A Conceptual Analysis of Relationship Between Product Innovation and Organization Performance

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ABSTRACT

The dynamic nature of business environment and the ever changing needs of consumers have to constantly make strategic organizations to continue to adopt innovative practices to continue to survive. Innovation is a strategic tool for firms to survive and gain competitive advantages in the market place. Innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations. This study focused on examining the relationship between product innovation and organizational performance using a conceptual analysis and phenomenological methodology approach. Based on the extensive review of literature, product innovation types such as product line extensions, me-too products, and new- to-the-world can significantly change the fortunes of an organization thereby facilitation increased customer satisfaction and enhancing the performance of the organization.

Keywords: Product, Innovation, Competitive Advantage, Strategy, Organization Performance

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1. INTRODUCTION

Nadler and Tushman (1997) posit that the models many organizations have used in the past no longer seem adequate for effectiveness and success in the 21st-century organizational environment. The situation in their sector has changed from when the environment and processes were stable or slow. In many sectors today, work processes are changing at a much faster pace as organizations face the challenges of rapidly changing technology, globalization, uncertainty, unpredictability, and turbulence. In the past, because of monopoly to technology, market, or brand, they could expect to be successful for a long time despite inability or refusal to innovate.

However, due to the volatile environment in these sectors, many such organizations are failing and need creativity and constant innovation to remain competitive and successful. This means that they must recognize and harness the creativity and leadership that exist in the organization to manage its innovation processes. In order to grow and succeed in today's rapidly changing business environment, companies regardless of their size need to constantly seek for new opportunities, to which possessing an Entrepreneurial Orientation has been recognized as potentially beneficial (Wiklund and Shepherd, 2005).

Attaining organizational viability and survival has become a topic dominating the strategic agenda of many organizations. Attention of the practitioner has therefore shifted to harnessing employee creative energies into useful and valuable services and products. In addition among the researcher fraternity, organizational culture has assumed greater importance in relation to organizational adaptation (Achrol, 1991) and its role in facilitating or hindering creativity and innovation. Kitchell (1995) notes that companies have come to appreciate that Research and Development (R&D) alone will not secure innovation, that expressed creativity is more a cultural concern than a capital or technical issue.

World over, there has been a general realization that entrepreneurship is at the center of high and stable economic growth that constitutes and sustain prosperity. Any economy that is capable of increasing and propelling its entrepreneurial activities to perform well are more likely to experience high economic development unlike those economies whose similar activities are decreasing or are stagnant. Entrepreneurship refers to the ability to recognize or create an opportunity and take action aimed at realizing the innovative knowledge practice or product. It does not aim at the realization of monetary profit, but focuses on opportunities with the goal to improve the production (Brown, & Ulijn, 2004). Entrepreneurship is in turn propelled by individuals (entrepreneurs) who possess an entrepreneurial mindset. An entrepreneurial mindset has been described as a group of personal dispositions, also known as entrepreneurial spirit, which leads to the innovative practice like identifying and/ creating opportunities, then taking these opportunities in a productive way.

Scholars have shown how organizational structure, strategy, technology, culture, and other management tools help bring effectiveness and competitive advantage to organizations. They also show that in the 21st-century organizational environment, creativity and innovation are the primary sources of competitive advantage. Psychological research highlights that true creativity comes not from the areas in which one is generally active but from the ability to conceive something that is both new and appropriate (Amabile, 1996). In this way, an entrepreneurial mindset is a philosophy by which individuals engage in creative acts. An entrepreneurial mindset can be contrasted to a "managerial mindset" which deals with creating order and efficiency through controlling, evaluating, and administering policies (Sarasvathy, Simon and Lave, 1998).

An entrepreneurial mindset is similar to 'entrepreneurial cognitions' in that they both signify a philosophy of personal identity and values and a group of heuristics or decision- making tools that entrepreneurs use to evaluate and exploit business opportunities (Shane, & Venkataraman, 2000). However significant these issues are, creativity and innovation literature has remained deficient in one area. Creativity and innovation has been posited as crucial to competitive advantage, bottom-line performance and entrepreneurship (Baldacchino, 2009). Creativity and innovation has been posited as crucial to competitive advantage, bottom-line performance and entrepreneurship (Kotter & Heskett 1992).

