EFFECT OF INNOVATION PRACTICES ON THE PERFORMANCE OF AGRO-PROCESSING SMALL AND MEDIUM ENTERPRISES IN MAKURDI, BENUE STATE NIGERIA

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Abstract: *Agro-processing SMEs are constantly being pressured by global competition thus necessitating the need for stepping up and sustaining performance through innovation initiatives. This study examined the effect of innovation practices on performance of agro-processing SMEs in Makurdi, Benue State. The specific objectives were to examine the effect of product innovation and the effect of marketing innovation; on performance of agro-processing SMEs in Makurdi, Benue State. The study adopted survey research design. The study population comprised of 108 owners/managers of SMEs in Makurdi, which also served as sample for the study, from which data were obtained via administered questionnaire. The researcher, therefore, ran a multiple regression analysis using Statistical Package for Social Sciences (SPSS version 27). The results of the study established that Productand marketing innovations have significant/positive effect on the performance of agro-processing SMEs in Makurdi, Benue State. Therefore, recommendations were made amongst others that agro-processing SMEs in Makurdi should invest more in research efforts so as to improve on the existing products, increase efforts in product branding, and engage in innovative marketing campaigns etc so as to improve their performance.*

1.0   INTRODUCTION

1.1 Background to the Study

Organizations across the globe are constantly seeking for ways of maintaining appreciable performance. Maintain and sustaining performance by organizations, especially the small and medium agro-processing enterprise, are beginning to know that consumers taste and preferences are constantly changing and thus owners and managers of these enterprises require a dynamic posture and behavior to fit into the competitive pressure. Thus, innovation holds essential promises in fostering a healthy operation for this sector. Due to high pressures from global competition and the evolving behaviour of consumers, small and medium enterprises (SMEs) pay more attention to innovation practices to maintain their marketplace (Ngo 2024). Innovation practice is recognized as an important driving force for businesses to thrive, in global competitive position, and to gain a competitive edge (Foster *et al.,* 2023). Innovation practices changes in process, product, organisational and market strategies to meet the needs of customers, fit into competition and bring profit to the organization (Soi and Muriuki 2024).

A number of organizations have turned innovation into their competitive advantage; thanks to the globalization of business sectors, which has led to higher competition, rapid industrial changes, and shorter development cycles for new products and innovative ideas. In turn, this has led to an increase in innovation within their organizations. Innovation and the contribution SMEs make to national economies have been increasingly recognized. (Adner and Kapoor, 2016; Falahat *et al.,* 2020). Global competition and rapid technological change have made innovation increasingly important (Adam and Alarifi, 2021). According to Ullah and Qaiser(2020), innovation enables firms to reduce costs, improve quality, and differentiate themselves from competitors, leading to improved financial performance and growth.

Research on innovation in SMEs within Nigeria is becoming necessary as SMEs have become the dominant form of business in sub-Sahara Africa as well as in Nigeria. (SMEDAN, 2016). It is a known fact that they account for 95% of the business population in sub-Saharan Africa. It has been widely acknowledged that SMEs are responsible for the growth of any economy. In addition to contributing to GDP, job creation, and poverty alleviation, SMEs have over the years made significant contributions to economic growth (Akosile, 2017). Therefore, several studies have suggested that the effect of innovation practices correlate positively with different measures of the Performance of SMEs in the recent period of research on innovation (Issau *et al*, 2021; Mwangi and Namusonge, 2014). Study such as (Onyenma, 2020) has explored the relationship between innovation and business performance, paying particular attention to the variables that might affect the results of an invention's implementation. While the findings appear to be complex, both internal and external factors, such as product, market, and process, have been shown to have both positive and negative effects on firm success. It is evident from their findings that the performance of SMEs needs innovation to sustain and build revenues, which leads to improved performance.

