Evaluation of Innovation Orientation Strategy and Performance in of Paint Manufacturing Firms in Nigeria.

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Abstract: Managers of entrepreneurial firms engage in so many different entrepreneurial activities. However, entrepreneurs do not give adequate attention and commitment on issues of innovation, such as new product development, technological, channel innovation and market opportunities which prompt entrepreneurship innovativeness. The study evaluated the effect of innovation orientation strategy on performance of paint manufacturing firms in Lagos state with special reference to quoted paint manufacturing firms in Lagos state, Nigeria. Secondary data were adopted from both internal financial records and audited financial reports of selected firms from a period of 2012-2017. Purposive sampling techniques were used to select eight (8) of the quoted firms. Data collected was analyzed using Descriptive statistics while non-parametric statistical test such as regression analysis and ANOVA were used to test the formulated hypothesis. The results revealed that product innovation had a positive relationship and significant effect on performance of return of sales and profit in paint manufacturing firms ($R^2=0.795$, $P=0.000$, $F=34,400$). Technological innovation had a positive relationship and significant effect on performance of sales and profit in paint manufacturing firms in Nigeria ($R^2=0.776$, $P=0.000$, $F=33,100$). Therefore, market and distribution innovation had a positive relationship and significant effect on performance of sales and profit ($R^2=0.605$, $P=0.000$, $F=31,300$). This study concluded that entrepreneurial innovative orientation had significant effect and relationship on performance of selected paint manufacturing firms in Nigeria. Therefore, the study recommended that entrepreneurs and management of paint manufacturing firms should promote innovative and proactive culture in order to take advantage of new market emerging dynamics and opportunities in the paint industry.

Keywords: Innovation Orientation Strategy, Products innovation, technological innovation, Channels/distribution innovation, Market Innovation, Performance, Quoted Paint Manufacturing Firm

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1. Introduction

The concept of innovation orientation (IO) was derived and coined from the word entrepreneurship orientation and strategic management literatures. Hence, the notion has grown very rapidly in a complex, dynamic and competitive business environment. Therefore, the prominence of innovation orientation (IO) has been discussed by numerous past researchers (Adams, Freitas-Bodas, & Fontana, 2019; Yoon, Kim, & Dedahanov, 2018; Zehir, Can & Karaboga, 2015; Corbo, 2012; Rauch, Wiklund, Lumpkin & Frese, 2009; Siguaw, Simpson & Emh2006). Consequently, the IO variables have five dimensions; Technological innovation, product innovation, processes innovation, channels or network distribution innovation and Market innovation (Carr, 1999). Hence, only four of those variables were considered in this study. Innovation orientation has been found to provide sustainability growth and organizational performance (Rauch, Wiklund, Lumpkin & Frese, 2009; Wang & Ahmed, 2004; Wiklund & Shepherd, 2005). Arguably, firm level of performance can be determined by the extent of developing new products, sourcing and making use of new technological machines and proactive in developing and expanding new market. Innovation orientation is a multi-dimensional construct, which reflect the following entrepreneurial activities of new product ideas, screening and development, and

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employing proactive strategy to enter into a new market (Manu and Sriram, 1996). Hurley and Hult (1998)
further conceptualise innovation orientation (IO) as an aspect of culture and value system of openness to new vital ideas that would transform into actions and commercialization of products and processes. Thus, the 
continuous commitment to innovation helps entrepreneurial firms to aggressively out-perform its competitors in 
the market place, enhance entrepreneurial survival and increase superior performance of sales and profit growth 

Applying, in any developing nation such as Nigeria, the paint manufacturing industries occupies a 
strategic position in a country’s socio-economic settings; not just because of its contributions towards 
developing the building and construction sector, but its additional potential in encouraging innovativeness and 
entrepreneurial activities. However, the continuous dismal of innovation and return on sales and profit growth in 
the paint manufacturing sub-sector has over the years been a source of fundamental concern to inventors and 
entrepreneurs. Consequently, the poor attention to innovation has affected optimal sales and profit growth 
and survival of the industry. As a result, the drive for innovation and new techniques has become the strategy for 
high technological industry in Nigeria. In entrepreneurship literatures, innovation is one of the components of 
evaluating the activities of entrepreneurs (Zehra, 1995). That is the main entrepreneurial activity contain not 
only product innovation, but also involves processes, channels and technological innovation (Tidd & Bessant, 
2009; Cormican & O’Sullivan, 2004) and also recognition of new market opportunities Eckhardt and Shane 
(2003).

