



**INFLUENCE OF INNOVATION STRATEGIC PRACTICE ON THE GROWTH OF  
SMALL AND MEDIUM ENTERPRISES IN KENYA: A CASE OF SMEs IN KISII  
TOWN**

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**Abstract**

*The purpose of this study was to establish the influence of innovation strategic practices on small and medium enterprises in Kenya. Innovation strategic practices enable organizations determine their positions in the market as compared to their competitors. Innovation strategic practice plays a significant role within the concept of generating and communicating wealth of the companies and instructions, this makes it remain the most important source of externally feasible information. The study findings indicated that marketing innovation enhanced growth of the small medium enterprise through business environment, economic environment and technological environment that led to better performance of business is conducive technologically, demographically and economically, this necessitate them to becoming important engines for innovation and technological advancement. The study recommended that the government should set aside proper polices in place which involves the presence of a set of activities that will enable the small and medium enterprises to differentiate themselves from their competitors and to maintain their competitive position. The business managers should also enhance ways to reduce barriers to the activities of innovation in SMEs which include a lack in capital investment, infrastructure, education and product innovation systems, encumber regulations, and in general deficiencies in know-how and skills acquisition. The small and medium enterprises owners should venture in the ultimate goal of innovation so as to improve business performance and service delivery.*

**Key Words:** innovation strategy, SMEs

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## **1. Background of the study**

Small and Medium Enterprises (SMEs) are widely recognized as the key engine of economic development. As a result of this recognition, a central issue dominating policy debates around the world and Africa in particular has been how to stimulate economic growth through the development of SMEs. In developing countries, SMEs are important not only because they create employment but also because they employ unskilled workers, who are overly abundant in these countries. Like many other developing countries, Kenya has recognized the importance of SMEs for economic development and poverty alleviation. SMEs are more innovative than larger firms, due to their flexibility and their ability to quickly and efficiently integrate inventions created by the firms' development activities.

Small and Medium Enterprises to be competitive in the global marketplace, organizations need to be driving more innovation in their products and services. They need to innovate rapidly and they need to do it cost-effectively. This has been a need that has grown over the last several years. Even the best technology can't deliver success without focus on business strategy and goals. It is important to have a clear vision of where the company is going, as it will define and set the context for the role innovation will play in enabling profitable growth, help determine the type of innovation to enhance change. Innovation can manifest itself in multiple ways, whether in a technology change that determines the products and services one can deliver, or a business model change that defines the value business deliver, Moore, (2005). Small and Medium Enterprises must determine the types of innovation they need incremental, breakthrough, or radical.

In most Kenyan firm's innovation and performance contains a limited number of studies dealing with the impact of the above-mentioned SIM practices in a manner independent from each other (Igartua et al., 2010; Sanchez et al., 2011; Terziovski, 2010). Moreover, there is not any research addressing the impact of these practices on firm innovation performance by modeling SIM practices as a whole. Therefore, the purpose of this study is to explore the impact of IS, OS, IC, TC and CSR, which appear as SIM practices in firms, on firm innovation performance.

The main contribution of this study to the SMEs industry in Kisii town and field of management will be the understanding of how SIM practices in firms affect innovation performance. Moreover, the limited research about innovation management and innovation performance relationship, which has just started to develop in the literature and has shown a controversial pattern of empirical research results, makes the current study important in terms of its contribution to the existing literature and for industrial applications.

## **2. Purpose and Objectives of the Study**

The purpose of this was to establish the influence of innovation strategies practice on the growth of small and medium enterprises in Kenya. This was guided by the following objectives;

- i. To investigate how process innovation affects growth of small medium enterprise in Kisii Town.

- ii. To find out how product innovation affects growth of small medium enterprise in Kisii Town.
- iii. To determine the influence of marketing innovation in improving the growth of the small medium enterprise in Kisii Town

### 3. Research methodology

A sample frame constituted 250 small and medium enterprises operating within Kisii town and data was analyzed by use of descriptive statistical methods.

