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A case of SMEs in Nairobi County**

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# **Influence of Strategic Innovation Practices on Performance of Entrepreneurial Businesses in Kenya: Acase of SMEs in Nairobi County**

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## **Abstract**

Strategic innovation is critical for firms that are in pursuit of improved performance and their reward is often an increase in their profits and their market share. Process of strategic innovation is strongly associated with organizational learning and refers to ability of organization to generate, accept and implement new ideas, processes, products or services. The primary goal of process innovation is to generate a notable increase in productivity or to drive down costs significantly. This approach can help organizations achieve major reductions in process cost, improvements in quality, service levels and other business objectives. Strategic innovation is contributor to creation of new markets and products for the market, however even after the benefits of strategic innovation has been established the impact of strategic innovation on performance of SMEs has remained misunderstood. The specific objectives of the study were; to establish the effect of Service innovation on the performance of SMEs in Nairobi County, to establish the effect of product innovation on the Performance of SMEs in Nairobi County. The study adopted the use of mixed method approach research design which is the application of both qualitative and quantitative approaches. The study used a desk study review methodology where relevant empirical literature was reviewed to identify main themes. Result findings from literature-based review indicated that innovation had positive and significant influence on the performance of SMEs. It was recommended that innovation information should be available particularly to regulatory and advisory bodies for guidance to the SMEs on the need to craft and employ sound strategies geared towards continuously embracing innovativeness since innovation leads to improved financial performance.

**Keywords:** *Product Innovation, Service Innovation, Performance.*

## 1.0 Introduction

### 1.1 Background of the study

Strategic innovation is critical for firms that are in pursuit of improved performance and their reward is often an increase in their profits and their market share (Truong, Simmons, Grinstein & Palmer, 2017). According to Harvey, Kiessling and Moeller (2010), the motivating factors that stimulate strategic innovation in organizations is due to constant changes in demographics globally that lead to a combination of three variables that are who, what and how that strategic innovators need to consider. Innovation will relate to products, processes, markets and the organization as a whole. This will entail new products, new processes of production, new sources of supply, new markets and new ways in which the businesses carry out their activities. The four different types of strategic innovations include production innovation, process innovation, marketing innovation and organizational innovation (Chen, Hsiao, Chen & Lee, 2018).

A Successful organization knows the significance of strategic innovation in business (Kasemsap, 2017). Apple is a good example of how effective strategic innovation practice can improve your products and scale up your business. After reaching on the brink of collapse, it achieved new heights of success by implementing effective innovation management policy. The success of its innovative management strategies once again brought it in the league of leading organizations. If you are an entrepreneur who wants to learn from innovative management strategies of successful organizations, you need to consider adopting strategic innovation practices which will help see your business to the next level. According to Futterer, Schmidt and Heidenreich (2018), Innovative organizations are never complacent with their success. They always look for creative and novel strategies that could help them develop their working processes and enhance their products. As they are always open to new ideas, they are able to develop creativity around their working approach which enables them to serve their clients with better products.

Process of strategic innovation is strongly associated with organizational learning and refers to ability of organization to generate, accept and implement new ideas, processes, products or services (Osborne, Radnor, Kinder & Vidal, 2015). Innovations in services are rarely radical and are mostly small improvements of products and processes. Process innovation involves rethinking an entire end-to-end process or with bringing a dramatic improvement to a valuable process segment (Hervas, Ripoll & Boronat, 2014). The primary goal of process innovation is to generate a notable increase in productivity or to drive down costs significantly. This approach can help organizations achieve major reductions in process cost, improvements in quality, service levels and other business objectives (Torfing & Triantafillou, 2016). These methods may concern changes in equipment, production organization or a combination of these changes and may be derived from the use of new knowledge. Process innovation leaves product functionality unchanged, while lowering the cost of production by a constant percentage (Von Krogh, Netland & Wörter, 2018). According to Susanne (2015), "Service innovation" has become a term referring to innovation taking place in the various contexts of services, including the introduction of new services or incremental improvements of existing services. Whilst service innovation can take place in the service sector, it does not necessarily need to. New and improved services can also be provided by non-services sectors, such as by manufacturing firms that aim at enlarging their

supply portfolio with value adding services. Similarly, service innovation is intrinsically different from a “product”, as it usually lacks the tangible nature of product innovations. Services may be highly tailored according to the client/customer needs, and include many different stakeholders

