Full Length Research

How business strategies enlivens innovation of selected flour milling companies in Nigeria

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Strategic management scholars have long emphasis the importance of innovation for a firm’s competitive advantage and performance. However, our current state of knowledge about business strategies and innovation is characterized by conflicting theoretical predictions persisting knowledge gaps and theoretical inconsistency. This study investigated business strategies and innovation in selected flour milling companies in Nigeria. Business strategies components are cost leadership, product differentiation, backward integration, market development, business diversification and regrouping. The study used cross sectional survey research design to capture the respondent. The study was carried out in five flour milling companies in Lagos state Nigeria in which they constitute the population of this study. 678 top and functional managers were selected out of 4,375 staffs. The study adapted the research instrument and its content and construct was critically examined before used. Data treatment was done on this study using Linearity test, Multicollinearity test, Normality test and Homoscedasticity test. Hypothesis was tested using multiple regression (adjusted $R^2$ is 0.396 ($F_{(6, 597)} = 66.980$, $p=0.000$) which implies that business strategies have a significant effect on innovation in selected flour milling companies in Nigeria. The result further revealed that business strategies dimensions (cost leadership ($\beta = 0.178$, $t = 3.391$, $p<0.05$), market development $\beta = 0.098$, $t = 2.153$, $p<0.05$, business diversification $\beta = 0.224$, $t = 4.306$, $p<0.05$, and regrouping $\beta = 0.173$, $t = 3.512$, $p<0.05$) have positive and significant effect on innovation in selected flour milling companies in Nigeria. The result further showed that backward integration ($\beta = 0.009$, $t = 0.209$, $p>0.05$) has positive and insignificant effect on innovation in selected flour milling companies in Nigeria. The study concludes that organizations are to always introduce new idea, new technology to their companies.

Keywords: Business strategies and Innovation.


INTRODUCTION

Innovation is all about products and services that deal with the implementation of some major processes which has to do with the firm’s competitive advantage (Maury, 2018) Researchers, (Mennens, Gils, Schröder, & Letterie 2018: Győri, Czakó, & Horzsa 2019) have made suggestion that firms that usually engage in developing innovative products and services are inclined to compete more successfully and are usually faced with competition through the development of new products and services. To keep their competitive edge, successful firms must be
in a continuous race for improvement because innovation is a clear and present danger to all firms. The concept of disruptive innovation, as illustrated in Hacklin, Björkdahl, and Wallin, (2018) describes a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors.

Despite the number of studies (Haddoud, Beynon, Jones, & Newbery, 2018; Hoppe, De Barcellos, Perin, Jacobsen, & Lähteenmäki, 2018; Kajola, Olabisi, Ajayi, & Agbatogun, 2018; Silvius & Schipper, 2018) that investigated the relationship between business strategies and posture, product development and profitability, competitive strategies and propensity; the varying results have left the debate lingering on the discourse. Also, a lot of attention has been devoted to the impact of business strategies in the banking sectors and SMEs with little investigation in the manufacturing sector and the flour milling industry especially from the Nigerian perspective. However, scholars such as Hacklin, Björkdahl, and Wallin (2018), Borland, Lindgreen, Maon, Ambrosini, Florencio, and Vanhamme (2018) have identified gaps to be filled on the effects of business strategies as it affects innovation of firms.

FMN (2019) revealed that there is decline in innovation in the flour milling companies, especially as regards their wheat based products. From the report, the decline in innovation, has been credited for causing the drop in sales volume, arising from the gluten content of the product, which is purported to be a danger to the health of consumers (Iheduru & Chukwuma, 2019). These companies have also been seen to neglect product differentiation opportunities which would favor customers seeking healthier options and even market diversification needed to reduce the drift of clients towards alternatives such as guinea corn and cassava flour, and further creating a more dip in innovation and sales performance (Kawu, Babangida, & Alex, 2019).

