

# “Innovative strategies and firm growth: evidence from selected fast moving consumer goods firms in Lagos state, Nigeria”

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# INNOVATIVE STRATEGIES AND FIRM GROWTH: EVIDENCE FROM SELECTED FAST MOVING CONSUMER GOODS FIRMS IN LAGOS STATE, NIGERIA

## Abstract

Critical to the sustainability and continuous success of every organization is the performance concept. Hence, the cardinal goal of every organization is to achieve sustainable progressive performance for their organization. Several factors have been found to contribute to the performance of an organization. While empirical evidence indicated that innovativeness is one of the major determinants of organizational performance, many fast moving consumer goods (FMCG) were slow in their demonstration of innovative capability and it has been noted that the performance of these companies has not been impressive possibly due to the slow pace of innovativeness in the industry. This study thus investigated the effect of innovative strategies on the growth of selected FMCG firms in Lagos state, Nigeria. Survey research design was adopted for the study. The population comprised 1,337 top and middle level management staff of four notable players in the FMCG industry in the state (Honeywell flower mills Plc, Dangote flower mills, Unilever Nigeria Plc, and Cadbury Nigeria Plc). Through proportionate stratified random sampling technique, 400 out of 1,337 were sampled for the study. Four hundred copies of a validated questionnaire with Cronbach's alpha reliability coefficient ranging from 0.731 to 0.956 were administered to the sample with a response rate of 84.25%. Data were analyzed using both descriptive, as well as inferential statistics. Finding revealed that innovative strategies had a significant effect on growth of FMCG firms in Lagos state, Nigeria ( $R^2 = 0.724$ ,  $\beta = 0.887$ ,  $t = 29.663$ ,  $P \leq 0.05$ ). The study recommends that FMCG firms management need to initiate policies that will enhance innovativeness possibly through creation and proper funding of the research and development department to effectively drive growth of FMCG firms.

**Keywords** FMCG, growth, innovation, Lagos state, performance

**JEL Classification** D92, L25, M10

## INTRODUCTION

The fast moving consumer goods sector is unarguably one of the biggest industries in the world and comprised diverse products, including foods, drinks, personal care products down to electronics, household goods and many more (IBAN, 2016). The products in this category are usually low cost, but with high turnover in terms of units sold. This is because FMCGs are household products that are used very frequently (Pradhan & Misra, 2014). The profit margin is however low on each of the products. The products are usually easily substituted either by competitors' activities or otherwise. A major portion of the monthly budget of each household is spent on FMCGs (Anupam & Sharma, 2012). According to Bijuna and Sequeira (2012), the FMCG sector largely operates on low margin. Therefore, the volume of sales determines its performance. It was noted that the highest income is realized from the people at the base of the pyramid, which by IBAN (2016) were put at 4.5 billion people with a combined spending thresh-

old to the tune of \$5 trillion of which FMCGs purchases is about 50% (\$2.3 trillion). This is indicative of the fact that low income people are critical to the survival and success of the FMCGs the world over.

In the case of Nigeria, which is the main focus of this study, Lagos Business School (2016) noted that 71% of the FMCG firms' income comes from the base of the pyramid stratum. Arising from this account is the need to note that the highest consumers of FMCGs are known to be price sensitive and as such FMCG firms need to find ways of minimizing cost of production such as to remain competitive in the industry. This can be achieved through innovativeness (Odumeru, 2013; Suhag et al., 2017). However, documented evidence revealed that the level of innovativeness in the FMCG firms in Nigeria is rather low (Lekhanya, Olajumoke, & Nirmala, 2017; Muthoni, 2017). Could it be that poor innovativeness is responsible for the poor performance of the FMCGs firms in Nigeria?

The FMCGs are facing diverse economic challenges that imposes on them the necessity to be competitive in order to remain in business. Such challenges confronting the industry include depreciating value of the naira, delayed salaries paid to workers by many government and public employers (Lagos Business School, 2016). In view of these and several other challenges, FMCGs firms are constrained to adopt competitive strategies for their operations in order to keep their businesses (Bul & Omundi, 2017; Suh & Lee, 2018).

