

CHRISTIAN SERVICE UNIVERSITY COLLEGE

SCHOOL OF BUSINESS

THE EFFECT OF INNOVATIVE CAPABILITIES ON THE PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES (SMES) IN THE KUMASI METROPOLIS

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DECLARATION

We hereby declare that this submission is our own work towards the Bachelor of Business Administration and that, to the best of our knowledge, it contains no material previously published by another person or material which has been accepted for the award of any other degree of the University, except where due acknowledgment has been made in the text.

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DEDICATION

Gladys Agyeiwaa Bediakoh dedicates this work to all her family and friends.

Vida Oppong Boachie (Mrs.) dedicates this work to her lovely husband Mr. Thomas Kwaku Boachie, and her children Henry Agyemang Boachie, Edwin Addo Boachie and Agyapomaa Brempomaa Boachie.

Addae Job dedicates this work to his family and friends.

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ABSTRACT

To become innovative, SMEs need to develop their innovation capability. Considering the competitive nature of SME environments, developing innovative capability is vital for survival.

The study compares the effect of innovative capability on the performance of Small and Medium Scale Enterprises in Ashanti Region of Ghana. The population comprised of SME (registered and unregistered) entrepreneurs within the Ashanti Region. The study was conducted on a sample size of four hundred (400) SMEs in the Kumasi Metropolis. A response rate of 98.75% was achieved. Purposive and convenience sampling technique was used and the data collection method used was questionnaire. The study revealed that innovative capabilities significantly and positively affect performance of SME firms in the Kumasi Metropolis. Product innovation was found to be the best innovative strategy that SMEs can use to increase their organisational performance.

LIST OF ABBREVIATIONS

SME	Small and Medium-Sized Enterprise
SPSS	Statistical Package for Social Sciences
GDP	Ghana's Gross Domestic Product
ITC	International Trade Centre
RPD	Relative Profit Differences
PCM	Price Cost Margin
NBSSI	National Board for Small-Scale Industries
UNECA	United Nations Economic Commission for Africa
AMA	American Marketing Association
ROI	Return on Investment
ITC	International Trade Centre
OECD	Organization for Economic Co-operation and Development

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and medium-sized enterprises (SMEs) are an essential part of economic growth due to their higher presence in economic environments (Bruque and Moyano, 2007; Zeng et al., 2010) and their contribution to innovation activities within the economic space (Akman and Cengiz, 2008). Globally in modern information-based economies, SMEs also constitute greatly to the vital forces that drives economic progress (Mitchell & Reid, 2000). SMEs are seen as a veritable vehicles for the achievement of national macroeconomic objective in terms of employment generation and enhancement of apprenticeship business management training (Osotimehin *et al*, 2012). The National Board for Small Scale Industries (NBSSI) that is the regulatory body for SMEs in Ghana defines SMEs in terms of both fixed asset and number of employees. It defines SME as an enterprise with turnover greater than US\$200,000 and not more than US\$5 million equivalent. Venture capital trust fund Act, 2004 (Act 680) however defines a small and medium scale enterprise (SME) as an industry, project undertaking or economic activity whose total asset base (excluding land and building) does not exceed the cedi equivalent of \$1 million US dollars in value.

In Ghana, the SME sector contributes over 70% of Ghana's Gross Domestic Product (GDP) (Villars 2004), and account for about 92% of businesses. SME's do not only contribute to the growth of national GDP but also contribute to the reduction of unemployment (Abor & Quartey, 2010). In addition to SME's being a source for job creation and employment, it also leads to investment opportunities, capacity building to individuals and firms, provision of niche professional services, and potential source of revenue for government (Mensah, S.and Rolland, 2004). Policy makers, economists, and business experts admit that SMEs are the drivers of economic growth as they have

contributed to over 50% of the Gross Domestic Product (GDP) and provided over 60% of the total employment in developed, high-income countries (Subrahmanya et.al 2010). Both the developed and developing countries are strongly engaged in and continue to seek pragmatic ways of improving SMEs activities (World Bank in 2010). Small and Medium-sized enterprises (SME) competitiveness and its business strategy are closely linked innovation (Nirmalya, 2010). For developing countries, innovation is certainly the key driver of differences in productivity, income variations, business growth, and catch-up in industrial competitiveness (Cantwell (2003). Innovation is broadly defined as the ability to routinely achieve innovative outcomes. Rogers (2003) defined innovativeness as the degree to which an individual or other unit of adoption is relatively earlier in adopting new ideas than any other member of the system.

The ability to innovate is increasingly viewed as the most important in developing and sustaining competitive advantage (Tidd et.la 2001). In business, innovation is an organization's process for bringing in new ideas, workflows, methodologies, products or improving on existing services (Caetano & Amaral, 2011). Studies show that firms that are able to build sustainable competitive advantages over long periods are those that have implemented a series of innovations (Hamel, 2006). Innovation appears as a key factor of SMEs' growth and development (Terzirovski, 2010). Kuswantoro et.al (2012), states that innovation is a key driver for companies to pursue competitiveness and improve the performance of SMEs. Innovation is a central point on the agenda of many organizations in order to stay competitive, and thus ensure that they have future offerings and can stay on the market. (Nagji - Tuff 2012).

Innovation capacity is describe as a firm's continuous improvement of its capabilities and resources to explore and exploit the opportunities of new product development to meet market expectations (Forsman, 2011).Innovative capabilities refer to the resources and competencies possessed by the

firm that enables it succeed in the competitive environment (Johnson et al. 2005). Innovation capacity allows the firm to develop and coordinate the innovation process and to use innovation input to produce innovation output (Adams *et al.*, 2006). Innovation capacity represents a firm's ability to innovate continuously ahead of its competitors (Qian and Li, 2006).

A firm performance is related to the ability of the firm to gain profit and growth in order to achieve its general strategic objectives. Keizer et al (2015) emphasized that the firm's innovation performance depends on the opportunities provided by their external environment. This will depend on the knowledge base of entrepreneurs as well as their characteristics that would like to influence firm innovation capability. It can be argued that entrepreneurs have been reported in personality and psychological research to exhibit unique characteristics that distinguish them from others (Ndubisi and Kahraman 2005). Self-confidence (Zimmerer and Scarborough 2005), Openness to experience (George and Zhou 2001), Independence (Shane et al. 2003), and Proactivity (Seibert et al. 2001) have been identified by researchers as evidence of empirical study supporting the influence on innovation. Chowdhury 2012) explains the performance of innovation refers to the sale of new products, new product market share, timely new product launch, and new percent of product sales in total sales.

Today entrepreneurship is a resource to accelerate business growth and success. Entrepreneurs are playing an important role in creating value and jobs in developed and developing countries (Peng, 2011). Entrepreneurs' tendency to manage their businesses depends on the use of their strong specific qualities (Dvir, et al., 2010). Beugelsdijk and Noorderhaven (2004) found a strong positive correlation between the entrepreneurial characteristics of the persons and a rate of regional economic growth. It is undisputed that the personality of the executives of micro-enterprises significantly influences their performance. Tolerance for risk, perceived feasibility, and net desirability significantly predicted entrepreneurial intentions (Segal, Borgia and Schoenfeld, 2005).

Several studies are showing that business expansion predominantly depends on company owners' motives, attitudes and intentions towards the future (Rey-Marti, et al., 2015). It is possible to find a wide range of entrepreneurial motivations ranging from the economic motivations such as financial goals (Pinfeld, 2001) to the non-economic, such as independence (Williams, 2009), autonomy (Lumpkin, Cogliser, & Schneider, 2009), being one's boss (Mattis, 2000), or seeking a challenge (Pettrakis, 2007).

1.2 Statement of the Problem

SMEs are vital for economic growth and development because they encourage entrepreneurship, generate employment, and reduce poverty (Abor & Quartey 2010), however, sustainability of SMEs in Ghana continue to deteriorate due to the varied risks exposed to SMEs. Businesses are highly challenged with some of them folding up at a relatively higher rate due to numerous economic factors including competition (Bowen et al., 2009) and SMEs in the Kumasi Metropolis are not an exception. To ensure business survival, entrepreneurs continue to introduce innovative strategies that are used as a competitive tool to fight competition. Some SMEs succeed in getting through with their innovative strategies whilst others do not. In Ghana, most SMEs are operated and managed by their owners. This leaves one to think about the relationship between the entrepreneur's attitude towards the innovative activities and the business's performance in general. Notwithstanding the numerous research studies about performance of businesses globally, few studies have investigated innovation capacity as a factor in SMEs' innovation and performance (Forman, 2011).

Despite a clear correlation between innovation and performance, the factors that can enhance innovation remain unclear and need further investigation (Forsmann, 2011). In the SME sector, innovation-increasing factors remain ambiguous (De jong and Marsilli, 2006) and previous literature has fails to provide a sufficient empirical exploration of the concept and its foundations (Forsman,

2011; Mansury and Love, 2008). The aim of this research is to fill the research gap concerning the assessment of the innovation capacity of SMEs in the Kumasi Metropolis by examining innovative capabilities of SMEs and measuring their influence on SME innovation and performance. The dependent variable innovation capability is hypothesized in order to find out the answers or solution to the effect of innovative capabilities on performance.

