

## Innovation as a Mediator on the Relationship Between Competitor Orientation and SME's Performance

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Article DOI: 10.48028/iiprds/ijiretss.v10.i2.04

### Abstract

The perspective of literature concerning the relationship existing between the concept of competitor orientation and performance as it relates to Small and Medium Scale Enterprises (SMEs) is indirect; though supported by limited empiricism, despite the literature's mention of the potential for an indirect association. This has caused a notable knowledge gap in the literature and would be addressed by this study, seeking its significance in mediating the relationship. In order to do this, the study developed two assumptions, in which SMEs in Kaduna state were sampled for the study. Respondents to the data questionnaire are owners and managers of SMEs sampled with proportionate stratified and systematic selection technique. For the final analysis, 424 questionnaires were analysed using the statistical program SmartPls. Competition orientation was identified as a significant and positive predictor of SMEs' performance based on empirical data. Additionally, innovation is important in mediating between firm performance and competitor orientation. Thus; based on the findings of this study; managers and SMEs' owners should make sure that their staff members constantly exchange competition information with one another. Employees that receive competition information are better able to stay informed about developments and trends in the sector, which helps with strategic decision-making.

**Keywords:** *Firm performance, Competitor Orientation, Innovation*

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### **Background to the Study**

In Nigeria, the relevance of the small and medium enterprises (SMEs) sector as the growth engine for necessary economic development and empowerment is similar to those of other African countries and has been widely referenced. Indices from National Bureau of Statistics (NBS) pointed out 84% employment sector engagement, and 48% GDP could be attributed largely to SMEs engagement in Nigeria. Despite their substantial contributions, most Nigerian SMEs are plagued with a variety of difficulties, such as a lack of financing, lack of entrepreneurial skills below par infrastructure, and regulatory obstacles (Oyelana, 2019).

A major challenge in Nigeria that SMEs face is insufficient investment or the lack of capital. Most Companies are in dire need of finance for the purposes of expansion, investments in cutting-edge machinery, and to foster the development of innovative products alongside accompanying services. Similarly, infrastructural deficit in critical sectors in Nigeria poses a greater challenge to SMEs; as some struggle to obtain loans from financial institutions due to high interest rates, stringent collateral requirements, and a lack of credit histories. Problems including insufficient telecommunications infrastructure, unstable electricity, and limited transport networking make it difficult for businesses to operate. This kind of environment results in higher operational expenses, less production, and a loss of competitiveness. Regulation-related restrictions pose a serious challenge for SMEs in Nigeria. Nigeria's complicated and frequently erratic regulatory framework results in lengthy wait periods for licenses and permits as well as higher expenses for upholding regulatory requirements.

Hu, Liu, and Zhang (2020), argues that this promotes an adverse corporate and commercial climate that inhibits the emergence of innovation and entrepreneurial activity. One significant barrier is the dearth of entrepreneurial skills among SMEs in Nigeria. Many owners and executives that pioneer SMEs lack basic skills, knowledge, and abilities needed for the efficient administration and operation of their companies. Thus, the aforementioned result is due to poor management practises, constrained innovation, and decreased competitiveness.

In comparison to other nations, SMEs have little impact on employment and GDP in Nigeria which is an aberration. According to a 2017 UN report, SME's in South Africa account for about 60% of all jobs, 34% of GDP and consequently have a significant influence on employment. Similarly in Ghana SMEs are responsible for 70% of GDP and 85% of Ghana's employment. These statistics show that compared to their counterparts in other African nations, the contribute to GDP and employment of SMEs in Nigeria is significantly lower as shown in indices from International Finance Corporation (IFC), where SMEs in Nigeria only make up 1% of export revenue. According to the OECD (2004), SMEs—especially those that operate in developing and transitional nations like Nigeria—must constantly be inventive and creative in order to achieve remarkable success. One kind of knowledge resource that can be applied in the process of developing inventive and creative firms is competitor orientation (Pöyhönen, 2005). As a result, rival orientation is seen as a key indicator of innovation and a helpful source of information (Huang & Wang, 2011). However, innovation is regarded to have an important role in a company's success (Racela, 2014). This highlights how Nigeria's small and medium-sized enterprises (SMEs) have little market penetration and a poor degree

of competitiveness. In view of this, SMEs only make up 7% of Nigeria's industrial production, significantly less than China's 20% and high-income countries' 50%, according to a study conducted by the country's Small and Medium Enterprises Development Agency (SMEDAN, 2020). According to the aforementioned claim, technical innovation and industrial growth cannot be substantially advanced by SMEs in Nigeria. Thus, there are several reasons why SMEs situate in Nigeria contribute so little to the country's employment and GDP.