Arising from the foregoing, the objective of the paper is to establish the effect of innovative strategies on growth of FMCG firms in Lagos state, Nigeria. To achieve this objective, the paper addressed the research question – “What is the effect of innovative strategies on growth of FMCG firms in Lagos state, Nigeria?” The paper is organized as follows: the introductory section of the paper dealt with the background issues that led to the topic, while section one focused on the review of related literature in line with the concepts, theory, and empirics relating to the study variables. Section two was devoted to methodology adopted for the study with specific emphasis on the population and sample size determination together with data collection. In the third section, the data collected were presented, summarized, analyzed and corresponding findings were discussed, while the fourth and the last section covered the conclusion and recommendations flowing from the findings of the study.

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## 1. LITERATURE REVIEW

Every organization strives to be a going concern despite diverse challenges it might have to contend with from time to time. Hence, the need to undertake proactive measures to ensure sustainability of the performance level. In a bid to remain competitive, organizations embark on diverse activities to promote their competitiveness to attain and maintain an advantageous competitive position in an industry (Bul & Omundi, 2017).

Firms compete for customers, revenue, market share in a rapidly changing economic and business environment. Global competition has made technological changes possible where customers demand for superior quality of goods and services at lower prices (Dirisu, Iyiola, & Ibidunni, 2013; Suh & Lee, 2018). It is worth noting that the accelerated rate of global competition has shortened the product life cycle, thereby imposing a respon-

sibility on firms to map out strategies to acquire competitive advantage to give them an edge over their competitors (Bul & Omundi, 2017; Suh & Lee, 2018; Yasar, 2010).

An organization may acquire competitiveness through various means. Competitive strategy has been defined in various ways by various scholars in recent times. Bhuyan and Tripathi (2015) see competitive strategy as a long-term plan, which enables a firm to outperform its competitors. It is worth noting that the need for competitiveness in a proliferated market cannot be overemphasized, as buyers in such markets are prone to switching their loyalty so easily from one seller to another considering that they have multiplicity of alternatives from which they are able to choose where and when a need arises.

In the words of Porter (2007), competitive strategy is conceived as actions of an organization that

confer a status of advantageous competitiveness on the organization in the industry. Similarly, Cook, Boekholt, and Todtling (2007) explained that a competitive strategy consists of business approaches to attract customers by fulfilling their expectations, absorb competitive pressures and strengthen market position. They note that to achieve this, an organization must find ways to use resources and capabilities to distinguish itself from competitors.

Organizations adopt diverse strategies to gain competitiveness in their respective industries. Porter (1996) identified three broad classifications of competitive strategies as differentiation, cost leadership and focus strategies. While exploring differentiation strategy within the competitive strategies options, Karlsson and Tavassoli (2015) underscored the import and relevance of innovative strategies as one of the pivotal competitive strategies used by organizations to enhance their relevance in their respective industries. The authors identified four dimensions of innovative strategies to include process, product, organizational, and market innovations.

Gunday et al. (2011) posit that innovation is a fundamental tool used by organizations to enter new market, increase share in the current market, and enhance their competitive edge in their respective industry. The need for innovativeness is borne out of the increasing level of competition noted in both domestic, as well as the global market. While adopting innovation strategies, organizations reserve a preserve on the combination(s) of the innovation dimensions to be used in the pursuit of the organizational objectives.

Laforet (2008) noted that firms of various sizes in both developing and developed countries are operating under uncertain and dynamic market situations. Consequently, Frambach, Prabhu, and Verhallen (2003) posit that innovativeness in its various forms including new product development are vital activities that are required to enhance the growth and performance of firms. In view of the foregoing, innovativeness is a critical requirement for organizational growth and sustainable competitiveness. However, as much as innovation is important to organizational survival and growth, studies have revealed that the level of

innovativeness demonstrated by FMCGs firms is very low (Lekhanya, Olajumoke, & Nirmala, 2017; Muthoni, 2017).

On the other hand, the performance measure of an organization is paramount to management of various organizations. It is a success factor that indicate the health of an organization and as such it is of utmost importance to every organization (Urbancova, 2015). Organizational performance has been defined in different ways by different scholars. It can be seen as the ability of an organization to fulfill its mission and vision through sound management, strong governance and a persistently dedicated workforce (Syombua). Several metrics can be used to measure the performance index of an organization. Prominent among such metrics are financial and non-financial indicators (Ittner & Larcker, 2003).