1.3 Objectives of the study

The objective of the study include the following:

1. To examine the effect of innovative capabilities on the performance of SMEs.
2. To ascertain the effect of entrepreneurial attitude on the performance of SMEs.
3. To evaluate the relationship between innovative capabilities and entrepreneurial attitude among SMEs.

Hence the following hypothesis were therefore tested

- H_{1a}** Product Innovation capabilities significantly and positively impact on performance of SMEs.
- H_{1b}** Process Innovation capabilities significantly and positively impact on performance of SMEs.
- H_{1c}** Marketing Innovation capabilities significantly and positively impact on performance of SMEs.
- H_{1d}** Administrative Innovation capabilities significantly and positively impact on performance of SMEs.
- H_{2a}** Entrepreneurial attitude positively and significantly affect financial performance of SMEs
- H_{2b}** Entrepreneurial attitude positively and significantly affect market performance of SMEs
- H₃** Entrepreneurial attitude significantly and positively impact on Innovation capabilities of SMEs

1.4 Research Questions

Based on the above objectives, the following research questions were answered by the study:

1. Does innovative capabilities influence the performance of SMEs?
2. How can entrepreneurial attitude affect innovative capabilities of an SME firm?
3. What influence does entrepreneurial attitude have on performance of SMEs?

1.5 Significance of the Study

This study explores the role of SME entrepreneurs' attitude as a mediating role in innovative capabilities of SMEs. It will hence serve as a source document for start-up entrepreneurs and other entrepreneurs seeking for competitive advantage not only in the SME sector but also in other businesses. It will also augment existing innovative capabilities that will serve as an effective blueprint for Small and Medium-scale Enterprises to gain the requisite competitive advantage for the overall well-being of the nation.

Again the study will provide recommendations for SME entrepreneurs on how to understand the practical details and importance of innovation, and how to effectively manage their enterprises and compete in more challenging economic situations. The discoveries of the study will help fill policy gaps for policy makers, government agencies responsible for the regulation of SMEs and entrepreneurs by providing policy directions geared towards the promotion and sustainability of Small and Medium-scale Enterprises.

As this study seeks to find the challenges hindering innovation in SMEs, identify the repelling effects of not been innovative and make recommendations for addressing those challenges, the study will

serve as a policy document for policy makers in government and non-governmental institutions, investors, associations, financial institutions, organisations and other stakeholders of SMEs.

Aside suggestions the study provide for improving performance through developing innovation capability, the findings of this research work will serve as a reference material to researchers, academics, and other stakeholders interested in the study of competition in the SMEs in Ghana. Moreover, the study will assist student to fully understand the innovative capabilities and fully integrate them in their prospective businesses to achieve performance.

1.6 Scope of the Study

The study was conducted by sampling four hundred (400) SMEs operating in the Kumasi Metropolis whose operations fall under the following categories namely; family business, manufacturing, trade (wholesale and retail), commerce and service.

1.7 Summary of Research Methodology

The research was a field study and it was designed to collect data from Primary and Secondary sources. In respect of the primary sources, the data were collected by the use of structured questionnaires that were designed and administered to SME managers and owners. Secondary data were sources from relevant textbooks, newspapers, reports/articles, journals, bulletins etcetera. The research population was SMEs in the Kumasi Metropolis. The study focused on a sample of four hundred (400) SMEs whose operations fell under the following categories namely family business, manufacturing, trade (wholesale and retail), commerce and service. Convenience and purposive sampling techniques were used to select the respondent SMEs. The data collected were analysed using IBM SPSS version 20. Interpretations were done by means of regression and correlation as well as mean.

1.8 Limitations of the study

The study was characterised by some limitations. Key among them was:

Possible inaccuracy in the sampling size considering the fact that only SMEs in the Ashanti Region were covered. This challenge was overcome by the use of accurate sampling size techniques to select an appropriate sample size whose response can fully represent the entire population.

Difficulties in getting accurate information due to the unwillingness of entrepreneurs and managers to give sensitive information and poor culture of record keeping resulting in unavailability of data. The researcher used common method biased questionnaire to check the accuracy of information provided by the respondents

1.9 Organisation of the Study

The study is organized into five chapters. Chapter One is the introduction of the study and it includes the background description, problem definition or statement, objectives of the study, the research question, significance of the study, scope, limitations of the study and a summary of the research methodology. Chapter Two is the literature review of the study that reviews relevant literatures relating to SMEs. Chapter Three entails the research methodology, which looks at methods used in carrying out the study. Chapter Four focuses on data presentation and analysis while the summary of the study, findings and conclusions drawn from the findings and recommendations of the study were presented in Chapter Five.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The chapter presents the analyses of conceptual, theoretical, and empirical framework review of related literature to the study. The review is based on the objectives the study. The theoretical foundation of the study provided a review of innovative capabilities and its impact thereof on financial performance of SMEs. The chapter highlight opinions, criticisms of researchers, and definitions of key concepts that include innovation capabilities, performance of SMEs and entrepreneurial attitudes.

2.1 Innovative Capabilities

In today's competitive business world, one of the basic elements for survival is innovativeness and the ability to adopt to the fast changing demand of customers. Innovation has been the engine on which company's competitive strategies run. Kuswanto et.al (2012), states that innovation is a key driver for companies to pursue competitiveness and improve the performance of SMEs. This goes a long way to confirm that innovation is very instrumental in the success of every Small and Medium-sized enterprises (SMEs).

The ability to innovate simply referred to innovative capabilities and is increasingly viewed as the most important in developing and sustaining competitive advantage (Tiddet.la 2001). For SMEs to become innovative, SMEs have to develop innovative capabilities. The term "capabilities" emphasises the key role of strategic management in appropriately adapting, integrating, and reconfiguring organisational skills, resources, and functional competencies to match the requirements of a changing environment. Innovation capability is composed of the main processes within the firm

(Lawson and Samson, 2001). That is, it cannot be separated from other practices. According to Neely et al. (2001), an organization's innovation capability can be thought of as the potential to generate innovative outputs. Lawson and Samson (2001) however, described innovation capability as "the ability to continuously transform knowledge and ideas into new products, processes, and systems for the benefit of the firm and its stakeholders.

Capacity to innovate consists of an organization's intangible property and the ability to exploit this property in such way that the organization is able to produce new innovations perpetually (Yliherva 2004). In understanding innovative capabilities the emphasis is, then, not just on what resources exist but on how they are used to create value for customers (Johnson et al. 2005). Neu, and Brown (2005) posits that, the movement in organizations and business are becoming more complex rather than simple, dynamic than steady and aggressive in nature than tame. In these environments, companies that have an efficient innovation approach that generates outputs perform better than other companies (Porter, 2001; Roper et al., 2002; Baldwin and Gellatly, 2003). Assink (2006) saw innovative capabilities as a disruption in the normal process of an organisation. Accordingly, Assink (2006) reviewed that innovation capability is a driving energy to generate and explore radical new ideas and concepts, to develop them into marketable and effective innovations, leveraging internal and external resources and competencies.

An organization's competitiveness will be even more dependent on its ability to produce innovations in the future (Alasoini et al. 2007), thus, it can be assumed that an organization's performance is more and more dependent on its innovation capability (Alasoini et al., 2007). Guijaro, (2009) concluded, innovative activities are a necessity considering the scarce resources of SMEs. Innovation can only occur if a firm has the capability to innovate (Laforet, 2011). According to Laforet, the capacity to innovate should be seen as the engine on which innovation runs.

Resources represent a set of available factors owned by the firms, whereas capabilities represent a firm's ability to deploy those resources according to their processes, routines and all the firm's activities embedded in that process (Amit, Schoemaker, 1993). Organisational resources should be clearly distinguished from their capabilities (Forsman, 2011). These resources can be considered in terms of physical resources, financial resources, human resources, and intellectual capital (Johnson et al 2005).

SMEs that dedicate themselves to the development of their innovation capability have better chances of succeeding in the future. Agyei-Mensah (2016) reviewed that, organisations that are able to develop innovative capabilities appreciated by their customers, achieve competitive advantage.

2.2 Models of Innovative Capabilities

Previous literature has define and proposed various assessment models for the concept of innovation capability. Weerawardena (2003) considered innovation to be modification of product, process, service, organizational systems, and marketing systems in order to create customer value. Wang and Ahmed, (2004) proposes five dimensions of innovativeness, such as product innovativeness, market innovativeness, process innovativeness, behavioural innovativeness, and strategic innovativeness. However, Oslo (2011) developed a model that uses four different types of innovation (product innovation, process innovation, organizational or administrative innovation, and marketing innovation) to measure the innovative capabilities of a firm. This study adopted OSLO Manual's dimension and used it as a construct of measurement to measure the innovation capability of Small and Medium-Scale Enterprises (SMEs) in Ghana.

2.2.1 Product Innovation

Product innovation refers to the development and introduction of a new product to the market or the modification of existing products in terms of function, quality consistency, or appearance (Liao et al., 2007). These include significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics. Product innovations include both new products and new uses for existing products (OECD (2012). New products are goods and services that differ significantly in their characteristics or intended uses from products previously produced by the firm. New uses for products, **is** the development of a new use for a product with only minor changes to its technical specifications is a product innovation.

However, Bloch and Bugge 2013 sees product innovation as the introduction of a service or good that is new or significantly improved compared to existing services or goods in your organisation. This includes significant improvements in the service or good's characteristics, in customer access or in how it is used.