More so, it appears that entrepreneurs and management of paint manufacturing firms in developing 
countries, most especially in Nigeria, seems to not have paid so much attention to innovation, experimentation 
and novelty. More so, every little empirical research work has been done in examining the relationship between 
entrepreneurial innovation orientation and return of sales and profit growth in the quoted paint manufacturing 
firms. Base on this fact, Busenitz, West, Shepherd, Nelson, Chandler and Zacharakis (2003), was of the opinion 
that the field of entrepreneurship is multidimensional in nature. They argued that innovation and opportunity 
identification and recognition of new market contribute to the field of entrepreneurship. Furthermore, most 
literatures have overflowed the linkage between innovativeness and firm performance, such as entrepreneurial 
behaviour of firms and product innovation on corporate performance Day, Reynolds & Lancaster (2006). However, without proper linking the entrepreneurial innovative variables, such as products, 
technology, market expansion and channel innovation on sales and profit return of the firm. It is in line with 
these submissions from the extant literature that the present study attempts to evaluate the effect of Innovation 
Orientation on Firms Performance in selected paint manufacturing firms in Lagos state, Nigeria. Therefore, the 
following hypotheses were stated in line with the objective of the study.

H01: Innovative Orientation Variables have no significant effect on performance of quoted paint manufacturing 
firms.

II. Theoretical Framework and Literatures Review

Innovation Orientation strategy and Firm Performance

The review of numerous literatures revealed divergence linkage between innovative orientation strategy and performance in developed and developing countries of the world. Damanpour & Gopalakrishnan, 
(2001) revealed a relationship between product and process innovation and high performance. Tatikonda & 
Montoya-Weiss, (2001) found that factors such as product quality and costs affect market outcomes. Damanpour & 
Evan (1984); Han, Kim & Srivastava (1998) found that administrative and process innovations had a positive relationship with organizational performance. Similarly, Ittner & Larcker (1997) also found a 
relationship between innovations and proxies of firm performance (ROA and Growth) in the computer industry. 
Although, much of this empirical studies had focused more on various innovation orientation construct in 
different industries, however, no studies has been done in the paint firms, given the gaps to fill.

Schumpeter, (1934 & 2002) recognise the dominate theory of innovation as the drive for new things and 
opportunities. Schumpeter, (2002) further described entrepreneurial management as a driver of market-
based systems with the capacity to undertake something new which brought about procedures that filled in as 
motivations for the movement of market economy. The extent to which an organization is entrepreneurial, in the 
sense of taking risks and creating new products, manufacturing techniques and markets (Schumpeter, 1934), and 
the empirical study support the relationship and benefits with performance of large variety of western 
firms (Rauch, Wiklund, Frese & Lumpkin, 2009; Wales, Monsen & Mckelvie, 2011).

The construct of this study were embedded on innovation and opportunity based theory. This is based on 
the fact that innovation and opportunity based theory is the pioneering theoretical perspective on 
entrepreneurship and strategic management. This theory view that firms should be creative and search for new 
ways of doing things. The theoretical perspective states that entrepreneurs are leaders of creative power for
innovation and also that innovativeness of entrepreneurial spirit is the dominant return of sales and profit performance of a firm base on the activity of the entrepreneur (Lintunen, 2000; Schumpeter, 2002). Furthermore, seeking for new opportunities is about introducing a new approach of producing new technological know-how of doing thing and identifying new product offering to gain market entry (Shane, 2003; Shane and Venkataraman, 2000). This theory is consistent with some prior empirical research in entrepreneurial innovation and performance of manufacturing firms. For instance, a prior research conducted by Rosenbusch, Brinckmann & Bausch (2011) reviews a meta-analysis between entrepreneurial activity of innovation and future performance of a firm. They found that there is a positive relationship between innovation and performance. The conceptual model adopted to support this research work was presented in Fig.1.1.