1.2 Statements of the Problem

There has been an increasing call for organizations to be creative in developing new products that will survive in the highly competitive environment (Ford and Gioia, 2000). New products creation environment is becoming more and more competitive and this results to increased pressure on organizations to adapt as well as create changes (Barclay and Dann, 2000).The development of new products and services is critical for firm survival and growth (Lehmann, 2006). Organizations are in no doubt enthusiastic about creating new products, but the benefits of such products to the larger society is an intriguing question that must be answered Successful product innovation is vital to many organizations. The commercial success of the product innovation depends on how well the product's design meets customers' needs (Rothwell and Dodgson, 2007). There is dearth of phenomelogical research on studies that emphasizes on innovation complexities in Nigeria. The objective of this research is to conceptually examine the nexus between product innovation and organization performance.

2. LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Theory of Dynamic Capability

Dynamic capability is a theory of competitive advantage in rapidly changing environments. In organisational theory, dynamic capability is the capability of an organisation to purposefully adapt an organisation's resource base. The concept was defined by David Teece, Gary Pisano and Amy Shuen, in their 1997 paper *Dynamic Capabilities and Strategic Management*, as "the firm's ability to integrate, build, and reconfigure both the internal and external competences in order to address speedily dynamic environments. The theory arose specifically in response to competitive conditions that emerged at the end of the twentieth century. The dynamic capabilities view (DCV) has emerged as an attempt to untangle the complex problem of sustainable competitive advantage in today's dynamic environment (Teece, Pisano & Shuen, 1997). The underlying assumption is that firms, which are able to sense and then seize new opportunities and, further, reconfigure their resources and capabilities in line with recognised opportunities and environmental change can create and sustain a competitive advantage (Teece, 2012). The dynamic capabilities view (DCV) has emerged as an attempt to untangle the complex problem of sustainable competitive advantage in today's dynamic environment (Teece, Pisano & Shuen, 1994).

The underlying assumption is that firms, which are able to sense and then seize new opportunities and, further, reconfigure their resources and capabilities in line with recognised opportunities and environmental change can create and sustain a competitive advantage (Teece, 2012). The theory of dynamic capability explains why firms succeed or fail in market competition. Teece (2007) wrote: "The ambition of the dynamic capabilities framework is nothing less than to explain the sources of enterprise-level competitive advantage over time, and provide guidance to managers for avoiding the zero profit condition that results when homogeneous firms compete in perfectly competitive markets". This is consistent with the formulation in Teece et al. (1997) who opined that "The fundamental question of strategic management is how firms achieve and sustain competitive advantage"

2.2 Conceptual Review

2.2.1 Entrepreneurship

There are many definitions of the concept 'entrepreneurship'. For instance, Putari (2006) observes that scholars had not been in agreement in their definitions of entrepreneurship and chronicled the definitions of entrepreneurship by various scholars (Brockhaus & Horwitz, 1986, Sexton & Smilor, Wortman, 1987; Gartner, 1988). Cantillon (Circa 1730) views entrepreneurship as: "self employment of any sort". In 1934, Joseph Schumpeter equated entrepreneurship with the concept of innovation and applied it to a business context, while emphasizing the combination of resources. Penrose (1963) views entrepreneurship as the activity that involves identifying opportunities within the economic system. While Leibenstein (1968, 1979) perceives entrepreneurship as involving "activities necessary to create or carry on an enterprise where not all markets are well established or clearly defined and/or in which relevant parts of the production function are not completely known". Gartner (1988) conceives entrepreneurship as the creation of new organizations.

Okpara (2000) defines entrepreneurship as the willingness and ability of an individual to seek out investment opportunities in an environment and be able to establish and run an enterprise successfully based on the identifiable opportunities. In addition, Nwachukwu (1990) regards entrepreneurship as a process of seeing and evaluating business opportunities, gathering the necessary resources to take advantage of them and initiate appropriate action to ensure success.