Previous studies have shown evidence of a strong relationship between product innovation and market performance (Narver, 1990). Kotler (1991) mentioned that corporate revenue's return hit more than 50% on innovation account. Products innovations can be achieved through utilize the new or existing knowledge or technologies. However, various factors such as advance technologies, customer needs change, short product life cycles and global competition increase may cause the product innovation is a difficult process. (OECD, 2005).

Communication within the firm, between the firm and its customers and suppliers is an essential step to the successes in product innovation. Moreover, the success of product / service innovations can be achieved through the improvement of processes (Oke, 2007). In addition, marketing and product innovation are positively related. Both have effect on each other (OECD, 2005). This leads to

competitive advantage increase. Firm financial performance can be improved through innovation such as the ability to respond quickly to market forces, develop and launch new products with a lower lead times (OECD, 2005).

In Ghana, SMEs that adopt product innovative practices recorded a significant growth in terms of the annual turnover (Forkuoh et. al., 2016). Ansah-Appienti et. al., (2016) posit that Ghanaian SMEs in the cities and with educated entrepreneurs adopt to product innovation at the expense of those in the rural areas. Numerous frameworks, including the product-life cycle and growth-shared matrix, postulate the need for product innovations that generate future profitability and prevent the obsolescence of firm's product line (Cooper R 1994).

2.2.2 Process Innovation

Process innovation involves creating and improving the method of production and the adoption of new elements (e.g. input materials, task specifications, information flow, and equipment) to the firm's production process (Damanpour, 1996). A process innovation includes services innovations and it is referred to as production or delivery innovations (Fagerberg et al., 2004). The implementation of a new or significantly improved production or delivery method such as changes in techniques, equipment or software is defined as process innovation. (Fagerberg et al., 2004).

Process innovation take place when the unit cost of production decreased, quality increased or new product introduced (OECD Oslo Manual, 2005). Production methods or delivery methods, or both (OECD (2011) can distinguish process innovations. Production methods are methods that involve the techniques, equipment, and software used to produce goods or services. Delivery methods however are concern with the logistics of the firm and encompass equipment, software, and techniques to source inputs, allocate supplies within the firm or deliver final products. Fagerberg et al. (2004)

emphasized that cost-cutting nature due to the process innovation will have a positive effect on the growth of income and employment. Akyos (2006) acknowledges that a process innovation can be defined as a new production method. Özdemir and Öner (2006) believe that a process innovation is changing to do work. Keizer et al. (2002, pp. 1-13) state that a process innovation covers changes caused by new information and communication technologies to improve productivity and quality of support activities. Davenport (1993, p. 5) believes that a process innovation consists of production, work, management and operational processes. Acuner (2000) states that a process innovation is integrated method that covers interfunctional innovation besides innovation in a production process (Günay, 2007).

Firms make a process innovation to manufacture innovative products (Adner and Levinthal, 2001). Olson et al. (1995) acknowledge that firms make a process innovation to decrease the production cost. Ettlíe and Reza (1992) claim that firms apply new processes to compete with other firms and satisfy their customers.

2.2.3 Marketing Innovation

Marketing innovation refers to market research, price-setting strategy, market segmentation, advertising promotions, retailing channels, and marketing information systems (Vorhies and Harker, 2000; Weerawardena, 2003). Marketing innovation engages in the improvement of target mix of markets and how selected markets are attended to. The objective of marketing innovation is to bring about major changes in product design and/or packaging, placement and promotion. A significant change in product design, packaging, placement and promotion or pricing is defined as a marketing innovation (OECD, 2005). Bloch (2013) and Bloch and Bugge (2013) have reviewed the literature on measuring innovation in the Public sector and referred to market innovation as a communication innovation. They defined communication innovation as the implementation of a new method of

promoting the organisation or its services and goods, or new methods to influence the behaviour of individuals or others.

A marketing innovation simply put is the implementation of a new or significantly changed method of promoting products of the institutional unit. Marketing innovations are strongly related to the four P's of marketing, which are pricing strategies, product package design properties, product placement and promotion activities (Baldwin and Johnson, 1996). Marketing innovation crosses the boundary of the institutional unit to make potential users aware of the product. To have a better and longer competitive advantage and profit, firms need to highly respond to the need of market and predict the market situation proactively.

Previous literature points to the fact that function of marketing requires complete market knowledge, create and provide valuable and excellent product and service towards their target customer (Weerawardena, 2003). According to Weerawardena (2003), marketing capabilities is an indispensable factor that is based in innovative capabilities of a company which can generate growth and profit via distinctive innovation capabilities. According to Liu et al. (2009), it was said that tangible and intangible resources and capabilities are important in marketing capabilities for marketing operation, including brand, sales, channel and service to provide various marketing service. Polder et al. (2010) believes that firms make innovation in marketing methods to increase efficiency. Chen (2006) state that a marketing innovation is developing new methods and techniques for marketing. Chen concluded that developing new methods, techniques and tools for marketing have significant role in organizational success.

2.2.4 Administrative Innovation

Administrative innovation is the changes in organizational structure or administrative processes. According to Greenan, (2003), administrative innovation refers to a change in the way decisions are taken: changes in the allocation of responsibilities, in the way the information is structured, and in communication structures within the organization. This includes new or significant improvements to management systems or workplace organisation (Bloch and Bugge 2013). In other words, it is a way in the organization to face the structure and processes that are significantly different from the current practices in the organization and have an economic impact (Tyni et. al., 2009).

Theory suggest that difficult to imitate and rare in market provide a firm to be competitive enough by having distinctive resources or capabilities which are valuable. Element of innovation requires combination of these resources to be essential. Nelson and Pack (1999) also said that the complementary assets that provide the foundation of dynamic capabilities and competitiveness are the factor to integrate build and reconfigure the resources. Innovation supporting activities are measured by how well a firm manages its capital investment and human in resources allocation capability. Empirical studies show that financial and human resources in small and medium enterprise are crucial for innovation Nelson and Pack (1999).

It can be concluded that an administrative innovation creates time and economic benefits by facilitating the cooperation of business functions. Mergers and acquisitions cause an organizational innovation (Günay, 2007). Polder et al. (2010) believe that an administrative innovation is defined as introducing new business practices, organizing methods, decision making systems and new approaches to manage external relations.

2.3 SME Performance

Performance, as a concept, is a subject open to wide variability as it is a somewhat imprecise word when it functions as a placeholder in research (Folan et. al 2007). The lack of agreement on a definition creates confusion and clearly limits the potential for generalisability and comparability of research in this area (Franco-Santos, et.al 2007).

To accurately assess how well a business is performing, one needs to develop some quantifiable measures by identifying those aspects of the business processes that need improvement and those that are working well (According Molly 2013). This can then be used to evaluate the company's productivity over a set period. The U.K based firm, Kellerton Consulting (2013) has observed that performance management should be at ensuring that as much information and decision making as possible is geared towards improving performance in line with the organization's goals and strategy. Calantone et al. (2002) posit that innovativeness is the most important determinant of an organization's performance.

Tidd (2001) divides measures that are used to prove the relationship between innovation and business performance, into two categories. The first group concerns accounting and financial performance. These measures include profitability and return on investment. The second group concerns market performance, for example the share or growth (Tidd, 2001).

The "Innovation Strategy" has a significantly positive influence upon organizational marketing performance. Bonoma and Clark (1988) said that a financial performance is highly tied together with cash flow, market share, sales growth rate, and profitability. Sales growth, cost reduction, revenues, market share & customer retention determines business performance of a firm. It is recommended that for a firm to survive and prosper, it must be aware of changes in consumer taste to satisfy

existing customers and secure new ones, (Ambler et al. 2002). Satisfying consumer requirements, means it is the central focus of an organization's activities, (Ambler et al. 2002).

Business performance is mainly driven by an important factor that is innovation (Desh-pande and Farley, 2004) and is crucial for competitiveness (Bastič, 2004). Eempirical study by Langerak et al., (2004) confirms a positive relationship between new-product performance and business performance; Ledwith and O'Dwyer, 2008).

Customer loyalty, market share, and sales volume is positively impacted by the effectiveness by new-product development process and the ability to successfully launch new products. Administrative, product and process innovation are related to business performance in positive way. Business performance term is used as a general performance construct to detain both market and financial aspects of presentation, (Rust et al., 2004). Clark (1999) offered expanded measurements of marketing performance, which include the financial aspect that is, profitability, saleability, cash flow, and non-financial or marketing aspect that is, customer satisfaction, customer loyalty and brand equity.

2.3.1 Financial Performance

Financial performances refer to factors of sales value, sales growth and gross profit or profitability.

Financial performance according to scholars is measured by the extent to which the organization performs in relative sales value, sales growth and gross profit / profitability, (Li.L, 2000). In a study carried out by Hakan Kitapci, Bulent Aydin and Vural Celik, the financial performance was represented by the sales value, and general profit of the organization. (Kitapci, Aydin, & Celik, 2011). Marketing growth and sales growth directly contribute to the profits of the organization through increase in price premiums and sales revenues, by decreasing marginal unit costs thus

leading to significant overall profits (Wei & Wang, 2005). According to E.T.G.Wang and H.L.Wei, firm's sales will be affected by product innovation (Wei & Wang, 2005). Prior study done by William and Michael, sales growth is the most significant growth variable affecting financial performance in the actual industries examined (William & Michael, 1995).