Several studies (Borda, Geleilate, Newbury, & Kundu, 2017; Nyadzayo, Matanda, & Rajaguru, 2018; Schulz, 2018) have looked at business diversification and resource allocation, market development and brand loyalty, product differentiation and strategic customer loyalty. However, there are little empirical studies on the relationship between business strategies on organisational performance measured with organisational efficiency, as identified by Diefenbach, Wald, and Gleich (2018) hence this study intends to fill this gap.

Research findings of Tang, Walsh, Lerner, Fitza, and Li (2018) indicated that innovation influenced firm performance positively. Doran, and Ryan (2016) in their study confirmed a robust significant relationship between marketing innovation and firm performance. Kheng and Muddaha (2018) study found that marketing innovation did not have significant effects on firm performance. Wadho and Chaudhry (2018) in their study found that organisational innovation had a positive effect on firm performance. Dávila, Durst, and Varvakis (2018) in their study also found a positive significant relationship between organisational innovation and firm performance. Findings from the study of Bustinza, Vendrell-Herrero, Gomes, Lafuente, Opazo-Basáez, Rabetino, and Vaillant (2018) revealed that innovation had a weak link with sales growth.

Bustinza, Gomes, Vendrell-Herrero, and Baines (2019) study did not find any significant relationship between innovation and organisational performance. Dabić, Lažnjak, Smallbone, and Švarc (2018) in his study found no significant relationship between innovation and competitive advantage. Also revelations from Bustinza et al. (2018) support the claim that innovations performed in manufacturing firms have positive and significant impacts on innovative performance. Following the reviews above, the researcher intends to investigate business strategies using dimensions of business diversification, backward integration, organisational efficiency, regrouping, market development, within the context of Nigeria on innovation.

Furthermore, based on the lack of unanimity amid scholars, and the limited studies carried out on the effect of business strategies and innovation within the Nigerian business environment, Based on this premise this study intends to investigate business strategies and innovation within the context of Nigeria on innovation.

REVIEW OF LITERATURE

Innovation is the entrepreneur specific tool to exploit change for a diverse business or service (Turkina, Oreshkin, & Kall, 2019). Turkina et al. (2019) defined innovation as the present discipline which can be learned and practiced. Zhou, Liu, Qi, and Gu (2019) argued that innovation is the idea, practice, or object that is perceived as new by an individual or other unit of adoption. Tieng, Jeenanunta, and Hsieh (2019) contributed to the transforming an opportunity into fresh ideas and being widely used in practice. Li, Xia, and Zajac (2018) posited that innovation brings out new or enhanced process, service or products for the marketing. Guo, Cui, Zou, and Guo (2019) asserted that innovation is the use of new technical and administrative knowledge to offer a new product or service to customers. According to Li, Li, and Wu (2019) innovation helps to come up with new creative answer to solve business problems.

Mac Donagh, Velazco, Botta, Schlichter, and Cubbage (2019) defined business strategies as the determination of the basic long term goals and objectives of a firm and the adoption of the courses of action and the allocation of resources necessary for executing the goals. According
to Pereira, Loureiro, Ribeiro, Costa, Costa, and Arezes (2019) business strategies consists of the combinations of competitive moves and business approaches that managers employ to please customers, compete successfully, conduct operations and achieve organisational objectives.

Farzin, Yaghubipoor, and Nekoui (2017) opined that cost leadership is the way of marketing products that is highly effective in gaining market share. Kiprotich, Gachunga, and Bonuke (2018) viewed cost leadership as the way of establishing a competitive advantage and having the lowest cost of operation in the industries. Mennens, Gils, Schröder, and Letterie (2018) contributed that product differentiations helps organisations to increase their products development and market shear. Györi, Czakó, and Horzsza (2019) added that product differentiation helps organisation to dictate price on the product successfully without cooperation with other products.

Guzman, Ocampo, and Stiglitz (2018) opined that backward integration as the process in which a company purchases or internally produce segment of its supply chain. Cegarra, Navarro, Jiménez, and Perez (2019) stated that backward integration as a vertical integration in which a company expands its role to fulfill tasks formally completed by businesses up to supply chain. However, backward integration is refers to as the company buying or internally producing parts of its supply chain.