Thus, from the definitions above, the researcher can see that while defining the concept 'entrepreneurship', laid emphasis on a wide spectrum of activities such as:

- Self-employment of any sort.
- Creation of organizations.
- Innovation applied to a business context.
- The combination of resources.
- Identification and exploitation of opportunities within the economic system or market.
- The bringing together of factors of production under uncertainty

2.2.2 Entrepreneur

Scholars have also given several definitions of the concept ‘entrepreneur’. For instance in 1816, Putari (2006) quoted Say who asserts that the entrepreneur is the agent "who unites all means of production and who finds in the value of the products...the reestablishment of the entire capital he employs, and the value of the wages, the interest, and rent which he pays, as well as profits belonging to himself." He views entrepreneurs as change agents (Say, 1816). Knight (1921) views entrepreneurs as individuals who attempt to predict and act upon change within markets. Schumpeter (1934) conceives the entrepreneur as the innovator who implements change within markets through the carrying out of new combinations such as introduction of new techniques of production, reorganization of an industry and innovation. He further argues that the entrepreneur is an innovator, one that introduces new technologies into the workplace or market, increasing efficiency, productivity or generating new products or services (Deakins and Freel, 2009).

Entrepreneur is the person who perceives the market opportunity and then has the motivation, drive and ability to mobilize resources to meet it (Di-Masi, 2010). Pinson (2010) visualized the entrepreneur as a person who starts a business to follow a vision, to make money, to be the master of his/her own soul (both financially and spiritually) and is an "educated" risk taker. Murphy (2010) conceives an entrepreneur as a person who is dynamic and continues to seek opportunities and/or different methods of operation and will do whatever it takes to be successful in business. It should also be noted that though most entrepreneurial businesses start small, entrepreneurs are not only small business owners; they can also be big business owners. This is because successful entrepreneurs, unlike small business owners, are innovative and, when operating in an enabling business environment, can rapidly create a large amount of wealth while bearing very high risk. Entrepreneurs are individuals or groups of individuals who carryout entrepreneurship activities to build business empires.

2.2.3 Intrapreneurs

There are given situations where an entrepreneur is not able to establish his or her own business and as such has to work in an organization. In this case they are referred to as ‘Intrepreneurs’ i.e. entrepreneurs within an organization. These individuals are entrepreneurs in their own right because they pursue the exploitation of business opportunities as they emerge and are also visionaries within a given organization. Thus, once identified, these individuals should be encouraged to manifest their entrepreneurial abilities to the benefit of the organization otherwise they will be frustrated and may leave the organization or start their own businesses. Entrepreneurship is the processes and activities by which corporate organization behave entrepreneurially.

- How is entrepreneur differ from intrapreneur
- An entrepreneur is a person who create a venture or startup a business and nature it, takes risks of bringing together the factors of production to meet the society’s need at a profit, while an intrapreneur work within an existing organization to pursue the exploitation of business opportunities

2.2.4 Innovation

Innovation is a strategic tool for firms to survive and gain competitive advantages in the global marketplace. Innovative firms can improve their performances, defeat their competitors and provide value to their stakeholders. Innovation is a source of competitive advantage for a firm (Zawislak, Alves, Tello-Gamarra, Barbieux, Reichert, 2012). According to Oslo Manual (OECD, 2005), an innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations. Oslo Manual (OECD, 2005) classified innovation as product innovation, process innovation, marketing innovation and organizational innovation. It links innovation to performance: “the ultimate reason is to improve firm performance, for example by increasing demand or reducing costs.

The early concept of innovation in economic development and entrepreneurship was popularized by Joseph Schumpeter, a German economist. Innovation, in his view, comprises the elements of creativity, research and development (R&D), new processes, new products or services and advance in technologies (Lumpkin and Dess, 2001). To Kuratko and Hodgetts (2004), innovation is the creation of new wealth or the alteration and enhancement of existing resources to create new wealth. Innovation is also seen as a process of idea creation, a development of an invention and ultimately the introduction of a new product, process or service to the market (Thornhill, 2006). At present, this concept is applied in every facet of social lives and activities. This makes the innovation concept become more multidimensional and intricate.

