

## **MODERATING EFFECT OF FINANCIAL CAPABILITIES ON RELATIONSHIP BETWEEN INNOVATIVENESS AND GENERIC COMPETITIVE STRATEGY AMONG SMALL AND MEDIUM ENTERPRISES IN BAUCHI STATE, NIGERIA**

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### **Abstract**

*This study focused on moderating effect of financial capabilities on relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi state, Nigeria. The study adopted a survey research design which is purely quantitative, using structured questionnaire. The questionnaire was administered to 300 randomly selected owners/managers of small-scale businesses in Bauchi state. Data collected was analyzed using simple linear regression and hierarchical regression to test the hypotheses of the study. The findings of the study revealed that the relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi state, Nigeria was positive and significant. Equally, financial capabilities significantly moderated the relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi state, Nigeria. Therefore, the issues bedeviled SMEs in Bauchi state ranged from competition strategy, poor marketing skills, inadequate financial management, and low entrepreneurial spirit among others can be addressed through innovativeness and proper knowledge of how to manage finance and willingness to put that knowledge into practice. This study therefore, recommend that The Bauchi state government through the appropriate regulatory agency such as small and medium enterprises development agency of Nigeria (SMEDAN) should organize a seminars and workshop on regular basis to registered small-scale businesses operating in the state on how to come up with something new in terms of product, technology, marketing skills ahead of competitors and about the knowledge of how best to manage their money and willingness to put that knowledge into practice.*

**Keywords:** financial capabilities, innovativeness, generic competitive strategy

### **Introduction**

Small and Medium Enterprises (SMEs) play a crucial role in economic growth and development in many countries around the world. They are a significant source of employment, innovation, and contribute to the overall competitiveness of the economy. SMEs have been widely acknowledged as a major facilitator for sustaining economic development in most of the developed and developing countries (Bianchi et al., 2017). Therefore, SMEs have key contribution to economic development of any nation (Azarloo et al., 2017). This is in line with the report of World Bank Group (WBG) that, SMEs play an important role in most economies, on average, in developed economies (high income countries), SMEs contribute 55% and 65% to Gross Domestic Product (GDP) and employment, respectively. In developing countries, middle income countries to be specific, SMEs on average contribute 70% to GDP and 95% to total employment. Similarly, in low-income economies, they contribute 60% to GDP and 70% to total

employment (WBG, 2019). Regardless of the nature of the nation's economy, SMEs make a great contribution to innovation, regional development and social cohesion, which in turn contribute significantly to GDP and employment (Bouri et al., 2015). Several studies (Soomro & Aziz, 2015; Vrum & Rocha, 2013) maintained that SMEs considered the backbone of the country's economy.

In addition, SMEs are very important in the fight against poverty. They also employ poor and low-income workers and are sometimes the only sources of employment in the rural area, their contributions cannot be overlooked (Ackah, 2021). So, contribution of SMEs in Nigeria remains a significant issue, more especially as the country aims to be among the big economies and SMEs will play an important role in achieving this dream because one of the primary aims of SMEs is to create wealth, reduce poverty, generate employment and stimulate real economic growth (Ndumanya, 2017; SMEDAN, 2022). Despite this vision in Nigeria, the 2020 SMEs report shows a shrink in number of SMEs to 39.6 million from 41 million representing 3.7% (SMEDAN, NBS, 2022) Now, the born of contention so many individuals, group and even the government is, what is the real cause for the collapse of SMEs within a short period after start up. Likewise, the contribution of SMEs in Bauchi state to employment was found to be very low and the performance of SMEs in the state is below expectations (Musa, 2018). This is confirmed by the report of Federal Ministry of Labour and Productivity Bauchi state office (2021) that the rate of unemployment in the state is increasing year by year. Sadly, a large portion of the SMEs have an extremely short life expectancy (Musa, 2018). Therefore, due to the importance and valuable contribution of SMEs to economic growth and development, it is vital for this study to provide some possible solutions to sustain life expectancy of SMEs in Bauchi state.

Existing studies have argued that SMEs must have unique strategy in order to constitute their endurance in the tempestuous markets because the strategy is generally rated as the most essential tool for SMEs success (Brenes, Montoya & Ciravegna, 2014). Linton and Kask (2017) argued that generic competitive strategy provides a sound foundation to improve SMEs performance in which in the long run leads to its survival. The authors further argued that innovativeness may lead to generic competitive strategy. Following any one of them without the other does not produce desired results, (Anwar & Shah, 2020). Again, numerous studies (see for example, Shan, Song & Jua, 2016; Linton & Kask, 2017) indicated that the innovativeness and generic competitive strategy play a significant role in helping the firm to achieve competitiveness and superior performance over their competitors. Some studies on the other hand, (Anwar & Shah 2020) established a significant relationship between innovativeness and generic competitive strategy. But, Anwar and Shah (2020) opined that future research can be conducted to check the relationship between innovativeness and generic competitive strategy with some other possible factors such as financial capabilities as moderator that may play a significant role. The authors argued that if a firm aims to follow entrepreneurial activities and differential product development approaches (i.e., generic competitive strategy), it may need financial support to formulate it. In response to their called, this study examined the moderating effect of financial capabilities on relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi state, Nigeria.

