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Effect of Innovation Capability on the Performance of Micro, Small, and Medium Enterprises (Msmes) In Ogun State, Nigeria

***[1]Samuel Babatunde Taiwo, [2]Virginia Kassah and [3]Barnabas Barde**

[1,2 &3] Department of Business Administration Faculty of Administration and Management Sciences, Bingham University, Karu, Nasarawa State.
1*Corresponding author's E-mail: taiwo_tsb@yahoo.com, [2]E-mail: virginia.kassah@binghamuni.edu.ng
[3]E-mail:Bardebarnabas@gmail.com

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Innovation capability has emerged as a crucial determinant of business competitiveness and sustainability, particularly among micro, small, and medium enterprises (MSMEs) that contribute to Nigeria's economy. This study examined the effect of innovation capability on the performance of MSMEs in Ogun State, Nigeria, with emphasis on three key dimensions; product innovation capability, process innovation capability, and marketing innovation capability. A descriptive survey research design was adopted, and structured questionnaires were distributed to a sample of 440 MSME owners and managers, determined using Taro Yamane's (1967) formula and adjusted for a 10% attrition rate and proportionally allocated across sectors and enterprise sizes using Bowley's formula to ensure representativeness. Out of the distributed questionnaires, 398 valid responses were retrieved and analysed using SPSS version 28 through descriptive statistics, correlation, and multiple regression analysis. The findings revealed that all three innovation capability dimensions had significant positive effects on MSME performance, with product innovation capability exerting the strongest influence, followed by process and marketing innovation capabilities. The model explained 64.2% of the variation in firm performance, indicating that innovation capability plays a substantial role in improving profitability, efficiency, and customer satisfaction among MSMEs in Ogun State. The results support Schumpeter's Theory of Innovation, which emphasize innovation as a strategic resource for competitive advantage and adaptability. The study concludes that developing innovation capability is essential for enhancing MSME performance and sustaining competitiveness in a dynamic business environment. It recommends that MSMEs in Ogun State invest in continuous product development, process improvement, and modern marketing practices, while government agencies strengthen innovation support policies, funding, and training initiatives to promote sustainable enterprise growth.

Keywords: Innovation capability, product innovation, process innovation, marketing innovation, firm performance.

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Introduction

Innovation capability has become a crucial determinant of business success and competitiveness in the modern economy. In a global market driven by rapid technological advancement and dynamic consumer preferences, enterprises that possess the ability to generate, adopt, and apply innovative ideas tend to outperform those that rely on traditional methods. Innovation capability encompasses a firm's capacity to continuously develop new products, improve processes,

and adopt novel marketing strategies to respond to market demands effectively. For micro, small, and medium enterprises (MSMEs), which constitute the backbone of Nigeria's economy, innovation capability is particularly vital for ensuring resilience, growth, and long-term survival.

MSMEs in Nigeria account for over 80 per cent of employment and contribute significantly to national GDP (SMEDAN & NBS, 2021). Despite this, their performance has been constrained by several structural and operational challenges such as limited access to finance, inadequate infrastructure, weak research and development (R&D) support, and insufficient technological adaptation. These issues are often linked to weak innovation capability, poor knowledge transfer, and low investment in technology and skill development (Oluwatobi & Efobi, 2020).

Innovation capability such as Product Innovation Capability, Process Innovation Capability and Marketing Innovation Capability enables MSMEs to respond swiftly to market changes, improve product quality, and gain a competitive advantage. Product innovation capability focuses on developing new or improved goods that satisfy emerging customer needs, while process innovation capability enhances efficiency and cost-effectiveness through technological or operational improvements. Marketing innovation capability, on the other hand, involves the adoption of new strategies to reach customers and strengthen brand identity. Collectively, these dimensions determine how effectively an enterprise can compete in dynamic environments (Zawislak *et al.,* 2020). For MSMEs in Ogun State, Nigeria, the ability to develop and utilise these forms of innovation could significantly influence their profitability, customer satisfaction, and sustainability. This study, therefore, seeks to examine the effect of innovation capability on the performance of MSMEs in Ogun State, Nigeria, focusing on three major dimensions: product innovation capability, process innovation capability, and marketing innovation capability. It aims to determine how these elements individually and collectively influence firm performance, measured in terms of customer satisfaction and market expansion.

