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## Toward Effective Innovation Strategy in Small and Medium Enterprises in African Developing Economies: The Role of Top Management Capability

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### Abstract

Globally, Business firms have recognized that to live and sustain competitive position in today's rapidly changing environment, it is indispensable to efficiently innovate. Nevertheless, the strategy adopted to innovate is what creates the difference between the winners and the losers in this competitive environment. The aim of this paper is to review and develop a conceptual framework that enhances innovation strategy for SMEs firms in developing countries of Africa. Due to the current pace of liberalization and globalization of trades, SMEs in developing economies of Africa needs to effectively advance, realign and standardize their strategies for continual innovations. It is therefore essential for SMEs firms in developing countries of Africa to think and act beyond their comfort area of operations in terms their innovation strategies to enhance their competitive position. This requires SMEs top managers to develop high managerial capability that reinforce in individual employee, groups and departments rules and values to effectively utilize, execute and carryout various business processes such as innovation, service quality and customer responsiveness. The paper concludes that competent management capability is essential to fashion effective innovation strategy that would makes SMEs in developing economies of Africa to compete favorably both at local and global fronts. If empirically validated would provide significant contributions to body existing literature and serve as valuable guides to managers and policies makers.

**Keywords:** Innovation Strategy, Management Capability, Small and Medium Enterprises

## Introduction

Small and Medium Enterprises (SMEs) play a perpetual role in economic growth and development of most economies at various level (Al-Ansari, Bederr, and Chen, 2015, Eniola and Entebang, 2015). SMEs served as an essential instrument in the process of economic and industrial development of both developed and developing countries (Atsu and Cornelius, 2014, Gathogo and Ragui, 2014). It help improves per capita income, provide employment opportunities and encourage efficient utilization of local resources which is considered crucial to the growth of an economic (Kofan Mata and Shehu, 2014). Thus in Nigeria SMEs sector forms a vibrant part of economy and provide solution to some of the socio-economic problems (Eniola, 2014, SMEDAN, 2012). However, the performance of SMEs in developing countries like Nigeria is not impressive, mainly due to low level of innovativeness and ineffective strategic capabilities (Salisu and Abu Bakar, 2018, Salisu, Abu Bakar, and Abdul Rani, 2017, Shamsudeen, Keat, & Hassan, 2016). Nevertheless, Porter (1980), demonstrated that one of the strategic alternatives for firms to achieve sustainable superior performance is differentiation or innovation (Pisano, 2015, Dess, 1984). The advantage of this differential strategy is to offer and sustain unique value for customers ahead of competitors (Rosli and Sidek, 2013). Firm's distinctive product tries to fascinate customer interest with image, service and even production process (Acar and Acar, 2012). In essence, innovation is the key driver to the improves firm's productivity and growth and allows firms to generate more with less increasing economic value with fewer resources (Productivity Commission, 2015).

Obviously, for SMEs to withstand competitiveness and realize superior performance they need to cultivate and systematize their innovation strategy (Srivastava, 2015). However, innovation strategy has been identified as the major challenges constraint the performance of SMEs (Abu Bakar and Ahmad, 2012). Nevertheless management capability has been demonstrated as an indispensable SMEs firm's capability that influences the successful development and deployment of operational capabilities and strategies (Barbero, Casillas, and Feldman, 2011). Several studies have demonstrated the influence of firm's management capabilities on strategies and overall performance (Pufal et al., 2015, Barbero, Casillas, and Feldman, 2011, Adner and Helfat, 2003). Despite the developments in the assessment of the effect of management capabilities on firm's strategies and performance, however a dearth of knowledge exists on the influence of top management capability on SMEs innovation strategy.

Due to the facts that business and trade boundaries have been liberalized globally, SMEs firms in developing countries of Africa need to think and act beyond their comfort area of operations in terms their innovation strategies to enhance their competitive position. Srivastava, (2015) postulates that for SMEs in developing countries to craft effective strategies, they need to learn and fail, be patient, invest in research and development and collaborates to acquires the required resources and skills. To achieve this however, requires competent and committed management support. Top management capability supports SMEs firms to proficiently design internal structure and operational strategies to facilitate adjustment and response to environmental demands to enhance competitive position (Garcés-Galdeano, García-Olaverri, and Emilio, 2016).

Capable top managers normally possess generic capabilities in organizing, collaborations and team building (Mintzberg, 2009). Teece, (2007) uphold that these generic capabilities includes all entrepreneurial skills like sensing new opportunities, alertness, development of business strategies

and gathering and interpreting information. This paper therefore, wants to put forward a research agenda that developing countries particularly for Africa can adopt to move from local to global operation with full competitive advantage. Specifically, the paper reviews the innovation strategy and management capability and demonstrates their importance to the survival and improvement of SMEs performance in developing countries of Africa.