Beaver (2002) believes that innovation is an essential element for economic progress of a country and competitiveness of an industry. Innovation plays an important role not only for large firms, but also for SMEs (Jong and Vermeulen, 2006; Anderson, Wahab, Amin, & Chong, 2009). Sandvik and Sandvik (2003) argues that innovation is one of the most important competitive weapons and generally seen as a firm's core value capability. Innovation is also considered as an effective way to improve firm's productivity due to the resource constraint issue facing a firm (Lumpkin and Dess, 1996). Bakar and Ahmad (2010) add that the capability in product and business innovation is crucial for a firm to exploit new opportunities and to gain competitive advantage. Product, process, marketing and organization are the various types of innovation.

2.2.5 Product Innovation

The process of developing and bringing new or substantially better products or services to market has been consistently used in the literature to define product innovation (Hauser, Tellis and Griffin 2005). For further clarification and distinction, product innovation can be divided into three basic types:
(1) product line extensions (familiar to the organization but new to the market),
(2) me-too products (familiar to the market but new to the organization), and
(3) new- to-the-world products (new to both the organization and the market)

Thus, the above shows that product innovation has many dimensions. First, from the perspective of the customer, product is new to the customers. Second, from the perspective of the firm, the product is new to the firm. Third, product modification means brining product variation in the existing products of the firm

A product innovation is the introduction of a good or service that is new or significantly improved regarding its characteristics or intended uses; including significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics (OECD Oslo Manual, 2005). Product innovations can utilize new knowledge or technologies, or can be based on new uses or combinations of existing knowledge or technologies. The term product covers both goods and services. Product innovation is a difficult process driven by advancing technologies, changing customer needs, shortening product life cycles, and increasing global competition. Product innovation can be defined as the creation of a new product from new materials (totally new product) or the alteration of existing products to meet customer satisfaction (improved version of existing products). It also refers to the introduction of new products or services in order to create new markets or customers, or satisfy current markets or customers.

Product innovation means introducing the new products/services or brining significant improvement in the existing products/services. For product innovation, the product must either be a new product or significantly improved with respect to its features, intended use, software, user-friendly or components and material. The first digital camera and microprocessors are the examples of the product innovation. Change in design that brings significant change in the intended use or characteristics of the product is also considered as product innovation (OECD, 2005). The product innovation has many dimensions. First, from the perspective of the customer, product is new to the customers. Second, from the perspective of the firm, the product is new to the firm. Third, product modification means brining product variation in the existing products of the firm (Atuahene-Gima 1996). Firms bring product innovation to bring efficiency in the business. In highly competitive environment of today, firms have to develop new products according to customer's needs (Olson et al. 1995). The aim of product innovation is to attract new customers. Firms introduce new products or modify the existing products according to needs of the customers (Adner & Levinthal, 2001). Shorter product life cycle of the products forces the firms to bring innovation in the products (Duranton & Puga, 2001).

2.3 Empirical Review

Ngugi, Mcorege And Muiru (2013) did a research on the Influence of innovativeness on the growth of SMEs In Kenya. The main objective of the study was to establish the influence of innovativeness on the growth of SMEs in Kenya. The study adopted descriptive survey and exploratory design. The study targeted 4560 SMEs in Nairobi County who are registered by Ministry of Industrialization and Ministry of Trade. Regression models were used to examine the influence of innovativeness skills on growth of SMEs in Kenya. Questionnaires were used as the main data collection. Descriptive statistics and inferential data analysis method was to analyze the gathered data. The findings indicated that innovativeness influences the growth of SMEs in Kenya. The tendency of owner/manager to engage in and support new ideas, novelty, experimentation and creative processes results in new products, services or technological processes which has a great influence on the performance of SMEs

Rosli and Sidek (2013) carried out a research on The Impact of Innovation on the Performance of Small and Medium Manufacturing Enterprises: Evidence from Malaysia. A total of 284 samples were collected from SMEs in the food and beverage, textiles and clothing and wood-based sub-industries throughout Malaysia. The data were analysed using a hierarchical regression analysis. The findings confirmed the hypotheses that product innovation and process innovation influenced firm performance significantly, where the impact of the former was stronger than the latter. Besides consolidating the existing theory on the importance of innovation for explaining a variation in firm performance, the findings also inform SMEs and policy makers that innovation is a critical factor in today's entrepreneurial activities. Further studies should look into how SMEs could calculate cost-benefit ratio of innovation and how they could opt for internal or external sources of innovation before actual innovation is undertaken