Olsen and Håkansson (2017) believe that innovative business is run by a creative team. Innovation-minded managers recognize the power of a creative team and never hesitate to spend on their training. Effective innovation training programs motivate employees to find creative ideas that can improve work processes and enhance their productivity. According to Dooren, Bouckaert and Halligan (2015) business performance is measuring organization’s activities to produce an innovation, which also consists of organization’s capability and the impact created by doing innovation. The impact of innovation activity on organization’s performance can occur in various forms including performance, service delivery, economic value, satisfaction and trust (Berman, 2015). Innovation performance is the outcome of significant improvement implemented by the organization such as efficiency, effectiveness and quality outcomes (Spekle & Verbeeten, 2014). In addition, innovation performance may also be viewed as a set of indicators used to diagnose the accomplishment of broad and specific objectives of innovation. Broad objectives usually include improvement in efficiency, quality and user satisfaction. Specific objectives may include addressing social challenges, fulfilling new regulations, and improving working conditions (Bloch & Bugge, 2013). Examples of innovation impact in an organization are simplified administration, faster service delivery, increased user access to information, improved user satisfaction, improved employee satisfaction, and reduced cost (Rasul & Rogger, 2017).

Ravichandran (2018) argues that truly successful innovative organizations integrate an effective IT infrastructure that enables smooth flow of information. Such a system ensures a seamless sharing of information and access to ideas which results in higher collaboration and better engagement across the organization. All innovation-friendly organizations practice a seamless systems and processes that support creativity at every step. A production manager cannot better the design of products if the finance department is not allowing sufficient budget to execute the process. Similarly, an IT manager cannot integrate an effective collaborative system in business applications if it lacks a supportive IT infrastructure. For a successful innovation strategy, all your processes and systems have to merge together to make your ideas a reality.

According to Acosta, Popa and Marqués (2016), executives should solicit new ideas from everyone at every level, both inside the organization and outside, top down and bottom up. Business leadership and innovation implementation still need to be visible and supported by all management, through actions as well as messages. When innovations are driven by increased customer value and satisfaction, business growth will come naturally from repeat business, new customers, and referrals (Simon & Yaya, 2012). Employees will be motivated by delighted customers, and the value will spread to the greater community and society. Geissdoerfer, Vladimirova and Evans (2018) asserts that too many innovations that aren’t perfect the first time never get a second look, and die an expensive death. Others get caught in analysis paralysis, and never get exposed to real customers.

According to scholars in the past strategic innovation has no impact on the performance of the SME (Pooja & Singh, 2009). However, Mwanja and Muganda (2011) in a study arrived at a conclusion that innovation contributed significantly on the performance of the other major organization. Strategic innovation studies have been carried out in the Kenya however most of studies have concentrated on the larger organizations such commercial banks (Juma et al., 2014). According to Juma *et al.*, banks strategic innovations have not completely explored. This study however, focused on SMEs and the influence strategic innovation practices have on their performance.

## 1.2 Statement of the Problem

Strategic innovation is believed to create superior performance on the organization that adopts it (Walker, 2004).as a result of strategic innovation practices competitiveness has grown around the world in different business industries (Juma & Lilly, 2014). Strategic innovation is therefore a way in which an incoming organization is able to compete with the already existing organizations (Juma & Lilly, 2014). Therefore strategic innovation focuses on the organizations evolution overtime as it explores the unexplored positions in its industry (Larsen, Markides and Gary, 2002). Strategic innovation is contributor to creation of new markets and products for the market (Birkinshaw, Bouquet and Barsoux, 2011). However even after the benefits of strategic innovation has been established the impact of strategic innovation on performance of SMEs has remained misunderstood (Juma et al., 2014). One reason is because the drivers of innovation have not been known and secondly is because innovation among the SMEs has not been tested (Mabrouk and Mamoghli, 2010).

According to scholars in the past strategic innovation has no impact on the performance of the SME (Pooja & Singh, 2009). However, Mwanja and Muganda (2011) in their study concluded that innovation contributed significantly on the performance of the other major organization. Strategic innovation studies have been carried out in the Kenya however most of studies have concentrated on the larger organizations such commercial banks (Juma et al., 2014). According to Juma *et al.*, banks strategic innovations have not completely explored. This study however, does not consider the SME setting and how strategic innovations influence their performance.

A study carried out in Kenya on strategic innovation was based in the insurance industry and concentrated more on the strategy that the insurance companies employed in their competitive environment (Karanja, 2009). A study carried out by Ong'olo and Awino (2013) concentrated on comparing the SMEs and devolved Government and the challenges that the SMEs were faced with due to the changes in regulatory procedures. The studies discussed above concentrate more in different industries which have more income than that found in an SME. The second reason as to why they cannot be applied is because their target market is different as compared to that of an SME and therefore the strategic innovation applied is different in each case. This study therefore seeks to establish the Influence of Strategic Innovation Practices on Performance of Entrepreneurial Businesses in Kenya: A case of SMES in Nairobi County.

