial hub. Researchers used the Krejcie and Morgan (2002) algorithm to determine the study sample size of 420 manufacturing SSE owners in the following sectors: wood/furniture and woodwork, textile/leather/apparel and footwear, and domestic/industrial plastic and rubber. These proprietors were randomly chosen from among the 6,039 SSEs that the Oyo State Ministry of Commerce and Industry had on file. Responses were gathered and evaluated using a structured questionnaire that included five Likert-scale items per dimension, with 1 denoting strongly disagree and 5 strongly agree.

Expert reviews and the test-retest procedure, incorporating feedback from a pilot test, were used with 25 manufacturing SSE owners over two weeks to verify the study instrument. A total of 420 questionnaires were sent out; 385 of them were returned, yielding a 91.7% retrieval rate. 380 responses were left for examination after five copies that were not correctly completed were removed. The Statistical Package for Social Sciences (SPSS) version 23 was used for data analysis, and multiple regression and descriptive analyses were used to interpret the results.

## Data Analysis and Results

### Analysis of respondent characteristics

The descriptive analysis of respondent characteristics revealed a predominance of males in the surveyed manufacturing SSE subsector, comprising 87.06% of respondents, while females accounted for 12.94%. Age distribution showed 40.65% between 26-33 years, 2.58% aged 18-25 years, and 56.77% aged 34-41 years, indicating a mature demographic likely to contribute significantly to entrepreneurial development. Marital status data indicated 14.84% single, 80.65% married, and 4.51% divorced respondents, suggesting a focus on stable, long-term entrepreneurial commitments. Educationally, most respondents held SSCE,

NCE, or OND qualifications, with 22% possessing HND, 6.4% B.Sc/B. Tech, 2.4% MBA/M.Sc/M.A, and 0.1% a PhD. Work experience ranged with 61.6% having 6-10 years, 20.9% 11-15 years, and 11% over 15 years. Subsector analysis revealed a high male presence in wood/furniture/woodwork (98.7%), 66.1% male in domestic/industrial plastic and rubber, and balanced gender distribution (50.5% male, 49.5% female) in textile/leather/apparel & footwear. Business structure data showed 91.9% sole proprietorships and 8.1% limited liabilities.

**Testing of Hypothesis**

**Table 2: Multiple regression analysis showing the influence of performance appraisal on the performance of manufacturing SSEs in Ibadan Metropolis**

| Model | | R= .764[a] | $R^2$= .584 | Adj. $R^2$= .529 | Std. Error of the Estimate = 11.825 | |
|---|---|---|---|---|---|---|
| | | Sum of Square | Df | Mean Square | F | Sig. |
| 1 | Regression | 75.825 | 4 | 75.825 | 48.364 | .000[b] |
| | Residual | 58.259 | 378 | .618 | | |
| | Total | 134.084 | 379 | | | |
| | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
| | | B | Std Error | Beta | | |
| (Constant) | | 6.273 | 1.812 | | 9.049 | .000 |
| Product innovation | | 1.852 | .782 | .839 | 2.512 | .000 |
| Process innovation | | 1.681 | .674 | .692 | 1.643 | .000 |
| Marketing innovation | | 1.442 | .492 | .581 | 1.541 | .000 |
| Organ. innovation | | 1.293 | .485 | .472 | .681 | |

a. Dependent Variable: Market share

b. Predictors: (Constant), Product, process, marketing & organisational innovations

Source: Field Survey, 2025.

**Discussion of Findings**

From Table 2, it was observed that the identified dimensions of innovation as a construct accounted for a total R value of 0.784, indicating a correlation between the variables, and explained 58.4% ($R^2$=0.584) of the market share recorded during the study period. The model was validated with an F value of (4, 379) = 48.364, which was significant at the 1% level, indicating that the model could capture the contribution effectively. This suggests that the dimensions of innovation collectively influence SSE performance at the 1% significance level. Consequently, these findings align with those of Ukpabio, Oyebisi, and Siyanbola (2017), who confirmed that product, process, marketing, and organizational innovations significantly

impact SME performance. Overall, innovation accounted for approximately 58.4% of the variation in the performance of manufacturing SSEs.

In examining the influence of individual dimensions while holding other dimensions constant, the study observed that product innovation accounted for a variation of 1.852 (β=0.782) of the market share, significant at the 1% level with a t-value of 2.512. This suggests that employees who engage in innovative practices contribute substantially to market share growth, highlighting the importance of fostering a culture of innovation within organizations to enhance performance outcomes. This result aligns with Adegoriola (2021), who found that product innovation significantly impacts SMEs' performance in AMAC. Similarly, process innovation as a dimension accounted for a variation of 1.681 (β=0.674), with a t-value of 1.643, also significant at the 1% level. This indicates that streamlining and improving internal processes not only boosts efficiency but also enhances overall business performance. These findings are consistent with Alyahyaei et al. (2020), who revealed a positive and significant relationship between innovation and business performance in Omani SMEs.

The effect of marketing innovation, while holding other factors constant, showed a variation of 1.442 (β=0.492) with a t-value of 1.541 at a 1% level of significance, confirming the model. This suggests that innovative marketing strategies are crucial for improving market share and overall business success, emphasizing the need to incorporate marketing innovation into performance of SSEs for sustained growth and competitive advantage. This result aligns with Adegoriola (2021), who found that marketing innovation significantly impacts SMEs' performance. Similarly, organizational innovation, with a variation of 1.293 (β=0.485) and a t-value of 0.681, also significant at the 1% level, underscores the need for continuous improvement in organizational practices to enhance employee performance and efficiency. Therefore, companies should prioritize organizational innovation in their performance objectives to drive growth and competitive advantage. These findings are consistent with those of Ukpabio et al. (2017), who revealed that product, process, marketing, and organizational innovations all significantly influence SME performance.

## Conclusion and Recommendations

This study examined the impact of innovation on the performance of manufacturing SSEs in the Ibadan metropolis, Oyo State, Nigeria, sampling 380 SSEs across textile/leather/apparel, footwear, wood/furniture, woodworks, and domestic/industrial plastic and rubber subsectors. Using descriptive and multiple regression analysis, findings demonstrated that dimensions of innovation (product, process, marketing, and organizational) significantly enhance SSEs' performance. The study concludes that these innovations drive competitive advantage, efficiency improvement, and growth, contributing to overall success and sustainability. In line with this conclusion, it can, therefore be recommended that all stakeholders should explore barriers and enablers specific to each innovation type, identify sector-specific best practices, and develop tailored support programs to enhance innovation capabilities and performance in the local manufacturing sector.

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