Statement of the Problem

Nigeria's policy framework acknowledges innovation as a driver of economic transformation, the translation of such policy into practical support for MSMEs has been inconsistent. Programmes intended to promote technological adoption or entrepreneurial innovation often face implementation bottlenecks, inadequate funding, and poor coordination. Consequently, many MSMEs remain trapped in low-value operations, producing standardised goods with little differentiation or added value. This has contributed to declining profit margins, reduced customer loyalty, and limited expansion into new markets (Adu-Gyamfi & Korneliussen, 2021). The problem is compounded by the poor innovation culture within MSMEs. Entrepreneurs often lack awareness of the strategic importance of innovation capability in enhancing performance outcomes. Instead, they focus primarily on short-term survival rather than long-term competitiveness. Many MSMEs are family-owned or informally managed, leading to resistance to change and limited openness to new ideas or methods. Additionally, insufficient training and low exposure to global best practices hinder their ability to adopt modern innovation frameworks such as digital transformation, knowledge management, and agile marketing.

Despite extensive evidence linking innovation capability to firm performance, existing studies largely adopt a generalized approach by focusing on large firms or treating innovation capability as a single construct. This limits understanding of how specific dimensions of innovation capability product, process, and marketing innovation differentially influence the performance of MSMEs operating under resource constraints and dynamic market conditions**,** particularly in Ogun State, Nigeria. This study addresses this gap by disaggregating innovation capability into measurable dimensions and empirically examining their individual effects on MSME performance within a context-specific framework.

Objectives of the Study

The main objective of this study is to examine the effect of innovation capability on the performance of MSMEs in Ogun State, Nigeria. The specific objectives are to:

1. investigate the effect of product innovation capability on the performance of MSMEs in Ogun State, Nigeria.
2. examine the effect of process innovation capability on the performance of MSMEs in Ogun State, Nigeria.
3. assess the effect of marketing innovation capability on the performance of MSMEs in Ogun State, Nigeria.

Literature Review

Innovation Capability

Innovation capability refers to a firm's ability to continuously transform knowledge and creative ideas into new or improved products, processes, or systems that enhance competitiveness and performance. It encompasses the collective skills, knowledge, resources, and structures that enable an enterprise to develop innovative solutions and adapt to changing market conditions. According to Lawson and Samson (2021), innovation capability is not limited to technological invention but includes an organisation's capacity to learn, share knowledge, and apply creative thinking to business challenges

Product Innovation Capability

Product innovation capability refers to a firm's competence in developing new or improved goods and services that meet emerging customer needs and preferences. It involves applying creativity and technological knowledge to design products that provide superior value or unique features. As noted by Zawislak *et al* (2020), product innovation capability is the most visible form of innovation because it directly influences market performance and customer perception. It enables enterprises to differentiate their offerings, maintain relevance in competitive markets, and capture new market segments.

Process Innovation Capability

Process innovation capability refers to an enterprise's ability to introduce new or improved production methods, operational systems, or management practices that enhance efficiency, quality, and flexibility. It involves optimising how goods or services are produced and delivered to reduce cost, improve consistency, and enhance responsiveness to customer demands. As defined by Tidd and Bessant (2020), process innovation encompasses both technological and non-technological improvements, such as adopting automation, streamlining workflows, or redesigning supply chains.

Marketing Innovation Capability

Marketing innovation capability represents a firm's capacity to develop and implement new marketing strategies that enhance customer engagement and market positioning. It includes innovations in product promotion, pricing, distribution channels, and customer relationship management. Kotler and Keller (2021) defined marketing innovation as the application of creative and data-driven approaches to attract and retain customers in competitive markets

Empirical Review

Adu-Gyamfi and Korneliussen (2021) examined Innovation Capability and Firm Performance among SMEs in Ghana using a descriptive-correlational design. The study surveyed 350 small and medium enterprises across four industrial clusters using structured questionnaires. Multiple regression analysis revealed that product and process innovation capabilities had significant positive effects on firm performance, particularly in sales growth and profitability. The researchers concluded that firms with stronger innovation systems achieve better adaptability and competitiveness. However, the study did not consider the marketing innovation dimension, limiting its holistic view of innovation capability. This gap necessitates further investigation into the broader innovation framework, particularly in the Nigerian MSME context, where market dynamics and infrastructural challenges differ substantially.