Small and medium-sized businesses' (SMEs) underwhelming participation in the Nigerian labour market and GDP can be attributed to a number of issues, including a lack of funding, poor infrastructure, and inadequate entrepreneurial skills, as previously mentioned. SMEs in Nigeria have encountered challenges that have hampered their growth and development, which has reduced job possibilities, diminished efficiency, and had a limited influence on the overall economy. Leal-Rodriguez and Albort-Morant (2016) defined competitor orientation as organisational efforts focused at identifying the flaws, strengths, opportunities, and tactics of rivals and being able to respond appropriately. As a result, this study will look at how competition orientation affects performance while using innovation as a mediating variable.

Zafar, Hafeez, and Shariff (2016) proposed a model based on conceptual research. As per the findings of the study, innovation could function as an intermediary between the variable – competitor orientation, and firm performance as a dependent variable. Furthermore, competitor orientation might exert a direct influence on firm performance. Concluding their analysis, the researchers suggested conducting additional research on the mediating role of innovation in the relationship between competitor orientation and business performance, especially in developing countries. Nigeria's status as a developing country makes it match the researchers' categorization.

Very few studies (e.g., Leal-Rorigues & Albort-Morant, 2016; Carbonell & Escudero, 2010) and none in developing economies worldwide have studied the relationships between competitor orientation and performance with innovation as a mediator; from the body of literature that is currently available to researchers. Because of this, there are very few studies in this field in the literature, creating a significant knowledge gap. In order to bridge this knowledge gap, this study will assess how innovation functions as a mediator in the relationship between competitor orientation and business performance.

## **Literature Review**

### **Concept of Performance**

Performance is the measure of how well work-related goals are met and activities are completed (Zafar et al., 2016). Performance is the qualitative and quantitative assessment of deliberate actions taken to achieve organisational goals and their outcomes (Kalmuk & Acar, 2015). Merhabi, Norbakhsh, Shoja, and Karim (2012) define performance as the manner in which workers carry out their duties and evaluation as the process of rating employees' performance.

To assess their overall performance, many organisations use a variety of performance indicators. The most common metrics employed nowadays by managers to assess the success of their organisations are financial and non-financial indicators (Hilman & Kaliappen, 2014). Both qualitative and quantitative performance assessment factors related to firm performance were examined in the study by Kalmuk and Acar (2015). The triple bottom line, indexing, score card, and sustainability performance are just a few of the many ways that performance may be assessed, according to Gross (2015). Additionally, organisational performance assessment has been categorised into objective and subjective metrics in a number of academic publications. It is up to the researcher to decide whether to use objective or subjective performance measures (Singh, Darwish, & Potocnick, 2016). Additionally, it is widely accepted that objective rather than subjective performance evaluations are the better options. The fact that owner/managers are typically reluctant to divulge company information to outsiders makes it exceedingly difficult to get impartial data, according to Mahmood and Hanafi (2013).

### **Concept of Competitor Orientation**

Hu, Liu, and Zhang (2020) states that competitor orientation comprises understanding both the short- and long-term strengths and weaknesses of an organization's current and potential competitors, as well as their long-term strategies and capabilities. In this sense, competitor orientation was defined by Leal-Rodriguez and Albort-Morant (2016) as organizational activities meant to pinpoint competitors' weaknesses, opportunities, strengths, and strategies so as to be able to react suitably and surpass their rivals. Competitor-oriented businesses constantly assess their internal strengths and weaknesses in comparison to those of their rivals, not just in terms of markets and goods but also in terms of procedures and business strategies (Jalali et al., 2013). Organisations that are focused on competing with one another constantly adopt strategies to outperform rivals in order to achieve high performance (Lopez, Peon, & Ordas, 2005). According to Zafar et al. (2016), firms should continuously do environmental scanning to acquire a sustainable competitive edge.

