EFFECT OF INNOVATION AND PROACTIVENESS ON THE PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES (SMES) IN ADAMAWA STATE

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ABSTRACT

This study assesses the effect of innovation and proactiveness on the performance of SMEs in Adamawa State. The study used a survey research design in data collection. The primary source of data was collected from the selected sample of 259 entrepreneurs in Adamawa State. The study adopted the Smart PLS Technique in data analysis and hypothesis testing. The result of the study shows that innovation has significantly influence SMEs' performance. In addition to pro-activeness indicate significant positive relationship on the performance of SMEs in Adamawa State. It was recommended that SMEs should be encouraged to achieve set targets by being more innovative as part of steps for improving their growth and performance in Adamawa state. Also, SMEs should be alert and responsive to the environment and strive to be proactive to overcome the challenges and exploit the opportunities in the environment that are associated with entrepreneurship so that they can gain a competitive advantage over competitors.

Keywords: *SMEs, Entrepreneurship, Innovation, Proactiveness, Performance*

Introduction

Small and medium Enterprise (SMEs) play a crucial role in driving economic growth, fostering innovation, creating employment opportunities and promoting social development in nations across the globe. SMEs are the backbone of many economies, contributing significantly to Gross Domestic Product (GDP), export earnings and overall industrial development. The presence of a vibrant SME sector ensure a healthy business environment, fosters competition and stimulates economic growth (Agbaeze & Odiba, 2020). SMEs are often resilient during economic downturn, as their smaller size and flexibility enable them to adapt quickly to changing market conditions.

According to PwC's MSME survey 2020 report, SMEs business climate in developing nations like Nigeria, is placed in the middle of a new emerging markets where many SMEs are springing up.

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As a result, owners/managers are increasingly looking for strategic methods to achieve, improve and maintain their performance and competitive advantage of their SMEs. SMEs, despite their economic importance, have had a poor record, particularly in the Adamawa State of Nigeria. Also emerging markets and environmental transformations, growth of competition and ambiguity in business practices, the gravity to integrating new technologies into day-to-day business operations, the interconnectivity of markets have all contributed significantly to a landscape modification of SMEs businesses that has unswervingly plagued the way SMEs are managed. Abiodun, (2020) observed that owners/managers of SMEs who fail to be proactive will be behind in identifying opportunity and being innovative towards advantage seeking behaviours to achieve high performance.

The SMEs sector in Adamawa state has a high mortality rate, with three out of every five SMEs failing during the first few months of operation, over 60% failing each year, and the majority failing before their third anniversary (Pwc, 2020; SMEDAN, 2017). This fall may be necessitated by a lot of challenges of which lack of SMEs motivation is among which can motivate owners/managers of SMEs to employ SMEs pro-activeness practices in order to improve the performance of their businesses.

Therefore, SMEs are mechanism through which innovation and proactive are transmitted to improve performance. However, entrenchment of these variables may further develop positive perception among SMEs owners. With this research gap, this research seeks to assess the effect of innovation and proactiveness on the performance of SMEs in Adamawa state.

Objectives of the Study

The main objective of the study is to examine the effect of innovation and proactiveness on the performance of SMEs in Adamawa state. The specific objectives are:

i. To determine the effect of innovation on the performance of SMEs in Adamawa state.

ii. To determine the effect of pro-activeness on the performance of SMEs in Adamawa state.

Research Questions

The following research questions provided a guide to the study:

i. To what extend does innovation affect performance of SMEs in Adamawa state?

ii. To what extend does pro-activeness affect performance of SMEs in Adamawa state?

Research Hypotheses

H_{01}: There is no significant effect of innovation on the performance of SMEs in Adamawa State.

H_{02}: Pro-activeness has no significant effect on the performance of SMEs in Adamawa state.

Literature Review

Concept of Innovation

The desire to seek creativity and experimentation is known as innovation. Some innovations improve upon current abilities, but more radical developments need the acquisition of new skills and may render old skills useless. In all situations, the goal of innovation is to create new goods, services, and processes. Organizations that succeed in their innovation initiatives do better than those that do not. According to Agbaeze and Odiba (2020), innovation is a creative destruction process in which money is produced by destroying current market systems. This happens after the entry of new goods and services that can trigger a shift in resources. This includes creative destruction mechanisms that encourage entrepreneurs to innovate more in the concept of entrepreneurial orientation as an indispensable success factor.