For maximum performance of agro-processing SMEs, there is a need to engage in some of the innovation practices such as product and marketing innovations. In more than two decades, the performance of agro-processing SMEs in Benue State has not been optimized (Benue State University Centre for Food Technology and Research (BSU-CEFTER) Needs Assessment Report, 2022). In support, The Centre for Food Technology and Research, Benue State University (2022), reported that over 50% of the food grown in the region was lost because of lack of innovative measures for product processing, storage, and inadequate distribution mechanism. In order to promote the development of agro-related SMEs and agriculture, some international donor agencies such as the International Fund for Agricultural Development (IFAD), FADAMA project of the World Bank, interventions by German Cooperations, and Bill and Melinda Gates Foundation have sponsored projects in rice processing, soyabean processing, and cassava processing to promote their development and performance. However, these projects have not yielded satisfactory results.

1.2 Statement of the Problem

Despite all the aforementioned interventions some of the agro-processing small and medium enterprises are still performing below their capacity. Despite the numerous benefits embedded in product innovation and marketing innovation practices at their disposal, yet reports of abysmal performance abounds. A company with an inability to engage more in product and marketing innovations even after receiving such funds will underperform thereby

experiencing low profit, low quality product, reduced levels of sales, and loss of market share. Hence, this study seeks to examine the effect of innovation practices on performance of agro-processing small and medium enterprises in Makurdi metropolis of Benue State.

1.3 Objectives of the Study

The specific objectives for this study includes to:

i.   examine the effect of product innovation on the performance of agro-processing SMEs in Makurdi metropolis of Benue State, Nigeria.
ii. investigate the effect of marketing innovation on the performance of agro-processing SMEs in Makurdi metropolis of Benue State, Nigeria.

1.4 Statement of Hypotheses

The following hypotheses guide this study:

Ho$_1$: Product innovation has no significant effect on the performance of agro-processing SMEs in Makurdi, Benue State Nigeria.

Ho$_2$: Marketing innovation has no significant effect on the performance of agro-processing SMEs in Makurdi, Benue State Nigeria.

2.0   LITERATURE REVIEW
2.1 Concept of Innovation
Innovation is the process of creating or improving products, services, processes, or business models that provide value to customers and differentiate a firm from its competitors (OECD, 2018). It involves identifying new opportunities, generating ideas, and implementing those ideas to create novel or improved offerings that meet the changing needs and preferences of customers or address societal challenges.

Innovation is defined as turning opportunities into new ideas and putting these new ideas into practice. This term comes from the Latin - innovare - meaning to make something new. In order to grasp innovation conceptually, we must first understand what it entails. The concept of innovation refers to the creation of new or novel products or the transformation of old products through new strategies so as to enhance sales, cost, and profit (Abdilahi *et al*, 2017). According to Abdilahi *et al*, (2017), innovation is also defined as the use of institutions, technologies, or human resources for the purpose of developing new products, markets, or practices. According to the OECD (2018), innovation refers to the introduction of new or improved processes, products, or services based on new scientific or technological knowledge. Innovative ideas are first conceived as ideas for new products or processes, whereas inventions are actual products or processes. In order for small and medium enterprises to survive and grow, they must be innovative. Furthermore, Rosli and Sidek (2013) found that innovativeness is positively related to non-financial performance measures. According to Ngugi *et al* (2013), innovation influences the growth of small and medium companies. According to the researchers, innovativeness was operationalized to include new goods and services, new processes, and technological advances, while enterprise growth was operationalized in terms of sales, employment, profits, market share growth, customer satisfaction, and owner/manager satisfaction based on the RBV.

There are four major dimensions adopted by several studies and large organizations to drive performance such as product innovation, process innovation, marketing innovation, and organizational innovation. However, this study is focused on Product and Marketing innovations as they are prominently used by small and medium enterprises.

Neely (2017) defined product innovation as the creation of a novel product from new materials (a totally new product) or the alteration of existing products in order to enhance customer satisfaction (customized and enhanced versions of existing products).Market innovation requires a deep understanding of customer needs, industry trends, and competitive dynamics, and involves a range of activities such as research, design, development, testing, and marketing (Jaworski and Kohli, 2020).