### **Innovation Strategy**

*Business firms are fast appreciating that to survive and maintain competitive position in today's ever-changing operating environment, it is necessary to efficiently innovate. Consequently, the strategy adopted is what creates the difference between the winners and the losers in this competitive environment (Kaliappen and Hilman, 2017). Innovation is crucial for sustainable growth and development for individual, firms, public institutions and societies. Innovation strategy is a plan of action that increases firm's competitive advantage by reducing production cost and price, improve product quality; enhance effectiveness and efficiency in product and service delivery (Kaliappen and Hilman, 2017). Innovative firms are successful in changing operating environments through development of business strategies and operational capabilities which allows the attainment of better performance and competitive advantage (Ndubisi, Capel, and Ndubisi, 2015, Hilman and Kaliappen, 2015). Lehtimäki, (1991) demonstrated that SMEs are very active and try to be pioneers in development of new product and utilization of innovations. Evidently, for SMEs firms to sustain competitiveness and achieve superior performance they need to develop and standardize their innovation strategy (Srivastava, 2015).*

Therefore, through effective innovation strategy SMEs firms provides solution to the challenges of changing technology, skill and satisfactory price level for the customer (Lattuch, Pech, Riemenschneider, and Weigert, 2013). Thus, innovation strategy has been considered as an essential facilitator for firm's value creation in almost every sector (Dobni, Klassen, and Nelson, 2015). Dobni, Klassen, and Nelson, (2015) emphasizes that SMEs that put innovation as crucial strategy on its corporate agenda achieve distinctive superior performance. However, Griffiths and Kickul (2008) acknowledged that even though there would be no innovation policy that is "one size fits all" type of firms, however, there exist certain procedures that encourage and support the attainment of successful innovation process. The effectiveness of these procedures generally is specific based on the institutional and environmental perspective which comprises; a mixture of the cultural, political, legal and economic factors that encourage entrepreneurial innovative behavior in an economy.

Innovation has been observed to be a robust competitive strategy for SMEs particularly in this environment that is filled by competition and high growing demand for superior quality product, rapid response time and reliable deliveries (Abereijo, Adegbite, Ilori, Adeniyi and Aderemi, 2009). Therefore, this rapid changes in knowledge, consumers preferences, and market condition means that the success and survival of organization today depends on its innovative strategies (Yusr, 2016 and Iddris, 2016). According to Ferraresi, Quandt, Santos and Frega (2012) innovation mean the practice of transforming idea into economic value through application of new or improved process. This process involves a range of marketing, organizational, technological and financial undertakings to attain its potential; hence, innovativeness describes the enthusiasm and disposition of organization behavior, activities and strategies to achieve the desired innovation outcomes

(Namusonge, Muturi and Olaniran, 2016). This concurred with Schumpeterian innovation theory, where new product, developing new process of R&D, new methods of production, new systems as well as new procedures of firm's innovativeness (Nguyen, 2005, Namusonge et al., 2016).

Lawson and Samson (2001) designate innovation to mean the firm's activities that transform ideas and knowledge into valuable products and effective processes to satisfy the needs of all stakeholders. Thus, innovation play a substantial role in the achievement of superior performance (AbdulHamid and Tasmin, 2013). Furthermore, innovation enhances organization's product performance in terms of better quality, speed and cost efficiencies (Abu Bakar and Ahmad, 2012). Therefore, organization try to improve their innovation approaches in order to enhance output target, profit and better performance (Bukhamsin, 2015). Innovation plays a strategic role in organization's efforts to achieve market competitive advantages and better performance (Aini, Chen, Musadieq and Handayani, 2013).

Therefore innovation strategy firms expedites the process of responding to the market changes which in turn improve competitive advantage (Auken, Madrid-Guijarro and Garcia-Pérez-de-Lema, 2008). It also determine the organization's future success (Assink, 2006), and serve as the paramount strategy for accomplishing constant product and process innovation (Nijhof, Krabbendam, and Looise, 2002), thus enables organization achieve high profit and growth (Buergin, 2006). Innovation strategy influences organization's performance through improve ability to develop better product and process than the competitor (Jiménez-Jiménez and Sanz-Valle, 2011), hence without innovation, organization failure is inevitable (Hamel, 2002).

