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PRODUCT INNOVATION AND ORGANIZATIONAL PERFORMANCE OF INSURANCE COMPANIES IN RIVERS STATE, NIGERIA

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ABSTRACT

This study examined the association between product innovation and organizational performance of insurance companies in Port Harcourt Nigeria. The study adopted survey research design, with a population of 55 Insurance companies registered with National Insurance Commission of Nigeria. Since the population was relatively small hence the entire population was used as a census. Primary data were collected using self-administered questionnaire distributed to the insurance companies. The data generated from the questionnaire were subjected to statistical analysis and the hypotheses were tested using the Spearman Rank Order Correlation Coefficient with the aid of Statistical Package for Social Sciences (SPSS). The findings revealed that there is a positive association between product innovation and each of the measures of organizational performance (increased profitability and increased market share) of the studied companies. Hence, the study concluded that a statistically significant and positive association exists between product innovation and organizational performance of insurance firms in Rivers State. Hence the study recommended that strong policies on product innovation should put in place so as to enhance the quality of service delivery in improving organizational performance.

Key words: *Product Innovation, Organizational Performance, Profitability, Market Share*

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INTRODUCTION

The increasingly competitive business environment has made it imperative for organisations to put in place systems and processes that will guarantee appreciable organisational performance in the interest of its stakeholders. To this end, insurance firms are developing several solutions to ensure that desired organisational outcomes are achieved despite the dynamics of competition. More so, Today's insurance firms are more concerned about their performance than ever, given that their survival not only depends on what they are currently offering but also on their willingness to innovate and improve on their current product and services. Motivated by the increasing competition in both the global and local markets, insurance firms are now grasping the importance of innovation, due to the swift changes in technology and Spartan competition that is rapidly eroding the added value of existing products and services. More so, innovation constitute a requisite element in the corporate strategies of insurance firms given that it enables them to apply more productive processes in service rendering and maintaining its positive reputation in customers' perception and as a result gain sustainable competitive advantage.

On the other hand, the subject of performance is greatly discussed in academics. The way performance is defined depends on the type of firm under consideration, whether it is production or service firm. Performance measurement plays a key role in developing, implementing and monitoring a strategic plan. It enables managers to evaluate whether organizational objectives have been achieved, and is further used to develop and compensate managers. It helps managers monitor whether the company is moving in the direction they want it to go (Teeratansirikool, Siengthai, Badir, 2013).

Again, majority of studies done on innovation and performance have been based largely on data from business organizations within the manufacturing sector, innovation models developed there may not easily be carried over into the world of insurance. Insurance firms face unique challenges that can make innovation endeavours more difficult. Among those challenges are the unique attributes of insurance firms, such as dealing with ethical issues in serving clients, working on or with people, difficulties in establishing criteria for success and fear of media exposure of failure, inability to get clients to sign up for a product, poor public perception, unwillingness to pay claims as and when due (Jaskyte 2009).

More so, the relationship between corporate innovativeness and performance of insurance firms has received scanty literature especially in developing countries like Nigeria. Hence, an initiative has been taken to examine the relationship between corporate innovativeness and performance in the insurance firms in Rivers State. This study therefore filled the identified gap by empirically examining the relationship between product innovation and organizational performance of insurance firms in Rivers State.

This study was guided by the following research questions:

- What is the relationship between product innovation and increased profitability of insurance firms in Rivers State?
- What is the relationship between product innovation and increased market share of insurance firms in Rivers State?

LITERATURE REVIEW

Consumer behaviour theory: Consumer Behaviour Theory (CBT) takes the needs of producers and uses this as a starting point for evaluating the advantages and disadvantages of an innovation. CBT assumes that a prospective adopter actively searches for information and devotes a great deal of time and energy in making decisions. CBT provides a framework for determining how innovations can contribute to satisfying the needs of the adopters. There is an assumption that a variety of decision processes occur when making the decision whether or not to adopt an innovation. Furthermore, CBT provides criteria for identifying the decision processes occurring in particular circumstances and recognises that different individuals adopts the same products for differing needs (Kaine, 2004).

CBT states that the decision to adopt is influenced by the level of consumer involvement in the innovation and the degree of effort consumers are willing to invest in making a purchase decision. The theory proposes that when a potential adopter's involvement is high they tend to engage in complex decision making or brand loyalty depending on the degree of effort they invest (Assael, 1998). The type of purchases that fit into this category are those that are expensive, not purchased often or tied closely to status or image. In the case of farming the purchasing of a new tractor would fit into this category (Kaine, 2004). Under high involvement conditions the potential adopter is likely to devote a great deal of time to considering the benefits of the innovation at hand and to other alternatives (Kaine, 2004).