### 4. Data Analysis according to objectives

#### Process innovation on growth of small medium enterprise

The study sought to establish from the respondents on the effects of process innovation on the growth of small and medium enterprises in Kisii Town. The response rate from the field was recorded as shown in table 1 below.

**Table 1: Process innovation on growth of small medium enterprise**

<b>Process innovation on growth of small medium enterprise</b>	<b>Strongly agree</b>	<b>Agree</b>	<b>Un decided</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
Better planning of operations	161	49	15	11	9	245
	65.7	20	6.1	4.5	3.7	100
Improved quality services	189	51	01	04	00	245
	77.1	20.8	0.4	1.6	00	100
Better and conducive working condition	122	85	8	21	09	245
	49.8	34.7	3.3	8.6	3.7	100
Proper business operations	140	53	21	9	22	245
	56.2	22.1	8.6	3.7	9.0	100

Table 1 indicates that 65.7% of the respondents strongly agreed that better planning of operation was an innovation strategy practice on the growth of small and medium enterprises in Kisii Town, 20% of the respondents agreed, 6.1% were undecided, 6.1 of the respondents disagreed and 3.7% strongly disagreed. 77.1% of the respondents strongly agreed that improved quality services was an innovation strategy practice on the growth of small and medium enterprises in Kisii Town, 20.8% of the respondents agreed, 0.4% of the respondents were un decided, 1.6% of the respondents disagreed. 49.8% of the respondents strongly agreed that better and conducive was an innovation strategy practice on the growth of small and medium enterprises in Kisii Town, 34.7% of the respondents agreed, 3.3% of the respondents were un decided, 8.6% of the respondents disagreed and 3.7% of the respondents strongly disagreed. 56.2% of the respondents strongly agreed that proper business operations was an innovation strategy practice on the growth of small and medium enterprises in Kisii Town, 22.1% of the respondents agreed, 8.6%

of the respondents were un decided, 8.6% of the respondents disagreed and 3.7% of the respondents strongly disagreed. The literature survey reveal that the studies on process innovation and its effect on performance are observed to have concentrated to Western, Middle and Far East and very little empirical evidence is noticeable in Africa. The issue of process innovation and how it relate to firm's performance and specially SMEs is thus yet to be exhaustively explored.

The issue of process innovation and how it relate to firm's performance and specially SMEs is thus yet to be exhaustively explored. The results from reviewed literature are mixed, inconclusive and difficult to generalise.

Regarding empirical research, despite some conflicting evidence some studies have advocated for the positive effects of process innovation on performance and. In short, both theory and empirical research especially writers out of African continent have suggest a positive relationship between innovative activity and the performance of firms. In African there are few writers particularly Kenya, they are countable. This has an implication for a need in empirical studies of this nature in Africa and particularly in Kenya where SMEs are observed to provide employment to a good number of people.

### **Effect of Product innovation on growth of small medium enterprise**

The study sought to establish from the respondents on the effects of product innovation as an innovation strategy practice on the growth of small and medium enterprises in Kisii Town. The response rate from the field were recorded as shown in table 2.

**Table 2: Effect Product innovation on growth of small medium enterprise**

<b>Product innovation on growth of small medium enterprise</b>	<b>Strongly agree</b>	<b>agree</b>	<b>Un decided</b>	<b>disagree</b>	<b>Strongly agree</b>	<b>Total</b>
Provision of quality services	106	64	26	33	16	245
	43.3	26.1	10.6	13.5	6.5	100
Satisfying of customers	87	77	35	22	24	245
	35.5	31.4	14.3	9.0	9.8	100
Need to improve business operations	152	64	10	13	06	245
	62.0	26.1	4.1	5.3	2.5	100
Delivering of required services	95	68	39	25	18	245
	38.8	27.8	15.9	10.2	7.3	100