### **Objectives of the study**

The aim of this study is to examine the moderating effect of financial capabilities on relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi state, Nigeria. The specific objectives are:

1. Examine relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi State.
2. Examine the moderating effect of financial capabilities on relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi State.

### **Research Questions**

The following questions are formulated:

1. What is the relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi State?
2. What is the moderating effect of financial capabilities on relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi State?

### **Research Hypotheses**

The following hypotheses are formulated:

**H<sub>01</sub>:** There is no significant relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi State.

**H<sub>02</sub>:** Financial capabilities do not significantly moderate the significant relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi State.

### **Literature Review**

#### **Generic competitive strategy**

Harvard professor Michael Porter coined the phrase “generic competitive strategy” in his book, *Competitive Advantage: Creating and Sustaining Superior Performance*. Since the writing of his book, the phrase has become known in business circles as one of the primary methods of business planning and strategizing for businesses across all industries, (Anamwong, 2022). Furthermore, the Generic Competitive Strategy (GCS) is a methodology designed to provide companies with a strategic plan to compete and gain an advantage within the marketplace, (Anamwong, 2022). According to Porter, a company can leverage its strengths to position itself within the competition. When classifying the strengths of a company, they can either be placed under the heading of cost advantage or differentiation. Within those two strength categories, the scope of the company is either broad or narrow, (Anamwong, 2022). Notwithstanding, various studies have defined strategy differently; according to Anwar and Shah (2020) strategy, is a deliberate set of activities put in order to achieve competitive advantage.

Furthermore, Pulaj, Kume and Cipi, (2015) define strategy as the determination of long- term objectives, implementation of courses of action and apportionment of resources required for achieving the objectives. Competitive or business strategy depicts the foundation on which a business will compete. Justinians, (2015) refer to strategy as the firm’s competitive game plan or a pattern of choices that are designated and implemented to attain a sustainable competitive advantage within a given environment. For enterprises to realize competitive advantage, they are obligated to make strategic choices on the design of competitive advantage they seek to reach as well as the range within which it will accomplish it (Pulaj et al., 2015). In realizing performance, selecting the competitive scope or the variety of the firm’s activities will play a powerful part since it aims at establishing a profitable and viable position against the powers that regulate industry competition. Strategic choice decisions that a firm can pursue to achieve competitive advantage for growth may broadly be categorized into intensive, defensive, joint venture and a

combination of strategies. Depending on the competitive environment enterprises choose strategies that are able to give them sustainable competitive advantage (Leitner & Guldenberg, 2010).

Lorenzo, Rubio and Garcés, (2018), observed Porter's framework to be the dominant tool when analyzing policies of enterprises. Therefore, Porter's generic strategies are better suited for application in the analysis of competitiveness and survival of the targeted SMEs by this study. This study uses Porter's typology because of its wide acceptance in the literature (Hernández-Perlins, Moreno-García, & Yañez-Araque, 2016). Moreover, according to Anamwong, 2022, the GCS is useful when a company is looking to gain an advantage over a competitor. Also, he asserted that if a company wants to 'win' the advantage over other businesses, it does so by winning sales and taking customers away from competitors. To him, an advantage in business, though, does not come easily; it must be developed and established firmly within the framework of a company. He further emphasizes that, using a business strategy is not a one-off or a weekend exercise; it must become the driving force of the company. Therefore, in order to do this successfully, a company must implement a Generic Competitive Strategy. Not confined to a specific industry or company, the methodology can be used in for-profit companies of any kind, as well as not for profit organizations. No matter what type of business, the principles behind the GCS are universal and can be applied to any company, (Anamwong, 2022).

The primary benefit using a GCS is to establish a methodology of doing business that will drive the company in a certain direction. Rather than simply maintaining the status quo, a GCS gives a company a blueprint to follow that will create the structure of the company, (Anamwong, 2022). Critics of Generic Competitive Strategy denounce the idea that a company must choose one strategy and use it exclusively. Today's global economy and workforce is a far from the environment that brought Generic Competitive Strategies to the forefront, (Anamwong, 2022). Competitive advantage can be reflected in several dimensions such as differentiated products, market sensing, collaboration with partners, focus on high value customers, market responsiveness, customers as assets, information transparency, and supply chain leadership (Ramaswami et al., 2006). Competitive advantage is a construct whose measurement is still fragmented, for example, Mahmood and Hanafi (2013) used differentiated products, market sensing, and market responsiveness as dimensions of competitive advantage. In another study by Ismail, Rose, Abdullah, and Uli, (2010), competitive advantage was measured using cost-based advantage, product-based advantage, and service-based advantage. Other measurements of competitive advantage include price or cost, quality, delivery dependability, product innovation, and time to market (Yang & Aumeboonsuke, 2016).

