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Conceptual and Theoretical Perspectives on Innovations and Business Performance

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ABSTRACT

Innovation, including product, process, marketing, and organizational innovation within a firm, is considered as one of essential component for surviving and growing. These innovation activities create value and competitive advantages for successful organizations; therefore, understanding the organization's overall innovation is the first and foremost to understand the role of innovation on firm performance. The objective of this research was to determine the impacts of innovation which includes product, process, marketing and organizational innovation on business performance (financial performance. This paper explores antecedents, theoretical and conceptual frameworks relating to innovations and business performance. We concluded with summary and gaps in literature and presentation of a conceptual framework.

Keywords: Business, Innovations, Performance, Organizations, Marketing, Processed, Firms.

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1. INTRODUCTION

The term innovation comes from Latin's innovare, which means "to make something new" (Amidon, 2003, Tidd et al., 2005). The definition, however, has developed over time and been interpreted very differently (Sauber & Tschirky, 2006). Innovation has continued to be a subject of interest to scholars from a number of different disciplines, including economics, business, engineering, science, and sociology. Arising from this, the concept has hence been viewed differently to the extent of introducing a debate as to what constitutes innovation (Cooper, 1998). Innovation is described as "the introduction of new or improved processes, products or services based on new scientific or technology knowledge and/or organizational know-how" (OECD 2015). According to Trott, (2008), an invention is the first occurrence of an idea for a new product or process whereas innovation is the act of putting it into practice. There are different types of innovation in business however it can be related to new products or services, new production processes, new marketing techniques, and new organisational or managerial structures (Rebound, 2008). Innovation may also involve technology, intellectual property, business, or physical activity (Sundbo, 2003).

Product Innovation

Most studies speak of product innovation and process innovation and all these are important towards development being at country or organizational level. Product innovation is the introduction of a good or service that is new or significantly improved regarding its characteristics or intended uses; including significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics (OECD 2015) . Rouse, W. B. (2013), contend that product innovation generally means the organisation's process for introducing new ideas, new products/commodities, new technology, workflows, new manufacturing methods, new services and new distribution and delivery. It is generally posited that the product innovation becomes the most important source of structural change in an economy because it alerts the mix of products, industry and jobs, which make up an economy (Bail, 1988).

Process Innovation

A process innovation on the other hand refers to the new procedures, policies, organisational forms and knowledge embodied in the distribution channels, products, applications, as well as customer expectations, preferences, and needs (Gupta 2013). It is coupled with the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software. It can substantially lead to a decreased unit costs of production or delivery, to increase quality, or to produce or deliver new or significantly improved products (OECD 2015). Fagerberg stressed that while the introduction of new products is commonly assumed to have a clear, positive effect on the growth of income and employment, process innovation, due to its cost-cutting nature, can have a hazier effect on performance (Audrey et al. 2016)

Marketing Innovation

According to Johne (1999), market innovation deals with the market mix and market selection in order to meet a customer's buying preference. Continual market innovation needs to be done by a firm because state-of-the-art marketing tools, particularly through the Internet, make it possible for other competitors to reach potential customers across the globe at a light speed. Cano *et al*. (2004) assert that market innovation plays a crucial role in fulfilling market needs and responding to market opportunities. In this respect, any market innovation has to be directed at meeting customers' demand and satisfaction (Appiah-Adu and Satyendra, 1998).

Organizational Innovation

According to Avermaete et al., (2003), organizational innovation involves changes in the ways of organizing and managing a firm, including human resource management and the improvement of the firm's access to the market (i.e., expanding new markets). It entails the implementation of a new organizational method in the firm's business practices, workplace organization or external relations (OECD and Eurostat, 2005). Organizational innovations has the propensity to enhance firms' performances by reducing administrative and transaction costs, improving workplace satisfaction (and thus labor productivity), gaining access to non-tradable assets (such as non- codified external knowledge) or reducing costs of supplies (OECD Oslo Manual, 2005).Organizational innovation can increase the performance of firm through decreasing transaction cost and administrative cost thereby improving workplace satisfaction.

Also, organizational innovation can be implemented in business practice through the application of new techniques for arranging routines and procedures for carrying out activities. It includes the introduction of new methods for the allocation of responsibilities and decision making among employees. (Ukpabio, M. G., et al 2018)

2. THEORETICAL LITERATURE REVIEW

This study considers three theories of innovations. The theories include disruptive innovation theory, innovator's dilemma theory and innovator's solution theory.