Adhiambo (2014) carried out a research on product innovation and its effects on financial performance of commercial banks in Kenya. The study purposively looked into how core products innovation, formal product innovation and augmented product innovation affected the financial performance of commercial banks in Kenya. This study adopted explanatory research design in which a population sample of 106 senior and branch managers from nine commercial banks was taken using the census method. Data was collected using research questionnaires and face-to-face interviews and secondary data was obtained from 2013 audited annual financial statements of commercial banks. Analyses were conducted through descriptive statistics and Ordinary Least Square technique to estimate a multiple regression equation. Findings suggested that 6.5 percent (R2=0.065) of the variance in financial performance may be explained by core product innovation, formal product innovation and augmented product innovation. The regression results indicated that core product innovation and augmented product innovation do not have any relationship with the financial performance of banks. However, the results revealed a negative relationship between formal product innovation and the financial performance of commercial banks in Kenya with β value of -4.758 and a t value of -2.022 implying a statistical significance at 5 percent level. The study also yielded conclusive information in product innovation that all commercial banks have innovated and implemented products of each type even though there was a negative or no effect at all on their financial performance and a certain amount of time might be necessary in order to observe the reflection of positive effects of innovative products on financial performance.

Kamakia (2014) carried a research on the effect of product innovation on performance of commercial banks in Kenya. The study adopted a cross-sectional survey design approach. The population of the study comprised of (43) forty-three commercial banks licensed by the Central Bank of Kenya as at 31st July 2014. All the commercial banks were included in the study with the respondents being the general managers. The study used both primary and secondary data. Primary data was collected with the aid of a self-administered semi-structured questionnaire. The results indicated communication of product innovation to staff was to a great extent with majority agreeing that product innovation affected organisation performance. It was found out that to command a higher market share; a commercial bank needed innovative ideas. From the findings the study recommends that the services offered by commercial banks should be enhanced by their level of innovations. Commercial banks' range of products should be of first class innovation. The banks should aim at enabling customer's access their bank accounts online

Gunday, Ulusoy, Kilica, Alpkan (2015) carried out a research on the effects of innovation types on firm performance. According to them, innovation is broadly seen as an essential component of competitiveness, embedded in the organisational structures, processes, products, and services within a firm. The objective of this paper is to explore the effects of the organisational, process, product, and marketing on the different aspects of firm performance, including innovative, production, market, and financial performances, based on an empirical study covering 184 manufacturing firms in Turkey. A theoretical framework is empirically tested identifying the relationships amid innovations and firm performance through an integrated innovation-performance analysis. The results reveal the positive effects of innovations on firm performance in manufacturing industries.

Namusonge, Muturi & Olaniran (2016) examined the role of innovation on performance of firms on the Nigerian stock exchange. The central objective of the paper is to look at the relationship between innovativeness and firm performance in Nigeria. The target population is 176 firms listed in the Nigerian Stock Exchange with financial returns as at August, 2014. Out of the population, a sample of 60 firms was taken. Methods of statistical analyses include mean, standard deviation, and Pooled, Random and Fixed regression models based on the preferences suggested by the Hausman specification test results.

The results of panel analysis of the relationship between Entrepreneurial Orientation dimension – Innovation, and performance of firms listed in the Nigerian Stock Exchange, with returns on assets and returns on equity as proxy revealed a negative relationship between innovation and returns on assets and innovation and returns on equity. This results, confirmed a study conducted in 2007 in Nigeria on 88 SMEs earlier mentioned.

3. CONCLUSION AND RECOMMENDATIONS

Entrepreneurs have stimulated economic performance by introducing innovations, creating change, and stimulating competition. They seek opportunity to create both private wealth and social benefit by adopting new production techniques, reallocating resources to new opportunities, diversifying output, and penetrating new markets. Product innovation is one of the important sources of competitive advantage to the firm. With innovation, quality of products could be enhanced, which in turn it contributes to firm performance and ultimately to a firm's competitive advantage. Product innovation offers a potential protection to a firm from market threats and competitors. Since it can be recognized easily by stakeholders of a firm, it is therefore recommended that organizations that want to continually operate in this 21st century dynamic, turbulent, discontinuous and competitive business environment must embrace product innovation in order to meet the ever changing needs of its consumers.

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