

Creativity, Innovation, Small and Medium Scale Enterprises Performance: A Proposed Mediating Framework in North East Nigeria

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ABSTRACT

Creativity and innovation served as a mechanism for actualizing and achieving the goal of any business. It plays a positive impact toward improving SMEs performance. This study objective is to propose a framework for examining the mediating effect of creativity between innovation and SMEs performance in North East Nigeria. Small and medium scale enterprises are essential to economic development as they help boost the economic activities and employment opportunities in every country. SMES significantly contribute to the growth and expansion of the worldwide economies, most importantly the developing nations. SME performance will be the dependent variable, while the innovation will serve as the independent variable of the study. It is suggested that empirical research be conducted on the relationship between the study variables across multiple states and region of Nigeria.

Key words: Creativity, innovation, small and medium enterprises performance.

INTRODUCTION

Globally, small and medium-sized businesses make up a significant portion of all nations' economies most especially the Asia and the African countries. Even while there are some similarities, it's important to note that any nation, along with the companies and industries that operate there, may have a distinct definition of a SME (Games, Hidayat, Fhardilha, Fernando & Sari, 2022). Business operators need to be aware of changes in surrounding civilizations since it affects managerial decision making (Rawlings, Flynn, & Kendal, 2022). Innovation is essential to long-term seriousness and commitments to additional advances in terms of private area performance and financial growth, strengthening the creative viewpoints and knowledge on SMEs hence delivers important open doors (Issau, Acquah, Gnankob & Hamidu, 2021).

To succeed in this our dynamic and competitive business environment driven by technological changes and uncertain economy, countries must be able to facilitate the spring up of many small-scale businesses (Astadi, Kristina, Retno, Yahya, & Agni Alam, 2022). Innovation is fueled by creativity, which in turn bolsters and modifies the SMEs performance. However, previous research failed to sufficiently analyze the contribution of innovation culture and creativity on SMEs performance (Abbas, Khan & Din, 2020). To change such a culture, businesses must establish a structure of rewards and sanctions as well as an ethical code outlining acceptable behavior to allow for innovation and creativity to facilitate the growth of more SMEs in the country with superior quality product and services that will compete even in the international marketing landscape. Majority of private sector businesses that are owned and operated by individuals greatly boost the nation's economy with employment opportunities (Fabrizio et al., 2021), improved standard of living and sources of revenue generation to the government (Jeong & Chung, 2022).

The contemporary business world requires individuals with creative and enterprising minds to bridge the gap between success and failure by applying resourcefulness to help satisfy the customer's tastes, preferences and expectations (Andjarwati, Barata, Latif & Setiono, 2021). Practically, in Nigeria report by SMEDAN (2023) shows, unfavourable economic conditions, limited capital availability and subpar business practices impede the expansion and metamorphosis of micro-businesses, resulting in eighty 80 percent of SMEs failing before their fifth anniversary. The National Bureau of Statistics, (2021) also report that more than 50 percent of small startups businesses fails within the first five years, while over 20 percent fail in their first year making SMEs a priority for government and practitioners to pay attention to salvage the situation. Theoretically, previous studies have investigated the direct link between innovation and SMEs performance using different contexts and their results showed a consistent positive relationship. Specifically, Ojenike (2024); Rawlings, Flynn and Kendal, 2022; Romanelli and Ferrara (2022); Koffi, Hongbo and Zaineldeen (2021); Song, Wang, and Zhang (2020); Nasiru and Malomo (2020); Baita and Adhama (2020) investigated on innovation and SMEs performance and have reported consistent significant positive relationship among the variables. Agler and Boeck (2017); Baron and Kenny 1986 explained that a mediation variable can be employed to testing possible causal relationships between the variables. This study proposed a mediating framework of creativity in the relationship between innovation and SMEs performance in North east Nigeria.

LITERATURE REVIEW

Concept of Innovation

Innovation is very essential in helping businesses to grow further by fostering ability and implementing creative adjustments (Baharun et al., 2019). The primary purpose of innovation is to achieve goals by accelerating processes and incorporating innovation into production circles. Kochetkov (2023) explained innovation as the application of particular acts in society through behavioural changes which encompassed behavioural economics, sociology, and psychology. Kogabayev, (2017) considered innovation as the creation of a new idea and its application into a new product, process, or service, resulting in the creation of pure profit for the innovative business enterprise as well as the dynamic growth of the national economy and the increase of employment. Okpara (2007) defined innovation as the process of implementing the finest ideas. This process begins with a creative idea that sets off a chain reaction of creative events.