### **Competitor Orientation and Firm Performance**

Neneh (2016) conducted a study on the connection between SMEs' performance in South Africa and their competitive orientation. The author came to the conclusion that SMEs in South Africa perform poorly when they focus on their competitors. Similarly, Zhou, Brown, and Dev (2009) looked at the connection between competitive advantage and competitor orientation. The authors investigated the hotel industry. They found that the competitive advantage predicts the success in turn.

There is a lot of material in the literature about how competitive orientation affects organizational success. Numerous writers have carried out in-depth investigations to look at the relationship between organizational success and competitor orientation. Most of this research have found that the performance of most firms worldwide is impacted by competition orientation.

Chin, Lo, and Ramayah (2013), looked into the relationship between performance and competition orientation. Malaysian hotels were examined by the researchers. The authors came to the conclusion that Malaysian hotels operate significantly differently when it comes to client orientation. In a similar vein, Mahmoodan, Ashraf, and Hassani (2014) investigated the relationship between competitive orientation and performance. The province of Ilam served as the study's location. The study discovered a strong correlation between competitive orientation and performance. Asikhia and Binuyo (2012) found that performance and competitive orientation were positively correlated. The authors looked at SMEs that are active in Nigeria.

### **Concept of Innovation**

It is often acknowledged that innovation is important from a theoretical and practical standpoint (Kayode et al. 2022). To guarantee that innovation efforts are focused on satisfying customer needs and gaining a competitive advantage, innovation demands a solid set of organizational knowledge, skills, and motivations (Racela, 2014). According to Olughor (2015), innovation is essential to gaining a competitive edge in a volatile economy like Nigeria. The author went on to say that innovations lead to the discovery of new methods or goods for a company, which benefits the company in the long run. A crucial component of a company's success is innovation (Gunday, Ulusoy, Kilic & Alpan, 2011). Racela (2014) asserts that the term innovation is frequently ambiguous and can be mistaken for other concepts including invention, change, and creativity. Adopting a new system, policy, program, process, product, or service that is novel for the adopting organization is known as innovation (Damanpour, 1991).

Lagat, Frankwick, and Sulo (2015) define innovation as the development, adoption, and use of innovative concepts, techniques, commodities, or services. Thornhill (2006) defines innovation as the process of creating ideas, developing an invention, and eventually introducing a new product, service, or technique to the market. Innovation in the economic sense can only be achieved by the first sale of a novel good, service, system, or piece of equipment. Innovation can take many different forms, such as the creation of a brand-new product or service, a new organizational structure, a new manufacturing method, or a new administrative framework (Tidd, 2001). The process of developing a new good, service, or procedure that enhances an organization's performance is known as innovation (Roxana, Anamaria, & Corina, n.d). According to Kocoglu, Imamoglu, and Ince (2011), innovation enables businesses to advance in step with changes in the environments in which they work.

### **Theoretical Framework**

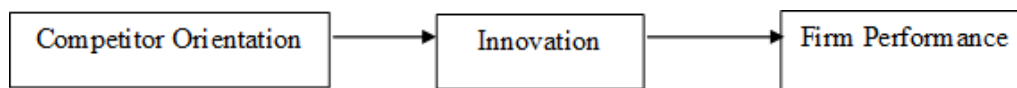
#### **Knowledge Based Theory of the Firm (KBT)**

The KBT emphasizes knowledge as the resource that matters to the company the most strategically (Grant, 1996). According to Kirsimarja and Aino (2015), variations in an organization's knowledge base and capacity for knowledge use and development lead to variations in how well the organization performs. The writers went on to say that the purpose of organizations is to produce, disseminate, and turn knowledge into a competitive advantage. Humans and knowledge are connected. People are deliberate, sentient beings with

intelligence. Knowledge integration and coordination are necessary, according to Kirsimarja and Aino (2015), in complicated situations that are beyond the comprehension of a single person. Certain knowledge is transferable and leverage able.