### **1.3 Specific objectives**

- i. To establish the effect of product innovation on the Performance of SMEs in Nairobi County.
- ii. To establish the effect of Service innovation on the performance of SMEs in Nairobi County.

### **1.4 Research Questions**

- i. What influence does product innovation have on the performance of SMEs in Nairobi County?
- ii. Does Service innovation have influence on the performance of SMEs in Nairobi County?

## **2.0 Literature Review**

### **2.1 Theoretical Review**

#### **2.1.1 Diffusion in Innovations Theory**

Diffusion of innovation theory was developed by (Rogers, 1971) and examines how ideas are spread among groups of people. Diffusion of innovations theory seeks to explain how, why, and at what rate new ideas and technology spread. Rogers argues that diffusion is the process by which an innovation is communicated over time among the participants in a social system. For Rogers (2003), adoption is a decision of “full use of an innovation as the best course of action available” and rejection is a decision “not to adopt an innovation”. Rogers defines diffusion as “the process in which an innovation is communicated through certain channels over time among the members of a social system”. As expressed in this definition, innovation, communication channels, time, and social system are the four key components of the diffusion of innovations.

Diffusion goes beyond the two-step flow theory, centering on the conditions that increase or decrease the likelihood that an innovation, a new idea, product or practice, will be adopted by members of a given culture. In multi-step diffusion, the opinion leader still exerts a large influence on the behavior of individuals, called adopters, but there are also other intermediaries between the media and the audience's decision-making. One intermediary is the change agent, someone who encourages an opinion leader to adopt or reject an innovation (Infante, Rancer, & Womack, 1997).

Not all individuals adopt innovations in a social system at the same time. Instead, they tend to adopt in a time sequence, and can be classified into adopter categories based upon how long it takes them to begin using the new idea. Practically speaking, it's very useful for a change agent to be able to identify which category certain individuals belong to, since the short-term goal of most change agents is to facilitate the adoption of an innovation. Adoption of a new idea is caused by human interaction through interpersonal networks. If the initial adopter of an innovation discusses it with two members of a given social system, and these two become adopters who pass the innovation along to two peers, and so on, the resulting distribution follows a binomial expansion. Diffusion in Innovations. Diffusion goes beyond the two-step flow theory,

centering on the conditions that increase or decrease the likelihood that members of a given society will adopt an innovation, a new idea, product or practice. Theory was relevant to this study since it articulates how ideas are spread among groups of people. It helped in explaining how, why and at what rate new ideas and technology spread among the SMEs within Nairobi County and how that influences their performance.

### **2.1.2 Theory of Technology Acceptance Model**

This theory was put forward by Davis (1986). According to the theory of technology acceptance model, developed the Technology Acceptance Model (TAM) that deals more specifically with the prediction of the acceptability of technology innovations systems. The purpose of this model is to predict the acceptability of technological innovations identify the modifications that must be brought to the system in order to make it acceptable to users. This model suggests that the acceptability of an information system is determined by two main factors: perceived usefulness and perceived ease of use. Perceived usefulness is defined as being the degree to which a person believes that the use of a system will improve his performance. Perceived ease of use refers to the degree to which a person believes that the use of a system will be effortless. Several factorial analyses demonstrated that perceived usefulness and perceived ease of use could be considered as two different dimensions.

Technology Acceptance Model postulates that the use of an information system is determined by the behavioral intention, but on the other hand, that the behavioral intention is determined by the person's attitude towards the use of the system and by his perception of its utility (Marangunić & Granić 2015). According to Davis, the attitude of an individual is not the only factor that determines his use of a system, but is also based on the impact that it may have on his performance (Fishbein, & Ajzen, 2014). Therefore, even if an employee does not welcome an information system, the probability that he will use it is high if he perceives that the system will improve his performance at work. Besides, the Technology Acceptance Model hypothesizes a direct link between perceived usefulness and perceived ease of use. With two systems offering the same features, a user will find more useful the one that he finds easier to use.

According to Davis (1986), perceived ease of use also influences in a significant way the attitude of an individual through two main mechanisms: self-efficacy and instrumentality. Self-efficacy is a concept developed by Bandura (1982) which explains that the more a system is easy to use, the greater should be the user's sense of efficacy. Moreover, a tool that is easy to use will make the user feel that he has a control over what he is doing (Lepper, 1985). Efficacy is one of the main factors underlying intrinsic motivation (Bandura on 1982; Lepper, 1985) and it is what illustrates here the direct link between perceived ease of use and attitude. Perceived ease of use can also contribute in an instrumental way in improving a person's performance. Because the user will have to deploy less effort with a tool that is easy to use, he will be able to spare efforts to accomplish other tasks. (Davis, 1986).

