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Innovative practices and competitive advantage among SMEs: An empirical review

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Abstract

The study investigated the influence of innovative practices on competitive advantage of SMEs in Awka Metropolis, Anambra State, Nigeria. This study is anchored on Diffusion of Innovation Theory (DOI). The study employed correlational research design. The target population of the study are registered SMEs in Awka Metropolis, Anambra State Nigeria. The population of the study which had six hundred and twenty eight (628) owners/managers of SMEs. Primary data was used and was collected using questionnaires. The research instrument was validated using face and content validities. The reliability of the items was tested using Cronbach Alpha. Data collected for this study were analysed using the linear regression analysis in order to determine the relationship between the variables. The study revealed that the association between innovative practices and competitive advantage is unequivocally positive. The study concluded that innovative practices such as technological innovation and marketing innovation are key drivers of sustainable competitive advantage. This study recommended that small and medium enterprises (SMEs) need to continuously monitor and adopt emerging technologies to stay ahead of competition and also SMEs need to harness and invest in digital marketing channels to drive innovation and reach new customers.

Keywords: Innovative Practices; Competitive Advantage; Technological Innovation; Marketing Innovation; Diffusion of Innovation Theory

1. Introduction

Globally, innovation is an important factor for organizations and crucial to firm competitiveness. The urgent need for innovation springs from the increasing competition in the business environment; amid the increasing competition and technological growth noticed in the business environment. The atmosphere for innovation fosters business competition. SMEs that adopt innovative practices have the chance to increase value propositions. Abah, et al, (2022) opine that in order for SMEs to flourish with its value creation promise, it must be supported to be innovative practices. Innovation practices represent the provision of solutions to market threats and opportunities, thus creating the basis for the survival and success of the firm into the future (Rick, et al, 2015). Several scholars (Liang, et al, 2010; Dobni, et al., 2015) mentioned that innovation practices enable a company to gain competitive advantage, establish a leadership position in the market, develop entry barriers, formulate new distribution channels and gain new customers to advance market position.

Innovation is a key success factor to the existence of a typical SME. Innovation represents an opportunity for small entrepreneurs to improve their business performance through a better market positioning (Expósito, et al., 2018). In Nigeria, there are more than 39.65 million registered SMEs in Nigeria, which account for about 87.9% of the total workforce, 46.31% of national GDP growth and 6.2% for international gross exports (National Bureau of Statistics, 2021). Despite the economic importance of SMEs, research revealed that nearly four out of every five Nigerian SMEs do not survive beyond five years of inception because of inadequacy of innovative practices. Similarly, SMEs in Nigeria

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continue to face numerous challenges making them perform below expectation (Okoli, et al., 2024). Technological deficit and absence of market leadership are among the top list. Adebisi & Amole (2017) argue that innovative practices are strategic issue as this will aid in ameliorating the internal inefficiencies, improve process and positively add value to decision-making process.

Innovation practices are critical engine and vital instruments of growth strategies that SMEs need to venture into new marketplaces, raise the existing market share and ensure that the company continues to enjoy increased profitability. An innovative strategy is essential for firm that want to gain competitive advantage. Mohapatra & Patra (2017) reiterated that to gain a competitive edge and improve performance, firms need to be innovative in their modes of operations. Srivastava, et al., (2017) study reveals a positive relationship between competitiveness of the firms and innovation competence of the firm. The innovative capability of manufacturing MSMEs has a significant positive relationship with the firm's performance (Vijayakumar & Chandrasekar, 2022). However, to adapt to changes in the dynamic environment and the changes in firms' strategies, Anugwu, et al., (2021) SMEs can build the capacity necessary to constantly change their identity or threats that could drive out the market through innovative practices.