Organizations always use the study's independent variable to collect data for internal organizational usage. The purpose of competitor orientation is to learn from rivals. According to Grant (1996), the KBT asserts that having this knowledge can help organizations function at a high level. According to Pöyhönen (2005), having knowledge resources will make an organization more innovative, and innovativeness will give an organization a long-term competitive advantage—a quality that is sometimes referred to as high performance.

### Research Model



From the review of literature thus far, the study is guided by the following hypotheses were formulated.

- i. The impact of competitor orientation on business performance is not significant, neither.
- ii. Innovation does not mediate in the relationship between competitor orientation and business performance.

### Methodology

A cross-sectional research approach was used for this investigation. The study used a cross-sectional research design because the researcher used a structured questionnaire to collect all of the information needed from respondents at once. According to a survey conducted by the Kaduna State Bureau of Statistics (2021), there are now 8,574 SMEs in operation in Kaduna. This inquiry is believed to be appropriate for the 8,574 active SMEs in Kaduna. This study includes SMEs operating in Kaduna. Kaduna is a state in Nigeria's northwestern region. Kaduna State is one of the top five states in the country in terms of the number of SMEs.

To establish the study's minimum sample size, the Dillman (2000) formula was used. According to the Dillman (2000) calculation, the study's minimal sample size is 358. Nonetheless, the sample size was increased by 30% to 466 to account for non-response bias (Israel, 2013). In this study, the SMEDAN (2013) definition was applied. SMEs are defined in this study as any Kaduna-based firm with 10-199 workers and an annual revenue of N5,000,000-N500,000,000. Respondents in the survey include owner managers of SMEs in Kaduna. The owner/managers are in a better position to provide the researcher with accurate and detailed information.

A proportionate, stratified, and systematic sampling strategy was used in this investigation. When a researcher wants to create a representative sample from the various groups that make up the study population, they typically employ stratified sampling (Kothari & Garg, 2014).

The data gathered from the Kaduna State Bureau of Statistics, 2021, was used to split the SMEs in Kaduna that are the subject of this study into strata. According to the number of local governments included in the Kaduna State Bureau of Statistics, 2021 report, the SMEs were categorized into strata in a proportionate manner. The breakdown of the quantity of questionnaires sent to SMEs in Kaduna State is provided in Table 1.

**Table 1:** Proportionate Stratified Sampling

S/N	Local Government	Proportionate sampling	Samples to be drawn	Systematic Sampling ( <i>ith</i> Item)
1	Chikun	396/8574*466	22	Every 18 <sup>th</sup> SME on the list
2	Giwa	1/8574*466	NA	NA
3	Igabi	500/8574*466	28	Every 18 <sup>th</sup> SME on the list
4	Ikara	2/8574*466	NA	NA
5	Kaduna North	4199/8574*466	229	Every 19 <sup>th</sup> SME on the list
6	Kaduna South	3061/8574*466	167	Every 19 <sup>th</sup> SME on the list
7	Sabon Gari	246/8574*466	14	Every 18 <sup>th</sup> SME on the list
8	Zaria	169/8574*466	10	Every 17 <sup>th</sup> SME on the list
<b>Total</b>		<b>8574</b>	<b>470</b>	

Systematic sampling was employed by the researcher to select SMEs that form part of the survey. For example, questionnaires were distributed to every 18<sup>th</sup> SME on the list of SMEs operating in Chikun, Igabi and Sabon Gari local governments. Questionnaires were distributed to every 19<sup>th</sup> SME on the list of SMEs operating in Kaduna North and Kaduna South. Finally, questionnaires were distributed to every 17<sup>th</sup> SME on the list of SMEs operating in Zaria.

### Variable Measurement

Variables in this study were assessed using items developed by previous researchers. In this study, four questions developed by Narver and Slater (1990) were utilized to assess competitor orientation. In contrast, three questions developed by Hughes and Morgan (2007) were used to assess innovation. Finally, Spillan and Parnell (2006) measures were utilized to assess performance. The reliability of the questionnaire's items was assessed using composite reliability. The composite reliability of each latent variable in this study exceeds the minimal threshold of 0.7 (Tabachnick & Fidell, 2013).