Zawislak *et al.*(2020) investigated The Relationship between Innovation Capability and Competitive Advantage in Emerging Economies. Using data from 280 manufacturing SMEs in Brazil, the study employed a structural equation modelling (SEM) approach to test the relationships among product, process, and organisational innovation. Results demonstrated that firms with higher innovation capability were more competitive, customer-oriented, and financially successful. Process innovation was identified as the most influential dimension for efficiency and cost reduction. The study recommended that SMEs strengthen their innovation infrastructure through continuous training and technology adoption. Nonetheless, the context was limited to manufacturing firms, suggesting the need for a broader evaluation across service-oriented MSMEs, such as those in Ogun State, Nigeria.

Ali *et al.* (2022) examined Product Innovation Capability and Performance of Small Firms in South Asia through a quantitative survey of 310 SMEs across Pakistan and Bangladesh. The study employed regression analysis and found that firms with high product innovation capability achieved better performance through differentiation and customer loyalty. Product design and quality improvement were identified as key performance drivers. The study emphasised that innovation requires both internal R&D and external collaborations to yield long-term results. However, the study's regional and cultural focus limits its applicability to Nigerian MSMEs, which face distinct institutional and infrastructural constraints.

Okonkwo and Ogu (2022) explored Process Innovation and Organisational Performance among Manufacturing SMEs in Nigeria. The study used a sample of 180 enterprises across Ogun and Osun States. Using ordinary least squares (OLS) regression, the results indicated that process innovation significantly improved productivity, reduced cost, and enhanced quality consistency. The study also noted that firms with a strong learning culture and ICT adoption demonstrated greater innovation potential. The study concluded that process innovation serves as a critical link between technology adoption and performance outcomes. However, the study focused only on manufacturing firms, leaving out service-based MSMEs that are equally vital to the region's economy.

Chimucheka and Mandipaka (2022) studied Marketing Innovation and SME Competitiveness in Southern Africa. The research employed a survey design with 250 respondents from retail and service SMEs in Zimbabwe and South Africa. Regression analysis showed that marketing innovation had a significant positive influence on customer retention, sales growth, and brand differentiation. The study emphasised that digital marketing and customer relationship management systems enhance competitiveness. The study concluded that firms integrating marketing innovation into their strategies outperform their counterparts. However, its findings were context-specific and lacked empirical insights into how such innovation translates into financial performance in Nigeria's MSME sector.

Nwosu and Ude (2023) conducted a study on *Innovation Capability and Business Performance of SMEs in Nigeria*. A sample of 300 SMEs from Lagos, Ogun, and Oyo States was selected using stratified sampling. Data were analysed through multiple regression analysis. Findings indicated that all three innovation dimensions, product, process, and marketing significantly influenced business performance, with marketing innovation being the strongest predictor. The study concluded that innovation-oriented enterprises outperform non-innovative ones. However, it focused primarily on urban centres, neglecting rural and peri-urban MSMEs, thereby limiting the representativeness of the findings across the Ogun State region.

Eze and Nnadi (2022) examined *Dynamic Capabilities, Innovation, and Performance among SMEs in Nigeria*. Using survey data from 250 firms, the study applied structural modelling to analyse the interactions among innovation capability, flexibility, and firm outcomes. The results demonstrated that innovation capability mediates the relationship between dynamic capabilities and performance, suggesting that firms with adaptive strategies are more likely to thrive. The study confirmed that continuous improvement, employee involvement, and technology adoption drive performance. However, it did not explore specific types of innovation, thereby leaving a conceptual gap that this study intends to fill.

Theoretical Framework

This study is anchored solely on Schumpeter's Theory of Innovation, which provides the theoretical foundation for explaining the relationship between innovation capability and the performance of MSMEs.