Lack of technological innovation can lead to a loss of competitive advantage. Companies that fail to innovate can fall behind their competitors, lose market share, and become less profitable. Without innovation, companies may struggle to create new products or services that meet changing customer needs, or to improve their processes to reduce costs and increase efficiency. This can lead to a decline in customer satisfaction and loyalty, as well as lower profits and revenue. Without marketing innovation, SMEs may struggle to reach new customers or to maintain the interest of existing customers. This can lead to a decline in brand awareness and a loss of market share. SMEs that fail to adopt new marketing techniques may find it difficult to reach younger customers who are more likely to use social media or other digital channels. By adopting new marketing techniques and creating unique marketing campaigns, companies can increase brand awareness, build stronger relationships with their customers, and achieve long-term success. It is on this note that this study seeks to investigate the influence of innovative practices on competitive advantage of SMEs in Awka Metropolis, Anambra State, Nigeria.

2. Literature review and hypotheses development

2.1. Theoretical Underpinning

This study is anchored on Diffusion of Innovation Theory (DOI) by Everett Rogers (1962). Diffusion of Innovation Theory provides a framework for understanding how new ideas and technologies spread and can guide firms in strategically managing their innovation processes. By effectively targeting adopter categories, utilizing appropriate communication channels, creating supportive social systems, and addressing adoption barriers, firms can enhance their innovative practices and gain a competitive advantage. Adopting a proactive and adaptive approach to innovation not only helps in achieving market leadership but also in sustaining long-term success. Okoli, et al. (2024) posit that key factors and stages in the adoption and diffusion of innovative practices among SMEs may involve SMEs relying on various channels for information, such as industry conferences, trade associations, online forums, and networking events.

Firms that understand the Diffusion of Innovation framework can better identify which innovative practices are likely to succeed and when to adopt them. Early adoption of promising technologies or practices can set a firm apart from competitors. The theory outlines the stages from awareness to adoption, helping firms design strategies for each phase. For example, creating awareness through marketing and providing trial opportunities can facilitate adoption. Theory emphasizes the role of communication channels in spreading innovation. Firms can leverage various channels (e.g., social media, trade shows, influencer partnerships) to reach different adopter groups effectively. Being among the first to adopt and implement new innovations can establish a firm as a leader in its industry. Early adoption by firms can create barriers for competitors by establishing high standards or proprietary technologies that others find difficult to match. Innovative practices can provide unique features or improvements that differentiate a firm from its competitors. Firms that continuously adopt and adapt to innovations can respond more effectively to market changes and disruptions. The Diffusion of Innovation Theory is highly relevant to this study because it provides key insights into understanding how innovations can be adopted and leveraged to gain a competitive advantage.

2.2. Innovation

Innovation has become one of the key strategies used in firms to achieve competitive advantage and improve performance (Nur, et al, 2020). Joseph Schumpeter, was one of the early thinkers who described innovation in a firm; thus he stated that firms need to implement innovations to renew the value of their assets (Dilek, et al, 2012). In fact,

past studies have found that innovation is a valuable tool, enabling a firm to gain greater capabilities by responding and adapting to the changing environment. Thus, firms can seek new opportunities in the market and exploit the firm's capabilities to a greater extent than its competitors (Damanpour, et al, 2009; Nur, et al. 2020). Innovation refers to a firm's ability to find new and better ways to identify, acquire and execute tasks within the organization which is shown in the processes, products, services, management and administration systems, organizational structure and marketing methods (Yahya, et al, 2013).

Innovation is a major practice underpinning the survival and competitiveness of firms in a competitive globalized environment. As an essential tool for firm strategies, innovation enable firms to achieve sustained profitability and growth, to access new markets, enhance their market share hence compete effectively (Gunday, et al, 2011). To survive and win, a firm has to gain an advantage over its competitors and earn a profit. The firm gains competitive advantage by being better than their competitors at doing valuable things for their customers (Bateman and Snell, 2007). Barney (1991) argued that firms that possessed resources that were valuable and rare would attain a competitive advantage and enjoy improved performance. Firms that are able to create innovative-resource are more likely to gain competitive advantage and achieve higher performance (Zeebaree and Siron, 2017; Rosenbusch, et al, 2011). The significance of innovation and its association with competitive advantage have been severally emphasized over time (Onileowo, et al., 2021). In this study, technological innovation and marketing innovation were used as innovative practices SMEs can adopt.