SMEs managers use innovation strategy to exploit opportunity, gather resources, develop technical capabilities that facilitate the introduction of new products, and processes (Oluwajoba, Oluwagbemiga, Taiwo, Kehinde, and Akinade, 2007). Thus Egbetokun, Siyanbola, and Adeniyi, (2010) explored the types of innovation SMEs in developing economies engage upon, and resolved that SMEs normally pursue innovations that best suit their strategies and resources. However, innovation strategy takes many forms (Bessant and Tidd, 2007). A wider framework categorizes innovation strategy into four important areas: process, product, firm, and marketing innovations distinctively from that of product and process innovations classification by OECD (OECD/Eurostat, 2005).

Damanpour and Gopalakrishnan, (2001), categorized innovation strategy into administrative and technical innovation, where the later cover new process and products; the former comprise of new procedure, policies and structure. While Ndubisi, Capel, and Ndubisi, (2015) described innovation strategy to consist of process, product and administrative innovation. Equally, Nybakk and Jenssen, (2012) designate innovation strategy as consisting business system, processes, products and the amount of investment in R&D. Therefore, due to the peculiar nature of the environment and the economic challenges facing SMEs in developing countries of Africa, this study adopts the process, product and administrative innovation strategy of (Ndubisi, Capel, and Ndubisi, 2015).

Product innovation strategy entails substantial strategic transformation in goods or services. Product innovation strategy is very strategic activities that can enable SMEs firms achieve and sustain superior competitive advantage (Paladino, 2007). Through product innovation strategy, SMEs firms can facilitate the process of developing new product, production of qualitative product, effective delivery time and exploring new market and enable effective responses to the demands of the competitive environment. Product innovation strategy involves technical design, R&D, management and



commercial activities in marketing new product (Alegre and Chiva, 2009). Hence, operational product innovation strategy supports firms in achieving; maintaining and expanding their product market to attain sustainable successful delivery. Moreover product innovation strategy helps firms achieve a sustainable success in the frequently changing consumer preference, highly competitive market and technological changes (Shan and Jolly, 2013).

Process innovation strategy takes into consideration the modifications in firm's method of production. It includes any activities that modify the technique to get the work done, the scheme of activities and the execution process of creating and providing new product (Oke, Burke, and Myers, 2007). Therefore, process innovations strategy demonstrates significant changes in production and delivery techniques of a firm (Ajayi and Morton, 2015). Furthermore, Yu, Nguyen, and Chen, (2016) asserts that firm's process innovation strategy facilitates reengineering the operating procedure, thus involves the advancement of the firm's internal operations and capacities. Hence process innovation strategy play an important role in refining the productivity of the firms particularly under the condition of uncertainty (Cohen and Levinthal, 1990).

Due to the Recognition of innovation as an inevitable strategy for achieving sustainable competitiveness in a rapidly changing environment, business firms have nowadays shifted from competing in innovation for market pioneering to innovation for superior competitive advantage (Lin and Chen, 2007). This development emphasizes the importance of administrative innovation strategy to enhance firm's performance and competitive position. Administrative innovation strategy support changes in firm's structural and administrative processes that are ultimately relate to the firm's fundamental activities (Carmen and José, 2008). Administrative innovation strategy involves the modifications of the way firm undertake its tasks such as staffing, reward system, resource allocation, authority and structures. Thus, administrative innovation strategy allow firms implements new methods and procedures for efficient execution of tasks and enhances the firm's relationship with external environment which in turn improve firm's value (Camisón and Villar-López, 2012).

### ***Top Management Capability***

A business firm is an embodiment transforming internal and external activities and resources into a set of technological product and process (Paulo Antônio Zawislak, Alves, Tello-Gamarra, Barbieux, and Reichert, 2012). Thus top management in modern business firms spend much of their time on strategic activities and decision concerning business operations (Lindström, Samuelsson, and Hägerfors, 2010), and strategies implementation (Wasike, Ambula, and Kariuki, 2016). Sorooshian, Norzima, Yusof, and Rosnah, (2010) maintained that the development and implementation of strategies are essential part of strategic management process, thus top management in a firm are considered as a crucial strategist, innovators, organizers and motivators throughout the strategy implementation process. Consequently managerial capability is essential in all firm's operational and growth strategies (Barbero et al., 2011).

Management capability is an essential factor in determining firm's success (Garcés-Galdeano et al., 2016). It is an indispensable firm's capability that helps to develop formidable procedure, capabilities and routines that influence the implementation of operational and innovative strategies (Kor and Mesko, 2013). Hence top management capability demonstrates the manager's ability to transform technological outcome into processes and operational undertakings (Paulo Antônio Zawislak et al.,

2012). Porter and Ketels (2003) established that in today's business environment, a competitive agenda before top managers in private and public sectors of the UK is the challenges of moving from competing for low operational cost to competing for innovation and unique value (Leseure, Bauer, and Birdi, 2004).