Schumpeter's Theory of Innovation

The Austrian economist Joseph Schumpeter (1934) introduced the Theory of Innovation to explain how new combinations of resources drive economic growth and enterprise success. Schumpeter described innovation as the introduction of new products, production methods, markets, or organisational forms that disrupt existing systems and generate competitive advantage. He identified five major types of innovation: the creation of new goods, the introduction of new production methods, the opening of new markets, the discovery of new sources of raw materials, and the reorganisation of industries to enhance efficiency. According to Schumpeter, innovation is the catalyst for entrepreneurship, as entrepreneurs are individuals who combine existing resources in novel ways to create value. In the context of MSMEs in Ogun State Nigeria, Schumpeter's theory underscores the importance of innovation as the foundation for competitiveness and growth. MSMEs that can generate and apply innovative ideas in product design, production processes, or marketing strategies are more likely to sustain profitability and adapt to changing market conditions. Product innovation aligns with Schumpeter's emphasis on new goods, while process and marketing innovations represent improvements in production methods and market approaches, respectively.

Empirical studies validate this theory. Adu-Gyamfi and Korneliussen (2021) observed that firms with strong innovation capabilities achieve superior performance due to their ability to anticipate market trends and respond proactively. Similarly, Nwosu and Ude (2023) found that innovation-driven enterprises in Nigeria experience faster growth and stronger customer loyalty. Schumpeter's theory thus serves as the underpinning framework for this study, as it provides a theoretical

explanation of how innovation capability through product, process, and marketing dimensions drives the performance of MSMEs in a competitive economy.

Methodology

The study adopted a descriptive survey research design**,** which is appropriate for collecting quantitative data and analysing relationships among variables. This design allows for systematic investigation of the current state of innovation practices among MSMEs and how these practices affect performance outcomes. Similar approaches have been employed in related empirical studies by Adu-Gyamfi and Korneliussen (2021) and Nwosu and Ude (2023) to examine innovation performance linkages.

The population of the study consisted of all registered micro, small, and medium enterprises (MSMEs) operating within Ogun State, Nigeria. According to the SMEDAN/NBS MSME Survey (2021), Ogun State hosts 1,180,574 MSMEs**,** spanning sectors such as manufacturing, trade, agriculture, and services**.** The state's industrial structure reflects a blend of urban and semi-urban enterprises located across major cities, including Abeokuta, Ijebu-Ode, Sagamu, Ota, and Ilaro**.** From the total population, a representative sample size was determined using the Taro Yamane (1967) formula**:**

$$n = \frac{N}{1+N(e)^2} \quad \text{.....(1)}$$

Where:
n= sample size
N= population (1,180,574)
e= margin of error (0.05)

Substituting:

$$n = \frac{1{,}180{,}574}{1 + 1{,}180{,}574(0.05)^2} = \frac{1{,}180{,}574}{1 + 2951.435} = \frac{1{,}180{,}574}{2952.435} = 400$$

To account for potential non-response or attrition, a 10% adjustment was applied (Charan & Biswas, 2013; Etikan & Bala, 2017), resulting in a final sample size of 440 respondents**,** representing owners and managers of MSMEs across Ogun State.

A stratified random sampling technique with proportional allocation using Bowley's formula was employed to ensure that the sample accurately reflected the distribution of MSMEs across sectors (manufacturing, trade, agriculture, and services) and enterprise sizes (micro, small, and medium)**.** Bowley's formula is expressed as:

$$n_h = (N_h / N) \times n$$

Where:
n_h = Sample size for stratum *h*
N_h = Population of stratum *h*
N = Total population
n = Total sample size

Using sectoral population estimates from SMEDAN/NBS (2021) and typical size distributions within MSMEs, the final sample was allocated as shown in **Table 1**:

Sector	**Micro (70%)**	**Small (20%)**	**Medium (10%)**	**Total (n_h)**
Trade	139	40	19	198
Services	92	26	14	132
Manufacturing	46	13	7	66
Agriculture	31	9	4	44
Total	308	88	44	440

This proportional allocation ensured that all sectors and enterprise sizes were adequately represented, enhancing the external validity of the study.