Table 2 indicates that 43.3% of the respondents strongly agreed that provision of quality services was an effect of product innovation on innovation strategic practice on growth of small and medium enterprises in Kisii Town, 26.1% of the respondents agreed, 10.6% of the respondents were un decided, 13.5% of the respondents disagreed and 6.5% of the respondents strongly

disagreed. 35.5% of the respondents strongly agree that satisfying of customers was an effect of product innovation on innovation strategic practice on growth of small and medium enterprises in Kisii Town, 31.4% of the respondents agreed, 14.3% of the respondents were un decided, 9.0% of the respondents disagreed and 9.8% of the respondents strongly disagreed. 62.0% of the respondents strongly agreed that need to improve business operations, 26.1% of the respondents agreed, 4.1% of the respondents were undecided, 5.3% of the respondents disagree and 2.5% of the respondents strongly disagreed. 38.8% of the respondents strongly agreed that delivering of required services was an effect of product innovation on innovation strategic practice on growth of small and medium enterprises in Kisii Town, 27.8% of the respondents agreed, 15.9% of the respondents were un decided, 10.2% of the respondents disagreed and 7.3% of the respondents strongly disagreed.

Innovativeness is expressed as financial resources spent on absorption and generation of new technologies. Besides the four major challenges, there are other challenges of less significance to my work; 1) The issue of product innovation must be considered when constructing performance models for SMEs. 2) Young firms must be given special attention, as often these enterprises have not reached a stable status and tend to be more dynamic than more mature firms 3) Models used by managers of SMEs should be of practical value. 4) The models must account for the nature of the modern economy, as Information and Communication Technologies (ICTs) drive the organizations to adapt an open structure. The way in which product innovation activities are run in smaller firms differs from the way they are conducted in larger firms. The growth potential effect related to product innovation in SMEs comes from three input parameters: technology, R&D, and generation of competitive edge. Vertically integrated organizational company structures facilitate product innovation activities that are internally-focused, while newer forms of organizational structures are more fluid and open. As such, newer structures allow for the integration of internal and external sources of product innovation. However, studies of product innovation in SMEs are still limited compared to similar studies focusing on larger firms

### **Extent of the Effect Marketing innovation**

The study sought to establish from the respondents on the extent of the effect of marketing innovation as an innovation strategy practice on the growth of small and medium enterprises. The response rate from the field were recorded as shown in table 3.

**Table 3: Extent of the Effect Marketing innovation**

<b>Extent of the Effect Legal and Regulatory environment</b>	<b>Yes</b>	<b>No</b>	<b>Total</b>
To a very high extent	167	78	245
	68.2	31.8	100
To high extent	141	104	245
	57.6	42.4	100

To moderate extent	193	52	245
	78.8	22.2	100
To low extent	215	30	245
	87.8	12.2	100
To no extent	229	16	245
	93.5	6.5	100

Table 3 indicates that 68.2% of the respondents said that marketing innovation to a very high extent affected on innovation strategic practice on growth of small and medium enterprises in Kisii Town while 31.8% of the respondents said no in that marketing innovation to a very high extent affected on innovation strategic practice on growth of small and medium enterprises in Kisii Town. 57.6% of the respondents said that marketing innovation to a very high extent affected on innovation strategic practice on growth of small and medium enterprises in Kisii Town while 42.4% of the respondents said no in that marketing innovation to a very high extent affected on innovation strategic practice on growth of small and medium enterprises in Kisii Town. 78.8% of the respondents said that marketing innovation to a very high extent affected on innovation strategic practice on growth of small and medium enterprises in Kisii Town while 22.2% of the respondents said no in that marketing innovation to a very high extent affected on innovation strategic practice on growth of small and medium enterprises in Kisii Town. 87.8% of the respondents said that marketing innovation to a very high extent affected on innovation strategic practice on growth of small and medium enterprises in Kisii Town while 12.2% of the respondents said no in that marketing innovation to a very high extent affected on innovation strategic practice on growth of small and medium enterprises in Kisii Town. 93.5% of the respondents said that marketing innovation to a very high extent affected on innovation strategic practice on growth of small and medium enterprises in Kisii Town while 6.5% of the respondents said no in that marketing innovation to a very high extent affected on innovation strategic practice on growth of small and medium enterprises in Kisii Town.

#### **Marketing innovation on growth of the small medium enterprise**

The study sought to establish from the respondents on the effects of marketing innovation as an innovation strategy practice on the growth of small and medium enterprises. The response rate from the field were recorded as shown in table 4.