According to Armstrong (2006), organizational performance can be measured in several ways depending on the industry of interest. Performance measures may include, but are not limited to profits, retention of employees, branding, recognition of company, increased market share, and physical expansion. It is the accomplishment of laid down objectives. Morin and Audebrand (2014) identified four basic components of organizational outcomes to include systemic, social, technical, and ecological. The systemic component addresses the sustainability of the organization and is concerned with such elements as the growth of the organization as occasioned by quality of goods and services, as well as protection of the financial structure of the organization.

Erengwa, Nwuche, and Anyanwu (2017) approached the measurement of performance from the growth perspective. The author maintained that as growth can be observed in animate objects, organizations can also experience growth as an indicator of its performance. Corroborating the view of Erengwa, Nwuche, and Anyanwu (2017), Gupta et al. (2013) argued that firm growth as a measure of firm performance is driven by a number of factors such as competitive strategies, entrepreneurial characteristics, and macroeconomic realities. Similarly, Odongo and Owuor (2015) noted that growth is a veritable indicator of effectiveness of small and large firms and is of a funda-

mental concern to managers of business concerns the world over.

Other scholars have also approached measurement of organizational performance from the growth perspective as well. In a study by Sophia and Owuor (2015), growth was used as an indicator of firm performance. Similarly, Anton (2016) also used growth as a proxy for organizational performance in a study conducted on Romanian listed firms. He identified dimensions of firm growth to include sales growth, asset growth, and employment growth. Furthermore, Robinson and Sensoy (2013) posited that for any organization to remain in business, survival and growth should be the primary objectives of such organization.

According to Odongo and Owuor (2015), firm growth can be used to evaluate the level of effectiveness of an organization. A number of factors have been identified by several authors as determinants of firm growth. Epstein (2003) identified organizational learning as one of the pre-conditions for organizational security, existence, and growth. Also, Maurer and Weiss (2010) opined that continuous learning process is another necessary condition for firm growth. In yet another study undertaken from financial perspective, Miller, Boehlje, and Doddin (2010) argue that earnings generation and retention are notable determinants of firm growth. The authors in their study maintained that factors such as return on asset (ROA), capital growth (CG), profit growth (PG), and sales growth (SG) are other financial indicators of firm growth apart from generated and retained earnings.

Consequent upon these expositions, the focus of every management of diverse organization is on ways and means of boosting the performance of their organizations, which can be measured in diverse ways such as financial performance (profit, return on assets, return on investment, return on equity, return on capital employed), product market performance (sales return, market share), and shareholders return (total shareholders return, economic value added) (Richard et al., 2009).

Another opinion of Richard et al. (2009) is that the success and survival of modern businesses makes organizational performance critical because of the competition for customers, inputs and capital. As

such, this opinion has made a central role of organizational performance as the perceived goal of modern industrial activity. Marketing, operations, human resources and strategy are all usually evaluated by their contribution to organizational performance.

Empirical works have shown diverse ways of improving the performance of an organization. Sindhu, Haq, and Ali (2014) in their study on diversification and firms' performance noted that diversification strategies enhance performance of Pakistani firms. Other studies also share this view (Boz, Yigit, & Anil, 2013; Nwaeke & Wodu, 2012; Santarelli & Tran, 2013; Asman, 2013; Mwangi, 2016). Others like Onyali and Okerekeoti (2018) look at the issue of performance from another perspective. In their study, the authors argued that board heterogeneity positively affects corporate performance of firms in Nigeria.

From theory, it could be also be argued that innovativeness can also drive performance of an organization and by extension it's growth. The resource-based view theory of the firm as propounded by Wernerfelt (1984) posited that an organization with resources having the following qualities: valuable, rare, costly to imitate, and organized to capture value, such resources are capable of conferring on such organization(s) competitive advantage, which can be leveraged upon for sustainable growth. Arising from this theory, the theoretical framework in Figure 1 applies to this study.

The above model viewed innovative strategies as having the four qualities (valuable, rare, costly to imitate, and organized to capture value) of a resource that confers competitive advantage on a firm in line with the resource-based view has innovative strategies as a resource, which satisfies the five criteria of relative advantage, compatibility, complexity versus simplicity, trial-ability, and observability.

The above framework can be reduced into the model as follows:

$$FGR = \beta_0 + \beta_1 INS + \varepsilon. \quad (1)$$

From equation (1), *FGR* is firm growth, *INS* is innovative strategies, and  $\varepsilon$  is the exogenous variable, which captures all other variables that could explain firm growth outside the model. Equation 1

Source: Culled from resource-based view of Wernerfelt (1984).