The technology acceptance model theory is relevant as it specifies behavioral beliefs, perceived usefulness and perceived ease of use of technological systems. In TAM, behavioral intention to use, leads to actual IT usage behavior. Behavioral intention is determined jointly by attitude and

perceived usefulness, where perceived usefulness also affects attitude directly. The theory is relevant to the study in the sense that it would assist to portray how product innovations can be used to bring out improved performance by SMEs in Nairobi County.

## **2.2 Empirical Review**

### **2.2.1 Product Innovation and Performance**

In Ghana, Osei Yunfei, Appienti and Forkuoh (2016) conducted a study to establish the relationship between Product Innovation and SMEs Performance in the Manufacturing Sector of Ghana. The aim of the study was to establish the contribution of product innovation to the performance and growth of SMEs in Ghana. The study adopted quantitative approach using survey techniques to gather data from 400 SME owner managers in Ghana. The study results indicated that SMEs in the cities and with educated entrepreneurs were adopting product innovation at the expense of those in the rural areas. Evidence from the study supported the previously held view by Lau, Tang and Yam (2010) that product innovation leads to improvement of firm's performance. The results of the study fitted very well the Ansoff Growth Model quadrant, where the introduction of new product and the improvement of existing ones were the center stage for SMEs growth both in the short and long run. The study concluded that, SMEs in Ghana who adopted product innovative practices recorded a significant growth in terms of the annual turnover and the number of employees. It was further concluded that the survival of SMEs in Ghana hinges on the adoption of innovative practices if they are to compete fairly with their larger counterparts and overseas competitors. The study recommended that, future research and directions should focus on the involvement of external support from the government and other support institutions for collaborations in the adoption of innovation.

Wadho and Chaudhry (2018) conducted a study on Innovation and firm performance in developing countries: The case of Pakistani textile and apparel manufacturers. Using unique innovation survey data collected from a homogenous sample of firms in Pakistan, the study presented an analysis of the firm level determinants of product innovation and its impact on firm performance. The study employed a multi-stage structural model linking the decision of a firm to innovate, its innovation investment, product innovation, and firm performance using primary data from the textile and wearing apparel sector, which is the largest export sector of Pakistan. The study results indicated that, product innovation leads to increased labor productivity as well as higher labor productivity growth. The study further indicated that a 10 percent increase in innovative sales per worker was associated with a greater than 10 percent increase in labor productivity and labor productivity growth. The study concluded that larger firms were more likely to engage in innovation; however, there was no significant evidence that they invested more in innovation. It was further concluded that firms that are higher investment in innovation, that are more productive, and that introduce organizational innovations have higher innovative sales per worker. The study recommended that firms should invest more in innovation so as to realize improved performance.

Ibrahim (2016) conducted a study on product innovation in Islamic banking and growth of SMEs in Nairobi. The study adopted an exploratory research design, the target Population was all banks



in Kenya that offer Islamic products. The study findings indicated that there was positive and significant relationship between product innovation in Islamic bank and the growth of SMEs in Nairobi. The study pointed out that there was improvement in response time to customer queries, research and development expenses were included in budget, use of flexible regulations had developed Islamic banking, banks uses Sharia<sup>h</sup> advisory board to supervise transactions according to Islamic, the banks had a Sharia advisory committees/consultants to advise clients and that the growth indicators that affect SMEs were mainly government regulations investments, information networking, turn over, ICT adoption and Return on equity. The study concluded that the various financial innovations were indeed significant and had positively affected the growth of SMEs. It was recommended that Islamic banks should broaden product and service offerings by providing non-borrowing services, such as cash management, payroll management, payments, collections and trade finance solutions and the government should develop effective policies that will help the growth of Islamic banks in Kenya.

Antonnet (2014) evaluated the effects of product innovation on financial performance of commercial banks in Kenya. The study was concerned with product innovation and its effects on financial performance of commercial banks in Kenya. The study adopted explanatory research design in which a population sample of 106 senior and branch managers from nine commercial banks was taken using the census method. Analyses were conducted through descriptive statistics and Ordinary Least Square technique to estimate a multiple regression equation. The regression results indicated that core product innovation and augmented product innovation did not have any relationship with the financial performance of banks. The study revealed that all commercial banks had innovated and implemented products of each type even though there was a negative or no effect at all on their financial performance and a certain amount of time might be necessary in order to observe the reflection of positive effects of innovative products on financial performance. Based on the study results the study concluded with a suggestion of further and extended future research in product innovation and financial performance of commercial banks in order to establish other useful findings that this particular study may have been unable to determine.