Profitability is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities. Understanding the determinant profitability is the key factors that help managers in developing an effective profitability strategy for their company (Gitman and Zutter, 2012). According Yazdanfar (2013), one of the importance precondition for long-term firm survival and success is firm profitability. The achievement and other financial goals of the firms are significantly affected by the profitability determinant of the firm.

2.3.2 Marketing Performance

Marketing performance refers to market growth, cost reduction, revenues, customer satisfaction, customer loyalty, brand equity and market share of a firm. Prior study results have shown that innovation capability is positively related to market performance. Market innovation is the most significant factor for market performance (AMA 2005). Market performance will be affected by the customer behaviours, which can be measured using unit sales and sales revenue (Kaplan and Norton, 1993). Thus, the financial performance outcome in terms of revenue, cash flow, and profitability can be determined by the sales performance of the firm. (Day and Fahey, 1988).

The US American Marketing Association White Paper (AMA 2005) identified Incremental sales revenue, Ratio of cost to revenue, Cost per sale generated, Changes of financial values of sales

generated, Cost of new customer and Cost of old customer retention as the ROI measurement (AMA 2005). Research has shown the possibility of trade-offs between service quality improvement that increase revenue and reduce costs (Anderson, Fornell, and Rust 1997).

Market share represents the percentage of an industry, or market's total sales that is earned by a particular company over a specified time period. Market share is calculated by taking the company's sales over the period and dividing it by the total sales of the industry over the same period. This metric is used to give a general idea of the size of a company in relation to its market and its competitors.

Market share has been one of the most common non-financial measures adopted by SMEs (Bouchikhi 1993; O'Farrell 1986).

Market growth according to the business dictionary, is an increase in the demand for a particular product or service over time. Market growth can be slow if consumers do not adopt a high demand or rapid if consumers find the product or service useful for the price level. The level of market growth determines the sales profit of an SME, hence can be used to determine the financial performance of the firm in the market. Market growth is divided into three focus possibilities for the company, i.e. existing market segments, new market segments, as well as both existing and new market segments (Pleshko 2006). Moreover, Ansoff (1957) suggests the safest growth option as to adopt a market penetration/saturation strategy whereby a company's existing customers increase their usage and in addition, the company takes over a few new customers from its competitors (Pleshko 2006).

2.4 Entrepreneurial Attitude

Entrepreneurship referred to the discovery and exploitation of profitable opportunities (Shane and Venkataraman, 2000). An entrepreneur is someone who manages, organizes and presumes the risks

of an enterprise or a business. An entrepreneur creates or develops something that no one has thought about it before. According to Zimmerer and Scarborough (2005) entrepreneur is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities on assembling the necessary resources to capitalise on them.

Generally, SMEs in Ghana are run on the ideals and values of the owners. In addition, the success of small firms' decisions heavily depends on the personality traits of entrepreneurs (Antoncic et al. 2008).

Thus, their success or failure depends on the resources available to the owners. These resources, Nunoo and Andoh (2012) argue, include the financial literacy level of the SME-owner and cultural values, as this study argues, especially when access to finance is no longer a major problem to SMEs in some developing economies like Ghana (Nunoo & Andoh, 2012). Others have cited knowledge, habits, social, and personality attributes as factors influencing entrepreneurial intentions (Unger, Rauch, Frese, & Rosenbusch, 2011).

Studies on entrepreneurship from personality traits are concentrated on few areas. According to Hisrich (2000) the study of the entrepreneur from personality viewpoints has concentrated on three areas: need for achievement, risk-taking behaviour, and internal locus of control or self-confidence. Johnson, Newby and Watson (2005) argued based on recent reviews of the entrepreneurship personality literature that these three variables might not be sufficiently exhaustive in examining the role played by personality in determining entrepreneurial motivation. Therefore, in this study two other variables are included in the theoretical framework namely innovativeness (Zimmerer and Scarborough 2005) and opportunity-recognition (Kirzner 1973; Busenitz 1996).

2.4.1 Need for Achievement

Henry Murray (American psychologist) originated the concept of Need for Achievement in 1938. Murray refers to need for achievement as an individual's desire for significant accomplishment, mastering of skills, control, or high standards. Entrepreneurs are known by their need for achievement that is a drive to excel, advance, and grow. Entrepreneur's need for achievement personality trait is characterized by an enduring and consistent concern with setting and meeting high standards of achievement. This need is influenced by internal drive for action (intrinsic motivation), and the pressure exerted by the expectations of others (extrinsic motivation).

2.4.2 Opportunity-recognition

Opportunity-recognition as an entrepreneurial activity contains not only new product innovation but also the recognition of new markets and opportunities, such as customers' needs. In other words, innovation involves the process of creating new ideas and recognizing new market opportunities. Shane and Venkataraman (2000) defines entrepreneurial opportunity recognition as a process whereby individuals identify, recognize, and discover potential opportunities to create and develop new business, ventures, markets, and technology. Recently, researchers have emphasized the importance of entrepreneurship not only to encourage the development of new business but also the recognition and pursuit of new entrepreneurial opportunities (De Carolis and Saporito, 2006; Fillis, 2006). Entrepreneurial opportunity recognition contributed significantly to individual-level innovation performance (Ellinger, Wang and Wu, 2013).

2.4.3 Self-confidence

Self-confidence is concerned with how a person feels about his ability. A successful entrepreneur believes in his abilities and is not scared to explore un-chartered territories, take risk, and take difficult decisions. Self-confidence, however, is not a personal trait that either one have or do not, but an attitude that can be learnt through training. Brockner (1988) perceived that self-esteem in business

as the self-confidence and personal competency of an individual in connection with his/her business affairs. Self-esteem is the factor with second largest impact on firm performance. According to Hogg and Cooper 2007, self-esteem refers to an individual perceived competency and self-confidence. An entrepreneur can have high self-confidence in one situation and totally lack in another. Self-confidence is a positive belief that in the future one can generally accomplish what one wishes to do. Entrepreneurs need self-confidence in their decision making to help grow their businesses.

2.4.4 Innovativeness

Innovativeness reflects the tendency of companies to promote new ideas, new experiments, and creative processes that may result in new products, services or technological processes. Entrepreneurs' innovativeness and personalities play a key role in the adoption of innovations in SMEs (Marcati, Guido & Peludo, 2008). Innovativeness as the ability to participate in innovation processes is a competence closely linked to participation processes in a dynamic, ever-changing society that needs mature citizens who shape the present and the future in accordance with their ideas, interests and social responsibility (Weis, Scharf and Gryl, 2017). According to Moreno and Casillas (2008), innovativeness of companies can be defined as the intention to encourage new creative ideas, experiments, and processes that may result in new products, services, or technological processes. Innovativeness is associated with personal characteristics of an entrepreneur, such as age, gender, professional experience, and financial resources of a company (Boyer and Blazy 2014)

2.4.5 Risk Taking

Many of people think risk – taking is extreme risking, but entrepreneurs intend to receive medium and rational risks. Risk-taking refers to the tendency to engage in behaviours that have the potential to be harmful or dangerous, yet at the same time provide the opportunity for some kind of outcome that can be perceived as positive. Mahmood & Hanafi (2013) state, that entrepreneurial orientation

such as risk taking, pro-activeness, and innovativeness is significantly related to the company performance. Generally, according to the 2011 International Conference on E-business report, entrepreneurs accept four types of risks as follows: financial risk, social and family risk, job risk, , and mental risk.

2.5 Effect of Innovation Capabilities on SMEs Performance

Innovation has always been a critical component in ensuring the long-term survival of organizations. Extensive researches in innovation management have descriptively linked innovation with competitive and economic outcomes (Carlsson et al., 2002). The greater an organization's capability to successfully and continuously develop innovation capabilities the greater the benefit the organization will obtain competitive advantages. The improvement of innovation capability as key firm's resources can be beneficial to a firm (Guan and Ma, 2003). Again, Yam et al. (2004) found that innovation capability is positively related to new product introduction and sales.

Current generation of models studying the impact of innovative capabilities on firm performance has shifted focus to the complex innovation process and channels through which the innovation inputs are transformed into better performance (Loof, et al., 2002; Kemp, et al., 2003; Bessler, et al., 2008). In recent years, the four-equation model originally developed by Crepon et al. (1998) has become the dominant model within this strand. The model portrays innovation process as consisting of four stages: the decision to innovate, the decision on how much to spend on innovation activities, the relation between expenditure on innovation and innovation output, and the relation between innovation output and performance. These four stages are estimated in a sequential way and it is assumed that the causality runs from the decision to innovate to the firm performance. However, it has also been argued that there is reverse causality from firm performance to innovation output stage. The four stages are modelled in a way to incorporate various factors identified in the literature as

determinants of the innovation process such as firm characteristics, industry specific factors and the institutional background. Again, the range of factors used in individual studies depends on the quality and coverage of the dataset used.

The impact of innovation capabilities on firm performance has been a matter of significant interest to economists and policy makers for decades. Although innovation is generally regarded as a means of improving the competitiveness of firms and their performance on domestic and foreign markets, this relationship has not been supported unambiguously by empirical work. Innovative activities of firms influence their performance not necessarily directly but through the production of useful innovations and increased productivity (Hashi and Stojcic, 2010). Despite a clear correlation between innovation and performance, the factors that can enhance innovation remain unclear and need further investigation (Forsmann, 2011).