### **Concept of innovativeness**

It indicates the firm's predisposition to engage and sustainance new philosophies through imaginative methods, process and investigation that clue to the improvement of new and unique technologies, product and services. Innovativeness is characterized by strongly focusing on R & D, being a leader in technology, and introducing new products as well as changing existing products or service lines (Mickiewicz, Sauka & Stephan, 2014). My personal favorite is the definition by Merriam-Webster. They simply refer to innovation as "the introduction of something new". Innovation is the introduction of something new. Now, this isn't just the same as simply inventing something new, such as a product like the I-Phone, as it also needs to be launched and "introduced" to the world. This definition also covers new products and services,

but also improvements in many other areas, such as business processes or business models, which are key sources of innovation in their own right, (Nieminen, 2020).

### **Role of innovation in business**

Now, that we've defined what innovation means, we can take a look at what the role of innovation is, both for the society at large, as well as for individual businesses. First, for the society at large, innovation is a key driver of economic growth, (Nieminen, 2020). According to a Stanford University paper, roughly 85% of all growth that happened in the US economy between 1870 and 1950 can be accounted to productivity growth via innovation, and this isn't just an individual anomaly. According to the same paper, there have also been nearly identical findings in other economies in different times, (Nieminen, 2020). Thus, an individual business, clearly, would be foolish not to pursue these opportunities that account for 85% of all economic growth. In the last few decades, we've seen a strong trend towards so called "winner take most" economies where a few companies are able to create superior market positions and take home the vast majority of profits in an industry, such as online search and computer operating systems, (Nieminen, 2020).

What makes the situation worse for the rest is that these dominant players who are riding a wave of innovation and pursuing a market leading position are often able to undercut the entrenched competition in price, as well as prepared to burn a lot of cash to gain market share and drive the competition out, (Nieminen, 2020). So, for a given business to grow, increase profits, or even survive in the future, it is very likely to need innovation to achieve any, let alone all, of the aforementioned goals, (Nieminen, 2020). Traditionally, innovation has been almost synonymous with R&D. The idea is that basic research leads to new inventions, which are then patented (if possible) and developed into commercial applications, (Mickiewicz, Sauka & Stephan, 2014; Nieminen, 2020). While there is still certainly a place for this kind of innovation, the Internet has fundamentally changed the game. Hence, information, knowledge and cutting-edge tools and software are now available almost instantly and at a fraction of the previous cost in virtually any industry, (Nieminen, 2020). As a result, most innovation isn't a direct result of commercializing basic research, as it once was, but is more often about applying existing knowledge, technologies, and resources to solve a given business problem. In other words, it's about putting the pieces of the puzzle together, (Nieminen, 2020).

In practice, that's probably easiest to explain with the help of the 70-20-10 rule for innovation made famous by Google, (Nieminen, 2020). He, simply put, the idea is that roughly 70% of a company's innovation resources should be aimed at incremental innovation of the core business, 20% to innovation that helps expand that core, and 10% to breakthrough innovation that can transform the future of the company. Now these figures are obviously just a rule of thumb, but are still a great starting point on how to allocate resources to different kinds of innovation work, (Nieminen, 2020). So, even though most SMEs don't have the resources to compete with top universities and large corporations in foundational research, any business has plenty of opportunities for innovation. It doesn't take millions of dollars to start to incrementally innovate around your customer service or automate internal processes, (Nieminen, 2020). Innovation is no longer about who has the most resources, but who is able to find the best solution to a given problem the market has, which actually doesn't have to be expensive. This is further evidenced by the much higher success rate of "need seekers", or in other words, innovators who are focused on solving customer problems instead of following market or technology trends, (Nieminen, 2020)

## Methodology

The present study adopted a survey research design. A survey method using questionnaire as the instrument for data collection was found to be more appropriate for this study. This is because the study involved the collection of data from registered SMEs in Bauchi state. The population of the study comprised of 2,241 registered small-scale businesses operating in Bauchi state (SMEDAN Gazette 2022). The sample of this study consisted of 400 SMEs operating in Bauchi state of Nigeria. The sample was statistically determined using GPower which is statistical software for power analysis and sample size calculation (Faul et al, 2017) where simple random sampling technique was used to select the respondents.