Consistently, Joseph Schumpeter is regarded as the father of innovation theory who combined the innovation process with entrepreneurship, he was able to create economic growth by actively altering the market and manufacturing processes (Vanderburg, 2005). Khan et al., (2022) explained that the combined ability to work on both current and new innovations that arise from various internal and external resources is referred to as innovation capacity. According to Kochetkov (2023), innovation encompasses institutional, social, and humanitarian aspects in addition to the creation of new products and the monetization of inventions. When new items are accepted by consumers, their behaviours and perspectives shift. It is thought to increase a business overall capacity to initiate and maintain awareness of mechanical change when applied to goods, processes, hierarchy and marketing innovations, either separately or in combination (Issau et al., 2021). For the purpose of this study innovation is considered as a crucial element of seriousness that encompasses new or enhanced products, alternative marketing tactics, and new hierarchical behaviour in strategic plans.

Small and Medium Scale Enterprises

Economies around the world depends heavily on small and medium-sized businesses, which create jobs, fight poverty and boost country's GDP. According to PwC's MSME Survey 2024, Micro, Small, and Medium-Sized Enterprises (MSMEs) play a significant role in fostering the development of technical and entrepreneurial skills. Globally 90% of all companies are small scale businesses and they account for 50% of jobs (NBS, 2023). According to Statista (2023) there were approximately 358 million small and medium-sized enterprises (SMEs) worldwide in 2023. As at December, 2017 the number of SMEs stood at 41,543,028, including 41,469,947 (or 99.8 percent) micro enterprises, small and medium enterprises - SMEs: 73,081 (or 0.2 percent). However, the NBS reports that as of 2020, there were 39,654,385 MSMEs overall, with micro businesses accounting for 96.9% and SMEs for 3.1%. In 2022, the international labor Organization (ILO) disclosed that--

MSMEs contribute 48% to Nigeria's GDP.

Berisha and Pula (2015) explained that there is no unique, universally accepted definition for small and medium enterprises. There is neither agreement nor a propensity for approximation in respect of definitions, even among international organizations. But the Bank of Industry (2023) considered small businesses as one having assets between NGN 5 and NGN 50 million and employs 10 to 49 people. The new classification of the MSMEs in Nigeria as laid out in the revised National Micro, Small and Medium Scale Enterprise Policy (2021-2025) is that any business with 1-2 employees and has turnover of 3 million is called nano/homestead enterprises, Businesses with 3-9 employees and is having 3-25 million naira turn over are classified as Micro enterprises. Any business with staff strength of 10-49 employees and turn over investment of 25 million but less than 100 million naira are classified as small enterprises. Businesses with employees between 50-199 and have a turn over investment of 100 million but less than 1 billion is classified as medium scale enterprises. For the purpose of this study SMEs are considered as those businesses with fewer number of employees and capital based of less than one billion naira,

Concept of Creativity

Creative thinking is a practical skill that helps people and businesses to accomplish better results. Creativity involves breaking down and restructuring our knowledge about a subject in order to gain new insights (Ibeh, Ibeh & Kaine, 2023). One way to characterize creativity is as a social phenomenon that is both encouraged and impeded by many social variables. One significant social context is the workplace, where an individual's relationship with the surroundings influences their ability to innovate (Cropley, 2020). With an emphasis on the individual, creativity is described as a mental process, a personality constellation, and a combination of motivation, personal qualities, and thought processes. The notion of creativity is becoming more closely linked to adaptability, resilience, and innovation. Alshaar (2023) explained creativity as the ability to come up with original and valuable ideas, which is critical in identifying new opportunities and developing innovative solutions to problems. It is also regarded as the capacity to create something new, be it an innovative approach to a problem, a novel tool or technique, or a novel work of art (Kochetkov, 2023). This study define creativity as a process of thinking outside the box to make a unique move and outstanding difference in terms of ideas and value offerings.