Disruptive Innovation Theory.

Disruptive innovation theory was hypothesized by Christensen in 1997. He suggested that in a quickly changing and uncertain world, innovation is the key to competitive advantage. Yet innovation also increases uncertainty and market pressure (Lettice, 2006). The more radical the innovation, the more difficult it is to estimate its market acceptance and potential. The increasing complexity and market dynamics create a substantial knowledge gap between theory and practice. Many companies are not organized to give new ideas a chance, to recognize trend breaking points in the market, to adapt quickly to changing market circumstances, or to cause market changes in the first place (Markides, 2009). Breakthrough innovations are based on inventions that serve as a source of many subsequent inventions (Ahuja, 2001). Ambiguous, extremely turbulent and uncertain times, combined with a long development time, make breakthrough innovations a highly risky matter. Disruptive innovation frequently results from a combination of the emergent qualities of several smaller ideas based on observing the world differently, challenging presuppositions, expanding boundaries, spotting the "white space", discovering the as yet unrealized needs of customers, setting challenging targets, thinking the unthinkable and challenging our underlying mental models (Coulson, 2011)

Disruptive innovations change the game. They attack an existing business, and offer great opportunities for new profit growth. Only radical innovations lead to growth (Hamel, 2009). This disruptive innovation development process is an interdependent system, based on the concepts of system thinking and of dynamic strategic thinking with learning as a central aspect (Brown, 2009). This process is affected by exogenous determinants such as economic, social and political factors, competition and infrastructure, and endogenous determinants such as resources, corporate structure and corporate culture (Mulei, 2012).

Dilemma Theory of Innovation

The innovator's dilemma theory was proposed again by Christensen in 2003. The crux of Christensen's (2007) insight is that firms wishing to innovate face an irresolvable dilemma: their existing customers will encourage them to focus resources on building a better widget, while somewhere else another company is building a gadget, either for new sub-segments of the market, or for an altogether new market. Analytically, this dilemma was explained by Christensen as having three key elements: The first is that there is a strategically important distinction between what one call sustaining technologies and those that are disruptive. Second, the pace of technological progress can, and often does, outstrip what markets need. This means that the relevance and competitiveness of different technological approaches can change with respect to different markets over time.

Thirdly, customers and financial structures of successful companies colour the sorts of investments that appear to be attractive to them, relative to certain types of entering firms (Christensen, 2008). The simultaneous advance in new technology, along with the substantial upgrading of old technology, underlines the pervasive uncertainty confronting industrial decision makers in a world of rapid technological changes (Rosenberg, 2006). Second, the marketing literature has focused on a central and unsettling suggestion made by Christensen and Bower (2006), that the innovator's dilemma consists in the fact that by doing the right thing (i.e. listening to current customers) leading firms often end up losing their markets to upstart newcomers. This is unsettling because compelling evidence exists in the marketing literature that market orientation leads to positive business performance (Matsuno, 2009).

Innovator's Solution Theory

Christensen and Raynor's theory of the innovator's solution is a brilliant analysis of why companies fail to innovate. It explains convincingly why corporate managements don't learn about good ideas, and why managers succumb to inherent pressures to run away from the challenge of disruptive competition rather than stand and fight. The decisions made as a result of these pressures make sense in the short run to the individuals involved, but in due course they send the organization into an inexorable death spiral (Anthony, 2008). According to Christensen and Raynor (2008) corporate leaders should put up a wall between the innovation and the existing hierarchy. Leadership should create an independent business unit, which will provide a safe and protected environment for innovation. There the innovation can flourish without having to fight off the interferences and intrusions and anti-innovation attitudes of the hierarchy.

Allowing a different culture to flourish in a separate organization eventually leads to repeated power struggles and culture clashes, which members of the mainstream organization invariably win. Interest in the new ventures tends to be cyclical. Brief surges of enthusiasm, triggered by abundant resources and the desire to diversify, are followed by sharp declines. The life spans of both internal venture units and corporate venture capital funds, therefore, tend to be short on average, only four to five years (Mulei, 2012). Christensen and Raynor's innovator's solution theory rests on the hope that if one can build enough commercial success in the marketplace, he/she has a better chance of eventually winning that battle of persuasion.

3. THEORETICAL FRAMEWORK

The theoretical framework of this research was developed based on the literature reviews of past researches discussed in the earlier part of this paper. The framework shows the logical relationship between the independent and dependent variables. The dependent variable - business performance is described by its financial performance. In this research, innovation is the independent variable and its impact to the organizational performance which is represented by four dimensions namely product innovation, process innovation, marketing innovation and organizational innovation is examined.