According to Yusof (2019) innovation is at the heart of a new industrial policy known as the inclusive innovation industry strategy. The aim is to develop globally competitive and innovative industries that can apply new technologies to help countries overtake the industries. Based on the aspiration to achieve sustainable and inclusive growth, they are therefore pursuing a strategy that focuses on creating an ecosystem of innovation and entrepreneurship by removing the barriers to growth in the industrial building cluster.

However, Kithaka (2016) notes that innovation is a continuum from a willingness to try new innovations to a serious commitment to innovation. In the field of entrepreneurship, especially SMEs, the owner/manager needs to be very innovative in order to evolve. Innovative strategies are sometimes speculative in nature, with unpredictable returns, and innovators run the risk of wasting resources if the investment does not produce the desired results. Hence, most successful innovations have an element of risk imitation. Therefore, willingness and investment in new ways of adding and increasing value are essential characteristics of companies that pursue entrepreneurial strategies. Kithaka (2016) further argues that in order for SMEs to innovate in new product development and a new product launch and market entry in a free market economy, they need to engage in more competitive aggression.

Silas and Joyce (2017), also suggested that innovation is the desire to depart from established technologies or processes in order to create or embrace new ideas or behaviours for the firm, and that venturing beyond the current state of things which result in new goods and services. According to Silas and Joyce (2017), the adoption of a planned and organized innovation culture in the form of an organizational mentality with particular skills that stimulate innovative activity is one of the most significant drivers for enhancing the performance of small and medium-sized companies (SMEs).

Gilbert (2018) states that innovativeness is a well-defined individual behaviour that aims to achieve the initiation and introduction of new and useful ideas, processes, products or procedures, as well as the tendency to adopt new ideas that lead to the development and introduction of new products.

Concept of Pro-activeveness

The concept of pro-activeness has received great attention in the entrepreneurship literature in recent times (Basco, Hernández-Perlines & Rodríguez-García, 2020;Isichei, Agbaeze & Odiba, 2020). According to Basco et al., (2020) pro-activeness has aided the firm in setting a future targets that drive firm growth by predicting the future products and services that will meet their customer demands and make efforts in channeling them to the right markets. Basco et al (2020) also emphasize that pro-activeness is a key to a firm success because it enables the firm to benefit from the first-comer advantage of exploring the initial profits and other market opportunities. Proactivity is described as an opportunity-seeking and future-oriented perspective that is characterized by the introduction of new products and services before the competition with the pure expectation of future demand (Rauch, Wiklund, Lumpkin & Frese, 2020).

Yaro, Nanchan, and Shehu, (2020) viewed pro-activeness as how SMEs owners relate to market opportunities in the process of new entry and seize such opportunities to shape the environment. SMEs pro-activeness is seen as the ability of the managers to seize the opportunity-focused and forward thinking when introducing new products and services to the market place and ahead of the competition and acting with future demands in mind (Abiodun, 2020; Shah & Ahmad 2019). The increasing interest of firm's mangers in taking proactive measures with respect to the business environment in association with strategic social networks and inter-organizational collaboration has drawn more attention on firm pro-activeness in the social network literature. These social network stream centers has shown how firms establish networks with one or more external partners aiming at a specific target of gaining competitive advantages by sharing firm resources and know-how (Sami, Rahnavard & AlaviTabar, (2021). Pro-activeness is the ability of a person or an organization to respond quickly to the needs of the community. A business can be proactive by forecasting future demands and new opportunities in the market, taking an interest in developing markets, shaping the environment and launching new products and services ahead of their competitors. Kithaka (2016) further argued that the company's proactive perspective provides a "good strategy" because its quick actions will help guarantee outstanding results and strengthen the company's existence.

According to Kithaka (2016), proactivity can be seen as the ability to predict the actual occurrence of events and then take appropriate action for future problems. In other words, proactive is the search for opportunities with a future-oriented perspective, which is about introducing new products or services before competition and acting in anticipation of future demands in order to bring about change and shape the environment. He also noted that proactivity is linked to SMEs opportunities by taking initiatives and acting opportunistically to create the environment that can influence trends and create demand. There are several characteristics of being a proactive company, including aggression and unconventional tactics towards competing companies in the same market segment, that help SMEs run their business environment by actively seeking and seizing opportunities.