Ongwen (2015) conducted a study on impact of product innovation on financial performance of commercial banks in Kenya. The purpose of the study was to assess the impact of product innovation on commercial bank's financial performance as the key players in the banking sector over a period of 4 years. The study adopted descriptive research design with a target population of 43 commercial banks in Kenya as at 30th June 2011. Regression results indicated that there was a positive and significant relationship between innovated products Ratio and ROA. The study concluded that product innovations positively affect financial performance. Based on the study findings, it was recommended that that product innovation information should be available particularly to regulatory and advisory bodies for guidance to the commercial banks on the need to craft and employ sound strategies geared towards continuously embracing innovativeness since innovation leads to improved financial performance. Further the study recommends that firms should create an enabling environment for the employees to be innovative in their

operations in order to utilize its competitive advantage so as to increase financial performance and growth of the sector.

Spanos (2012) conducted a study dubbed antecedents of SMEs' product innovation performance: a configurational perspective. The study examined antecedents of product innovation performance in small and medium-sized enterprises (SMEs). The study was based on the resource-based theory. The study argued that because innovation is a complex and highly demanding activity, the capacity to innovate should be viewed as a configuration of tightly coupled functional and administrative competencies that together, not in isolation, explain product innovation. The study concluded that, technological collaboration with third parties is an effective means for SMEs to overcome their key liability with respect to innovation, that is, their endemic resource scarcity. The study's main contribution was to provide a more holistic view of SME's innovation behaviour by adopting a configurational perspective.

### **2.2.2 Service Innovation and Performance**

McDermott and Prajogo (2012) conducted a study dubbed Service innovation and performance in SMEs using empirical data drawn from 180 managers in Australian service organisations. The study findings indicated that, controlled for size, neither of the innovation orientations showed significant, direct relationships with firms' performance. However, ambidextrous innovation was positively associated with business performance, indicating a synergy between exploration and exploitation. Further examination indicated the relationship between exploration/exploitation innovation and performance was moderated by size within the sample of small firms. Taken together, the results of the study pointed to an interesting and complex relationship within SMEs in Australia relating to innovation orientation, size, and performance. The study concluded that service SMEs are best served by the simultaneous pursuit of both exploitive and exploratory innovation. After assessing the relationship between ambidextrous innovation and performance, the study recommended that there was need for creating balance and synergy between the two innovation types.

Aas and Pedersen (2014) conducted a study on the impact of service innovation on financial performance. The study empirically investigated if firms focusing on service innovation perform better financially than firms not focusing on service innovation. Analysis of the financial performance of 3575 Norwegian firms in the manufacturing industries supported the proposition that firms focusing on service innovation have significantly higher growth of operating results than firms not focusing on service innovation. However, this proposition was not supported in a corresponding analysis of 1132 Norwegian firms in the service industries. The study elaborated on these results by investigating a variety of performance measures and by comparing the effects of service innovation between manufacturing and service industries.

Prajogo and Oke (2016) conducted a study to establish the influence of human capital and service innovation advantage on business performance: The moderating roles of dynamic and competitive environments. The purpose of the study was to examine the effect of human capital and service innovation advantage on business performance in service sector firms, and how external environmental factors influence these relationships. The study adopted a cross-sectional

mail survey of a random sample of Australian service firms with the unit of analysis being at the firm level. In total, 228 usable responses were received. The overall findings of the study showed that human capital was positively related to the creation of value or service innovation advantage which in turn resulted into rent generation for firms. The results further showed that the effect of service innovation advantage on business performance was influenced by environmental dynamism and competitiveness with dynamic environments enhancing the effect while competitive environments weakening it. The findings of the study demonstrated the complementarity between the resources based theory and contingency theory as they clearly showed that the value of innovation as a firm's capability was enhanced or weakened within a business environment that is more dynamic or competitive. In conclusion, the study findings demonstrated the importance of human capital and service innovation and thus it was recommended that, managers should seek ways to harness and leverage human capital and adopting service innovation as a way of improving business performance.

In Japan, Tseng, Wu, Chiu, Lim and Tan (2018) carried out a study on Service innovation in sustainable product service systems: Improving performance under linguistic preferences. The study applied the fuzzy Delphi method. According to the study findings, there was a positive and significant relationship between service innovation and performance. The study further indicated that, sustainable service innovation systems enable firms that are operating under resource limitations to deliver the best possible outcomes in terms of social well-being and economic growth. The study concluded by presenting four features that are included in the model which were sustainable consumption, collaborative advantage, innovation activities and service innovation capabilities. It was recommended that when building sustainable product service systems, firms should maintain operations and aim for business synergy in self-generated innovative products/services along with high-quality products/services, collaboration innovation and product and service innovations.