2.6 The Relationship between Innovative Capabilities and Entrepreneurial Attitude

The attitude of an entrepreneur is undoubtedly a major contributory factor to the success of a business organisation. Nasuredin, Halipah, and Shamsudin (2016) concluded that entrepreneurial competencies affected the business success in SMEs. Innovation however is seen as a survival tool in a competitive business environment. Firms with high innovation capabilities are more successful both in domestic and overseas markets than firms with lower innovation capabilities (Salomon, Shaver 2005). Rosenbusch et al. (2011) urged that innovation have a positive effect on SME performance and business success. The benefits of innovation are useful and far exceed the cost of the resources to implement it (Niera et al., 2009). In Ghana, innovation plays a critical role and impact positively on performance of SMEs (Kraa 2016).

Previous studies have proven that innovative capabilities and entrepreneurial attitudes are strongly related. Kazemi et al. (2016) found a significant positive impact between innovation and entrepreneurial competencies of a firm. Hashim (2018) concluded that entrepreneurial attitudes have a positive and significant effect on innovation and innovative capabilities of a firm.

2.7 Effect of Entrepreneurial Attitude on Performance of SMEs

In the current globalized-competitive business world, firms relentlessly adopt to innovative activities to gain and retain customers. Innovation continues to be a key strategic tool for companies to differentiate itself from competitors. Innovation activities are however strongly influenced by the leader of the SME (Julien and Carrier, 2002; Guijaro et al., 2009). SME competitiveness and innovation has been widely used by public institutions since the 1980s to foster competitiveness and global growth (Laperche, Uzunidis, 2010).

In Ghana, the entrepreneurs themselves manage most SMEs. The leaders of these SMEs are perceived to be the main driver of innovation activities, and innovation activities depend on its vision (O'Regan et al., 2005) its characteristics tend to shape the firm (Hyvarinen, 1990). According to previous studies, two characteristics of SME entrepreneurs seem to have a significant impact on SMEs' innovation activities. One characteristic comprises the personal experiences (Romijn, Albaladejo, 2002), knowledge (Gronum, 2011), competencies and abilities of the leader (Forsman, 2011). The other characteristic that has a significant impact on SMEs' innovation activities includes the personality and behaviour of the leader, which also affects the SMEs' innovation activities, particularly regarding the will to innovate (Miller and Toulouse, 1986; Lefebvre et al., 1997).

The attitudes of SME leaders are visible when the entrepreneur is not a risk-taker and is not willing to take risks. His attitude results in limiting the firm's innovation (Hausman, 2005; Hadjimanolis, 2000;

Kickul, Gundry, 2002). Firms' performance are affected by entrepreneurs who are proactive and are willing to implement proactive and collaborative management programs that encourage innovation and change (Kickul and Gundry, 2002). Other SME entrepreneurs prefer to implement aggressive or protective management programs that limit innovation (Lefebvre et al., 1997; Thom, 1990).

2.8 Empirical review

Several studies show that there is a positive relationship between innovation and firm performance (Griliches and Mairesse, 1990; Crépon et al., 1998; Lööf and Heshmati, 2001, 2002; Mairesse and Mohnen, 2003; Kafouros et al., 2008) (Basterretxea and Ricardo Martinez, 2012, p. 362). Prajogo (2006) reveal that innovation in manufacturing industry is more radical and has a stronger impact on performance than it is in service sector. Günday et al. (2011) highlight that there are studies, which explore relationship between innovation types and performance. Damanpour et al. (2009) found a positive impact of innovation types on firm performance. Bowen et al. (2010) revealed a relationship between innovativeness and future firm performance. Subramanian and Nikalanta (1996) showed a positive effect of innovation on firm performance. Cingoz and Akdogan (2011) proposed the positive linkage of expected positive performance outcomes with innovative behaviour (Ul Hassan et al., 2013, p. 244-248).

In 2012, Seidu Awudu conducted a study on the marketing activities of Small and Medium Enterprises in the Tema metropolis. The study examined the marketing activities of 156 Small and Medium Enterprises (SMEs) in the Tema metropolis. Results of the study revealed that the SMEs generally perceive marketing planning as an important activity in their business operations.

A study on the “determinants of innovation among micro, small and medium scale enterprises in the Ghanaian apparel industry” fifty apparel firms selected from the Accra Metropolis in the Greater

Accra region of Ghana revealed that the experience of entrepreneur positively relate to product and process innovation (Afful, 2010). Hassan et al. (2013, p. 243) showed a positive impact of innovation types on firm performance in Pakistani manufacturing firms. Tettey (2014) used 205 SMEs out of the 434 registered SMEs in the New Juaben Municipality for a study on “entrepreneurial motivation and firm performance of small and medium scale enterprises”. The study found an insignificantly positive relationship between the motivational entrepreneurial traits and firm performance of the entrepreneurs.

However, Siyamtinah (2015) posit that performance significantly and positively influences competitive advantage. In the study conducted on 120 entrepreneurs in Troso Jepara, SME woven owners’ innovation capability and performance were significant and positive influence product innovation.

Richard Mongson again in 2016 used a sample size of 240 SME respondents operating under four different economic sectors in the Birim Central Municipality, to conduct a study to assess ICTs in SMEs activities in the Birim Central Municipality. The study found that Mobile Phones were the most preferred and used ICTs by the SMEs. Yeboah-Mantey (2017) used a sample size of 338 SMEs in the Cape Coast Metropolis for the study on the impact of management accounting practices on financial performance of Small and Medium Enterprises. The study indicated that access to credit and buying bulk purchases from cheaper sources enhanced business prospects in profit maximization and smoothed SMEs financial performance.

2.10 Conceptual Framework

Innovative Capabilities

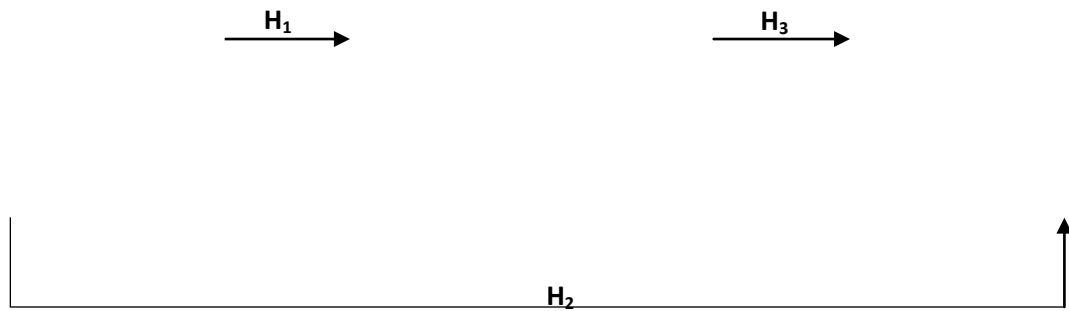
Product Innovation Process Innovation Marketing Innovation Administrative Innovation
--

Entrepreneurial Attitude

Need for Achievement Opportunity-recognition Self-confidence Innovativeness Risk Taking

Performance

Financial performance Market performance



Source: Authors Construct, 2019

The above diagram represents the proposed conceptual framework of this research study, which identify the extent to which innovative capabilities influence the performance of Small and Medium-Sized Enterprises SMEs in Ghana. It also identifies the impact of SME entrepreneurs' attitude of the performance of the Ghanaian SME industry. The conceptual framework also examine how significant is each of the independent innovative capabilities variables in ensuring the overall performance of an SME.

At a glance on the research model, there are entrepreneurial attitude variables, which are need for achievement, opportunity-recognition, innovativeness, self-confidence, and risk taking. The entrepreneurial attitude variables play a mediating role. Product innovation, process innovation, marketing innovation, service innovation and administrative innovation are the independent innovative capabilities variables on which the dependent variable (Performance) depends. The performance variable, which happens to be the dependent variables are financial performance and marketing performance.

CHAPTER THREE

METHODOLOGY AND INDUSTRY PROFILE

3.1 Research Design

Research design is the strategy or method that researchers choose to integrate the different components of a research work in a coherent and logical way (Saunders, Lewis, & Thornhill, 2007).

Research design is the blueprint for the collection, measurement, and analysis of data. Saunders et al. (2007) identified three main research designs; these are exploratory, descriptive, and explanatory (or causal) studies.

This study adopts an explanatory research design in examining the effects of innovative capabilities on performance of SMEs in Ghana, because in the opinion of the researcher, the descriptive research design allowed several SMEs spread across the entire study area to be included in the study.

3.2 Population of the study

The population of this study comprises of all SMEs (both registered and unregistered) in the Kumasi Metropolis. A population refers to the total number of all units of the issue or phenomenon to be investigated into which all the possible observations of the same kind are made (Kumekpor, 2002).

Out of the numerous SMEs in the Kumasi Metropolis, available data shows only 96 have registered with the National Board for Small-Industries (NBSSI) as at the end of the third quarter of 2018.

3.3 Sample Size and Sampling techniques

A sample is a sub-group or representative selection of a population that is examined or tested to obtain statistical data or information about the whole population. Sampling however is the process of selecting a group of people, items or cases to be used as a representative or random sample (Saunders et al., 2007).