2.3. Competitive Advantage

Competitive advantage is increasingly considered to be one of the key drivers of long-term success of an organization in today's competitive markets. Competitive advantage is at the heart of firm's performance in a competitive market; thus a firm's advantage grows from the value or benefits that the firm can create for its buyers (Zhang, and Zhang, 2022). Competitive advantage is a term that refers to the ability gained through attributes and relevant resources to perform at a higher level than others in the same industry or market. Competitive advantage is the capacity to outperform competitors in the same sector or market by leveraging qualities and resources (Porter, 1985). This implies that failure depends on the courage of the company to compete, it is impossible to achieve success. A business is considered to possess a competitive edge when it is adopting a unique strategy that has not been adopted by any existing or future competitor at the same time (Clulow, et al., 2003). Competitive advantage is the higher rate of attractiveness that a business provides compared to rivals in customers' eyes (Keegan, 2007).

Competitive advantage is the presentation of a firm's values to consumers so that these values outperform the price paid by the customer (DeToni and Tonchia, 2003). When the products and services presented to customers by a firm outperform its rivals, they enjoy a competitive edge and put them ahead of competitors by winning their hearts (Hosseini, et al., 2018). Porter (2004) averred that competitive advantage stems essentially from the value a business can produce for its customers that surpasses the firm's cost of production. As a result the influence of competitive advantage on performance has attracted a number of empirical studies providing evidence of a positive effect. Therefore, given the importance of competitive advantage in relation to the competitive position of the firm, a number of studies have tried to identify the main determinants and consequences of a firm's competitive advantage (Kamya, et al., 2010). Grandy & Wicks (2008) infers that competitive advantage originates from the development and deployment of knowledge that create customer value.

Potjanjaruwit (2018) posits that competitive advantage is the ability of the organization to differentiate itself from other competitors. Meanwhile, Gassmann, & Keupp (2007) argues that the strategic options of the competitive advantage for SMEs and startups are considerably flexible, concerning the fact that they depend on market demand, business environment, and internal and external factors that facilitate the establishment of competitive advantage. With that regards, entrepreneurs have to dedicate their energy, resources, business capability, and collaborative network of suppliers and intermediaries in order to create the competitive advantage in all activities of the value chain (Pavic, et al., 2007). Such factors will lead to the success of the organization in establishing a competitive advantage, which can be further utilized in devising a business strategy to achieve sustainable growth and survivability. Since the creation of competitive advantage varies with the business environment, whether in the aspects of the use of technology or inter-organizational collaboration, the ability of each organization in establishing a competitive advantage will differ (Potjanjaruwit, 2018). Such statement is indeed consistent with Zaridis (2009) who asserted that competitive advantage is a significant matter for startups, since it leads to sustainability and survivability of the business as a result of an effective management of internal and external resources.

2.4. Technological Innovation

Technological innovation is an important source of growth and a key determination of competitive advantage for many organizations. Technological innovation refers to the process by which firms master and implement the design and production of products/services that are new to the business irrespective of whether the products/services are new to their competitors or their customers or the world (Rahman, et al, 2016). This then implies that it involves the application of practical tools, equipment and techniques that make changes in the production and processes that result in novelty which adds values to customers and market (Obunike & Udu, 2018). SMEs that innovate must be equipped with technological competence from its employees, explicit customers that would require the innovated products and implicit market opportunities for the innovated products. The ability of a firm to innovate is a pre-condition for the successful utilization of innovative resources and new technologies (Musa, et al., 2021). Andrei (2019) posits that every company is concerned with innovations, both internally and externally, in its environment. Asheim (2019) established that smart specialization with a good innovation policy can help increase competitiveness, especially in less developed nations, both in Europe and the rest of the world.