In China, Fu, Wang and Zhao (2017) conducted a study to establish the influence of platform service innovation on value co-creation activities and the network effect. The study adopted a multiple case study research design and an in-depth analysis of the case data was done using ATLAS.TI software. The study findings indicated a strong positive and significant association between service innovation and network effect. The study explained that, at the emergence stage, platform service innovations focus on building infrastructure. Platform owners stimulate the network effect directly via platform service innovations, rather than indirectly via value co-creation activities. At the expansion stage, the platform service innovations focus on building relationships among platform owner and different sides of participants. Platform owners stimulate the network effect indirectly, via value co-creation activities, rather than directly via platform service innovations. At the maturity stage, platform service innovations focus on building an environment for the platform ecosystem. The study concluded that, with service innovation, Platform owners stimulate the network effect indirectly, via value co-creation activities rather than directly. It was recommended that, managers need to consider the developmental stage of the platform, as a mismatching of stage of development

(emergence/expansion/maturity) and focus (an orientation toward building infrastructure, relationships or environment) may lead to a failure to stimulate or enhance the network effect.

In a study by Moorthy, Tan, Choo, Wei, Ping and Leong (2012), service innovation was found to be one of the factors influencing the performance of SMEs. The study was conducted in Malaysia to determine the Factors Affecting the Performance of SMEs in Malaysia. Descriptive study was carried out to ascertain the implication of each independent factor towards the performance of SMEs in Malaysia. A total of 300 sets of questionnaires were forwarded via email to the randomly selected SMEs in manufacturing industry all over Malaysia. The study findings indicated a positive and significant relationship between service innovation and the performance of the SMEs. The study results supported the studies carried out by Keh et al.,(2007) and Cacciolatti et al., (2011), where they found that the good use of marketing information by the organization can lead to a higher probability of growth and enhance the competitiveness as well as a better decision making process. The study concluded that, effective entrepreneurship, appropriate HRM, use of marketing information and service innovation have a significant impact on the performance of SMEs in Malaysia. The study recommended that, more effort should be devoted to study the factors affecting the performance of SMEs in Malaysia for different sectors, such as mining and quarrying, services, construction, as well as primary agriculture.

Olughor (2015) conducted a study to determine the effect of innovation on the performance of SMEs Organizations in Nigeria. The study adopted a survey design method. The study results showed a positive and significant relationship between service innovation and market performance of the SMEs in Nigeria. The study also indicated that SMEs performance strongly relies on their innovativeness attracts active importance to the analysis of innovation activities and their effects. The study concluded that, SMEs becomes very competitive in an emerging market when they give importance to innovative activities that build their reputation in the market environment. Essentially, the key reason for innovativeness is the desire of firms to obtain increased business performance and increased competitive edge and the ultimate goal of innovation is to improve business performance. The study recommended that public and organizational policies should be designed in ways that addresses horizontal concerns and which generates better and viable inducement for innovation activities.

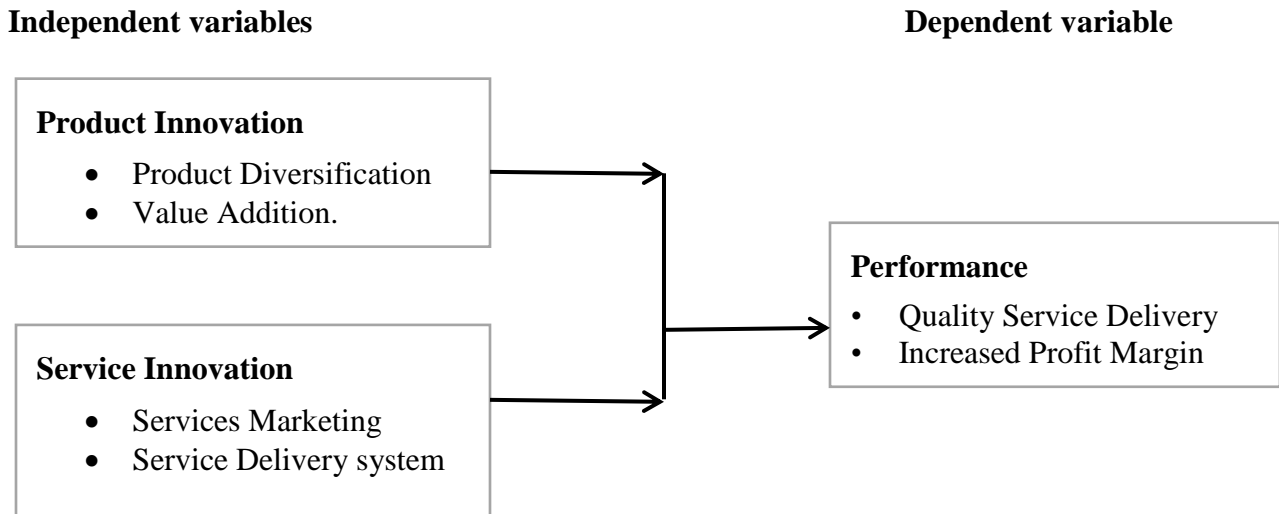
Durst, Mention and Poutanen (2015) conducted a study dubbed Service innovation and its impact. The study applied the principles of a systematic review. The study results indicated that service innovation had influence on the performance of firms. The study asserted that, with service innovation, companies can achieve a sustainable competitive advantage only by bundling novelties in terms of goods, with added value services. Those services also enable companies to increase customer loyalty and retention (Wu, 2014), as they may also have the so-called lock-in effects, which have been explored in-depth in several service industries such as telecommunications and banking. The study concluded that the growing use of social media can also be regarded as a good starting point for the development of metrics. Many consumers share their opinions and experiences regarding services with their social network. It was therefore