Product-process innovation and business performance;

Li et al.'s (2007) study on Chinese firms showed us that process and product innovations were significantly correlated to each other. Oke's study on British firms (2007) revealed that developing formal implementation processes was necessary to pursue incremental product or service

innovations, implying that the improvement of the processes is a driving force for the success of the output (product and/or service) innovations. Thus innovative solutions providing the steps of the production processes with newly improved advantages - such as production quality, value, speed, and low cost- can increase the chance of the product's new components, ingredients, technical specifications, functionalities, etc. to meet the needs and desires of the customers better than before. (Gunday, 2011)

Organizational innovation and business performance;
Damanpour *et al*. (1989) found that administrative innovations led to technical innovations in public libraries; they also suggested conducting further research in other types of firms to generalize their findings. Similarly, Staropoli (1998) emphasized the importance of cooperative organizational rearrangements and coordination mechanisms to enhance technological innovations in the pharmaceutical industry, while Germain's study (1999) revealed that organizational structural characteristics might be significant predictors of process innovations in the logistics sector. More recently and specifically, Walker (2008) announced that organizational, marketing and service (or product) innovations were found to be interrelated in a study on public organizations, and that additional research was required to clarify these findings.

Marketing innovation and business performance;
Sandvik (2003) discovered that market innovation has a positive effect on sales growth of a firm. To Johne and Davies (2000), market innovation would augment sales through the increasing demand for products, which in turn yields additional profit to innovative firms. Similarly, Otero-Neira *et al*. (2009) found strong evidence that market innovation positively influenced business performance. Adding to this finding, Varis and Littunen (2010) using an estimated model confirmed a highly significant relationship between a market-related innovative activity and firm performance.

Innovation and business performance
Many studies have confirmed innovation has a positive impact on enterprise performance. Roberts found that in the long run, innovation activities had a positive impact on the ROI of firms after studying the American pharmaceutical industry (Roberts, P. W 1999). Cho and Pucik (2005) based on the empirical study of Fortune 1000 companies, concluded that the innovation of enterprises was positively related to the growth and profitability of enterprises. Hua, et al (2006) investigated the relationship between the ratio of new products and performance, found in the personal computer industry, there was a positive correlation between the two, and put forward if the enterprise sustainable develop a series of a new product, they can get high profit. In addition to the manufacturing sector, Salavou and Prajogo (2002), respectively, studied Greek and Australian service industries and found that product innovation was an important determinant of growth and profitability in service business.

Other relevant studies have confirmed that the more innovative firms are, the more likely they are to achieve higher corporate performance (Price, 2005). In the study of Geroski et al. (1993) on 721 manufacturing firms in U.K. it was found that the number of innovations achieved by firms had a positive effect on their operating profit margin. They also found that although the effect of specific innovations on firm profits was onlymodest in size, innovative firms in general were more profitable than non-innovative firms.

Han et al. (1998) empirically tested the relationship between market orientation, innovation and firm's performance in the U.S finance industry. They found that firm's administrative and technical innovativeness had positive impact on firm performance. Roberts (1999) examined the effects of product innovativeness on the sustainable profitability of firms with a longitudinal research in the U.S. pharmaceutical industry. He found support for the expected relationship between high product innovation propensity and sustained superior profitability.

It has been widely acknowledged that innovation is a key source for achieving a competitive edge for all firms (Bilton & Cummings, 2009; Weerawardena, 2003; Bharadwaj et al., 1993). For instance, it was found that financial performance of firms increased with the increase in innovation level in the context of the food machinery industry (Bigliardi, 2013). Innovation results in positive outcomes such as the good image and reputation of SME's, as well as an increase in cost benefits and operational efficiency leading towards superior financial performance (Laforet, 2011). Likewise, a longitudinal survey of 607 high-technology firms also indicated innovation as the key driver of firm performance (Wang, 2014). Moreover, innovativeness aids firms in developing new capabilities that allow them to attain superior profitability (Hogan & Coote, 2014; Calantone et al., 2002; Sadikoglu & Zehir, 2010).