Wansawa, et al., (2021) aver that technological innovation is concern with developing new thoughts, items, administrations, and procedures that will improve technology solutions has provided a better lifestyle by improving the standard of living in the area of production. Technology innovation also includes patent right, trade mark and design. Mugo & Macharia (2020) research indicates that technological innovation improves the competitive advantage of telecommunication companies in Kenya. Technological innovation is a strategy that companies use to create a competitive advantage, producing things that nobody else can, doing things better than everyone else, or introducing superior, cheaper, and faster services with advanced technology (Aziz & Samad, 2016). To gain and maintain competitive advantage, Okoli, et al. (2024) argued that SMEs must show a greater comparative and differential value than its competitors and convey that information to its desired target market. This affirmed Wansawa, et al (2021) position that more technologically innovative telecommunication firms are likely to produce better products and services and consequently able to acquire more customers earning competitive advantage compared to less innovative telecommunication firms. Several researchers have found that technological innovation have a positive influence on firm competitive advantage and performance (Aziz & Samad, 2016; Obunike & Udu, 2018; Okoli, et al. 2024; Mugo & Macharia, 2020; Wansawa, et al., 2021). The previous studies elaborations have led to the following hypothesis:

H₀₁: Technological innovation does not significantly influence competitive advantage of SMEs in Awka Metropolis, Anambra State.

2.5. Marketing Innovation

Ungerman, et al., (2018) view marketing innovation as search of creative solutions to business problems by introducing new market-based ideas, products, services or technologies while taking into account customer needs. Marketing innovation is the implementation of a new marketing method that involves significant changes in product design or packaging, product placement, product promotion or pricing (OECD, 2005). Rodriguez- Cano, et al. (2004) assert that marketing innovation aims at fulfilling market needs while responding to market opportunities. Okoli, et al. (2024) affirmed that innovations aim at increasing customers' satisfaction by meeting their needs, creating new market segments or/and improve products' positioning as to as increase sales. Hence any marketing innovation need to focus on meeting customer needs. Marketing innovations focus on better addressing customer needs, opening up new markets and positioning a firm's product in the market, with the objective of increasing the firm's sales (Sidek & Rosli, 2013; OECD, 2005). Marketing innovation can take various forms as, digital marketing, new product development, social media engagement, branding and customers experiences.

Marketing innovation is a means that an organization can use in order to gain sustainable competitive advantage (Mwangi 2017). A study by Kaleka & Morgan (2017) showed that a competitive advantage can result in an increase in marketing performance. Firms with a competitive advantage are able to compete. This is because the firm has a distinguishing characteristic that can be used to attract consumers. This, in combination with the competitive advantage, can result in an increase in the firm's marketing performance. Lemon & Verhoef (2020) affirmed that firms that invest in marketing innovation are more likely to achieve competitive advantage through customer experience. Habboush (2022) in his study on impact of the marketing innovation strategy in achieving the competitive advantage of the Saudi telecom companies found strong evidence that market innovation positively influenced financial performance. In another study, Quaye & Mensah (2018) found that marketing innovation through price and promotion can have an impact on marketing performance. Results from a study by Quareshi, et al., (2017) indicated that promotional innovations have a positive effect on marketing performance. Likewise, Deshpande et al., (2020) averred that marketing innovation can foster a culture of innovation within the organization, leading to sustainable competitive advantage. However, Sidek & Rosli (2013) in their study on the impact of innovation on the performance of Small and

Medium Manufacturing Enterprises in Malaysia, concluded that marketing innovation did not have significant effects on firm performance. Based on the elaborations of the previous studies, the following is hypothesis developed.

H₀₂: Marketing innovation does not significantly influence competitive advantage of SMEs in Awka Metropolis, Anambra State.

2.6. Conceptual Framework

The framework for this study is presented in Figure 1 below that shows the relationship between dependent variable competitive advantage and innovative practices as independent variables.