The concept of product innovation was defined again by Neely (2017) as the development of new technologies for manufacturing (totally new products) or the modification of existing products to enhance customer satisfaction (customized and enhanced versions of existing products). Firms need to continually innovate their products to cope with factors such as competition pressures, changing consumer tastes, short product life cycles, technological advancements (or the opposite - technological obsolescence), varying demand patterns, and the specialized needs of customers. A company's competitive advantage relies heavily on product innovation. Abdilahi *et al.* (2017) defined product innovation as any good or service perceived as new by an individual or business. A novel product or service may also be introduced to create niche markets or satisfy existing markets or customers (Obunike and Udu, 2019).

Hurley and Hult, 2018, argued that market innovation involves defining a market mix and selecting markets based on customer preferences. According to organizational knowledge literature, marketing innovation encompasses the ability to reconceive the existing industry model in a way that creates new value for customers, undermines competitors, and produces new wealth for all stakeholders. The concept of marketing innovation refers to a significant change in innovation resulting from the discovery of something new. In marketing innovation, the focus is on shifting consumer demand from elastic to inelastic segments by providing better value (actual or perceived) to these segments (Hurley and Hult, 2018). Marketing innovation takes into account marketing activities in the process of innovation such as the marketing of new products that meet the needs of customers (McDermott and Prajogo, 2018). Marketing innovation plays a very important role in ensuring and increasing the success of innovation (Meagher, 2018). Marketing innovation covers all innovation management activities that help to promote the market success of new products and services (Casidy, *et al.*, 2019). Marketing innovation focuses on the implementation of a new marketing method that involves significant changes in product design or packaging, product placement, product promotion or pricing (OECD, 2018).

2.2 Concept of Performance

Performance of SMEs connotes the accomplishment of general firm strategic objectives, usually measured using indices such as sales profit, growth, market share and customer satisfaction (Alaskar, 2023). According to Rukevwe (2015), business performance is related to the ability of the business to gain profit and growth in order to achieve its general strategic objectives.

The performance of SMEs consists of the actual output or results of an organization that are measured against its intended outputs, goals or objectives. According to Severgnini, *et al.*, (2018), performance is the actual outcomes and results of an organization as measured against its intended goals and objectives. The performance of SMEs describes the ability to accomplish business objectives and goals. There are several ways to measure it, including volumes of output, income generation, the number of employees, and years of existence (Akingunola and Ogbari, 2018; Ali, *et al*, 2019; Bello and Ige, 2019; Dauda *et al*, 2020). Performance can be measured by how well an organization achieves its goals (Gerba and Viswanadham, 2016). It has been argued that SMEs' capability to produce suitable outcomes and actions can be described as their performance. As Gerba and Viswanadham (2016) pointed out, performance can be measured on a financial and non-financial basis. A number of factors affect this, such as return on investment (ROI), sales volume, sales value, profitability, total assets, employment size, capital employed, market share, customer satisfaction, productivity, delivery time, employee turnover, etc.

Measures of Performance of SMEs can be understood from a quantitative perspective: efficiency, financial results, level of production, number of customers (Anggadwita and Mustafid, 2014), market share, profitability, productivity, dynamics of revenues, costs, and liquidity (Gupta and Batra, 2016; Zimon, 2018), etc. and also from a qualitative perspective: goals achievement, leadership style, employee behavior (Anggadwita and Mustafid, 2014), customer satisfaction, product and process innovation, organizational and marketing innovation (Sheehan, 2013), etc. Gopang, Nebhwani, Khatri, and Marri (2017), in their work, considered a series of 14 indicators to describe SMEs performance: reputation, productivity, employee satisfaction, profits, sales, prompt order delivery, sufficient working capital, effectiveness in operations of production, product quality, achievement of targets, number of clients, easiness in supervision, reduction in product cost and product diversification. However, this study focus ed majorly on three (3) measures of performance of SMEs, namely; Market shares, Sales growth and Product Quality.

