International Journal of Research in Engineering and Science (IJRES)
ISSN (Online): 2320-9364, ISSN (Print): 2320-9356
www.ijres.org Volume 11 Issue 10 ǁ October 2023 ǁ PP. 356-359

Promoting Innovations in SMEs- Findings from Kenya

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Abstract:
This paper looks closely at the relationship existing between entrepreneurial activity, innovations and the development of Small and Medium Sized Enterprises (SMEs). Most SMEs result from implementing the entrepreneurial spirit, through which the entrepreneurs' activity which is conducted in different domains. One of the most important aspect is the innovation in SMEs as an indicator of the entrepreneurial activity, on the one hand and as a contributor to the organization's performance, on the other hand. This study therefore analyses the SMEs innovation activity over a period of time as an indication of entrepreneurship evolvement and manifested in Kenya as an East African country that integrated relatively recently into the East African Community Common market (EAC). The paper envisages looking at how innovations in SMEs from Kenya have evolved in the period 2010 to date. The innovative activities in SMEs are examined from a dynamic perspective and the analysis is based on the study of a number of aspects related to innovations, such as: types of innovative activities, investments in innovations, the intensity of renewing the existing products, the use of IT, the use of the Internet, etc. Based on these findings, the paper attempts to characterize the innovative activities in Kenyan SMEs and their evolution in time with emphasis on the recent times.
Keywords: *SMEs, Kenya, innovation.*

Date of Submission: 18-10-2023 Date of acceptance: 02-11-2023

I. Introduction

This study underpins the importance of SMEs and that innovation is a key component and also increasingly seen as key drivers for sustainable competitive advantage. Just like in many countries SMEs constitute a huge percentage of total number of enterprises, are major sources of employment, contribute highly to wages and salaries, comprise huge proportion to national turnover, as well as contributing greatly to value added at factor cost and great proportions of gross investment in tangible goods (Bayarcelik, et al, 2014).

The main focus of this study is to evaluate the role of innovation towards SMEs performance and growth. It must be noted that innovation is a key determinant of productivity and long-term growth. Innovation in established SMEs can foster inclusive growth by reducing productivity and wage gaps between SMEs and other firms. SMEs are commonly less innovative than large firms, though some SMEs can be highly innovative compared to large firms. Firms that are able to develop and use their internal strategic resources such as managerial and workforce skills, ICT and R&D while collaborating with external partners in the innovation system can have better innovation performance. Innovation capability plays an important role in improving the performance and competitive advantages of products, operations, marketing, human resources and networking in national and international markets.

Innovation is seen as a key success factor for many organizations in increasing sales and organizational excellence through new product development. Several studies have concluded that there are various factors that influence the innovation capability of firms which are entrepreneurship, marketing capability, relational capital, knowledge sharing, psychological empowerment, relationship management, intellectual capital, innovation network, organizational knowledge assets, customer relationship management, organizational culture and empowerment and informal social interaction. All these have shown to have a significant influence on the improvement of innovation capability. However, still many SMEs face many obstacles in innovation development, especially in terms of entrepreneurship and social capital.

II. Literature review

Joseph Schumpeter is among the many scholars to use the concept of innovation in his studies. For this study, we shall define innovation as the implementation of a new or significantly improved product such as a change in product properties; a process such as changed delivery method(s); a marketing method such as a new product packaging; or an organizational method such as changes in a workplace organization; in business practices, or external relations. It should be remembered that innovations need to be effectively distributed in the market in terms of products or executed through well-defined processes to achieve the desired economic impact. In this study we have categorized innovation into four, namely product, process, position and paradigm. Product and process are seen by many as the most important forms of innovation in SMEs. However, technological innovation has also been seen by many scholars as being important for SMEs.

It can therefore be concluded that innovation is the "introduction of new or improved processes, products or services based on new scientific or technology knowledge and/or organizational know-how". According to our literature base study we determined eleven influencing criteria to innovation in SMEs. These are given in the following:

Most Important Innovation Factors	Financial Factor (FF)
	Firm Size (FS)
	Institutional Factor
	Technological Capability
	Consumer Preferences
	Economic Factor
	Culture Factor
	Management Skills
	Market Orientation
	Competitive Advantage
	Learning Capability

Figure 1: Innovation factors.