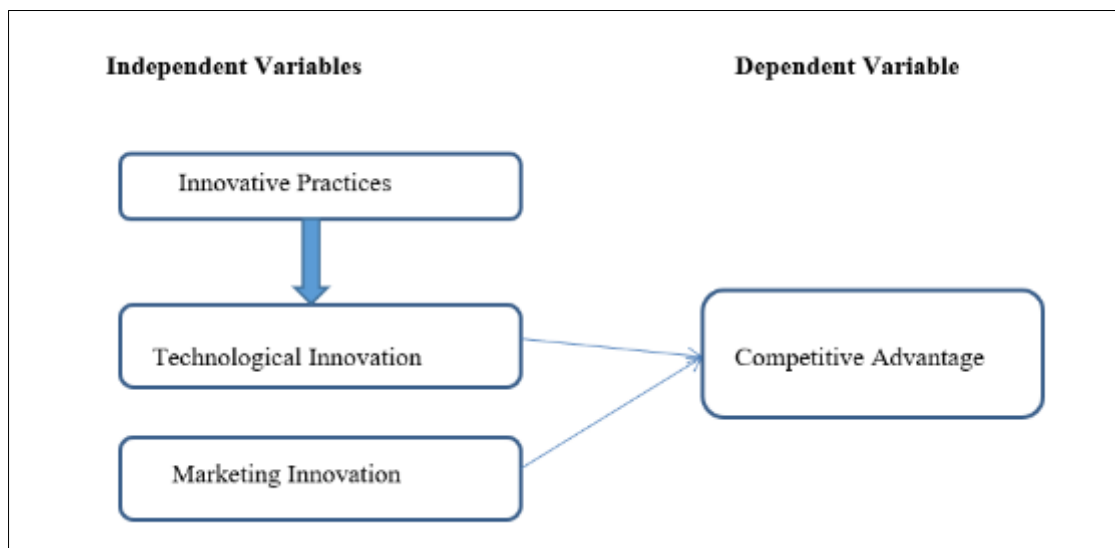


Figure 1 Conceptual Framework between Innovative practices and Competitive Advantage

3. Methods

The study employed correlational research design, because the study seeks to establish the extent to which two or more variables co-vary. The study involves determining the correlation between innovative practices and competitive advantage. The target population of the study are registered SMEs in Awka Metropolis, Anambra State Nigeria. The population of the study which has six hundred and twenty eight (628) owners/managers of SMEs gave a sample size of two hundred and thirty eight (238) as prescribed using Krejcie and Morgan sample size formula. The primary data need for this study was collected using structured questionnaire designed in the five point Likert scale (where, 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree, 1 = strongly disagree). Out of the two hundred and thirty eight (238) copies of the questionnaire distributed, one hundred and ninety (190) copies of the questionnaire were used for analysis. The respondents indicated their level of agreement for each of the questionnaire items.

The research instrument was validated using face and content validities. This was achieved through a discussion with the experts in the field regarding the contents, format employed and its general suitability to the respondents as well as their appropriateness for the purpose of the research. In order to establish the reliability, consistency and accuracy of the instrument, a pilot study was conducted. It was to ensure consistency and reliability of the test score. The pilot study was carried out on some selected SMEs. Thirty respondents (30) were randomly selected for the pilot study. The reliability of the items was tested using Cronbach Alpha. Innovative practices was loaded as a multidimensional construct during the Principal Component Analysis (PCA) for factor loading comprises technological innovation which has a Cronbach alpha of 0.832 and marketing innovation that has Cronbach alpha of 0.806. In the same vein, competitive advantage was tested using Cronbach alpha and the acceptance level indicated 0.817, this was loaded as a uni-dimensional construct during PCA. The results are adequate according to Nunnally's (1978) benchmark of 0.7. Data collected for this study were analysed using the linear regression analysis in order to determine the relationship between the variables.

4. Results and Discussion

4.1. Hypothesis One

H₀₁: Technological innovation does not significantly influence competitive advantage of SMEs in Awka Metropolis, Anambra State.