Nevertheless, competent top management through creativity and talent management fashion organization that encourage people creativity to accomplish objectives. Top management capability is a critical forces in guiding strategic decisions that direct and influence organizational values (Finkelstein, 1992), which in turn influence performance (Kraus and Ferrell, 2016). Consequently, for a firm to effectively and efficiently achieve its goals, it must find its coordinating capability rightly balance with activities (Pufal, Zawislak, Alves and Tello-Gamarra, 2014).

*Top management normally possesses the capability of putting adequate efforts into market analysis and customer relations to ensure that innovation and firm activities are supported at all levels (Ahmed, 1998), identify new ways of efficiency and stability whenever the firm wants to make use of new knowledge as a technique to deal with changes (Pufal et al., 2014). Management capability helps managers effectively ascertains, source and integrates both organizational human and material resources (Paulo Antônio Zawislak et al., 2012). Thus, competent management capability help increases firm's capacity to attain efficient levels of resource deployment. Furthermore, competent management ensure and connect the physical movement of organizational products with its general strategic content (Sandberg, 2007). Generally, top management capability helps firm conserves a smooth production and communication processes to attain greater level of efficiency (Paulo Antônio Zawislak et al., 2012).*

The scope of top management capability is more than routine planning and controlling, it also crucial in handling instability and changes which facilitate the development and implementation of effective innovation process (Pufal, et al., 2014). Top level management plays a dynamic role in achieving a successful and sustainable competitive advantage (Helfat and Martin, 2015, Sandberg, 2007). It is an essential resource which enable firms improve the quality of product, enhance productivity and sustain competitiveness. Therefore, SMEs must consider such a capability as an important driver of productivity improvement at sectorial and national level. Leseure, Bauer, and Birdi, (2004) postulated that Porter and Ketels (2003) identifies lack of competent management practice as the critical factor responsible for low productivity of UK SMEs.

Competent top managers normally possess generic capabilities in organizing, collaborations and team building. Teece, (2007) maintained that these generic capabilities includes all entrepreneurial skills like sensing new opportunities, alertness, development of business models and gathering and interpreting information. The generic capabilities are essential dynamic capabilities for sustaining firm's competitive position (Helfat, 2007). Lazonick and Prencipe (2005) postulated that, firm's capabilities are determined by top management craft of managing developed overtime together with the manager's inherent cognitive, creative and analytical abilities. In the quest for effective and efficient innovation process, top management in a firm deals with what is termed 'Schumpeterian Paradox' that is, the organized firm paradox which aims to cope with changes and stability (Pufal, et al., 2014).

Management capability is the manager's ability that helps firms to identify, source, integrate, coordinate and deploy the bundle of resources to meet customer's requirements (Lahiri, Kedia, and

Mukherjee, 2012). Top management capability ensures that new strategy for achieving stability and efficiency were established whenever the firm wants to internalize new knowledge and technology (Pufal, et al., 2014). Thus top managers in business firms are always in search for new techniques for improving organizational innovative strategy. Top management defines how best SMEs firms develop its strategy, deploy resources; define goals and expected changes through effective planning and control (Pufal, et al., 2014). Top management capability support the integration of strategies relates to logistics, financial, cost control, forecast revenue and profitability, human resource and marketing activities (DeSarbo, Fong, Llechty, and Coupland, 2005).

Effective management capability enables SMEs firms to efficiently design internal structure and operational strategies to facilitate adjustment and response to environmental demands so as to achieve better performance (Garcés-Galdeano et al., 2016). Consequently, it is considered as crucial function for perpetual productivity, profitability and growth, however achieving these objectives is only possible with efficient innovation strategy (Pufal, et al., 2014). Therefore, the function of management capability is to support other capabilities and strategies to work smoothly (Hayton, 2015, Zawislak, et al., 2012).

Top managers with high managerial capability reinforce on individual employee, groups and departments norms and values they acquired over time (Lahiri et al., 2012). This reinforcement lead to the development of path-dependent routines that SMEs may utilize to effectively execute various strategies to effectively accomplish business processes. Consequently, effective management capability allows SMEs firms to inculcate in employees and among various group strong culture of efficiency in innovativeness, service quality and customer responsiveness (Lahiri and Kedia, 2009).