**Table 4: Marketing innovation on growth of the small medium enterprise**

<b>Marketing innovation on growth of the small medium enterprise</b>	<b>Strongly agree</b>	<b>Agree</b>	<b>Undecided</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
Market prices	170	52	10	5	8	245

	69.4	21.2	4.1	2.0	3.3	3.3
Distribution channels	148	47	13	20	17	245
	60.4	19.2	9.0	8.2	6.9	100
Profit investment	120	68	8	18	31	245
	49.0	27.8	3.3	7.3	12.7	100
Customer expectation	136	72	15	11	11	245
	55.5	29.4	6.1	4.5	4.5	100
Improved services	96	104	17	13	15	245
	39.2	42.4	6.9	5.3	6.1	100

Table 4 indicates that 69.4% of the respondents said that market prices was an effect of marketing innovation that influenced innovation strategic practice on growth of small and medium enterprises in Kisii Town, 21.2% of the respondents agreed, 4.1% of the respondents were undecided, 2.0 of the respondents disagreed and 3.3% of the respondents strongly disagreed. 60.4% of the respondents said that distribution channels was an effect of marketing innovation that influenced innovation strategic practice on growth of small and medium enterprises in Kisii Town, 19.2% of the respondents agreed, 9.0% of the respondents were undecided, 8.2 of the respondents disagreed and 6.9% of the respondents strongly disagreed. 49.0% of the respondents said that profit investment was an effect of marketing innovation that influenced innovation strategic practice on growth of small and medium enterprises in Kisii Town, 27.8% of the respondents agreed, 3.3% of the respondents were undecided, 7.3 of the respondents disagreed and 12.7% of the respondents strongly disagreed. 55.5% of the respondents said that customer expectation was an effect of marketing innovation that influenced innovation strategic practice on growth of small and medium enterprises in Kisii Town, 29.4% of the respondents agreed, 6.1% of the respondents were undecided, 4.5 of the respondents disagreed and 4.5 of the respondents strongly disagreed. 39.2% of the respondents said that improved services was an effect of marketing innovation that influenced innovation strategic practice on growth of small and medium enterprises in Kisii Town, 42.4% of the respondents agreed, 6.9% of the respondents were undecided, 5.3 of the respondents disagreed and 6.1% of the respondents strongly disagreed. Marketing innovation's positive impact on the efficiency and performance of firms requires clarification on two points. The first point is that investments in marketing innovation and technology in take should be treated as positive inputs into the efficiency of the firm rather than as cost figures that exhaust the firm. The second point is that such investment needs to be related to the production costs to reflect the true utilization of the firm's resources. A higher ratio is an indication of the firm management's high level of commitment to investment in marketing innovation and absorption of new technologies, while a lower figure indicates the reverse and actually points to an old style, non-marketing innovational approach to firm development strategies.

## 5. Summary of the findings

The study findings indicated that

- i. Process innovation affected on the growth of small medium enterprise through enhancing better planning of operations, improved quality services and proper business operations
- ii. Product innovation enhanced growth of small medium enterprise by provision of quality services, satisfying of customers and improving business operations.
- iii. Marketing innovation enhanced growth of the small medium enterprise through business environment, economic environment and technological environment that led to better performance of business is conducive technologically, demographically and economically, this necessitate them to becoming important engines for innovation and technological advancement.

## Conclusion

The study concludes that there are effects of product innovation the on growth of small and medium enterprises on the other hand; with product innovation in place, there is experienced well planned organizational activities and general operations, the services given out to the esteemed customers is of quality, it enhances business working environment. Process innovation affects growth of small and medium enterprises, similarly; the study established that knowledge management enhances quality provision of services by business owners, enhances customer satisfactory, it enhances business operations and process innovation enhances delivery of services in any business field. Marketing innovation can be affected by the political environment in the area, it can greatly be affected by the legal issues concerning the business, can be affected by the economic condition, business environment on the other hand can be affect by the social environment, it can be affected by technological environment, on the other hand the business environment can greatly affected by the demographic environment.

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