Anwar (2018) believed that market development is the way of increasing sales by selling an existing product into a new market that was originally considered non-profitable for the organisation; this strategy enables organisation to get more consumers for the products they currently offer. Jensen, Rust, and Mackool (2018) alluded to the fact that business diversification is when its cash flows become increasingly uncertain.

Guzman, Ocampo, and Stiglitz (2018) argued that Business diversification is the way of expanding firm’s operations by adding markets, products, services or stages or production to the existing business. Lawrence, Crecelius, Scheer, and Patil (2019) contributed that regrouping is the way in which managers attempt to recast their organisational structure, leadership, culture and reward systems may all be changed to ensure cost competitiveness and quality demanded by the unique requirements of its strategies.

Findings between business strategies and innovation

Wahal (2019) stated that is the way of taking drastic steps, through mergers and acquisitions, or on the lower levels in the company through the means of outsourcing, reengineering or downsizing. Cowling, Mroczkowski, and Tanewski (2017) carried out research on effects of innovations on SMEs using the balanced approach in Australia and Thai SMEs. The balanced approach utilized both financial and non-financial metrics to capture full potential benefits of implementing innovations. The effects of innovations were indicated by customer satisfaction, sales revenue and growth, return on investment, product/service quality and profit margin. The research findings indicated that established SMEs that took a balanced approach were more likely to perceive benefits of implemented innovations compared to using financial measures only.

Ituarte, Salmi, Ballardini, Tuomi, and Partanen (2017) in their study of SMEs in Finland found process innovation to be positively correlated to firm performance. Sanusi, Noor, Omar, Sanusi, and Alias (2017) carried out a study on the “impact of Innovation on the performance of Small and Medium Manufacturing Enterprises in Malaysia”. Research findings indicate that process innovation influenced firm performance positively. The study recommended that SMEs can apply innovation to increase their performance.

Feil, de Quevedo, and Schreiber (2017) in their study on “Innovation and Performance in SME Furniture industries” found strong evidence that market innovation positively influenced business performance. Similarly, Alpeza, Tall, and Juric (2018) in their study of SMEs in Finland confirmed a robust significant relationship between marketing innovation and firm performance. Long, Abdul Aziz, Kowang, and Ismail (2015) in their study on the impact of TQM practices on innovation and performance of small and medium manufacturing enterprises in Malaysia concluded that marketing innovation did not have significant effects on firm performance.

Roach, Ryman, and Makani (2016) studied innovation and performance, their findings revealed that organizational performance a positive and significant effect on organizational performance. Also Boachie-Mensah, and Acquah (2015) also studied the effect of innovation type and performance of SMEs in Takoradi metropolis and their result found a positive and significant relationship between innovation organizational performances.

Dynamic capability theory this theory has to do with aptitude for companies to quickly adapt to changes with innovation especially firms that are just growing up in the business environment, they grow in their strategic asset in which they use different business strategies that would give them competitive edge towards their competitors and also to be able to innovate that are still existing in their environment to suit changes that are frequently occurring within their business environment their by increasing their organizations and competitive advantage.
METHODOLOGY