The mechanism used in achieving the sample size is known as the sampling technique. The sampling technique provides a range of methods that enable researchers to reduce the amount of data collection by considering only data from a subgroup rather than all possible cases (Robson, 2002).

Based on precedents of previous study captured in the empirical review in Chapter two of this study, a sample size of 400 SMEs in the Kumasi Metropolis were chosen for the study. Moreover, the study used convenience and purposive sampling techniques to select and administer the questionnaires. Convenience and purposive sampling technique was used to ensure that the respondents chosen from the population understand the questionnaires.

3.4 Method of Data Collection

The researcher used both primary and secondary data. Sources of primary data were collected through a field survey of questionnaires to elicit information from entrepreneurs from selected SMEs in the Kumasi Metropolis. Books, articles, publications, and Journals were referred for the secondary data. Questionnaire was used for the primary data because it is the most effective instrument for field survey data collection. Likert scale of 1-5 that range from “Strongly Disagree” to “Strongly Agree” was used as parameters identifying respondent’s opinions in the questionnaire.

Information collected was on innovation, innovation capabilities, and effects of innovation capabilities, entrepreneurial attitude, and performance of SMEs.

3.5 Data Analysis

In terms of data analysis, data obtained from the survey was subjected to critical analysis and examinations that help the study to make appropriate recommendations. Descriptive and explanatory analysis was used in analysing the responses obtained from the interviews. The Statistical Package for Social Sciences (SPSS) software was used to run the regression to determine the relationship of

dependant and independent variables. Interpretations were done by means of regression and correlation.

3.6 Measurement of Construct

The researcher of this research study has measured the effect of innovation capabilities and entrepreneurial attitude on performance.

Construct	Variable	Source
Innovative capabilities	Product Innovation	Oslo (2011).
	Process Innovation	
	Marketing Innovation	
	Administrative Innovation	
Performance	Financial performance	Clark (1999)
	Marketing performance	
Entrepreneurial Attitude	Need for Achievement	Hisrich (2000)
	Risk Taking	
	Self-confidence	
	Innovativeness	Johnson et al (2005)
	Opportunity-recognition	

Source: Author's Construct, 2018

3.6 Overview of the SME Sector in Ghana

Statistics from the Registrar General's Department suggests that 92 per cent of companies registered are micro, small, and medium enterprises. SMEs in Ghana are the backbone of the Ghanaian economy as they represent about 85% of businesses, largely within the private sector, and contribute about 70% of Ghana's gross domestic product (GDP) (International Trade Centre 2016). SMEs in Ghana improve the efficiency of domestic markets and facilitate long-term economic growth.

However, the industry is faced with numerous challenges that are making the SME sector unattractive and uncompetitive on both the local and global scene. This study therefore is to research on how innovative capabilities would help improve the performance of the sector both financially and non-financially.

This research study covers the development in the SME industry in the Kumasi Metropolis as at the end of October 2018. The major activities within this sector include:- soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smiting, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical based products and mechanics (UNECA 2010, Kayanula and Quartey 2000).

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter contains the results of a study carried out to examine the effect innovative capabilities on the performance of SMEs in the Kumasi metropolis. The analysis and discussion of the results centered on the research objectives. The demographic information of respondents and firm characteristic of sampled SMEs are analysed. Again, the effect of innovative capabilities on firm performance of SMEs, and the relationship between innovative capabilities and entrepreneurial attitude are also analysed and discussed. Moreover, the study also assessed the impact of entrepreneurial attitude on innovative capabilities and SMEs performance.

4.2 Demographic Information

A comprehension of the respondent's profile is achieved by their demographic data.

Having background knowledge of respondents helps generate confidence in the reliability of gathered data. In this study, the demographics includes the gender, the age of respondents, position held by of the respondent.

However, aside the demographics of the respondents, some basic company characteristics were sort. These characteristics includes company legal structure, SME type and the number of employees in the company and number of years of operation.

A summary of results of the demographic information and company characteristics from the analysed data are presented in the tables below.

Table 4.1: Demographic Information

	VARIABLE	FREQUENCY	PERCENTAGE
Gender	Male	208	52.7
	Female	187	47.3
Age	Under 30 years	33	8.4
	30 - 40 years	173	43.8
	41 - 50 years	140	35.4
	Above 50 years	49	12.4
Employment Status	Manager	223	56.5
	Director	149	37.7
	Others	23	5.8

Source: *Researchers field work (2019)*

4.2.1 Demographic Information

The breakdown of the respondents by gender, age and employee status is shown in Table 1 above. The demographic information indicates that out of the total number of 395 respondents, male respondents were 208 representing 52.7% as against 187 (47.3%) female respondents.

A summary of the age distribution of respondents results shows, out of the total sample population of the research, 33 (8.4%) respondents were people below the ages of 30 years whilst 173 respondents representing 43.8% fell within the age bracket of 30 and 40 years. 140 (35.4%) respondents were between the ages 41 and 50 years of age. However only 49 respondents representing 12.4 % out of the total sample of 395 were above the age of 50.

The above outputs in table 4.1 indicates that 149 respondents representing 37.3% were the entrepreneurs or owners of business who manage their firms as directors. Meanwhile, 223 (56.5%) of the respondents were managers whilst 23 (5.8%) respondents were performing other roles such as supervisors, departmental heads, marketers, administrators etcetera.

The demographic information infers that SMEs in the Kumasi metropolis have more male entrepreneurs or SMEs managers than female and this population is dominated by young adult and

adults within the ages of 30 and 50 years. Moreover the analysis concludes that, most of SMEs in Kumasi are managed by the owners themselves.

The demographic information implies that the SME subsector in the Ashanti Region is dominated by male. The age distribution points to the fact that more young adults and adults are involve in the SME subsector than the youth and the aged. However, almost all the SME firms are managed by the entrepreneurs themselves.

4.3 Company Characteristics

Table 4.2: Company Characteristics

VARIABLE		FREQ	PERCENTAGE
LEGAL STRUCTURE	Partnership	42	10.6
	Sole Trader	210	53.2
	Registered Company	140	35.4
	Others	3	0.8
YEARS OF OPERATION	0 - 5 years	84	21.3
	6 - 10 years	139	35.2
	11 - 20 years	123	31.1
	20 years and above	49	12.4
NUMBER OF EMPLOYEES	0 - 5	159	40.3
	6 - 10	124	31.4
	11 - 20	90	22.8
	21 and above	22	5.6
SME SUBSECTOR	Trading	204	51.6
	Clothing and tailoring	59	14.9
	bakery	27	6.8
	food and beverages	35	8.9
	wood furniture	24	6.1
	soap and detergents	17	4.3
	others	29	7.3

Source: *Researchers field work (2019)*

4.3.2 Legal structure

Using the normal statistical distribution, four classes were obtained for the legal structure of SMEs. Out of the total number of the 395 firms involved in the survey, 42 representing 10.6% were formed out of partnerships whilst sole traders were 210 representing 53.2%. 140 firms representing 35.4% were SMEs registered under either the Registrar General Department of Ghana. 3 (0.8%) firms however, were either limited liability companies or unregistered family business. The findings are valid to make the generalisation that most SMEs in the Ashanti Region are sole traders.

4.3.3 Years of Operation

The data captured in table 4.2 - in the years of operation column- indicates the operational history firms who were involved in the survey. The summary reveals that 21.3% of the respondent firms had existed for 5 years or below. 139 (35.2%) firms had operated for 6 to 10 years. 123 businesses representing 31.1% that were involved in the survey had been in existence for a minimum of 11 and maximum of 20 years. Meanwhile 49 (12.4%) firms recorded more than 20 years of existence.

4.3.4 Number of employees

After the survey, it was revealed that, 159 SME firms representing 40.3% had employees between 0 and 5, 124 firms representing 31.4% had 6 – 10 employees. An employee population between 11 and 20, and 21 and above were recorded in 90 (22.8%) and 22 (5.6%) firms respectively.

4.3.5 SME subsector

The results of this study showed that 204 firms representing 51.6% were into trading, 59 firms (14.9%) were companies that were involved in clothing and tailoring, 35 firms representing 8.9% were into food and beverages. 24 (6.1%) and 17 (4.3%) were into wood furniture and, soap and

detergents business respectively. Moreover, 27 (6.8%) firms were into bakery whilst 29 (7.3%) firms representing 3.4% were into other subsectors.

The result of the research study on company characteristics implies, the SME subsector in the Ashanti region is dominated by trading with majority of them operating a sole trader business structure. Majority of these sole traders has an employee strength between one to ten employees meaning the SME is a one of the highest contributor to employment in Ghana. Considering the trading history behind the Kumasi metropolis, the fewer number of business that had an operating history of 20 years and above means that majority of SME firms cannot survive beyond thirty years. The study also discovered that 35.4% of the SMEs were officially registered and this implies that most of the SMEs in the Ashanti Region are formalising their operations.