Invariably, evidence from various empirical literatures in developed countries (Rosenbusch, Brinckmann & Bausch 2011, Damanpour, Walker, Avellaneda, 2009, Simpson, Siguaw & Enz 2006, Han, Kim & Srivastava, 1998, Cooper, 1984, Siguaw, Simpson, Baker, 1997, 1998 showed the extent of relationship between innovation orientation and various constructs on firm’s performance in other sectors. However, scanty empirical research in developing countries like Nigeria and most especially in the paint manufacturing industries has not been well explored. This create further gap for this study to fill. Therefore, Rosenbusch, Brinckmann & Bausch (2011) conducted a meta-analysis on the benefits of innovation and its relationship with performance of SMEs. The findings revealed that factors such as age of firm, types of innovation and cultural context had significant impact on firm performance. Damanpour, Walker & Avellaneda, (2009) examines the various innovation orientation types (Service, technological process and administrative process) on organizational performance in public service companies in the UK. The findings revealed that focus of innovation over the years had no effects on performance, however, beneficial to organizational performance. Simpson, Siguaw & Enz (2006) examines the various factors that affect innovation orientation. The findings revealed that there was a positive and negative effect on innovation orientation on firm financial performance and other innovative outcomes. Han, Kim & Srivastava, (1998) evaluated the meditational role of innovation between market orientation and organizational performance. The findings revealed a positive and significant relationship between innovative orientation and performance. Similarly, the findings also showed a positive and non-significant relationship between market orientation and performance. Cooper, (1998) also examines the combined effects of innovation types and organizational performance. The results showed that the rewards of a successful innovation programmes is highly viable in terms of sales, profits and growth performance. Siguaw, Simpson & Baker, (1997) examines the influence of market orientation on the key performance factors of channels such as trust, cooperation, commitment and channels relationship. Hence, the results revealed that market orientation had a positive effect on key performance factors. Similarly, Siguaw, et al. 2008 examines the effects of supplier market orientation on distributor market orientation in their channel relationship. A model was developed to examine the effects and consequences of supplier’s market orientation on distributors orientation and its relationship with other key channel factors. The findings revealed that supplier’s market orientation affect the key factors of channels relationship such as distribution market orientation, cooperative norms, trust, employee commitment and satisfaction.

III. Materials, Measures and Methods

The research population comprises of all registered quoted paint manufacturing firms currently operating in based on NSE report (2017). This study only focused on registered eight quoted paint manufacturing firms in Lagos state, Nigeria which includes Delux Paints subsidiary of UAC Plc, Berger Paints Nigeria Plc, International paints West Africa (IPWA) Plc, DN Meyer Plc, Portland Paints Nigeria, African...
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paints Nigeria Plc, chemical and Allied products Plc (CAP) and Premium Paints Plc. The choice of these firms was based on their predominance activities in the paint and chemical industry in terms of product quality, pursuance of innovation, brand strength, turnover, market share, reputation and technological capability. However, the choice of these firms in Lagos state also was predicated on the fact that Lagos was considered the commercial capital of Nigeria with modern commercial infrastructure and socio-economic activities that support entrepreneurship and innovative activities all year round. Secondary data were sourced from audited published financial reports and internal financial records of the quoted firms from a period of 2012-2017. Purposive sampling techniques were employed to ensure proportional representation of selected firms in the study area. The eight paint manufacturing firms were homogeneously, totally and purposively selected from the quoted paint manufacturing industry when looking at the performance of the firms over a period of time. Data collected was analyzed using Descriptive statistics while non-parametric statistical test such as regression analysis and ANOVA were used to test analyses data using Statistical Packages for Social Science (SPSS) version 20.

IV. Results and Discussion

Descriptive Analysis of entrepreneurial innovation variables in relation to sales and profit Growth.

Table 1 showed the data obtained for entrepreneurial innovation variables used in the study. For entrepreneurial innovative variables, the data extracted from the audited financial report, internal financial records and personal interaction with the firms are the numbers of new paints products/brands produced over a period of time, numbers of innovative/automated technological machines purchased, numbers of total paint depots/distribution network and new market opportunity/development areas. On the other hand, two key indicators constitute measures of the dependent variables. Return on sales and net profit margin. They were quantified in terms of percentage change from one year to another. In 2012, (47) automated and technological machines were purchased by the firms, (68) were purchased in 2013, (70) machines were bought in 2014, (75) in 2015, (80) in 2016 and while (95) in 2017. Secondary data collected showed that there was continuous increase in the numbers of innovative, automated and technology machines purchase by the firms between 2012, 2015, 2016 and 2017, with 2017 having the highest value (95) of innovative machines.

Similarly, in 2012 a total number of (85) new variety of paint products was produced by the firms, (89) in 2013, (96) in 2014, (160) in 2015, (170) in 2016 and (179) in 2017. The data collected showed that there is a steady increase in variety of paint products in the Nigeria market and that the companies engage in the development of different paint brands.