### ***Top Management Capability and Innovation Strategy***

*Developing effective innovation strategy involves the harmonization and integration of all the effort of stakeholders and activities of various specialize functional units, knowledge and application domains. This vital function exclusively rest on the capability of the top level management who are in charge of the formulation of strategies and policies. Consequently, the role of SMEs top management is fundamental in firm's innovation strategy and talent management that promote utilization of employee creativity to achieve objective (Farrokhian and Soleimani, 2015). Top management capability play a significant role in searching and exploitation of opportunities and decision making that affect innovation which in turn add value to the firm's businesses operation (Elenkov and Manev, 2005).*



Top management in a firm play a significance role in the development of new ideas for product innovations (Lehtimaki, 1991). Therefore top management capability can compassionately support and inspires SMEs firm internal knowledge sharing which influences employee's willingness to acquire, donate and share knowledge with colleagues. This can be achieve when management recognizes that participatory decision making develop a sense of belonging among employee which resulted in absolute commitment to the realization of firm's objective and strategies (Lin, 2007). Equally, the ability of SMEs firm top management to allocate financial, human and material resources toward the development of new products, technologies, and processes in consistent with marketplace opportunities ensure successful implementation of innovation strategy (Hitt and Hoskisson, 1990).

Lazonick and Prencipe (2005) identify three imperative tasks bestowed on top management to support the firm's innovation process. The first task is strategic control, which refers to the set of activities that give managers the power, discretions and incentives to commits the firm's resources in activities that confront market threats and exploit opportunities. Secondly top management perform organizational integration task which harmonized various skills and knowledge to support cumulative learning over-time in the organization. The third task is the financial commitments that ensure sufficient funds are sufficiently allocated for development oriented activities that sustain effective innovative process.

It can therefore deduce that the role of top management capability in SMEs operations goes beyond routine planning and control. It demonstrates significant role the paradox of firm's stability and change so as to support innovation strategy formulation and execution by arranging efficient way to commits resources (Pufal et al., 2015). This simply means that as the internal and external environment changes, top management must exhibit the capability to identify new techniques for achieving efficiency and stability. Consequently, through management capability SMEs firms can effectively develop strategy to use their resources, skills and other capabilities to respond to environmental challenges at hand (Pufal et al., 2014). Therefore, management capability is an essential elements that enable firms to come up with organized and effective innovative strategy (Zawislak, et al., 2013).

### **Methodology**

This study was conceived as an attempt to evaluate the challenges and possible solutions to the poor performance of SMEs in developing economies of Africa like Nigeria. Innovativeness has been identified as the major constraints to the competitiveness and performance of SMEs (Salisu, et al, (2017); however, lacks of effective innovative strategy impede the SMEs innovation activities (Abu Bakar and Ahmad, 2012). Considering the nature an attempt was made to evaluate existing related literature such as journal, books, newspaper publication, working papers, agencies reports etc. Specifically eighty five (85) available documents were reviewed to develop the conceptual framework as a prelude to empirical validation. Normally studying a particular phenomenon from academic

perspective can be theoretical or empirical in nature. The conceptual perspective demonstrates theoretically a given phenomenon which ultimately stimulates empirical investigation for validation.

### Conclusion

This study deduces that management capability is an essential capability for SMEs to develop effective innovation strategy that would help withstand local and global competitiveness to achieve superior performance. The study demonstrated that top management in SMEs firms must devolve itself with the responsibility of developing innovation strategy to contain internal friction, through which the firm can achieve its major objectives of productivity, profitability; growth and perpetuity. Therefore, SMEs firms with effective management capability may be capable to achieve higher individual and group performance which in turn translates into superior firm-level performance by fashioning an environment that encourages innovativeness, support efficient programs, practice and processes to provide superior product and service. With effective management capability, SMEs managers can develop effective organizing, planning, directing and control mechanism, harness learning generate through feedback and experience from previous work to develop effective innovation strategy to achieve and sustain competitiveness in changing operating environment.

This study contributes to the body of existing knowledge/literature in several manners. Firstly, the study proposes a theoretical model that postulates how top management capability can help develop and implement effective innovation strategy to enhance the competitive position SMEs both locally and internationally to improve performance. The findings of the study demonstrate consistency in the effectiveness of management capability in crafting successful innovation strategy (Pufal et al., 2015, Zawislak, et al., 2013). Equally, the study established theoretically the relationship of management capability and innovation strategy; therefore, create the needs for empirical validation. Furthermore, the study suggested that policy maker and managers of SMEs should consider the role of management capability in developing effective innovation strategy for superior competitive advantage and better performance.

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