Although the impact of innovation on firm performances has been studied in various contexts, studies on innovation in the retail context are lacking (Djellal & Miles, 2013; Drejer, 2004). Nonetheless, firms that are involved in various innovative behaviours can realize positive performance outcomes (Hogan & Coote, 2014). Several other studies show that there is a positive relationship between innovation and firm performance. Ul Hassan et al. 2013 showed a positive impact of innovation types on firm performance in Pakistani manufacturing firms. Damanpour et al. (2009) found a positive impact of innovation types on firm performance. Bowen et al. (2010) revealed a relationship between innovativeness and future firm performance. Subramanian and Nikalanta (1996) showed a positive effect of innovation on firm performance. Cingoz and Akdogan (2011) proposed the positive linkage of expected positive performance outcomes with innovative behaviour (Ul Hassan et al., 2013, p. 244-248).

Lafourcade (2005) carried out a study on an overview of the innovations and financial performance of microfinance institutions in Africa and concluded that there is a strong relationship between the two variables. The authors collected information about MFIs primarily through country-level networks and contracted consultants. All the data were self-reported from MFIs and then reclassified according to international accounting standards and cross-referenced if audited financial statements were available. Of the 163 MFIs analysed, 77 earned positive returns in 2003. According to their findings, MFIs in Africa tend to report lower levels of profitability, as measured by return on assets, than MFIs in other global regions. Among the African MFIs that provided information for this study, 47 percent post positive unadjusted returns attributed by high operating cost and lack of enough financial innovation to counter it. This drives Institutions to continue seeking ways to increase efficiency through better communication, improved lending products, new technology, or some combination of these improvements. According to Ignazio (2007), financial innovation has not only opened up new opportunities forthe SMEs, but also increased new market players arising from new products in the financial market.

4. SUMMARY AND GAPS IN LITERATURE AND PRESENTATION OF A CONCEPTUAL FRAMEWORK

Obviously, there is a huge literature regarding the effect of innovation on business performance in Europe, the Americas and asia. Since the majority of them conclude that there is a positive relationship between the two variables, we had selected few of them.

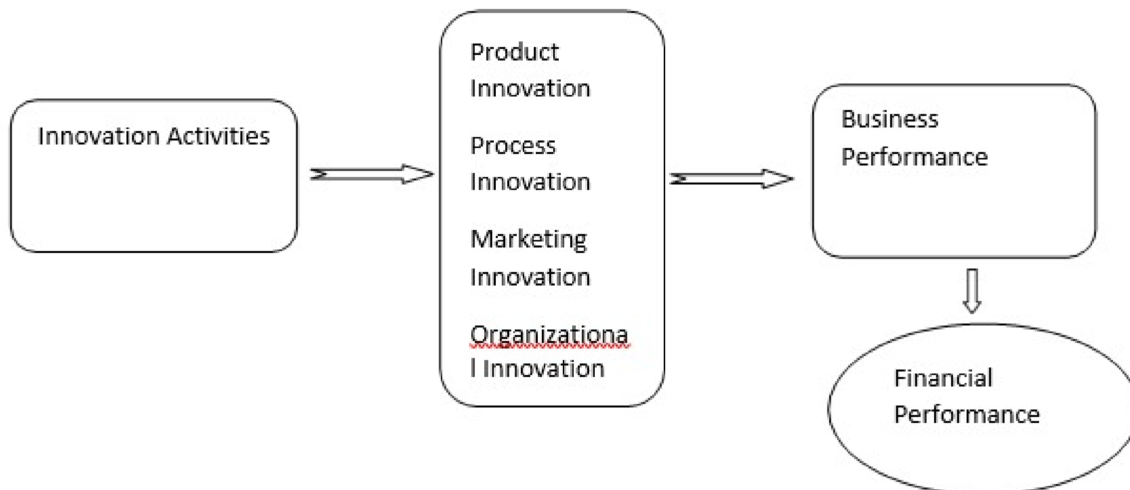

Fig 1: The Conceptual Framework of Innovation and Firm Performance
Source: The Authors

We propose a framework that opines that when four different types of innovations are implemented in an organization it will enhance their innovative performance which will then improve financial performances.Given the popularity of the concept 'innovation' and the abundance of the literature concerning its impact on business performance, it is hardly acceptable that a handful of a study like this has been carried out in Nigeria, where so many business thrive. This study, therefore, aims to fill this gap and hence, examines the innovation and business performance in Nigeria using the case study of West African Ventures Limited. This model examines the relationship between the business performance and the product, process, marketing and organization innovations. Financial indicators of the business is used as a proxy for firm's performance while information on new or significant improved products/services and new or significantly improved methods of production or improved modes of marketing and new organizational structures are used as proxies for product, process, marketing and organization's innovation.

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