The marketing literature generally views market share as an indicator of the success of a firm's efforts to compete in a product marketplace (Varadarajan 2020). From this perspective, market share is an outcome of a firm's marketing efforts including its advertising and promotion, product/service offering quality and price, channel and customer relationships, and selling activities. A company's sales growth refers to the amount of revenue it generates from sales compared to the previous corresponding period in which the sales were higher than the earlier period. In most cases, it is given as a percentage. In order for a company to survive and be profitable, it must grow its sales. This is an important metric for measuring performance (Esiebugie, Richard, and Emmanuel, 2018). According to (Schiffman and Kanuk 2019) product quality is the ability of a company toprovide identity or features to each product so that consumers can recognize the product.According to Kotler (2016) product quality is a product's ability to performitsfunctions; this ability includes durability, reliability, accuracy, which is obtained by the product as a whole.

2.3 Theoretical Review

SME innovation practice and performance can be explained by several theories; three amongst them are as follows: Theory of innovation, Resource-Based View theory, and Dynamics Capability theory. Therefore, the theory of innovation was adopted since it is relevant to the current study, as it enables a deeper understanding of innovation and its dimensions (product and market innovations) as they relate to the performance of SMEs. The

diffusion theory of innovation and the resource-based view theory of innovation support this theory. Accordingly, SMEs must be innovative to survive and grow (Ibidumi *et al*, 2014). Rosli and Sidek (2013) found a strong correlation between innovation and non-financial performance. An examination of the role that innovation plays in the growth of small and medium-sized businesses was conducted by Ngugi *et al* (2013). Based on the RBV, they operationalized innovation as the development of new products and services, the development of new processes, and the advancement of technology. In order to operationalize enterprise growth, it was divided into sales growth, employment growth, profits, market share growth, customer satisfaction, and owner/manager satisfaction. A significant positive relationship was found between individual and composite aspects of innovativeness and SMEs' growth in Kenya. Furthermore, Similarly, Ekeh (2023), Effect of Product Innovation on Growth of Medium Enterprises in North Central Nigeria, examined the relationship between innovation and SMEs' growth. SMEs' innovation and performance were strongly correlated, according to the results.

The effect of innovation practices has generally been found to be positively correlated with different measures of Performance of SME in recent research (Issau *et al.*, 2021; Mwangi and Namusonge, 2014). As a result of these findings, SMEs must continually innovate to maintain and grow revenues, thus improving performance. Zhu *et al.* (2019) reported that SMEs must innovate to improve their performance. It was based on the conclusions reached by scholars regarding the link between innovation and performance that the authors made their assertion. Here are some examples: Ayinaddis (2023) established that product innovation has a strong positive effect on the dependent variable (performance of SME).Falahat et al. (2020), discovered in their study that product innovation and the capacity to disseminate information about innovation to clients play a crucial influence in the performance of SMEsAl-Ansari *et al.*, (2013) report that innovation enables firms to improve the quality of their products, thereby improving their performance and gaining a competitive advantage. Further, Atalay*et al.,*(2013) demonstrated that product innovation influences performance. Jayaram*et al.*, (2013) concluded that both product innovation performance and product quality performance are positively related to business performance. Augusto *et al.,*(2014) also examined the relationship between performance of SME and innovation. Based on their findings, specific innovation, including product innovation, appears to be more relevant to performance of SME than organizational-wide innovation in terms of promoting performance of SME. Ukpabio *et al.* (2019) discovered that marketing innovation had a significant positive relationship with firm performance.In his study, Atalay *et al.* (2013) found no significant relationship between marketing innovation and firm performance. In the same vein, Ayinaddis (2023) found a weak statistical relationship between marketing innovation and the performance ofmanufacturing SMEs in selected towns of Awi Zone, Amhara, Ethiopia. However, Ibrahim *et al*. (2023) established that market innovation has a significant positive effect on the performance of SMEs.

3.0 METHODOLOGY
The survey research design was used in order to establish the effects of the independent variables on the dependent variables. The independent variable for this study is innovation

and its' dimensions are; product and marketing innovations, while the dependent variable is performance of agro-processing SMEs which is measured by sales growth, market share and product quality. Since the population was of a manageable size of 108, all were used as sample (census method). 108 copies of questionnaire were administered to owners/ managers / supervisors of registered agro-processing SMEs in Makurdi metropolis. Validity (content and construct) and reliability were done with a pilot study carried out using crombach alpha for reliability this study.