This study used cross sectional survey research design. The reasons for adopting this method is that it is easy to administer and data can be easily collated. This methods were utilize by Haseeb et al., (2019); McKenney and Reeves (2018); Tincani and Travers (2018). The unit of analysing the sample size of the study are the top and functional managers of flour milling companies in Lagos state, Nigeria. Top and funtioner managers were selected because they are the top decision makers in the companies. Lagos state was selected because it is the largest revenue earner in terms of the Internally Generated Revenue and also the nation’s economic and commercial capital (MAN, 2019). A total population of six hundred and seventy eight (678) top and functional management of selected flour milling companies was considered. The study used total enumeration due to small population size. A structured questionnaire was utilized by Haseeb et al., (2019); McKenney and Reeves (2018); Tincani and Travers (2018). The unit of analysis are the top and functional managers of flour milling companies in Lagos state, Nigeria. The reasons for adopting this method is that it is easy to analyse the sample size of the study are the top and functional managers of flour milling companies in Lagos state, Nigeria. The result inferred that out of all the sub-variables of business strategies, only cost leadership, product differentiation, market development, business diversification, and regrouping have significant effect on innovation in selected flour milling companies in Nigeria. The analysis revealed that five out of six dimensions of business strategies have significant effect on innovation in selected flour milling companies in Nigeria. The result showed that cost leadership (β = 0.178, t = 3.391, p<0.05), product differentiation (β = 0.241, t = 4.524, p<0.05), market development (β = 0.098, t = 2.153, p<0.05), business diversification (β = 0.224, t = 4.306, p<0.05) and regrouping (β = 0.173, t = 3.512, p<0.05) have positive and significant effect on innovation in selected flour milling companies in Nigeria. The result further showed that backward integration (β = 0.009, t = 0.209, p>0.05) has positive and insignificant effect on innovation in selected flour milling companies in Nigeria.

Restatement of Hypothesis Four

H₄ₐ: - Business strategies have no significant effect on innovation in selected flour milling companies in Nigeria. Hypothesis four was tested using multiple linear regression analysis. The independent variable of the study was business strategies while the dependent variable was sales growth. The data for business strategies was generated by adding all the responses of cost leadership, product differentiation, backward integration, market development, business diversification, and regrouping. Also, data for innovation was generated by adding the scores of the items of the variable. Data from six hundred and four (604) respondents were gathered and analyzed using SPSS version 23 software. The results of the multiple linear regression analysis are shown in Table 1

Econometric model specification of the study

\[ Y = f(X) \]
\[ CA = f(CA, BS, CL, PD, BI, BD, BDI, RG) \]
\[ X = f(x_1, x_2, x_3, x_4, x_5, x_6) \]
Where;
\[ x_1 = \text{Cost Leadership (CL)} \]
\[ x_2 = \text{Product Differentiation (PD)} \]
\[ x_3 = \text{Backward Integration (BI)} \]
\[ x_4 = \text{Business Development (BD)} \]
\[ x_5 = \text{Business Diversification (BDI)} \]
\[ x_6 = \text{Regrouping (RG)} \]
Table 1: Summary of multiple regression analysis for effects of business strategies on innovation in selected flour milling in Nigeria

<table>
<thead>
<tr>
<th>N</th>
<th>Model</th>
<th>B</th>
<th>Sig.</th>
<th>T</th>
<th>ANOVA (Sig.)</th>
<th>R²</th>
<th>Adjusted R²</th>
<th>F (df)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Constant)</td>
<td>0.405</td>
<td>0.071</td>
<td>1.808</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cost Leadership</td>
<td>0.178</td>
<td>0.001</td>
<td>3.391</td>
<td>0.000</td>
<td>0.402</td>
<td>0.396</td>
<td>66.980 (6, 597)</td>
</tr>
<tr>
<td></td>
<td>Product Differentiation</td>
<td>0.241</td>
<td>0.000</td>
<td>4.524</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Backward Integration</td>
<td>0.009</td>
<td>0.834</td>
<td>0.209</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Market Development</td>
<td>0.098</td>
<td>0.032</td>
<td>2.153</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Business Diversification</td>
<td>0.224</td>
<td>0.000</td>
<td>4.306</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Regrouping</td>
<td>0.173</td>
<td>0.000</td>
<td>3.512</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Predictors: (Constant), Regrouping, Cost Leadership, Market Development, Business Diversification, Backward Integration, Product Differentiation
Dependent Variable: Innovation