Product Innovation: Product innovation means introducing the new products/services or brining significant improvement in the existing products/services (Polder, Leeuwen, Mohnen, & Raymond, 2010). For product innovation, the product must either be a new product or significantly improved with respect to its features, intended use, software, user-friendly or components and material. The first digital camera and microprocessors are the examples of the product innovation.

Change in design that brings significant change in the intended use or characteristics of the product is also considered as product innovation (OECD, 2005). The product innovation has many dimensions. First, from the perspective of the customer, product is new to the customers. Second, from the perspective of the firm, the product is new to the firm. Third, product modification means brining product variation in the existing products of the firm (Atuahene-Gima 1996). Firms bring product innovation to bring efficiency in the business (Polder et al. 2010). In highly competitive environment of today, firms have to develop new products according to customer's needs (Olson et al. 1995). The aim of product innovation is to attract new customers. Firms introduce new products or modify the existing products according to needs of the customers (Adner and Levinthal, 2001). Shorter product life cycle of the products forces the firms to bring innovation in the products (Duranton and Puga, 2001).

Firms bring product innovation to satisfy their customers. Product innovation is reflected by the functional performance (Olson et al. 1995). Product innovation is one of the key factors that contribute to success of an organization. New product development and product innovation is an important strategy for increasing the market share and performance of the business. The studies showed that new product development has positive impact on the performance of the firm (Ettlie and Reza 1992)

Organisational Performance: Organizational performance has been taught with many conflicting definitions and it is not a new phenomenon among the academics and the industrialists as well as public institutions. Organizational Performance has been a source of influence to the actions taking by companies and the degree to which an organisation realizes its goals as well as the stated objectives of the organisation through the strategies and policies of the organisation (Folan and Browne, 2005; Etzioni, 1964). The idea of Organizational Performance is hinged on the premise that it is a combination of productive assets made up of human, physical, and capital resources, for the major reason of fulfilling a dream, vision or accomplishing a shared purpose (Barney, 2002; Carton and Hofer, 2006). Organizational Performance is also viewed as the measure of how a manager utilizes the resources of the organisation efficiently and effectively to accomplish the goals of the organisation as well as satisfying all the stakeholders, Jones and George (2009). In their own contribution, Richard, Devinney, Yip & Johnson, (2009) described Organizational Performance as the real output measured against the intended or expected output.

Performance refers to the degree of achievement of the mission at work place that builds up an employee job (Cascio, 2006). Different researchers have different thoughts about performance. Mostly researcher's used the term performance to express the range of measurements of transactional efficiency and input & output efficiency (Stannack, 1996). According to Barney (1991) performance is a continuous process to controversial issue between organizational researchers. Organizational performance does not only refer to the definition of goals or objectives but it also opts for the solution of problems and challenges faced by the organization (Hefferman and Flood 2000).

Measures of Organisational Performance

Increased Profitability: Profitability means ability to make profit from all the business activities of an organization, company, firm, or an enterprise. It shows how efficiently management can make profit by using all the resources available in the market. Profitability is an excess of revenues over associated expenses for an activity over a period of time. This is a measure of value to show if the company is doing well or not. It is the excess of total income over total expenses during a giving period of time. Profitability is one of the indices used to measure corporate performance. The task of any business is to deliver customer value at a profit, (Kotler, Bowen & Makens (2013). It is often measured by price to earnings ratio.

Increased profitability is achieved when there is an appreciable increase in sales volume of a firm's products and services. Sales volume is one of the indices used in predicting the profitability of firm and ultimately performance. More so profitability is influenced by many factors, such as product or service features, price and availability of product or service as well as competitor's actions. Again increased profitability is attained by increasing brand awareness and brand preferences.