The study adapted measurements from the existing studies related to this study, as Sekaran and Bougie (2016) recommended that a researcher can adopt or adapt measurement from the existing studies relevant to the current research. The study has three (3) constructs; Generic competitive strategy was measured with 8 items adapted from Anwar and Shah (2020), innovativeness, with 6 items adapted from Anwar and Shah (2020), Financial capabilities were measured with 8 items adapted from Jardiou, Garengo and El Alami, (2019). In this study, Likert scale was adopted for all the items, the respondents were asked to indicate their responses to each question on a five-point scale. To ensure the reliability of instrument of the present study, the pilot test was conducted with 50 SMEs in Gombe state. The state is outside the study area but the respondents have similar characteristics with the sample of this study. The 50 SMEs satisfied the recommended pilot test range from 25-75 (Hair et al., 2017).

Moreover, the data generated from the pilot survey was subjected to statistics analysis using Cronbach Alpha. The Cronbach alpha coefficients of the three variables are competitive strategy (0.89), innovativeness (0.88), and financial capabilities (0.90). The results suggested that the instrument is reliable based on the recommendation given by Hair et al. (2017). The inferential statistical tool of simple linear regression and hierarchical regressions were used to test the hypotheses of the study. (Tabachnick & Fidell, 2013).

## Results

### Relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi State

**Table 1: Regression analysis**

Variable	Coef. Beta	t-value	p-value	Decision
Innovativeness	.464	8.818	.000	Rejected

The statistical evidence documented in Table 1 indicated that relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi State was positive and significant with a beta value of .464 ( $P < .05$ ). This result did not support the prediction of hypothesis 1 that there is no significant relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi State. Furthermore, the result also suggested that a unit of improvement in the innovativeness by the registered SMEs in Bauchi State, holding other variables constant will enhance their generic competitive strategy positively by 46.6% (Beta coefficient).

### Moderating effect of financial capabilities on relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi state, Nigeria

**Table 2: Regression analysis**

Variable	Coef. Beta	t-value	p-value	Decision
Innovativeness	.544	7.001	.000	
Int_1	.204	5.739	.000	Rejected

The statistical evidence documented in Tables 2, revealed that the financial capabilities significantly moderated the relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi state, Nigeria ( $\beta=.204$ ;  $P=.000$ ). Hypothesis 2 which stated that financial capabilities do not significantly moderate the significant relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi State was rejected. The result implied that financial capabilities strengthened relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi State, Nigeria.

### Discussion

The findings of this study indicated that the relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi state, Nigeria was positive and significant. This finding is consistent with previous studies Lechner and Gudmundsson, (2014); Gitau, Mukulu and Kihoro, (2016) that illustrated that innovativeness had significant influence on generic competitive strategy. In the same vein, Hornsby et al., (2002) revealed that SMEs that engage in innovative operation respond to changing demand and markets thus enjoy highly competitive advantage and generate superior profitability. Hence, innovative firms enter into market with new and innovative products earlier than contestants enter and thus snatch the market profit and earning on earlier base (Lii & Kuo, 2016). Additionally, this study proved that financial capabilities significantly moderated the relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi state, Nigeria. This finding agreed with previous studies such as Fonseka et al. (2014). The study discovered that financial capabilities played a dynamic role in integrating other resources and skill and allows SMEs to deal with competitive business activities. Also, finding agreed with that Febrian, et al. (2018) that social capital and financial capability create sustainable competitive advantage through the entrepreneurial orientation.

### Conclusion

The current studies empirically examine the moderating effect of financial capabilities on relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi state, Nigeria. The study proved that the relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi state, Nigeria was positive and significant. Furthermore, financial capabilities significantly moderated the relationship between innovativeness and generic competitive strategy among small and medium enterprises in Bauchi state, Nigeria. Therefore, the issues bedeviled SMEs in Bauchi state ranged from competition strategy, poor marketing skills, inadequate financial management, and low entrepreneurial spirit among others can be addressed through innovativeness and proper knowledge of how to manage finance and willingness to put that knowledge into practice.

## Recommendations

Based on the findings of the study, the following recommendations are made:

1. The Bauchi state government through the appropriate regulatory agency such as small and medium enterprises development agency of Nigeria (SMEDAN) should organize a seminars and workshop on regular basis to registered small-scale businesses operating in the state on how to come up with something new in terms of product, technology, marketing skills among others ahead of competitors.
2. The Bauchi state government through the appropriate regulatory agency such as small and medium enterprises development agency of Nigeria (SMEDAN) should organize a seminars and workshop on regular basis to registered small-scale businesses operating in the state about the knowledge of how best to manage their money and willingness to put that knowledge into practice.

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