Agbaeze and Odiba, (2020) argue that proactive SMEs is the SMEs' ability to predict where a product/service does not exist or has become of unexpected value to customers and where new manufacturing processes become possible that are unknown to others. Proactive SMEs are SMEs that adopt an opportunity-seeking perspective. Such SMEs act against changes in market demand and are often the first to enter a new market or a "fast follower" which increases the initial efforts of first movers.

Concept of Performance

Performance is among the major elements of concern in the fields of SMEs and a central issue to owners/managers of SMEs (Venkatraman & Ramanujam, 2022). The concept of performance has been viewed in many aspects of management, such as performance management, performance measurement and performance assessment or evaluation, which are used in different fields of management science. However, several remarkable changes have occurred in the corporate world in the past few decades in terms of the introduction of national and international awards, improvement initiatives, organizational roles, work maturity, external demands, increased competition, and advanced technology. These changes have resulted in companies encountering impressive competition resulting from the improvements occurring in product quality, development of flexibility and reliability, the expansion of product variety, and its importance on innovation (Fry, Karwan & Baker, 2023). The execution of a work according to the criteria of accuracy, cost, speed, and completeness is referred to as performance (Al-Dhaafri, Al-Swidi, & Yusoff, 2016). Performance has been used to determine how well a mechanism or process achieves a set of goals.

Performance is the consequence of all managerial operations since owners/managers are evaluated on their SMEs success (Aziz, Javed & Aqdas, 2016; Nera, 2021). SMES are observed to be major contributors of development in countries worldwide because they form the cornerstone of national development. Their performance has contributed immensely into elevating a firm’s competitiveness, resilience, effectiveness, sustainability and efficiency (Agbaeze & Odiba, 2020). Agbaeze and Odiba, (2020) pointed out that SMEs performance is the degree at which a business entity can achieve its goals through work outcomes, customer relationship, quality service and overall wellbeing.

According to Matrade (2017), performance is defined as the ability to complete tasks and meet stated goals of work behavior or appearance, which is characterized by the flexibility of motion, rhythm and working order in accordance with the procedure to obtain results that meet the quality, speed, and quantity requirements. According to Aminu and Shariff (2014), a company's ability to provide value to its stakeholders, which include owners, consumers, society, and even the government, is referred to as performance.

Theoretical Framework

The study used McClelland motivation theory and resource-based view theory to underpin the study.

Mcclelland Theory of Motivation

According to McClelland's theory of motivation (1976), driving needs governing a person's productivity, realization of needs is the desire/duty to reach or surpass performance criteria. Result orientation, competitiveness, ambitious objectives, or innovation are examples of criteria that can be self-realization or improvement from the past. It demonstrates a desire to operate more effectively and efficiently. It will also arouse a drive for meaningful performance, skill mastery, control, or adherence to high standards in a person. In a meta-analysis research, it found that a major predictor of entrepreneurship is a drive for performance, and that entrepreneurs are more success-oriented than the general population. The influence of success on SMEs performance is substantial (Senen & Iwan, 2016).

There are three prerequisites in the theory. A person's need for success is defined as their desire to accomplish the results connected with their job while adhering to the appropriate standards. Achievement might be a sign of future success. The need for power is a person's need to have power. This may indicate an attitude that is causing the other person to behave in ways that would not have been possible without them, that is having the desire to achieve one's own goals.

Resource Base View Theory (RBV)

According to the RBV theory, firms sustain competitive advantage based on its valuable, rare, inimitable and non-substitutable resources (Barney, 1991). It combines talents, motivation, organizational systems, structures and processes at the organizational level which can result in some competitive advantages.

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Material resources such as physical buildings, intangible resources such as knowledge, motivation and skills can achieve success and competitive advantage.

A resource-based vision has been established based on the firm theory, in which the company is defined as the total of strategically essential resources that are all taken into consideration. Good Leaders matters, culture matters, morals matter and random occurrences matter, among other things. This aids in determining the competing forces' long-term advantages. The resource-based view theory is frequently linked with SMEs performance and growth orientation, business performance, competitive pressures, innovation and proactiveness.

More importantly, the resources based-view theory considers entrepreneurship as a rare, valuable, inimitable and non-exchangeable business resource distributed heterogeneously but imperfectly and statically (Barney, 1991). The success of SMEs with a sustainable competitive advantage depends on their ability to cope with changing environments through a innovation and proactiveness.