In this study, organization performance is a function of innovation practices. In view of this, the implicit form of the regression model is specified thus:

PER = f (INP)
The model for this research is given as
PER $=$ f (INP) = (PI, MI)

Where
PER = Performance
INP = Innovation Practice
PI = Product Innovation
MI = Marketing Innovation
The regression model, thus is given as

PER = x + β_1 PI + β_2 MI + e ……… (4)
Where
X = Intercept of the regression
β_1 - β_2 = Parameter estimates
e = error term

A priori expectations are: $\beta_1 > 0, \beta_2 > 0$,; it is expected that the analysis based on the model in question will help to test hypothesis Ho_1 to Ho_2, answer the two research question for this study and achieve the two objectives.

4.0   RESULTS AND DISCUSSION

A total of 108 copies of questionnaire were distributed to the respondents, while 104 copies of the questionnaire were returned in analyzable form, thus representing 96.3 % response rate.

Regression Analysis

Table 1: Regression Coefficient Output

	Estimate	Std. error	T- test	Sig.	Collinearity Statistics		R²	F-Stat.	Dub. Watson
Intercept	2.125	.314	6.777	.000	**Tolerance**	**VIF**	0.713	17.409(0.001)	2.184
PI	.250	.252	.992	.035	.858	1.166			
MI	.268	.266	1.009	.029	.751	1.332			

Source: Authors Computation (2024) SPSS Version 27.0

The regression analysis explores the relationship between innovation practices—specifically, product innovation (PDI) and marketing innovation (MKI), and the performance of agro-processing SMEs in Makurdi. The model's Adjusted R² value of 0.713 indicates that approximately 71.3% of the variability in the performance of agro-processing SMEs in Makurdi can be explained by variations in these innovation factors. This high R² suggests that the model effectively captures a significant portion of the factors influencing the performance of agro-processing SMEs in Makurdi, highlighting the importance of innovation in driving outcomes within the agro-processing sector.

The F-statisticof 17.409 from Table 1, with a corresponding p-value of 0.001, confirms the overall statistical significance of the regression model. This implies that collectively, the independent variables (PI and MI) have a meaningful impact on performance of agro-processing SMEs, beyond what would be expected by chance alone.

The Durbin-Watson statistics from table 1 above tests the autocorrelation in the residuals from the regression analysis. A value near 2 indicates no autocorrelation (ideal scenario), values from 0 to less than 2 indicate positive autocorrelation, suggesting that residuals are correlated positively over time, and values from 2 to 4 indicate negative autocorrelation, suggesting that residuals are correlated negatively over time. In this case, the Durbin-Watson statistic is 2.184, which is close to 2 suggests that there is no significant autocorrelation in the residuals, indicating that the assumption of independence of errors in the regression model is likely satisfied.

According to Cresswell and Cresswell (2018) Variance Inflation Factors (VIF) in excess of 10 and Tolerance value less than 0.2 are an indication of the presence of multicollinearity. Collinearity statistics help diagnose the presence of multicollinearity in a regression model, which occurs when independent variables are highly correlated, leading to unreliable and unstable estimates of regression coefficients. Tolerance, which measures the proportion of variance in a predictor variable not explained by other predictors (calculated as 1 - R²), indicates low multicollinearity with values close to 1 and high multicollinearity with values close to 0. The Variance Inflation Factor (VIF), the reciprocal of Tolerance, quantifies the inflation of the variance of regression coefficients due to collinearity; VIF values around 1 indicate no multicollinearity, values between 1 and 5 indicate moderate multicollinearity, and values greater than 10 indicate high multicollinearity. For Product Innovation (PDI), the Tolerance is 0.858 and VIF is 1.166, indicating low multicollinearity. Marketing Innovation (MKI) shows a Tolerance of 0.751 and VIF of 1.332, indicating low multicollinearity. Overall, the collinearity

statistics indicate generally low multicollinearity among the predictors, this suggests that the regression model is robust concerning both autocorrelation and multicollinearity, ensuring reliable and stable estimates of the regression coefficients.