Source: Field Survey, 2020

positive and significant effect on innovation in selected flour milling companies in Nigeria. The coefficient of multiple determination, adjusted R² is 0.396 (F(6, 597) = 66.980, p=0.000) indicates that business strategies explained 39.6% of the changes in innovation in the selected flour milling companies in Nigeria while the remaining 60.4% could be attributed to other factors not included in this model. Also, the F-statistics (df = 6, 597) = 66.980 at p = 0.000 (p<0.05) indicates that the overall model is significant in predicting the effect of business strategies on innovation. This implies that business strategies have a significant effect on innovation in selected flour milling companies in Nigeria. The multiple regression model is expressed as thus:

\[ IN = 0.405 + 0.178CL + 0.241PD + 0.098MD + 0.224BD + 0.173RG \]  \[ \text{eq. iv} \]

Where:

\[ \begin{align*}
IN &= \text{Innovation} \\
CL &= \text{Cost Leadership} \\
PD &= \text{Product Differentiation} \\
MD &= \text{Market Development} \\
BD &= \text{Business Diversification} \\
RG &= \text{Regrouping}
\end{align*} \]

The regression model shows that holding business strategies sub-variables to a constant zero, innovation would be 0.405. This means that without business strategies sub-variables, innovation would be positive at 0.405. The analysis also showed that when cost leadership, product differentiation, market development, business diversification and regrouping are improved by one unit, innovation would increase by 0.178, 0.241, 0.098, 0.224 and 0.173 respectively. This indicates that an increase in cost leadership, product differentiation, market development, business diversification and regrouping would lead to a subsequent increase in innovation in selected flour milling companies in Nigeria. The result of the analysis indicates that flour milling companies should adopt business strategies such as cost leadership, product differentiation, market development, business diversification and regrouping in order to innovate. Therefore, the null hypothesis (H₀) which states that business strategies have no significant effect on innovation in selected flour milling companies in Nigeria was rejected.

DISCUSSION OF FINDINGS

The result of findings of multiple regression analysis on the effect of business strategies on innovation of organizational performance of selected flour milling companies in Nigeria reveal that business strategies have positive and significant effect on innovation especially on cost leadership, product differentiation, business diversification, regrouping market development, and backward integration. The analysis revealed that five out of six dimensions of business strategies have significant
effect on innovation in selected flour milling companies in Nigeria. The result showed that cost leadership ($\beta = 0.178$, $t = 3.391$, $p<0.05$), product differentiation ($\beta = 0.241$, $t = 4.524$, $p<0.05$), market development ($\beta = 0.098$, $t = 2.153$, $p<0.05$), business diversification ($\beta = 0.224$, $t = 4.306$, $p<0.05$) and regrouping ($\beta = 0.173$, $t = 3.512$, $p<0.05$) have positive and significant effect on innovation in selected flour milling companies in Nigeria. The result further showed that backward integration ($\beta = 0.009$, $t = 0.209$, $p>0.05$) has positive and insignificant effect on innovation in selected flour milling companies in Nigeria.

Conceptually, Cost leadership, the results shows that these companies has been reducing their product cost and producing the least expensive goods. Product differentiation, this shows that companies have been creating differences in their products. Business diversification, the results shows that the companies have been expanding their business field to either a new market or a new product. Regrouping, the results show that the managers of the companies have been recasting their organizational structure in order to get unique requirement of their strategies. Market development, most of these companies sells an existing product into a new market that was originally considered non profitable for them. Backward integration, the results shows the companies has been buying or internally producing some segment of their supply chain. Innovation, which means these companies have been producing new products into their market.