Methodology

The study used survey research design, and the study is based on primary source of data. The data was collected from the chosen sample of the population through the administration of questionnaire. The sample population is 259 respondents, which was drawn from the target population of 734 registered SMEs in Adamawa State. The sample population was drawn through Taro Yamane Formula. The data was collected through the administration of questionnaire. Simple random sampling method was used in choosing the respondents. The study used Smart PLS Technique to analyze the data of the study.

Results and Discussion

The study used descriptive statistics showing the minimum, maximum, mean, standard deviation, skeyness and kurtosis. It is presented in Table 1 below.

Table 1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
PER	259	10.00	37.00	23.0558	5.82490	.321	.122	-382	.249
INO	259	10.00	39.00	22.1734	5.92869	-.185	.161	-.151	.262
PAC	259	8.00	28.00	15.6752	3.82025	372	.172	.172	.285
Valid (listwise)	259								

Source: Research Output, 2025

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Table 1 shows the skewness is within the range of ± .372 and -.185. While for the kurtosis, is within the range of ± .382 and -.151. Therefore, this shows that all the variables are within the acceptable range.

Test of Hypotheses

The study tested the hypothesis one and two of the study. From Table 2, the study presented the results of the path coefficients for the structural model with the beta value of the relationships, t-statistic and p-value.

Table 2: Path Coefficient for Direct -Relationship

Hypotheses	Relationship	Mean	STDEV	T-value	p-value	Decision
H1	INN -> PFM	0.178	0.069	2.576	0.002	Supported
H2	PAC -> PFM	0.224	0.045	3.782	0.000	Supported

Source: Research Output, 2025

From table 2 above, it can be seen that innovation has a significant positive effect on SMEs performance in Adamawa State with (t-value = 2.576, p-value <0.002). Hence the hypothesis (Ho_1) which states that there is no significant effect of innovation on the performance of SMEs in Adamawa State is supported. This means when there an increase in innovation, it would lead to the increase in SMEs performance in Adamawa State. Secondly, the table shows that pro-activeness has a positive and significant effect on performance of SMEs in Adamawa State (t-value = 3.782, p-value <0.000). Hence, hypothesis two (H_2) which states pro-activeness has no significant effect on the performance of SMEs in Adamawa state is also supported.

Discussion of Findings

The major objective of this study is to examine the effect of innovation and proactiveness on the SMEs performance in Adamawa state. As shown in table 2 innovation and SMEs performance in Adamawa state has a t-value of 2.576 and p-value of 0.002. Therefore, the first research hypothesis one is supported. The finding shows that innovation has a significant effect on influencing SMEs' performance. This means that innovation is necessary and has significant positive effect on SMEs success. This finding is in line with the results of Hossain and Azmi, (2021); Pratami and Sam'un, (2019) and Okangi, (2019).

As shown in Table 2, pro-activeness and SMEs' performance in Adamawa State. (t-value =3.782 and p-value <0.000). Therefore, the research hypothesis which states that pro-activeness has no significant effect on the performance of SMEs in Adamawa state is supported (H_{02}). The study shows the relationship between pro-activeness and performance of SMEs, the relationships between them indicate a significant positive relationship. This means pro-activeness is linked to SMEs' opportunities by taking initiatives and acting opportunistically to create the environment that can influence trends and create demand for the product. This finding is in agreement with the work of Salau, (2022); Atikur, Kaniz, Zhao and Mohammad, (2021); Mohammed and Fauziah, (2021) and Okangi, (2019).

Conclusion

This study result shows that innovation has a significant effect on the performance of SMEs in Adamawa State, meaning that the SMEs owners/managers should be more creative in terms of idea generation so that they can have a competitive advantage over their competition. Concerning pro-activeness and entrepreneurship performance, the relationships between them indicate a significant positive relationship in Adamawa State.

Recommendations

Based on the findings of this study, it is recommended that:

i. SMEs should be encouraged to achieve targets by being more innovative as part of the steps for improving their growth and performance in Adamawa state.

ii. SMEs should be alert and responsive to the environment and strive to be proactive to overcome the challenges and exploit the opportunities in the environment that are associated with SMEs so that they can gain a competitive advantage over competitors that are into similar products within the emerging markets in Adamawa State.

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