### Technique for Data Analysis

The use of Partial Least Square Structural Equation Modelling (PLS-SEM) was employed in analysing information handled by SmartPls2. This study used structural equation modelling since it is a more effective technique for complex models and performs better with small samples.

### Data Presentation and Analysis

There were 470 questionnaires distributed; 437 of those were collected from respondents, or 93% of the total. This indicates that 33 questionnaires, or 7% of the total, were not returned. Because they were considered to be anomalies and unusable, 13 of the 437 completed surveys

were removed. Lastly, a final analysis of 424 questionnaires—or 90% of the total—was conducted. For the study, this is seen as being highly suitable.

### Assessing Model Fit

**Table 2:** Construct Reliability and Validity (n=424)

Construct	Items	Loadings	AVE	CR
Performance	PRF1	0.56	0.64	0.89
	PRF3	0.76		
	PRF5	0.91		
	PRF6	0.78		
	PRF8	0.91		
Competitor Orientation	CPO1	0.86	0.58	0.80
	CPO2	0.82		
	CPO3	0.58		
Innovation	INV1	0.68	0.54	0.77
	INV2	0.64		
	INV3	0.85		

**Note:** PRF2, PRF4, PRF7, CPO4 were deleted due to insufficient loadings. AVE represents Average Variance Extracted; CR represents Composite Reliability.

Every construct selected, satisfied the least requirements for both AVE and composite reliability that is either 0.5 or 0.7 (Hair Black, Babin & Anderson, 2014). Every item loaded with a CR of 0.7 and an AVE of 0.5. Discriminant validity of the construct was examined using the Fornell-Larcker criterion. Table 3 displays the data demonstrating discriminant validity; because all the AVE's square roots are greater than their correlations with other latent variables (Garson, 2016).

**Table 3:** Fornell-larcker Discriminant Validity

	CPO	INV	PRF
Competitor Orientation (CPO)	<b>0.76</b>		
Innovation (INV)	0.51	<b>0.73</b>	
Performance (PRF)	0.28	0.31	<b>0.80</b>

### Test of Hypotheses

The direct impact of competition orientation on firm performance was the first thing the study looked for. Using 5000 subsamples and 424 instances, a bootstrapping analysis was conducted.

**Table 4:** Direct Path Coefficient

Hypotheses	Beta Value	Standard Deviation	T Stat	Adjusted R <sup>2</sup>	Decision
H <sub>1</sub> : CPO->PRF	0.28	0.06	5.88***	0.12	Supported

Table 4 shows that firm performance is positively impacted by both competitor orientation and firm performance. Firm performance will rise by 28% for every unit increase in competitor



orientation, with a significance level of less than 1%. H1 is therefore supported. The mediating role of innovation in the link between competitor orientation and business performance was then examined in the study.

### Test of Indirect Relationship

**Table 5:** Test of Mediating Relationship

Hypotheses	Relationship	Beta	SE	T Statistics	Decision
H <sub>2</sub>	CPO->INV->PRF	0.11	0.06	1.83*	Supported
R Square	Performance	0.12			
R Square	Innovation	0.27			

\*\*\*p < 0.01; \*\*p < 0.05; \*p < 0.10

Based on Table 5 conclusion ( $\beta = .11$ ,  $p < 0.1$ ), H<sub>2</sub>, which claims that innovation mediates the relationship between competitor orientation and SME performance in Nigeria, is supported. Competitor orientation, as shown in Table 5, accounts for 12% of performance variance. This is considered appropriate since any R-squared in management science study above 10% is considered appropriate (Peterson, 2016). Conversely, a 27% variance in innovation can be attributed to competition orientation. Given that it exceeds 10%, this is likewise regarded as sufficient.

**Table 6:** Summary of the Test of Hypotheses

Hypotheses	Relationship	Beta	T Statistics	Decision
H <sub>1</sub>	CPO -> PRF	0.28	5.88***	Supported
H <sub>2</sub>	CPO->INV->PRF	0.11	1.83*	Supported

\*\*\*p < 0.01; \*\*p < 0.05; \*p < 0.10

Details on the test of hypotheses are shown in Table 6. Table 6 shows a direct correlation between company performance and competitor orientation ( $\beta = .28$ ,  $p < 0.01$ ). Similarly, performance and competitor orientation are mediated by innovation ( $\beta = .211$ ,  $p < 0.1$ ).