**Figure 1.** Simplified theoretical framework

is the working equation estimated by the study in section 3.

Furthermore, other studies have also approached the issue of performance enhancement from yet another perspective. Uremadu (2018) posited that capital structure positively affects corporate performance in Nigeria. Oyedijo (2012) in another study contend that product-market diversification strategy positively affects corporate financial performance and growth of some companies in Nigeria. While plethora of studies have looked at the various predictors of corporate performance of various organizations in Nigeria, studies focusing on the effect of innovativeness on organizational performance have been very limited particularly in the FMCGs industry. Moreover, studies have revealed that the level of innovativeness demonstrated by FMCGs firms is very low (Lekhanya, Olajumoke, & Nirmala, 2017; Muthoni, 2017). Interestingly, the performance of FMCG has also been found to be poor in recent time (Olorunleke, 2017). In view of the observed gap in the literature with respect to the dearth of studies on the effect of innovativeness on FMCGs firms' performance coupled with the reported poor performance of Nigerian FMCG firms, this study is undertaken to fill this gap in extant literature.

## 2. METHODOLOGY

Survey research design was adopted for this study considering that primary data were required for the study and also in view of the fact that this research design affords the researcher the opportunity of getting first hand and current information that is reliable and authentic for the intended purpose. The study population comprised 1,337 top and middle level managers of the FMCGs firms selected for the study. A sample size of 400 participants was obtained using the Yamane (1967) for-

mula. Data for the study were collected by the use of a validated structured adapted questionnaire with Cronbach's alpha reliability coefficient ranging from 0.731 to 0.956. Response rate from the administered 400 copies of the instrument was 84.25%.

## 3. DATA ANALYSES

Analyses of data proceeded with the verification and cleaning of the data to ensure that the data generated were clean, correct, and useful. After the data cleaning and verification, various analyses were carried out in line with the main objective of the study, which is to determine the effect of innovativeness on the growth of FMCG firms in Lagos state, Nigeria. Data were analyzed using descriptive and inferential methods, namely percentage distribution, mean, and standard deviation. The descriptive statistics are as contained in Tables 1 and 2.

The responses in Table 1 revealed that the mean responses to question items on innovation strategies of the selected FMCG firms ranged from 4.1 to 4.68 with 4.26 as the grand mean response. On a six-point Likert scale, since this mean falls between 4.5 and 5.49, it is interpreted as high meaning that the level of innovativeness in the selected FMCG firms were considered high by the respondents.

From Table 2, the mean responses of the respondents to the various questions on firm growth ranged from 3.93 to 4.44 with 4.23 as the grand mean. The implication of this is that the respondents' position is that firm growth is moderately high on a six-point Likert scale.

Combining the descriptive statistics of Tables 1 and 2, the responses indicate that it is possible for

**Table 1.** Descriptive statistics of innovation strategies

Source: Computed from field reports (2018).

Statements	Strongly agree	Agree	Partially agree	Partially disagree	Disagree	Strongly disagree	Mean	Standard deviation
During the last five years, my organization has introduced new products	60 17.8 (%)	200 59.3 (%)	23 6.8 (%)	20 5.9 (%)	32 9.5 (%)	2 0.6 (%)	4.68	1.156
In the last five years, my organization has introduced new methods of producing goods	12 3.6 (%)	113 33.5 (%)	141 41.8 (%)	29 8.6 (%)	35 10.4 (%)	7 2.1 (%)	4.05	1.080
During the last five years, we have introduced new business practices to management	57 16.9 (%)	105 31.2 (%)	80 23.7 (%)	58 17.2 (%)	19 5.6 (%)	18 5.3 (%)	4.20	1.353
During the last five years, my company has introduced significant changes to the aesthetic design of our products	63 18.7 (%)	98 29.1 (%)	50 14.8 (%)	76 22.6 (%)	35 10.4 (%)	15 4.5 (%)	4.10	1.441
Grand average							4.26	1.258

**Table 2.** Descriptive statistics of firm growth

Source: Computed from field reports (2018).