Increased Market Share: Kalu (1998) defined market share as the percentage measure of the share obtained by an individual company from the total market available. Market share can refer to entire industries, narrow segments or a particular geographic area and also can apply to the past, present or future time periods. In this study market share will be represented by the percentage share of each firm's market against the total market share. Market share is the portion percentage of sales of a particular product or services in a given region that are controlled by a company. Market share is used to determine the strength in a sector as compared to other company in the same sector. It also allows you to accurately assess your business from year to year. Managing market share therefore, is a very important aspect of managing a business. Identifying appropriate measure of the market share, Slack et al. (2004) argued that it helps managers evaluate both primary and selective demand in their market. That is, it enables them to judge not only total market growth or decline but also trends in customers' selections among competitors. Generally, sales growth resulting from primary demand (total market growth) is less costly and more profitable than that achieved by capturing share from competitors.

Product innovation and increased profitability: The continuance and the persistence of any company depends on its capacities to maintain its market place and face the competition which spreads rapidly and aggressively with the globalization and the expansion of the new technologies, and while product reflects the company's image its whole success depends also on the product success through realizing consumers desires and needs, and developing new products.

Empirical investigation showed that the relationship between technological innovation and profitability helps to ascertain actions and policies to improve the competitive position of firms. The impact of innovation on firm profitability seems to vary with different types of innovation. Firms that engaged in product and process innovation usually have higher profit than those that do not engage in innovation based on the studies that were carried out among the manufacturing firms in UK (Geroski and Machin, 1993).

Product innovation and increased market share: Product innovation is not a new phenomenon which suddenly emerged as part of the space age. It has been around and shaped our life for thousands of years. Today's companies gain their competitive advantage and economic benefits largely from innovation.

Product innovation's contribution to company output can be measured by sales and profits contributed by new products/ services, change in market share, also product innovation may increase companies' knowledge stock; Product innovation contributes in reducing production costs and time of production process and that leads to an increase in investment returns and production efficiency.

From the foregoing therefore, the study hypothesized thus:

Ho_1: There is no significant relationship between product innovation and increased profitability of insurance firms in Rivers State.

Ho_2: There is no significant relationship between product innovation and increased market share of insurance firms in Rivers State.

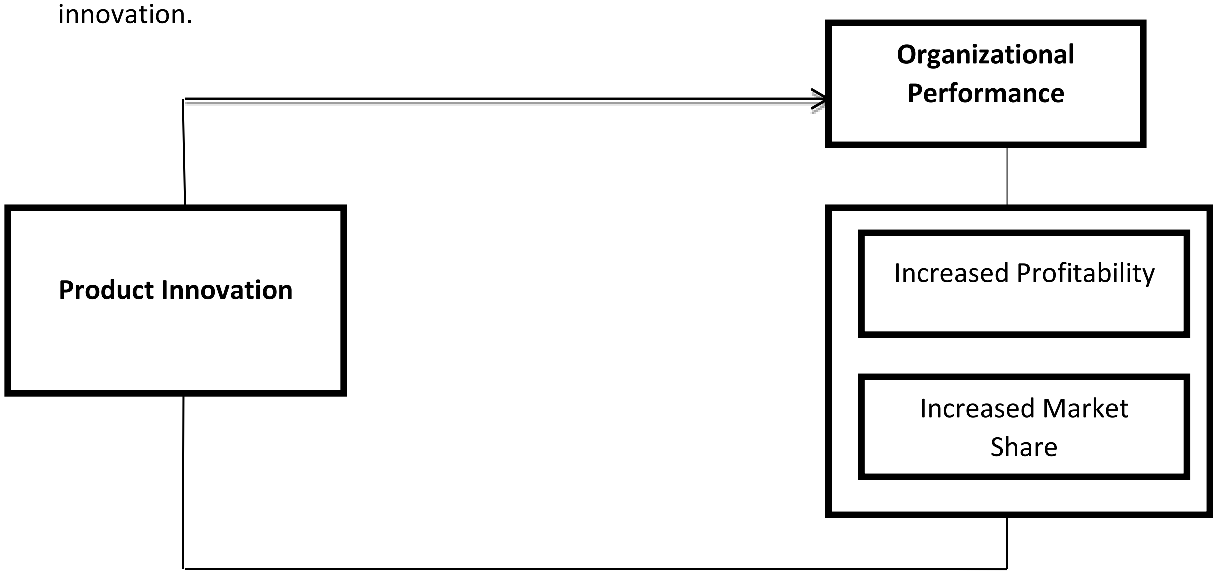

Figure 1: Operational framework for the hypothesized relationship between product innovation and organizational performance

Source: Author's Desk Research, 2018

METHODOLOGY

The study adopted survey research design, with a population of 55 Insurance companies registered with National Insurance Commission of Nigeria. Since the population was relatively small hence the entire population was used as a census. Primary data were collected using self-administered questionnaire distributed to the insurance companies. The data generated from the questionnaire was subjected to statistical analysis and the hypotheses were tested using the Spearman Rank Order Correlation

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Coefficient. The reliability of the instrument was achieved using the Crombach Alpha coefficient with the aid of Statistical Package for Social Sciences (SPSS).