Innovation, Creativity and SMEs Performance

Innovation plays a crucial role for the continued success and enhanced performance of Small and medium-scale enterprises (Khan, et'al., 2023). Hund, et'al. (2021) explained that, Innovation involves progression and application of new concepts, with the aim of generating fresh solutions or enhancing pre-existing ones. It has the potential to significantly contribute to economic growth, as well as enhance efficiency and competitiveness for both countries and organisations (Makere, 2018; Mohamed, et'al, 2022). Innovative staff behavior can improve output, give a company a competitive advantage, and help it defeat competitors (Bibi et al., 2020). The need for creativity and innovation is becoming more and more critical for SMEs to survive and prosper (Mathushan, 2019). Businesses that leverage on their creativity and innovative capabilities can improve their performance and achieve long-term success (Ibeh, et'al., 2023). Recently, Nigeria is ranked 109th out of 132 countries in the Global Innovation Index 2023, indicating a lack of progress in the country's capacity for innovation (Cañezo, 2022). Therefore, it is necessary to examine innovation skills in the context of Nigerian SMEs and their consequent effect on the performance of SMEs, particularly in Adamawa State.

Waziri, et'al. (2023) investigated the influence of innovation on the SMEs performance: evidence from Yobe State, Nigeria. The study employed the use of a cross-sectional survey method as the primary research design with a sample of 183 SMEs operating in Yobe State. It was found out that innovation is associated with the performance of SMEs in Yobe State, Nigeria. However, this study centered around 183 SMEs which the findings cannot be generalized across the 39,654,385 SMEs in Nigeria as more studies are required. Additionally, this study only focuses on Yobe state alone, while Nigeria has 36 states which further create a tendency of generalization problems. Le et'al. (2023) conducted research among 2,500 firms in nine provinces/cities in Vietnam on innovation and SMEs performance: evidence from Vietnam using a survey research design. The study regression result shows that SMEs with innovation tend to perform better than

SMEs without innovation. They study only analyzes short term effects of innovation on firm performance, while some innovation activities may take time to manifest their effects. Therefore, studies on the effects of innovation in a longer term may be required. The study only covers Vietnam perspectives studies are needed to extend the findings to other countries.

In Yobe State, Nigeria, Zannah et al. (2021) looked into how innovation affected the expansion of small and medium-sized businesses. A structured questionnaire was employed to collect the data, and a random selection technique was also used to poll the 150 respondents. The results indicate a strong correlation between small and medium scale businesses and innovation. This examined only SMEs in Yobe state alone and Nigeria has 36 states which posed generalizability problem as such more studies may be needed in other States of the federation. Gunawan, et'al. (2022) investigated on the influence of creativity and innovation on small and medium enterprises' (SMEs) performance during the COVID-19 pandemic: A systematic review. It was found out that the current literature on creativity and innovation positively influenced SMEs' performance during the COVID-19 pandemic. This further indicated the consistencies in the findings of the previous studies that facilitates for the need of mediation research to explain why.

THEORETICAL FRAMEWORK

One of the best things you can do to assist SMEs flourish in the ever-changing business climate is to support managers and staff in developing creative and innovative thinking.

Disruptive Innovation Theory

The disruptive innovation theory by Clayton Christensen (1990) emphasized that disruptive innovation occurred either at the bottom of a market that already exists and displaces the leading products or at creating a new market and value network. When established companies are so preoccupied with meeting the demands of their most lucrative clientele that they misunderstand or ignore the needs of other clientele groups, disruptive innovation happens. At this point, a new business starts up (SMEs) can enter the market with their innovated products driven by creativity and take care of the clients that the previous ones had neglected and doing such will leads to improved SMEs performance. Perhaps the most important takeaway from the disruptive innovation theory is to acknowledge that the corporate world is a dynamic and ever-evolving environment. Without the upkeep of an inventive attitude, and creativity a company's success cannot be guaranteed to be self-sustaining, regardless of its size or dominance. Inline with the tenet of this theory and the direction of the present study, the disruptive innovation theory will serve as the theoretical framework for the current study.

Financial Innovation theory

Financial innovation theory postulated by Drucker (1947) promotes risk sharing, lowers agent costs, fills the market, and eventually increases economic growth and allocative efficiency. This theory concentrates on the development of novel financial features and products, the optimization of financial risk, and the application of technology to risk management and financial modelling. They also highlight the relationship between financial innovation and economic growth, globalization, and the regulatory environment which all theses have a significant effect on the SMEs performance.