Table 4.1 also shows the two key measures of performance such as return on sales and net profit margin. Data obtained from the financial reports revealed a minimum of return on sales of (26.2%) in 2012 and a maximum of (45.5%) in 2017. This index of sales return shows that the paint manufacturing firms have a steady increase in sales over a period of years. Similarly, the profit index shows that minimum (17.1%) in 2012 and maximum (30.3%) in 2017. This implied that the profit levels of the firms increased over time due to innovative activities. Total number of (670) depots and distribution outlets were opened in 2012, (720) in 2013, (980) in 2014, (1220) in 2015, (1400) in 2016 and (1600) in 2017. This showed that the numbers of depots and distribution outlets opened increase the market coverage and competitiveness. Furthermore, data obtained from the financial reports revealed a minimum return on sales of (26.2%) in 2012 and a maximum of (45.5%) in 2017. This index of sales return shows that the paint manufacturing firms have a steady increase in sales level over a period of years. Similarly, the profit index shows that minimum (17.1%) in 2012 and maximum (30.3%) in 2017. This implied that the profit growth of the firms increased over time due to innovative activities of the firms.

<table>
<thead>
<tr>
<th>Year</th>
<th>No of new technological &amp; innovative machines</th>
<th>No of new paint products</th>
<th>No of Depots/distribution outlets</th>
<th>Return on Sales (ROS) %</th>
<th>Net profit Margin (NPM) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>47</td>
<td>85</td>
<td>670</td>
<td>26.2</td>
<td>17.1</td>
</tr>
<tr>
<td>2013</td>
<td>68</td>
<td>89</td>
<td>720</td>
<td>30.1</td>
<td>21.8</td>
</tr>
<tr>
<td>2014</td>
<td>70</td>
<td>96</td>
<td>980</td>
<td>30.4</td>
<td>20.8</td>
</tr>
<tr>
<td>2015</td>
<td>75</td>
<td>160</td>
<td>1,220</td>
<td>34.5</td>
<td>24.0</td>
</tr>
<tr>
<td>2016</td>
<td>80</td>
<td>170</td>
<td>1,400</td>
<td>40.6</td>
<td>20.7</td>
</tr>
<tr>
<td>2017</td>
<td>95</td>
<td>179</td>
<td>1,600</td>
<td>45.4</td>
<td>30.3</td>
</tr>
</tbody>
</table>

Source: Author’s compilation from Annual financial reports & internal financial records, 2012-2017.

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Regression Analyses Between Entrepreneurial Innovation Orientation and Performance

Table 2, examined the effect of Entrepreneurial Innovation Orientation on sales and profit performance proxies return on sales and profit in the paint manufacturing firms. Therefore, in order to achieve the stated objectives a regression model was constructed to test the data collected and analysed. Thus, the table showed the regression result of product innovation, technological innovation, market innovation and distribution outlets innovation. R=0.892 which is 89.2%, showing a linear positive relationship between Product innovation and performance of return on sales profit in paint manufacturing firms. The R square of .795 indicated that 79.5% variations in dependent variable (return on sales and profit) is explained by independent variables (product innovation). That is product innovation predicted 79% of dependent variables performance (return on Sales & Profit). Therefore, product innovation had a significant effect on performance of return of sales and profit in the paint manufacturing firms. Similarly, R=0.881 which is 88.1%, showing a linear positive relationship between technological innovation and performance of return on sales profit in paint manufacturing firms. The R square of .776 indicated that 77.6% variations in dependent variable (return on sales and profit) is explained by independent variables (technological innovation). That is technological innovation predicted 77% of dependent variables performance (return on Sales & Profit). Hence, technological innovation had a significant effect on performance of sales and profit. More so, R=0.778 which is 77.8%, showing a linear positive relationship between market innovation and performance of return on sales profit in paint manufacturing firms. The R square of .605 indicated that 60.5% variations in dependent variable (return on sales and profit) is explained by independent variables (market innovation). That is market innovation predicted 60% of dependent variables performance (return on Sales & Profit). Hence, market innovation had a significant effect on performance. The p= 0.000<0.05 indicated that the dependent variables of performance (return on sales and profit) was determined by independent variables (product innovation, technological innovation and market innovation). F- Values statistics of 34.400, 33.100 and 31300 showed that the overall equation is significant at p=0.000<0.05.