4.4 Reliability of study

Variable	Cronbach alpha coefficient	Number of items
Product Innovation	0.811	7
Process Innovation	0.824	7
Organisational innovation	0.737	5
Marketing Innovation	0.715	7
Entrepreneurial Attitude	0.721	10
Financial Performance	0.709	4
Marketing Performance	0.740	4

Source: *Researchers field work (2019)*

The reliability of the study is based on various scales and variables used and the Cronbach alpha is used to determine the reliability. The Cronbach alpha coefficient is to make sure of how consistent

the variables used are. Cronbach alpha coefficients of 0.7 is described as reliable whilst an alpha coefficient of 0.8 is preferable (Creswell 2009). The alpha coefficients of 0.737, 0.715, 0.721, 0.709 and 0.740 obtained from the Cronbach alpha output data which represent, organisation innovation, marketing innovation, entrepreneurial attitude, financial and marketing performance respectively were reliable. The data output of 0.811 and 0.824, product innovation and process innovation respectively concludes that the variables used to asses product innovation and process innovation were preferable.

4.5 Correlation Matrix

The Correlation matrix below shows the relationship that existed between the variables used in the study and is used to assess if there is a multicollinearity between the variables used.

For the study to be strong, the Correlation should not be more than 0.7 (F. Hair Jnr. 2007). As shown in the Correlation matrix table of the study below, at the significant level of 99% (error margin of 0.1%), there were no multicollinearity among the variables used for the study.

Table 4.4: Correlation

	proinnov	prossinnov	orginnov	mktinno	entattit	finperf	mktpenf
proinnov							
prossinnov	.393**						
orginnov	.329**	.390**					
mktinno	.456**	.445**	.447**				
entattit	.352**	.340**	.336**	.472**			
finperf	.312**	.367**	.410**	.415**	.260**		
mktpenf	.272**	.305**	.361**	.330**	.215**	.530**	

** . Correlation is significant at the 0.01 level (2-tailed).

Source: *Researchers field work (2019)*

Key: Proinnov = product innovation, Prossinnov = process innovation, orginnov = organisational innovation, mktinno = market innovation, entattit = entrepreneurial attitude, finperf = financial performance, mktperf = market innovation

4.6 Effect of innovative capabilities on performance of SMEs in Ghana.

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.539 ^a	.291	.284	.34511

a. Predictors: (Constant), mktinno, Prossinnov, orginnov, Proinnov

Key: Proinnov = product innovation, Prossinnov = process innovation, orginnov = organisational innovation, mktinno = market innovation.

Source: *Researchers field work (2019)*

Table 4.6: ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.017	4	4.754	39.918	.000 ^a
	Residual	46.331	389	.119		
	Total	65.348	393			

a. Predictors: (Constant), mktinno, Prossinnov, orginnov, Proinnov

b. Dependent Variable: performance

Source: *Researchers field work (2019)*

Table 4.7: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	1.723	.200		8.599	.000		

Proinnov	.088	.045	.098	1.971	.049	.738	1.354
Prossinnov	.133	.042	.158	3.147	.002	.724	1.382
orginnov	.221	.042	.259	5.234	.000	.747	1.339
mktinno	.150	.040	.196	3.716	.000	.652	1.533

a. Dependent Variable: performance

Source: *Researchers field work (2019)*

Results from the above regression table shows that there is a moderate relationship (R-value of 0.539) between innovative capabilities and there performance of an SME firm. The relationship (R) value of 0 to 0.3 is weak; 0.3 to 0.7 is moderate; and correlation value between 0.7 and 1 is strong.

The R square value of 0.291 shows that only 29.1% of SME firm performance can be based on the innovative capabilities of that SME firm. This point to the fact that there is a moderate relationship connecting innovative capabilities and SME firm's performance in Ghana. From the (Analysis of Variance) ANOVA results, the output depicts that the impact of innovative capabilities on the performance of SMEs is statistically significant and fit for the model. The output values of (F = 39.918; sig. = 0.000) confirms the statistical significance and fitness of the model. This confirms Calantone et al. (2002) study that posit that innovativeness is the most important determinant of an organization's performance. Guijaro, (2009) concluded, innovative activities are a necessity considering the scarce resources of SMEs.

4.6.1 Product innovation

In the regression results, the coefficient value (B) of 0.088 depicts a positive relationship between product innovation and SME performance. This means that when all other variables (process innovation, organisational innovations, and marketing innovations) are held constant, continues product innovation would lead to an increase in SME firms' performance. Product innovation is

statistically significant and an influence on SME performance with (t value of 1.971 and significant of 0.049). SMEs that adopt product innovative practices recorded a significant growth in terms of the annual turnover (Forkuoh et. al., 2016).

4.6.2 Process innovation

With regards to process innovation regression results, the coefficient value (B) of 0.133 is depicting a positive relationship with SME performance. This means that when all other variables are kept constant, a firm's performance will increase when process innovations increase. Process innovation is statistically significant to SME performance implying that it has an influence on performance with a t value of 3.147 and significant value of 0.002. This supports Olson et al. (1995) acknowledgement of process innovation as a measure of decreasing the production cost thereby improving on the financial performance of a firm.

4.6.3 Organizational innovation

Organization innovation was assessed and the regression results points to a coefficient value (B) of 0.221 portraying a positive relationship with SME performance. Organization innovation is statistically highly significant to SME performance implying that it is has a major influence on performance with a t value of 5.234 and significant of 0.000.

The conclusion of the output supports a study by Günay which posit that that an organisational innovation creates time and economic benefits by facilitating the cooperation of business functions (Günay, 2007).

4.6.4 Market innovation

Market innovation's regression results shows to a coefficient value (B) of 0.150. The output means, there is a positive relationship with SME performance. Market innovation is statistically significant to SME performance implying it is has an influence on performance (t-value of 3.716 and significant of 0.000).

4.6.5 Beta values

After a careful analysis of the individual effect of the independent variables (product innovation, process innovation, organization innovation and market innovation), to identify the value that makes the greatest contribution to the performance of an SME firm, the beta variable outputs of the independent variables 0.098, 0.158, 0.259 and 0.196 which represents product innovation, process innovation, organization innovation and market innovation respectively were used. From the analysed results of the study, product innovation had the highest contribution to the performance of SMEs in Ashanti Region.

4.7 Relationship between entrepreneurial attitude and innovative capabilities among SMEs in Ghana.

Table 4.8 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
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1	.505 ^a	.255	.253	.33897
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a. Predictors: (Constant), InnoCcap

Table 4.9 ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.460	1	15.460	134.549	.000 ^a
	Residual	45.156	393	.115		
	Total	60.616	394			

a. Predictors: (Constant), InnoCcap

b. Dependent Variable: entattit

Key: entattit = entrepreneurial attitude, InnoCcap = Innovative Capabilities

Table 4.10 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.723	.190		9.080	.000		
	InnoCcap	.544	.047	.505	11.600	.000	1.000	1.000

a. Dependent Variable: entattit

Source: *Researchers field work (2019)*

The attitude of a personality has an influence on the decisions they take. The study assessed the impact the attitude of an entrepreneurial have on innovative capabilities of a firm. The results from the analysed data showed the existence of a moderate relationship between entrepreneurial attitudes of an entrepreneur and the innovative capabilities of the SME firm he operates. This was evident with the R-value of 0.505. The R square value of 0.255 depicts that 25.5% of SME firm's ability to innovate depends on the attitude of the employer.

The ANOVA results however, the statistical values of ($F = 134.549$; $sig. = .000$) recorded shows that the impact of entrepreneurial attitudes on the innovative capabilities of SMEs is statistically significant and was fit for the study.

The coefficient value (B) of 0.544 in the regression output, portrays a positive relationship with innovative capabilities and entrepreneurial attitude. This means that when all other variables remain constant, the innovative capabilities of a firm will increase when the entrepreneur develop innovative ideas. The statistical significant value of 0.000 and t-value of 11.600 represent the influence entrepreneurial attitudes have on SME innovative capabilities.

4.8 Effect of entrepreneurial attitude on performance of SMEs.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.277 ^a	.077	.072	.37723

a. Predictors: (Constant), mktperf, finperf
entattit = entrepreneurial attitude

Table 4.12 ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.634	2	2.317	16.282	.000 ^a
	Residual	55.641	391	.142		
	Total	60.275	393			

a. Predictors: (Constant), mktperf, finperf
b. Dependent Variable: entattit

Key: mktperf = market performance, finperf = financial performance, entattit = entrepreneurial attitude

Table 4.13 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.842	.194		14.643	.000
	finperf	.163	.047	.199	3.471	.001
	mktperf	.099	.049	.115	2.002	.046

a. Dependent Variable: entattit

Source: *Researchers field work (2019)*

The study also assessed the extent to which of the entrepreneurial attitude affect the performance of SMEs. The results show that there is a weak relationship (R-value of 0.277) between entrepreneurial attitudes and the performance of an SME firm. The R square value of 0.077 shows that only 7.7% of SME firm performance can be attributed to the attitude of its entrepreneur’s attitude.

The ANOVA results however, shows that the variables used in the assessment of entrepreneurial attitudes effect on performance of SMEs was statistically significant and fit for the model. A statistical value of (F = 16.282; sig. = .000) indicate that the model was fit for the study.

The regression result points to a coefficient value (B) of 0.163. The output data depicts a positive relationship between entrepreneurial attitude and a financial performance of an SME firm. Entrepreneurial attitude is statistically significant to SME financial performance implying it is has an influence on the financial performance of SMEs (t-value of 3.471 and significant of .000).