Proposed Model of the Study

This study proposed the linkages between innovation, creativity and SMEs performance in Adamawa state. Specifically, the model will test Innovation as the independent variable of the study which will influence positive or otherwise the SMEs performance as the dependent variable of the study. This direction relationship was examined by previous studies by Ibeh, et'al. (2023); Alshaar (2023); Khan, et'al., (2023); Ojenike (2024); Rawlings et'al. (2022); Romanelli, et'al., (2022); Koffi, Hongbo et'al. (2021) and Song, et'al. (2020) and consistent positive relationship were reported. The current study will deploy creativity variable as its novelty in the relationship between the predictor variable and the endogenous variable. The creativity variable will serve as the mediating variable to explain the consistent findings in the previous researches reg---

arding innovation and SMEs performance. The model can be seen below:

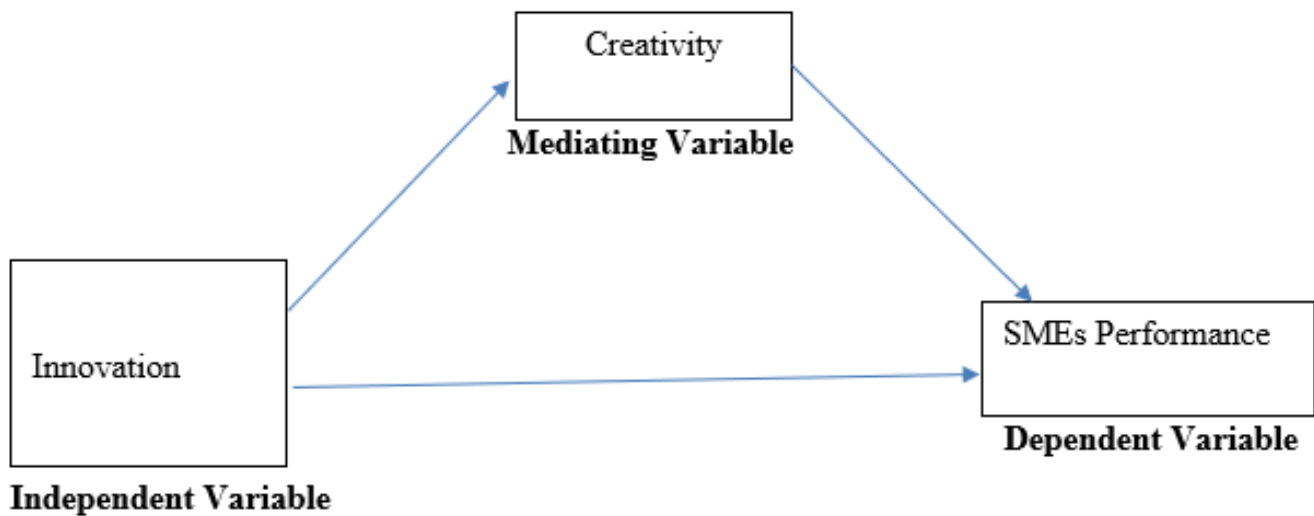


Figure 1.1: Proposed Model of the Study

METHODOLOGY

This study will adopt the use of explanatory survey research design with post positivist philosophy because it will be quantitative and qualitative in nature (mixed method). A cluster sampling method will be adopted because most of the SMEs in North Eastern states are located within clusters especially the furniture making businesses and food vending businesses. The sample size will be determined using Slovin's Formula for determining the sample size for survey research. A questionnaire with Likert scale will be employed and PLS SEM will be used in analyzing the study data with the help of SmartPls 4.

CONCLUSION

Innovation and creativity are pivotal drivers of performance in small and medium scale enterprises (SMEs). The ability to develop new products, services, or processes not only enhances competitiveness but also fosters adaptability in an ever-changing market landscape. SMEs that embrace innovation tend to experience improved efficiency, customer satisfaction, and overall growth. Moreover, fostering a creative culture within the organization encourages problem-solving and can lead to unique value propositions that distinguish SMEs from their competitors. This study will extend the theoretical proposition by using Disruptive Innovation Theory in understanding the relationships between the study variables. It is recommended that empirical research be conducted to unravel the relationship between the study variables of innovation, creativity and SMEs performance in Adamawa state Nigeria.

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