Statements	Strongly agree	Agree	Partially agree	Partially disagree	Disagree	Strongly disagree	Mean	Standard deviation
Our organization has increased its production capacity in the last three years	43 12.8 (%)	172 51.0 (%)	62 18.4 (%)	15 4.5 (%)	40 11.9 (%)	5 1.5 (%)	4.44	1.219
Our organization has increased its asset base within the last three years	12 3.6 (%)	108 32.0 (%)	133 39.5 (%)	37 11.0 (%)	23 6.8 (%)	24 7.1 (%)	3.93	1.219
We have increased our staff strength within the last three years	67 19.9 (%)	124 36.8 (%)	64 19.0 (%)	47 13.9 (%)	24 7.1 (%)	11 3.3 (%)	4.39	1.318
We value long-term growth potentials over short-term growth potentials	64 19.0 (%)	100 29.7 (%)	60 17.8 (%)	66 19.6 (%)	37 11.0 (%)	10 3.0 (%)	4.17	1.391
Grand mean							4.23	1.287

innovative strategies to influence the growth of FMCG firms in Lagos state.

From Table 3, the estimated model of the study is as follows:

The inferential analysis used in the study is the ordinary least square linear regression to determine the effect of innovative strategies on growth of FMCG firms in Lagos state. The results were as displayed in Table 3.

$$FG = 1.816 + 0.887IS, \tag{2}$$

where *FG* – firm growth, *IS* – innovation strategies.

**Table 3.** Summary of regression analysis of innovation strategy and firms growth

Source: Computed from survey data (2018).

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std. error	Beta		
(Constant)	1.816	.523	–	3.470	.001
Innovation strategy	.887	.030	.851	29.633	.001

Note:  $R = 0.851$ ;  $R^2 = 0.724$

The above model showed that innovation strategies had a significant effect on growth of FMCG firms in Lagos state, Nigeria. The results further revealed that innovation strategies explain 72.4% of variations in observable growth of FMCG firms in Lagos State, Nigeria while the remaining 27.6% is explained by variables that are exogenous to the model. The model further revealed that a unit increase in innovation strategies produces 0.887 unit increase in firm growth. The t-statistics also revealed that there is a significant difference between the two means. This also is evidence in the results.

## 4. DISCUSSION

The effect of innovation strategies on growth of FMCG firms in Lagos state, Nigeria has been systematically determined in this study. The analyses results (descriptive and inferential) were presented in Tables 1-3. The inferential results revealed that innovative strategies have a significant effect on growth of FMCG firms in Lagos state, Nigeria. By implication. It means that for FMCG firms in Lagos state to progress and succeed, they must be innovative. This finding of this study is consistent with that of Braunerhjelm, Ding, and Thulin (2016) who in their study found that innovation had a significant effect on growth of Swedish firms.

Similarly, the finding of this study is also in consonance with that of Harrison et al. (2014) who in another study investigated the effect of innovation on employment stimulation and discovered that innovation had a significant effect

on employment stimulation in the European countries selected for the study. Further, in another study on innovation and firm growth, Spescha and Woerter (2019) found that innovative firms are more sensitive to business cycle fluctuations than non-innovative firms. Further, Braunerhjelm, Ding, and Thulin (2016) in an exploratory study aimed at examining the relationship between innovation and firm growth found a positive relationship between innovation and firm growth.

The study of Harrison et al. (2014) conducted on both manufacturing and service sectors showed that productivity is higher among innovative firms compared to non-innovative firms. This was found to be due to rising demand for new innovative products while demand for old product is on the decline. This is as a result of the changing tastes and preferences of the consumers.

From theoretical perspective, the result of this study also aligns with the resource-based view propounded by Penrose (1959). Innovative capacity according to the resource-based view is unique and varies with organizations. This is because each organization has its peculiar innovation space within which it has capacity to innovate. This is the area of innovative expertise, which may not be easily copied by imitators. Going by this theory, innovative capacity of an organization is expected to enhance the effectiveness of such firms and by extension growth. Hence, the finding of this study that showed that innovative strategies have significant effect on firm growth is a contribution to theory, as it supports the argument of the resource-based view.

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## CONCLUSION AND RECOMMENDATIONS

The study concluded that innovative strategies have a concomitant effect on the growth of FMCG firms. The implication of this is that adoption of innovative strategies is a panacea to dwindling performance of FMCG firms on a general note. Consequently, the study recommends that management of FMCG firms should initiate policies that will influence and support innovativeness as a driver of firm growth. Concerted effort should be geared at promoting research and development activities to enhance innovativeness of the firms. Further, the government also needs to initiate policies that will enhance research and development activities and by extension promote innovativeness in the industry.

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