Table 2: Regression result on technological innovation on return of sales & profit

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R</th>
<th>Std. Error of the Estimate</th>
<th>F-Value</th>
<th>Beta</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.892*</td>
<td>.795</td>
<td>.705</td>
<td>.250</td>
<td>34.400</td>
<td>.179</td>
<td>.000*</td>
</tr>
<tr>
<td>2</td>
<td>.881*</td>
<td>.776</td>
<td>.706</td>
<td>.226</td>
<td>33.100</td>
<td>.168</td>
<td>.000*</td>
</tr>
<tr>
<td>3</td>
<td>.778*</td>
<td>.605</td>
<td>.550</td>
<td>.209</td>
<td>31.300</td>
<td>.145</td>
<td>.000*</td>
</tr>
<tr>
<td>4</td>
<td>.776*</td>
<td>.605</td>
<td>.550</td>
<td>.209</td>
<td>31.300</td>
<td>.145</td>
<td>.000*</td>
</tr>
</tbody>
</table>

Source: Author’s compilation from field survey, 2019

Table 2, examined the effect of Entrepreneurial Innovation Orientation on sales and profit performance proxies return on sales and profit in the paint manufacturing firms. Therefore, in order to achieve the stated objectives a regression model was constructed to test the data collected and analysed. Thus, the table showed the regression result of product innovation, technological innovation and market innovation. R=0.892 which is 89.2%, showing a linear positive relationship between Product innovation and performance of return on sales profit in paint manufacturing firms. The R square of .795 indicated that 79.5% variations in dependent variable (return on sales and profit) is explained by independent variables (product innovation). That is product innovation predicted 79% of dependent variables performance (return on Sales & Profit). Therefore, product innovation had a significant effect on performance of return of sales and profit in the paint manufacturing firms. Similarly, R=0.881 which is 88.1%, showing a linear positive relationship between technological innovation and performance of return on sales profit in paint manufacturing firms. The R square of .776 indicated that 77.6% variations in dependent variable (return on sales and profit) is explained by independent variables (technological innovation). That is technological innovation predicted 77% of dependent variables performance (return on Sales & Profit). Hence, technological innovation had a significant effect on performance of sales and profit. More so, R=0.778 which is 77.8%, showing a linear positive relationship between market innovation and performance of return on sales profit in paint manufacturing firms. The R square of .605 indicated that 60.5% variations in dependent variable (return on sales and profit) is explained by independent variables (market innovation). That is market innovation predicted 60% of dependent variables performance (return on Sales & Profit). Hence, market innovation had a significant effect on performance. The p= 0.000<0.05 indicated that the dependent variables of performance (return on sales and profit) was determined by independent variables (product innovation, technological innovation, distribution & market innovation). F- Values statistics of 34.400, 33.100 and 31300 respectively showed that the overall equation is significant at p=0.000<0.05.

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V. Conclusion and Recommendations

The research findings indicated that Entrepreneurial Innovation Orientation strategy exert a great influence on performance of return on sales and profit in paint manufacturing firms in Lagos state, Nigeria. This confirms that entrepreneurs have the willingness to support creativity, introduction of new innovative products and technology and same time take advantage of market opportunities. Finally, firms ability to recongise new opportunities and compete favourably with other competitors confirm an increase in sales and profit returns. It was also revealed that all the variables of entrepreneurial innovation orientation jointly and relatively contributes to performance of sales and profit return of the manufacturing firms in Lagos state. The study therefore recommended that all entrepreneurs and managers of paint manufacturing firms should adopt innovative based entrepreneurship that can bring about performance of high return of sales and profit over a period of time. Furthermore, it was also recommended that entrepreneurs should implement an entrepreneurial innovative orientation strategy in his processes, methods, practice and decision making activities of the firm with the aim of achieving overall performance. Therefore, the limitation envisaged in this study was mainly the correctness of extracted data since the data used are published financial reports, data from internal financial records of the firms and personal interaction with the Paint manufacturing firms. Any error in figures in the preparation of financial reports and internal records would affect the result of the study since this data was used in analysis. Inability of the researcher to cover a 10years period of data of data extraction of registered non-quoted paint companies in this study might affect the generality of findings. The study contributed to knowledge by considering the all variables of Innovation Orientation strategy in quoted paint manufacturing firms in Nigeria by making used of secondary data with respect to Innovation orientation strategy and performance indicators such as sales and profit covering a period of 2012-2017. Also, many empirical studies had made used of primary data through the means of questionnaire. However, the study contributed to knowledge by employing secondary data to analyze the variables with a combination of primary data.

References


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