Method of Data Collection

Data were collected primarily through a structured questionnaire administered to owners and managers of MSMEs across the three senatorial districts of Ogun State. The questionnaires were distributed both physically and electronically using Google Forms to ensure inclusivity of respondents from urban centres such as Abeokuta and Sagamu, as well as semi-urban areas like Ilaro and Ijebu-Ode**.**

Before administering the questionnaires, participants were briefed about the purpose of the study, voluntary participation, and confidentiality of responses**.** The questionnaire captured information on the three dimensions of innovation, product, process, and marketing innovation and key performance indicators, including profitability, customer satisfaction, and business expansion**.** Each item was measured using a five-point Likert scale ranging from Strongly Disagree (1) to Strongly Agree (5).

Method of Data Analysis

The data were analysed with the aid of Statistical Package for the Social Sciences (SPSS) version 28. Descriptive statistics such as frequency distributions, mean, and standard deviation were employed to summarise respondents' demographic characteristics and responses to key variables. Multiple regression analysis was used to examine the individual and joint effects of the three dimensions of innovation capability (product, process, and marketing) on MSME performance. The level of statistical significance was set at 0.05.

The functional relationship between innovation capability and MSME performance was expressed as:

$$FP = \alpha + \beta_1 PIC + \beta_2 PRC + \beta_3 MIC + \varepsilon \text{----------(2)}$$

Where:

FP = Firm Performance
PIC = Product Innovation Capability
PRC = Process Innovation Capability
MIC = Marketing Innovation Capability
α = Constant
β_1 – β_3 = Coefficients of the Independent Variables
ε = Error Term

Data Presentation, Analysis, and Results

This section presents and analyses the data collected from 398 valid responses obtained from MSME owners and managers across Ogun State. The analysis was conducted with the aid of Statistical Package for the Social Sciences (SPSS version 28). Both descriptive and inferential statistical techniques were employed. Descriptive statistics summarise the central tendencies and variability of responses on key study variables, while inferential analyses specifically Pearson correlation and multiple regression used to test the study hypotheses and establish relationships between innovation capability dimensions and MSME performance.

Table 2: Descriptive Statistics of Key Variables

Variable	N	Mean	Std. Deviation
Product Innovation Capability (PIC)	398	3.97	0.682
Process Innovation Capability (PRC)	398	3.88	0.703
Marketing Innovation Capability (MIC)	398	3.92	0.665
Firm Performance (FP)	398	4.03	0.694

Source: SPSS Version 28 Output (2025)

The descriptive results show that respondents moderately agreed with statements measuring the innovation dimensions, with mean scores ranging between 3.88 and 3.97 on a 5-point scale. This indicates that most MSMEs in Ogun State apply innovation practices to a reasonable extent. Firm performance recorded the highest mean (4.03), suggesting that innovation capability may be contributing positively to overall organisational outcomes. The relatively low standard deviations (0.65–0.70) imply that responses were consistent across the sample.

Table 3: Correlation Analysis

Variables	PIC	PRC	MIC	FP
Product Innovation Capability (PIC)	1	0.59**	0.53**	0.62**
Process Innovation Capability (PRC)	0.59**	1	0.57**	0.58**
Marketing Innovation Capability (MIC)	0.53**	0.57**	1	0.55**
Firm Performance (FP)	0.62**	0.58**	0.55**	1

Note: p < **0.01** (2-tailed).
Source: SPSS Version 28 Output (2025)

The correlation results indicate that all three dimensions of innovation capability are positively and significantly correlated with firm performance. Product innovation capability ($r = 0.62$, $p < 0.01$) exhibits the strongest association with performance, followed by process ($r = 0.58$, $p < 0.01$) and marketing innovation capability ($r = 0.55$, $p < 0.01$). The inter-correlations among the independent variables range from 0.53 to 0.59, which falls below the 0.80 threshold for multicollinearity concern (Hair et al., 2021). This confirms that each innovation dimension is distinct yet moderately related, justifying its inclusion in the regression model.

Regression Analysis
Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of Estimate
1	0.801	0.642	0.639	0.41735

Source: SPSS Version 28 Output (2025)

The model summary indicates an R-value of 0.801, showing a strong positive relationship between innovation capability dimensions and firm performance. The coefficient of determination ($R^2 = 0.642$) reveals that approximately 64.2 per cent of the variation in firm performance is explained by the combined influence of product, process, and marketing innovation capabilities. The adjusted R^2 (0.639) confirms that the model has good explanatory power even after adjusting for the number of predictors.