recommended that, Organizations should build on growing use of social media by monitoring the success of the service.

Mbogo (2017) conducted a study on the influence of ICT-based service innovation on the operational performance of commercial banks in Kenya. The study adopted descriptive survey research design. The findings of the study showed that there existed a statistically significant relationship between ICT-based service innovations and operational performance of the commercial banks in Kenya. The study further indicated that, the emergence and growing penetration of ICT-based service innovation lead to the gradual realization of its great potential not only to improve the efficiency of established business processes of commercial banks, through which their usual tangible and intangible products and services are produced, but also to facilitate and drive important innovations in their processes, and also in their products and services. The study conclude that re-engineering particularly to old processes and services will not only revitalize banks products and processes, but also act as a form of organizational branding that is essential for performance.

Ngari and Muiruri (2014) conducted a study to determine the effects of financial innovations on the financial performance of commercial banks in Kenya. The study utilized descriptive research design. The results of the study indicated a strong positive and significant association between financial innovations and the performance of the commercial banks. According to the study, banks in Kenya had adopted the new technologies and modern ways of operating which is safer and superior compared to the old ones. This included use of EFT electronic payment transfer, automation in clearing through EFT, truncation or cheque imaging transmission use electronic banks transfer. The study also indicated that banks had been motivated by the different interests to pursue different financial innovations. Credit cards were being adopted by the banks so as increase income, profits, and to reduce credit and liquidity risks. The study concluded that banks use internet banking to improve accuracy and efficiency and to increase speed and reliability of the banking system. This is because the process is automated and is less prone to human errors. It was recommended that banks should adopt internet banking to increase their competitiveness and service quality. The study recommended that banks should strive to adopt the new technologies and modern innovation practices as one way of improving their financial performance and enhancing their competitive advantage.

### 2.3 Conceptual Framework



**Figure 1.0: Conceptual Framework**

### 3.0 Research Methodology

The study established Influence of Strategic Innovation Practices on Performance of Entrepreneurial Businesses in Kenya: A case of SMES in Nairobi County. The paper used a desk study review methodology where relevant empirical literature was reviewed to identify main themes. A critical review of empirical literature was conducted to establish the Influence of Strategic Innovation Practices on Performance of Entrepreneurial Businesses in Kenya.

### 4.0 Results and Discussion of Findings

Result findings from literature-based review indicated that innovation had positive and significant influence on the performance. The results from the reviewed literature indicated that, product innovation leads to increased labor productivity as well as higher labor productivity growth. Larger firms were found to be more likely to engage in innovation; however, there was no significant evidence that they invested more in innovation. The results showed that firms that are higher investment in innovation, that are more productive, and that introduce organizational innovations have higher innovative sales per worker. The study findings also indicated that SMEs in the cities and with educated entrepreneurs were adopting product innovation at the expense of those in the rural areas and therefore the SMEs located in the rural areas recorded poor financial performance compared to their counterparts in the cities who recorded improved financial performance after adoption of the various strategic innovation practices.

The literature based results indicated that SMEs who adopted product innovative practices recorded a significant growth in terms of the annual turnover and the number of employees. Results of the study conducted on commercial banks indicated that, banks had been motivated by the different interests to pursue different financial innovations. Credit cards were being adopted

by the banks so as increase income, profits, and to reduce credit and liquidity risks. The study concluded that banks use internet banking to improve accuracy and efficiency and to increase speed and reliability of the banking system. This is because the process is automated and is less prone to human errors.