The coefficients of the predictor variables provide further insights into their individual contributions. The estimated regression model for this study is;

P= 0.250PI+0.268MI.

Product innovation (PI) exhibits a coefficient of 0.250 indicating a positive relationship between product innovation and performance of agro-processing SMEs in Makurdi. Again, for every unit increase in product innovation efforts, agro-processing SME performance increases by 0.250 units. Similarly, marketing innovation (MI) has a coefficient of 0.268 emphasizing its substantial impact on performance of agro-processing SMEs through effective market strategies. Hence, for every unit increase in market innovation, there is an expected corresponding increase in the performance of agro-processing SMEs.

In summary, these findings emphasize that fostering and improving innovation across multiple dimensions—product development and marketing strategies are crucial for enhancing the performance of agro-processing SMEs in Makurdi. The statistical significance of each predictor variable reinforces the importance of targeted innovation practices in driving sustainable growth and competitiveness within the sector.

Discussions

The analysis of research question two was to examine the extent of the effect of product innovation on the performance of agro-processing SMEs in Makurdi. From the tests of hypothesis one (Ho_1), it was discovered that the regression output shows a coefficient of 0.992 and a p-value of 0.035. Since the p-value is less than the significance level of 0.05, the null hypothesis (Ho_1) was rejected andconcluded that product innovation has a significant effect on the performance of agro-processing SMEs in Makurdi.

The result of this research finding is in tandem with Ayinaddis (2023), Al-Ansari *et al.*, Jeje (2022), Atalay *et al.,*(2013), Jayaram *et al.* (2013), and Augusto*et al.,*(2014) amongst others who reported that product innovation has a significant positive effect on performance. Their research evidence indicates that the development of new /novel products by SMEs will significantly increase performance. Therefore, this study concludes that product innovation has significant positive effect on the performance of agro-processing SMEs in Makurdi, Benue State.

The analysis of research question two was to examine the extent of the effect of marketing innovation on the performance of agro-processing SMEs in Makurdi. From the tests of hypothesis three (Ho_2), it was discovered that the regression output shows a coefficient of 1.009 with a p-value of 0.029. Since the p-value is less than the significance level of 0.05, the null hypothesis (Ho_2) was rejected andconcluded that marketing innovation has a significant effect on the performance of agro-processing SMEs in Makurdi.

The result of this research is supported by previous studies such as Ayinaddis(2023), Al-Ansari *et al.*, Jeje (2022), Atalay *et al.*(2013), Jayaram *et al.* (2013), and Augusto *et al.*(2014)amongst others who also discovered that marketing innovation has a significant positive effect on

performance. Their research results indicate thatperiodically reviewing product branding to suit customers preferences, engaging in innovative marketing logistics and distribution to satisfy customer demands and running promotional campaigns to increase sales and profits by SMEs will significantly improve performance. Therefore, this study concludes that marketing innovation has significant positive effect on the performance of agro-processing SMEs in Makurdi, Benue State.

Conclusion and Recommendations

The study has been of great importance in the sense that it has contributed to the literature pertaining to effect of product and marketing innovations on performance of agro-processing SMEs in Makurdi, Benue State. It has provided a spectrum of an overview of the relationships between the variables such as product and marketing innovations on performance. Product and marketing Innovations have been identified as a strategic factor in significantly improving performance amongst agro-processing SMEs in Makurdi. The study concludes therefore, that product and marketing innovations can be adopted by agro-processing SMEs to improve or enhance their performance in the areas of expanding their market shares, increasing sales growth and improving product quality to stay on top of the competition. Hence, product and marketing innovations have significant/positive effect on the performance of agro-processing SMEs in Makurdi, Benue State.

Based on the findings and conclusion above, the following recommendations are made:

i. The agro-processing SMEs in Makurdi should invest more in research efforts so as to improve on the existing products and develop new and novel products to enhance their performance.
ii. There should be a periodical review of product branding by agro-processing SMEs in Makurdi to suit customers preferences.
iii. The marketing teams of agro-processing SMEs in Makurdi should engage more in innovative marketing logistics and distribution to satisfy customer demands and running innovative promotional campaigns to increase sales and profits.

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