RESULTS

Test of Hypotheses

Correlation between Product Innovation and Increased Profitability

Table 1: Shown Result of Correlation

			Product Innovation	Profitability
Spearman's rho	Product Innovation	Correlation Coefficient	1.000	.944**
		Sig. (2-tailed)	.	.000
	Profitability	Correlation Coefficient	.944**	1.000
		Sig. (2-tailed)	.000	.

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

b. Listwise N = 43

Source: Field Survey/SPSS Version 22, 2018

Ho$_1$: ***There is no significant relationship between product innovation and increased profitability of insurance firms in Rivers State.***

The correlation coefficient (r) showed that there is a significant and positive relationship between product innovation and increased profitability. The *rho* value 0.944 indicated this relationship and it is significant at p 0.000<0.05. The correlation coefficient represented a very high correlation indicating a very strong relationship. Therefore, based on empirical findings the null hypothesis earlier stated was hereby rejected and the alternate upheld. Thus, there is a significant relationship between product innovation and increased profitability of insurance firms in Rivers State.

Correlation between Product Innovation and Increased Market Share

Table 2: Shown Result of Correlation

			Product Innovation	Market Share
Spearman's rho	Product Innovation	Correlation Coefficient	1.000	.872**
		Sig. (2-tailed)	.	.000
	Market Share	Correlation Coefficient	.872**	1.000
		Sig. (2-tailed)	.000	.

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

b. Listwise N = 43

Source: Field Survey/SPSS Version 22, 2018

Ho$_2$: ***There is no significant relationship between product innovation and increased market share of insurance firms in Rivers State***

The correlation coefficient (r) showed that there is a significant and positive relationship between product innovation and incresded market share. The *rho* value 0.944 indicates this relationship and it is significant at p 0.000<0.05. The correlation coefficient represents a very high correlation indicating a very strong relationship. Therefore, based on empirical findings the null hypothesis earlier stated was hereby rejected and the alternate upheld. Thus, there is a significant relationship between product innovation and increased market share of insurance firms in Rivers State.

CONCLUSION

This relationship was tested using two null hypotheses which examined the relationship between product innovation and two measures of organizational performance: (profitability and market share). The correlation coefficient results revealed that there was a strong and positive significant relationship exist in both variables, where product innovation and increased profitability ($t\text{-}_{cal}$ = 7.251) and product innovation and market share ($t\text{-}_{cal}$= 2.701). The finding showed that product innovation significantly impacts on performance of insurance companies in Rivers state.

The result of the study was in line with the findings of (Ettlie and Reza 1992) they concluded that Product innovation is one of the key factors that contribute to success of an organization they further stated that new product development and product innovation is an important strategy for increasing the market share and performance of the business. The studies showed that new product development has positive impact on the performance of the firm.

The result also corroborated with the study of Kong-manila and Takahashi (2009) examined the relationship between product innovation and firm profitability and export performance of industrial cluster of Lao garment industry using resource-based view theory to posit the conceptual model. The findings suggested that product innovations are important factors in determining firm profitability and export performance. Also, Geroski and Machin (1992) found that product innovation was positively related to both profitability and growth after controlling for facility and industry characteristics. The implementation of product innovation is significantly improving production or delivery method of product line, which includes significant changes in techniques, equipment and/or software (Guillaume, 2010).

Innovativeness is recognized as a vital driver of economic growth and development, the impact which is felt on business activities as it leads to creation of new products and services with improve quality and lower cost. Innovativeness is an important concern for insurance firms as its role in developing and coordinating of the market is incontrovertible. Innovation transcends all human endeavours and is pertinent to product development, management approaches, work procedures and improvement of the processes. Therefore this study concluded that product innovation significantly influences the increase in market share and profitability as measures of organizational performance.

This study proffered the following recommendations which were based on the findings and conclusions of this study:

- That strong policies on product innovation should put in place so as to enhance the quality of service delivery in improving organizational performance
- That insurance companies should design and redesign their products to meet changing user needs and product innovation is very crucial in the achievement of this goal.

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