Financial factor (FC) refers to the adequate level of financial capital resource required by a firm to start, operate and grow.
Firm Size (FS) refers the ability of the firm to diffuse knowledge. This is the assumption that larger firms have stronger cash flows, higher assets to use as collateral for loans, larger volumes of sales implying that their fixed costs can be spread over a larger sales base, and their larger size means they have access to a wider range of knowledge and human capital skills, which are pre-requisites for innovation.
Institutional factor (IF) includes environmental infrastructure to resist violations such as intellectual property rights, ineffective contract enforcement, and lack of political and economic stability.
Technological Capability (TC) includes less costly ability to develop new technology. Also, the ability of firms to bring together mutual resources and competencies and to combine them to speed up the product development task and develop new unique products and technologies.
Consumer Preferences (CP) refers to consumer ideas such as new product ideas, new product launches, process innovation, cross-functional teamwork, interdepartmental connections and business strategy.
Economic factor (EF) is the economic infrastructure which can result to problems with accessing financial resources needed to finance investments for innovations.

Cultural Factor (CF) refers to the organizational culture in terms of values and beliefs that provide norms of expected behaviours that employees might follow. It includes innovation culture which is taking risks, worker participation, creativity and shared responsibility.
Management Skills (MS) is the manager/leader management style such as allowing experimentation, open mindedness, and collaboration, providing resources and expertise, reducing bureaucratic layers and promoting collective understanding and interpersonal trust.
Learning Capability (LC) is based on experiential and cognitive processes such as knowledge acquisition, knowledge sharing and knowledge utilization. This supports creativity, inspires new knowledge and ideas and increases ability to understand and apply them. LC involves actions such as effective generation of ideas by implementing a set of practices such as experimentation, continuous improvement, teamwork and group problem-solving, observing what others do, or participative decision-making.
Market Orientation (MO) is defined as the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across department, and organization-wide responsiveness to it. It includes concepts such as customer focus, marketing coordination and profit of marketing and covers three basic activities:
1) integration of marketing information related to customers;
2) the dissemination of market information inside the enterprise and
3) design and implementation of an answer to such information.

Competitive Advantage (CA) is according to the Resource-based -View (RBV) four indicators to measure the potential of a firm resources to generate sustainable competitive advantages – value, rareness, imitability, and substitutability. Hence, if a firm has valuable and rare resources such as physical assets, capabilities, organizational culture, patents, trademarks, information, and knowledge, it can use them to create value-based strategies that are unique leading to having sustainable competitive advantages.

III. Research Methodology

This study was done with the main aim of trying to find out evidence showing the relationship between innovation and SMEs performance. Therefore, in doing this, the author did a thorough and carefully thought-out review of literature and documentary information on this subject matter. This study therefore can be said to be purely based on desktop and library research methodology. Thus, the author has perused various top notch enterprises journals, research papers, and analytical study reports on the subject of this survey especially those relating to Africa and specifically Kenya.

IV. Discussions of Results from Review

The literature review in this study explores how to promote innovation that impacts performance of SMEs. It must be also appreciated that some SMEs are so dominant in certain niche markets in some way that are innovative such as being output-oriented, all round or process-oriented and therefore achieve better results in terms of turnover growth, employment growth and profit improvement.

It can be stated from the study that the innovation considered here was one hinged on performance models of SMEs, where they were seen to have reached a stable status and tended to be more dynamic than larger firms. These models used by managers of SMEs tended to be more dynamic than those of mature firms. These models tended to account for the nature of the modern economy, as information and communication technology (ICTs) drive them to adapt an open structure. It can be concluded that the growth potential effect related to innovation in SMEs comes from three input parameters: technology, R&D, and generation pf competitive edge.

However, it also been confirmed in theory and by empirical research that there exists a positive relationship between innovative activity and the performance of SMEs. However, regarding empirical research despite some conflicting evidence some studies have supported this positive relationship. In the African context, studies are few in terms of being exhaustive exploration and therefore results from reviewed literature are mixed, inconclusive and difficult to generalize.

V. Conclusion and Implication

This study has concluded that innovations are a major part in the development, growth and performance of SMEs all over the world, and especially so in Kenya. The results do indicate that many SMEs management is aware of the role innovation plays in the growth of the firms. However, due to lack of resources many SMEs do not invest adequately in R&D activities or acquiring new and advanced technologies, though they do engage in developing the skills and capacities of their employees through various trainings. The results also do confirm that innovation is essential if SMEs want to grow and become more competitive in relation to their national and international competitors. This would help SMEs to gain market share as well as help them sustain themselves in the longer run especially with the coming of the East African Community (EAC) single market.

The survival of Kenyan SMEs will depend on their ability to innovate as they face increasing challenges posed by other member countries SMEs.

This study confirmed that in many Kenyan SMEs, in terms of forms of innovation, the majority of innovations were product oriented. This includes the introduction of new and modernized products. Some other forms of innovations were process oriented innovations including the introduction of new technologies and new managerial approaches. Also, that investments in innovations were limited in these SMEs, though IT innovations play an important and increasing role. This was in the use of IT increasing and new forms of IT technology were added (computer websites, buying /selling online) to the already existing ones (internet, email).

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