- Independent Variable = Technological Innovation
- Dependent Variable = Competitive advantage

Regression Analysis was used to test this hypothesis

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	0.783	0.625	0.048	0.52477	13.835	0.024

Dependent Variable: Competitive advantage

The model summary above shows the extent to which technological innovation influence competitive advantage of SMEs in Awka Metropolis Anambra State. The coefficient of determination ($R^2 = 0.625$, p -value < 0.05) shows that 62.5% of the variation observed in the competitive advantage of SMEs in Anambra State is accounted for by technological innovation. This result is statistically significant because the calculated F ratio of 13.835 is greater than the tabulated F ratio value of 3.00 ($F_{1,196} = 3.00$). Also, the result is statistically significant because the p -value for the result (0.024) is less than the level of significant (0.05) used for the study. Null hypothesis is rejected, while alternate hypothesis is accepted. This implies that technological innovation significantly influence competitive advantage of SMEs in Awka Metropolis, Anambra State.

4.2. Hypothesis Two

H₀₂: Marketing innovation does not significantly influence competitive advantage of SMEs in Awka Metropolis, Anambra State.

- Independent Variable = Marketing Innovation
- Dependent Variable = Competitive advantage

Regression Analysis was also used to test this hypothesis

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	0.372	0.267	0.026	0.48293	8.063	0.016

Dependent Variable: Competitive advantage

The model summary above shows the extent to which marketing innovation influences the competitive advantage of SMEs in Awka Metropolis Anambra State. The coefficient of determination ($R^2 = 0.267$, p -value < 0.05) shows that 26.7% of the variation observed in competitive advantage is accounted for by marketing innovation. This result is statistically significant because the calculated F ratio of 8.063 is greater than the tabulated F ratio value of 3.00 ($F_{1,196} = 3.00$). Also, the result is statistically significant because the p -value for the result (0.016) is less than the level of significant (0.05) used for the study. Null hypothesis is rejected, while alternate hypothesis is accepted. This implies that marketing innovation significantly influence competitive advantage of SMEs in Awka Metropolis, Anambra State.

5. Discussion of findings

The analyses show significant evidence to reject the null hypothesis and accept the alternate hypothesis that there is a significant relationship between technological innovation and competitive advantage of SMEs in Awka Metropolis, Anambra State. This finding is consistent with the previous studies of Obunike & Udu (2018); Okoli, et al. (2024); Mugo & Macharia, (2020); Wansawa, et al., (2021) who conclude a statistically significant positive association between

technological innovation and competitive advantage. The study affirmed that technologically innovative firms are likely to produce better products and services and able to acquire more customers earning competitive advantage compared to less technologically innovative firms.

The analyses of hypothesis two depict significant evidence to reject the null hypothesis and accept the alternate hypothesis that there is a significant relationship between marketing innovation and competitive advantage of SMEs in Awka Metropolis, Anambra State. This finding also confirms the previous findings of Lemon & Verhoef (2020) who concluded that firms that invest in marketing innovation are more likely to achieve competitive advantage through customer experience. This is also in line with Deshpande, et al. (2020) averred that marketing innovation can foster a culture of innovation within the organization, leading to sustainable competitive advantage.

6. Conclusion

The relationship between innovative practices and competitive advantage is unequivocally positive. Innovative practices such as technological innovation and marketing innovation are key driver of sustainable competitive advantage. By embracing innovation, SMEs can differentiate themselves, improve customer experiences, and stay ahead of competitors. Research has shown that innovative practices lead to increased market share, revenue growth and improved firm performance. In today's fast-paced digital landscape, innovative practices are more crucial than ever. They enable firms to adapt to changing market conditions, leverage new technologies and capitalize on emerging opportunities.

Sequel to the findings and conclusion, the study recommended that:

- SMEs need to continuously monitor and adopt emerging technologies to stay ahead of competition. This can be achieved by leveraging on technologies like artificial intelligence, block-chain and also collaborating with technology partners.
- SMEs need to harness and invest in digital marketing channels to drive innovation and reach new customers. Leveraging on data analytics is key to achieving this insights.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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