### Findings and Recommendation

In Nigeria, competitor orientation significantly improves the performance of SMEs. SMEs that seek to outsmart their rivals by observing their movements are said to be practicing competitor orientation. The study's conclusions indicate that SMEs in Nigeria are consistently competitor-oriented, which may account for the noteworthy positive correlation between competitor orientation and company success. The results of Taleghani Gilaninia & Talab (2013) and Lagat et al. (2015) are in agreement with the conclusions of this investigation. However, the results of Alizadeh, Alipour, and Hasanzadeh (2013) are refuted by this finding. The relationship between competitor orientation and performance is thought to be mediated by innovation. The findings of Lagat et al., (2015), corroborate this. Therefore, this study advises SMEs' managers to make sure staff members constantly communicate with

one another about competitors. In the unlikely event that any employee of an organization knows what their rivals are going to do next, they should let the other employees know. Based on the data supplied and received by their employee(s), plans should be created on how to fight the next move of their competition. By exchanging information, SMEs can better position themselves to counter any swift action that may be made by their rivals.

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## APPENDIX: QUESTIONNAIRE

Nurudeen Bashirat (P14ADBA8276)  
Department of Business Administration,  
Ahmadu Bello University, Zaria.

Dear Respondent,

### Questionnaire Design

The above-named researcher is currently carrying out a research titled '**Mediating Effect of Innovation on the Relationships between Competitor Orientation and Firm Performance**'. I humbly request that you partake in his research by filling the questionnaire below by ticking the most suitable option. Please be informed that all information obtained through this questionnaire is to solve practical problems and to expand the frontier of knowledge and thus, all responses would be kept confidential.

#### Section A: Biodata

1. Gender

a. Male ( )                      b. Female ( )

2. Job Position

a. Owner ( )   b. Manager/CEO ( )   c. Others ( )

3. Education

a. SSCE/Undergraduate/Diploma ( )   b. First Degree ( )   c. Post Graduate ( )   d. Others ( )

4. Firm Age

a. Below 1 ( )   b. 1–5 years ( )   c. 6-10 ( )   d. 11–20 ( )   e. Above 20 ( )

5. Number of Employees

a. 10-49 ( )   b. 50-99 ( )   c. 100–199 ( )

#### Section B: Research Question

This section provides you with statements on customer orientation, competitor orientation, competitor orientation, learning orientation and performance.

Kindly tick as appropriate. Key to Options:

1 - Strongly Disagree; 2 – Disagree; 3 – Undecided; 4 – Agree; 5 - Strongly Agree

S/N	Customer Orientation	1	2	3	4	5
1	We are always committed to our customers					
2	We constantly create customer value					
3	We understand our customer needs					
4	We always try to achieve customer satisfaction objectives					
5	We always measure customer satisfaction					
6	We always involve ourselves in after -sales service					

S/N	Competitor Orientation	1	2	3	4	5
1	We share competitor information among ourselves					
2	We respond rapidly to competitor's actions					
3	Top managers discuss competitors' strategies					
4	We target new opportunities to gain competitive advantage					

S/N	Learning Orientation	1	2	3	4	5
1	We believe that employee learning is an investment, not an expense					
2	We believe that learning is a key to improvement					
3	We believe that once we quit learning, we endanger our future					
4	We believe our ability to learn is the key to our improvement					

S/N	Innovation	1	2	3	4	5
1	We actively introduce improvements and innovations in our business					
2	Our business is creative in the manner it carries out operations					
3	Our business seeks out new ways to do things					

S/N	Performance	1	2	3	4	5
1	Profit goals have been achieved					
2	Sales goals have been achieved					
3	Return on investment goals have been achieved					
4	Our product(s) have a higher quality than those of our competitors					
5	We have a higher customer retention rate than our competitors.					
6	We have a better reputation among major customer segments than our competitors					
7	We have a lower employee turnover rate than that of our competitors					
8	We have been more effective in new product development than our Competitors					

Thanks for your timely filling and for your contribution to the body of knowledge,  
The Researcher.