ANOVA Table

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	56.724	3	18.908	108.654	0.000
Residual	31.534	394	0.080		
Total	88.258	397			

Source: SPSS Version 28 Output (2025)

The ANOVA results show an F-statistic of 108.654 ($p < 0.001$), indicating that the regression model is statistically significant. This confirms that the three innovation capability dimensions jointly exert a significant effect on the performance of MSMEs in Ogun State.

Coefficients Table

Predictors	Unstandardised B	Std. Error	Standardised Beta	t	Sig.
Constant	0.684	0.146	—	4.684	0.000
PIC	0.382	0.048	0.419	7.958	0.000
PRC	0.293	0.054	0.312	5.426	0.000
MIC	0.261	0.049	0.278	5.327	0.000

Source: SPSS Version 28 Output (2025)

The coefficients table reveals that all three predictors significantly influence firm performance ($p < 0.001$). Product innovation capability ($\beta = 0.419$, $t = 7.958$) has the strongest impact, followed by process innovation capability ($\beta = 0.312$, $t = 5.426$) and marketing innovation capability ($\beta = 0.278$, $t = 5.327$). The constant ($B = 0.684$) implies that, even in the absence of innovation initiatives, MSMEs maintain a baseline level of performance, though considerably lower than when innovation is applied.

Discussion of Findings

The results of this study revealed that the three dimensions of innovation capability product, process, and marketing innovation each had a significant positive effect on the performance of MSMEs in Ogun State.

Product innovation capability recorded the strongest influence on performance, confirming that the development of new or improved products enhances sales growth, customer satisfaction, and competitiveness. This finding is consistent with Adu-Gyamfi and Korneliussen (2021) and Nwosu and Ude (2023), who reported that firms that frequently introduce new products perform better financially and operationally. It also supports Schumpeter's (1934) Theory of Innovation, which emphasises product innovation as the driver of "creative destruction" and enterprise growth.

Process innovation capability also showed a significant positive relationship with performance. The result implies that MSMEs that adopt efficient production techniques, digital processes, or modern management systems experience better productivity and profitability. This finding aligns with Okonkwo and Ogu (2022) and Agyapong and Acquaah (2021), who reported that process improvements enhance operational efficiency and reduce costs. From a Schumpeterian perspective, such process innovations represent new combinations of production methods**,** enabling firms to strengthen efficiency and sustain competitive advantage.

Similarly, marketing innovation capability was found to significantly enhance MSME performance, suggesting that the use of creative marketing strategies, digital tools, and customer-focused branding improves visibility and market share. This result agrees with Chimucheka and Mandipaka (2022), who established that innovative marketing practices strengthen customer retention and business growth. Consistent with Schumpeter's theory**,** marketing innovation reflects the introduction of new ways of accessing markets and delivering value to customers, thereby reinforcing firm performance and adaptability.

Conclusion

The study found that all three forms of innovation capability significantly and positively influence firm performance, with product innovation exerting the strongest effect by highlighting the importance of developing and refining products to meet evolving customer preferences. Process innovation also contributes substantially by enhancing productivity, cost-efficiency, and responsiveness to market changes, while marketing innovation strengthens brand positioning and customer loyalty, enabling MSMEs to expand their market base and sustain profitability. The study concludes that innovation is a strategic imperative for MSME survival, and encouraging innovation-driven practices is critical to improving their contribution to state and national development.

Recommendations

Based on the findings, the following recommendations are proposed:

1. MSMEs in Ogun State should prioritise continuous product improvement through creativity, customer feedback, and technology adoption. Business owners should invest in research and development (R&D) and collaborate with universities or innovation hubs to enhance their product innovation capability.
2. Enterprises should integrate affordable digital tools, automation, and lean management practices to optimise production processes and reduce operational costs. The state government and support agencies should provide capacity-building programmes and grants to help MSMEs acquire modern production technologies.
3. MSMEs should embrace digital marketing, data analytics, and customer relationship management (CRM) systems to expand market reach and brand visibility. Training in e-commerce and online advertising will enable small businesses to compete effectively in both local and regional markets.

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