Further results from reviewed literature showed that, the emergence and growing penetration of ICT-based service innovation lead to the gradual realization of its great potential not only to improve the efficiency of established business processes of commercial banks, through which their usual tangible and intangible products and services are produced, but also to facilitate and drive important innovations in their processes, and also in their products and services. Sustainable service innovation systems enable firms that are operating under resource limitations to deliver the best possible outcomes in terms of social well-being and economic growth.

More study results indicated that SMEs becomes very competitive in an emerging market when they give importance to innovative activities that build their reputation in the market environment. Essentially, the key reason for innovativeness is the desire of firms to obtain increased business performance and increased competitive edge and the ultimate goal of innovation is to improve business performance. Regression analysis results from the empirical literature assert that there exists positive and significant relationship between strategic innovation practices and the performance of SMEs. Good use of marketing information by the organization can lead to a higher probability of growth and enhance the competitiveness as well as a better decision making process. Effective entrepreneurship, appropriate HRM, use of marketing information and service innovations have a significant impact on the performance of SMEs.

The studies' findings shows that with service innovation, companies can achieve a sustainable competitive advantage only by bundling novelties in terms of goods, with added value services. Those services also enable companies to increase customer loyalty and retention as they may also have the so-called lock-in effects, which have been explored in-depth in several service industries such as telecommunications and banking. The findings established a positive and significant relationship between service innovation and performance. It was revealed that sustainable service innovation systems enable firms that are operating under resource limitations to deliver the best possible outcomes in terms of social well-being and economic growth.

According to a study finding, human capital was found to be positively related to the creation of value or service innovation advantage which in turn resulted into rent generation for firms. The results further showed that the effect of service innovation advantage on business performance was influenced by environmental dynamism and competitiveness with dynamic environments enhancing the effect while competitive environments weakening it.

## **5.0 Conclusion**

Based on the study findings from the empirical literature, it can be concluded that, the survival of SMEs in the current market conditions across the globe where there is serious competition is pegged on the adoption of innovative practices if they are to compete fairly with their larger counterparts and overseas competitors. From the empirical literature, it suffices to conclude that

that SMEs use internet banking to improve accuracy and efficiency and to increase speed and reliability of the banking system. This is because the process is automated and is less prone to human errors. A conclusion can be made further that, re-engineering particularly to old processes and services will not only revitalize business products and processes, but also act as a form of organizational branding that is essential for performance.

The study concluded that, SMEs becomes very competitive in an emerging market when they give importance to innovative activities that build their reputation in the market environment. Essentially, the key reason for innovativeness is the desire of firms to obtain increased business performance and increased competitive edge and the ultimate goal of innovation is to improve business performance. based on the study findings it can be concluded that, effective entrepreneurship, appropriate HRM, use of marketing information and service innovation have a significant impact on the performance of SMEs. With service innovation, Platform owners stimulate the network effect indirectly, via value co-creation activities rather than directly. Conclusions can be made on the findings of the study that, service SMEs are best served by the simultaneous pursuit of both exploitive and exploratory innovation. Finally it can be concluded that larger firms are more likely to engage in innovation; however, there is no significant evidence that they invest more in innovation. Firms that are higher investment in innovation, that are more productive, and that introduce organizational innovations have higher innovative sales per worker.

## **6.0 Recommendations**

Based on the study findings and conclusions, a number of recommendations can be made; SMEs should invest more in innovation so as to realize improved performance. SMEs should broaden product and service offerings by providing non-borrowing services, such as cash management, payroll management, payments, collections and trade finance solutions and the government should develop effective policies that will help the growth of banks in Kenya. A recommendation can be made further that, product innovation information should be available particularly to regulatory and advisory bodies for guidance to the SMEs on the need to craft and employ sound strategies geared towards continuously embracing innovativeness since innovation leads to improved financial performance. SMEs should create an enabling environment for the employees to be innovative in their operations in order to utilize its competitive advantage so as to increase financial performance and growth of SME sector.

Making reference to the study findings it can be recommended that, managers should seek ways to harness and leverage human capital and adopting service innovation as a way of improving business performance. when building sustainable product service systems, firms should maintain operations and aim for business synergy in self-generated innovative products/services along with high-quality products/services, collaboration innovation and product and service innovations. More effort should be devoted to study the factors affecting the performance of SMEs for different sectors, such as mining and quarrying, services, construction, as well as primary agriculture. From the findings of the study it can also be recommended that, public and organizational policies should be designed in ways that addresses horizontal concerns and which generates better and viable inducement for innovation activities. Banks should strive to adopt the



new technologies and modern innovation practices as one way of improving their financial performance and enhancing their competitive advantage.

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