Empirically, these results corroborate with Cowling, Mroczkowski, and Tanewski (2017) carried out research on effects of innovations on SMEs using the balanced approach in Australia and Thai SMEs. The balanced was used both the financial and none financial method of metrics to release the full possible benefits in implementing innovations. The effects of innovations were specified through customer satisfaction, sales revenue and growth, return on investment, product/service quality and profit margin. The research findings shows that established business that makes used of a balanced approach are more likely to have more benefits and in implementing innovations compared to making used of only financial measures. According to Salmi, Ballardini, Tuomi, and Partanen (2017) in their study of SMEs in Finland in which they found that process innovation is positively correlated with firm performance Sanusi, Noor, Omar, Sanusi, and Alias (2017) studied the “impact of Innovation on the performance of Small and Medium Manufacturing Enterprises in Malaysia”. Findings revealed that process innovation has positive influenced on firm performance. The study therefore recommends that SMEs can make use of innovation so as to increase their performance. Feil, de Quevedo, and Schreiber (2017) studied “Innovation and Performance in SME Furniture industries” they found out that market innovation positively affect business performance. Similarly, Alpeza, Tall, and Juric (2018) studied SMEs in Finland which confirmed a high significant relationship between marketing innovation and firm performance. Long, Abdul Aziz, Kowang, and Ismail (2015) in their study on the impact of TQM practices on innovation and performance of small and medium manufacturing enterprises in Malaysia which concluded that marketing innovation have no significant effects on firm performance. Roach, Ryan, and Makani (2016) studied innovation and performance, their findings showed that organisational innovation positively affects firm performance. Bočić and Radas (2006) carried out a research on the topic effects of innovation activities in SMEs in the Republic of Croatia. The research was carried using 498 SMEs in manufacturing and service enterprises and the analyses was based on multiple regression. Roach et al. (2016) study showed that the implementation of innovations led to the increased in market share, improved product quality and which also reduced material cost per unit. Mennens, Van Gils, Odekerken-Schröder, and Lettenie (2018) carried out a research on innovation practice and its implications in manufacturing SMEs with a sample size of 600 SMEs in Austria. Their study showed that strategy and business strategies are the major drivers of innovation. Karabulut (2015) studied the effects of innovation types on performance in which they use 184 productions companies in turkey, the researchers also considered the topic on the effect of organizational process, product, including marketing innovation in various ways to achieve organizational performance. Their results revealed that innovation especially in manufacturing companies have positive and significant impact on innovation.

Contrarily, Findings from the study of Bustinza, Vendrell-Herrero, Gomes, Lafuente, Opazo-Basáez, Rabetino, and Vaillant (2018) revealed that innovation had a weak link with sales growth. Bustinza, Gomes, Vendrell-Herrero, and Baines (2019) study did not find any significant relationship between innovation and organisational performance. Dabić, Lažnjak, Smallbone, and Švarc (2018) in his study found no significant relationship between innovation and competitive advantage. Also revelations from Bustinza et al. (2018) support the claim that innovations performed in manufacturing firms have negative impacts on innovative performance. However, few studies established that business strategies has negative and insignificant effect on innovation. Based on this majority of findings that business strategies have significant effect on innovation, therefore the study rejected the null hypothesis four ($H_{01}$).
that business strategies have no significant effect on innovation.

Theoretically, resource based view theory supported the findings that cost leadership, product differentiation, business diversification, regrouping market development, and backward integration can be employed to generate innovation for an organization and hence increasing organizational performance. Dynamic capability theory focus more on the ability for firms to quickly learn and adapt to changes in innovations especially most especially the organisations that are just coming up in the business, it will take time to grow in their environment especially in the aspect to build strategic asset in which they will use business strategies that would make them to compete and convert asset that are present within their firm in order to suits changes that are frequently occurring within their business niche thereby enhancing the organizational performance. Considering the support of the Dynamic capability theory to the effect that business strategies has significant effect on innovation the study therefore rejected the null hypothesis one (H01) that business strategies have no significant effect on innovation.

In conclusion, innovation activities have been established by many research studies to have direct relationship on business firms. Flour milling industries are important to any economy of any countries particularly in Nigeria. This study seeks to find out the effect of business strategies on innovation on one hand and that product differentiation, business diversification and Regrouping as they affect innovation in flour milling companies in Nigeria. It is noteworthy that business strategies in this study are geared mostly towards securing product differentiation and not necessarily as a strategy for obtaining innovation. This opens a new window for further research in order to unravel the mystery.

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