

THE ROLE OF INNOVATION ON PERFORMANCE OF FIRMS ON NIGERIAN STOCK EXCHANGE

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ABSTRACT

This paper examines the role of innovation on performance of firms on the Nigerian Stock Exchange. The central objective of the paper is to look at the relationship between innovativeness and firm performance in Nigeria. The paper took critical interest in the contents of a number of studies which concluded that among Nigerian managers, lack of innovation, pro-activeness, aggressiveness, and aversion to risk-taking, which are critical factors for growth of SMEs, were found to be high in a study in 2007. The target population is 176 firms listed in the Nigerian Stock Exchange with financial returns as at August, 2014. Out of the population, a sample of 60 firms was taken. Methods of statistical analyses include mean, standard deviation, and Pooled, Random and Fixed regression models based on the preferences suggested by the Hausman specification test results. The results of panel analysis of the relationship between Entrepreneurial Orientation dimension – Innovation, and performance of firms listed in the Nigerian Stock Exchange, with returns on assets and returns on equity as proxy revealed a negative relationship between innovation and returns on assets and innovation and returns on equity. This results, confirmed a study conducted in 2007 in Nigeria on 88 SMEs earlier mentioned. But, it negated the outcome of a study carried out among Kenya’s manufacturing firms operating under the EAC in 2012, which showed that there existed a positive relationship between entrepreneurial orientation adoption and firm performance. Innovation was found to have negative relationships with both returns on assets, and returns on equity. This result suggests that, in Nigeria, like in Kenya, innovation has been widely adopted and practiced, but it was yet to have positive relationship with returns on assets and returns on equity in Nigeria. The implication of this result is that, innovation was still at infancy level, as asserted by earlier studies or the firms were operating in a seller’s market or both.

Keywords: Innovation, Firm Performance, Listed Firms, Nigerian Stock Exchange.