The regression result of effect of the entrepreneurial attitude on market performance the other hand resulted in a coefficient value (B) of 0.099. The output data shows a positive relationship between entrepreneurial attitude and a market performance of an SME firm. Entrepreneurial attitude is statistically significant to SME's marketing performance implying it is has an influence on the market performance of SMEs (t-value of 2.002 and significant of .046).

The regression analysis posit to the fact that, financial performances are affected by entrepreneurial attitude more than market performance of an SME firm.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

This is the last chapter of the project work, it summarizes the entire study, makes conclusions based on the findings, and important recommendations are made by the researcher.

5.2 Summary of Findings

This project work set out to generally assess the influence innovative capabilities have on the performance of SMEs in the Kumasi Metropolis. The various findings of this study are discussed below.

5.2.1 The effect of innovative capabilities on performance of SMEs.

Firstly, innovative capabilities are believed to be if not the only, the main competitive tool on which the performance of a Small and Medium Scale Enterprise (SME) rides. Many scholars believe that a firm's performance in a competitive environment will be incomplete if it refuses to constantly embark on innovative ways of doing business. That is to say that, performance of SMEs largely depend on innovative capabilities. The study sought to ascertain the real impact of innovative capabilities on performance. It was establish from the study that performance of SMEs can partly be attributed to the innovative capabilities of that firm. However there is a moderate relationship connecting innovative capabilities and SME firm's performance in the Kumasi Metropolis of Ghana. Innovative capabilities have various dimensions; product innovation, process innovation, organization innovation and market innovation, from which a company can chose from or combine depending on the business situation at hand. The researcher also revealed from the study that, among

the innovative capability dimensions, innovations that centres on product development or improvement impacts performance the most.

5.2.2 The relationship between innovative capabilities and entrepreneurial attitude among SMEs.

The second objective one of this study, sought to identify the relationship between entrepreneurial attitude and innovative capabilities and examine the extent to which a company can be innovative based on the innovative ideas and attitude of the business owner. The researcher found that although there is a linkage between entrepreneurial attitude of a business owner and innovative capabilities of the firm, however, the ability of a firm to innovate its operations has little to do with the owner's attitude.

5.2.3 The effect of entrepreneurial attitude on the performance of SMEs.

Objective three of the study also sought to evaluate the impact of entrepreneurial attitude on the overall performance of the firm. Here the researcher wanted to find out whether entrepreneurial attitude has any impact on both marketing and financial performance of the firm although the second objective point to a fact entrepreneurial attitude has little impact on innovation. The researcher recognized that indeed entrepreneurial attitude influence the performance of an SME firm but at a minimal rate. This objective brought to light various entrepreneurial attitudes such as need for achievement, self-confidence, opportunity-recognition, innovativeness and risk taking all have an impact on the performance of a business.

5.3 Conclusion

The findings of the research therefore concludes that performance of SMEs can partly be attributed to the innovative capabilities of that firm. There is a positive correlation between innovative capabilities and performance of SMEs. That is to say that the performance of SMEs is positively and significantly affected by the innovative capabilities of the firm and that the more an SME firm innovate, the more likely they are to record an increase in their performance.

5.4 Recommendations

Based on the findings of the study, it is recommended that for SME firms to be successful, and increase their performance, firms should focus much on product innovation. Product innovation has been proven by this study to be the highest contribution to the performance of SMEs in Kumasi. Small and Medium Scale Enterprises (SMEs) who needs to adopt some innovative strategies should concentrate on adopting innovative ways of improving their product. It is imperative for SMEs to invest in innovative ways of product improvement.

Although the study found that entrepreneurial attitude significantly and positively impact on performance of SMEs, it is recommended that in order to make SMEs more vibrant, entrepreneurs should not interfere with the operations of their businesses. However, entrepreneurs should develop their innovative skills because their attitudes have a direct effect on the overall innovative capabilities of their firm.

5.5 Policy implications

It is recommended that, government policies formulated for Small and Medium Enterprises should focus on promoting product innovation among SME firms. Government should make it a priority to develop favourable environments that will make it easy for entrepreneurial firms to easily innovate the products.

Company innovative policies should be strengthened. SME or entrepreneurial associations should formulate policies that guide entrepreneurs' interference with their firms since it has an effect on both the financial and marketing performance.

SME policy makers should develop policies that will help improve product innovations among SME firms.

5.6 Recommendations for Future Studies

Future research should extend the investigation to other SME firms in other parts of Ghana and also look at threats to innovation activities in the SME subsector.

Considering the importance of innovation to an SME firm, future research should seek to establish why some firms undertake innovation while others do not.

Moreover, future research studies that aims to contribute to body of knowledge that will improve SMEs performance should focus on how SMEs can be more oriented towards innovations.

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7.1 Appendix

**CHRISTIAN SERVICE UNIVERSITY COLLEGE, KUMASI
SCHOOL OF BUSINESS
DEPARTMENT OF MARKETING, LOGISTICS, AND CORPORATE STRATEGY**

QUESTIONNAIRE

This is a questionnaire for a research study that focuses on the effects of innovation capabilities on performance in SMEs in Ghana. The answers you provide for this study is strictly for academic purposes. Again, respondents are assured of confidentiality. I would be most grateful if you could spare few minutes of your time to answer the following set of questions by ticking the answers that best describe your responses. Thank you.

**PART A:
BACKGROUND INFORMATION**

1. Gender: Male Female

2. Age: Under 30yrs 30 – 40yrs 41 – 50yrs 50yrs and above

3. What is the legal structure of your company? Partnership Sole trader
 Registered company others (Specify)

4. For how long has your company been operating? 0-5 yrs. 6-10yrs
 11-20yrs 20yrs+

5. What is your employment status? manager, director other (specify)
.....

6. How many employees do you have? 0 – 5 6 – 10 11 – 20 21 and above

7. What subsector of the SME are you in? trading, clothing and tailoring, bakery,
 food and beverages, wood furniture, soap and detergents
 others (specify)

**PART B:
INNOVATION CAPABILITIES**

The objective of this section is to assess the innovative capabilities of your business. Please use the scale of 1 – 5 as indicated below to show your level of agreement or disagreement to the question that follows.

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

Product Innovation		1	2	3	4	5
1.	We usually develop and introduce new products and services to the market.					
2.	We continually increase product/ service benefits.					
3.	Our company priority for developing new products and services is high.					
4.	We prioritise satisfying customers with added service benefits					
5.	We develop new ways customers can use our products/service					
6.	Our company continually modify existing products					
7.	We focus on products that satisfy customer needs					
Process Innovation		1	2	3	4	5
1.	We are commitment to fast and timely product or service delivery					
2.	Our production methods are short and simple					
3.	We reward staff for quick service delivery					
4.	We have machines and logistics that facilitate fast production of goods and services					
5.	It takes less time for us to develop or produce goods and service for our customers					
6.	We serve in a shortest time possible					
7.	We always find ways of making service delivery simple and convenient for customers					
Organisational innovation		1	2	3	4	5
1.	Our management have a good attitude towards change					
2.	Our employees easily adopt attitude to change					
3.	We support team work and collaborations					
4.	We continually promote participative decision making					
5.	We allocate responsibilities in a way that promotes productivity					
6.	Our company uses resources effectively					
7.	We regularly train our staff					

Marketing Innovation		1	2	3	4	5
1.	We use creative communication channels to reach out to customers (i.e social media)					
2.	Our products or services are easily accessible to customers					
3.	We know the competitors of our company					
4.	We always have new ways of promoting our products or services					
5.	We barely promote our products on the market					
6.	Our prices always give us a competitive advantage					
7.	Customers respond positively to our product packaging					

PART C:

ENTREPRENEURIAL ATTITUDE OF SME OWNERS

How would you rate the attitude of the Chief Executive Officer (CEO) or the owner of your business over the past 5 years?

Please use the 5 point likert scale, where **1 = strongly disagree**, **2 = disagree**, **3 = neutral**, **4 = agree**, **5 = strongly agree**, to indicate (by ticking) the extent to which you either agree or disagree with the following statements.

S/No	Variable	1	2	3	4	5
1.	Our CEO consistently endures and concerns himself or herself with setting and meeting high organisational standards.					
2.	S/he desire for significant accomplishment in our business.					
3.	Our CEO easily discover of new markets and opportunities					
4.	S/he easily recognises changes in customers' need					
5.	S/he believes in his/her abilities					
6.	The owner of our business does not get discourage with loses.					
7.	S/he help promotes new ideas					
8.	Our CEO is very creative					
9.	S/he has the tendency to engage in behaviours that have the potential to be harmful or dangerous.					
10.	Our CEO easily take risky decisions that a profitable to the firm					

PART D:

FIRM PERFORMANCE

How would you rate the performance of your business over the *past 5 years* using the scale;

1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree

Financial Performance		1	2	3	4	5
1.	Our sales revenue has increased marginally					
2.	We always record improvement in sales					
3.	Our business is now profitable					
4.	We have stop incurring financial loses					
5.	Financing day-to-day operations is a problem					
Marketing Performance		1	2	3	4	5
1.	We have more loyal customers than ever					
2.	We continually record new customers					
3.	The demand of our product/service has increased					
4.	We keep losing old customers					
5.	Our customers are always satisfied					

Thank you for taking time to complete this questionnaire.