INNOVATION STRATEGY AND PERFORMANCE OF SMALL AND MEDIUM ENTREPRISES IN KENYA: A CASE STUDY OF KAKAMEGA COUNTY

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

2018

DECLARATION

This research project is my original work and has not been submitted for examination to any other University.

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DEDICATION

My dedication goes first to the Almighty God for His care and wisdom during my study. To my parents Mr. George and Mrs. Pamela Ouma who educated me since my tender age. To my Uncle Mr. Charles Beneah Lutta, thanks for the moral and emotional support, your contribution has been invaluable this far.

To my late Aunt, Teacher Cecilia Awinja Were who helped me secure a place in high school and for being inquisitive about my academic progress every time we met since my high school days. I wish she was alive to see her dream come true.

ACKNOWLEDGEMENT

ABSTRACT

This Study was conducted to determine the effect of innovation strategy on performance of SMEs Kakamega County, Kenya. The broad objective of the study was to examine the effect of innovation strategy on performance of SMEs in Kakamega County, Kenya. The study employed a descriptive survey research design and targeted 318 respondents who were registered SMEs in Kakamega County and the data from the Kenya business list 2017 was used. Kakamega County was targeted because of the high rate of SMEs decline in the area and because of the variability in the nature of SMEs operating in the area including wholesalers, accommodation and hospitality, agriculture, technical services, manufactures and private education and health service providers. Primary data was collected through the use of questionnaires using stratified sampling technique method. A pilot study was conducted to pre-test the validity and reliability of instruments for data collection. The data was analysed using SPSS version 20. Data collected was analysed and interpreted based on the identified independent and dependent variables. Data was analysed using correlation regression using Pearson Correlation to relate the variables. The study found that process, product, positioning and paradigm types of innovation had a positive and significant relationship with the performance of some business types of the SMEs in Kakamega County. The findings showed a positive and significant relationship between innovation and performance of SMEs where those that embraced innovation survived longer and were profitable. The researcher recommend a harmonized and effective process towards a stable and justifiable socio-economic improvement of the county, while modifying SME support policies to country's perspectives as applicable. He also recommends further nationwide research on innovation strategy and performance on SMEs with the aim of capturing everyday geographies of businesses to inform future programs and policies that aim to address business activities within the Business sector, taking up an innovation after research on which suits which SME best and research also needs to be done on which kind of innovation that suits a given entity.

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ABBREVIATIONS AND ACCRONYMS

GDP - Gross Domestic Product

Kshs - Kenya Shillings

SMEs - Small and Medium Enterprises

MSEs - Micro and Small Enterprises

R&D - Research and Development

SPSS - Statistical Package for Social Science

M&E – Monitoring & Evaluation

INTRODUCTION

1.1   Background of the Study

Innovation is a major subject not only for the SMEs globally but also for other sectors of the economy. The benefits of innovation as per the study conducted in Nigeria by Amanakwe (1995), comprises of increased profit margin, product diversification and differentiation, to meet and exceed needs, securing a market position strategically, create a brand, quality improvement , low production cost, improved working environment, improved product flexibility, reduced environmental damage and to replace products being faced out. Due to the turbulent and worldwide competition, innovation has become more important, mostly because of the three main concerns. These are extreme global competitiveness, uneven and challenging markets, and mixed and rapidly shifting technology, Hewitt et al (2005).

Innovation is simply doing things differently to improve on performance be it in a service or production industry. Precisely, the argument was that the need to develop innovation strategy is determined by the strategic methods applied, with innovative levels which are more probable in companies following strategies like prospectors Miles and Snow, (2004) and product differentiation Porter, (1985). At the end of the day, businesses which desire to stay competitive by improving their performance capabilities and taking advantage of opportunities available, can realize all these by implementing innovation strategically.

The study was based on resource base view considering the internal and external resources and how they control the innovation strategies and performance of firms in SMEs. Imitation Theory on the other hand looks at how copying an existing innovation will help firms reduce on time and the hustle of R&D and also the costs involved. Knowledge based theory looks at how a pool of knowledge in a firm can be utilized to come up with best innovative idea for growth of a firm. Abrahamsson et al. (2003), argues that connecting a firm's internal environment to its external environment has a strategic value due to a company's efficiency relates to not only its size and the segment in which it operates.

In most firms, positive new product innovations are instruments of growth. Product innovation is the result of creating a new way to solve customer's problem. For example, to remain relevant, financial institutions have gone through endless re-modification, re-introduction and re-invention of product suggestions to meet customers' changing needs.

Innovation in SME expansion depends greatly on the talents, incentive and thoughts of the people. Kakamega is a wealthy county endowed by natural resources, but the people lack skills, they are not motivated, yet these are the most important elements of productivity. Innovation is a produce, service or method that is different for a particular market segment and can aid well to fulfill the desires of the community and sustain growth in Kakamega County. Kakamega County can be termed as a sleepy county even though it has a public university, few private universities, and sugarcane industries, the development does not march the resources. It has enough fertile land, but it can hardly feed its people. Why is this problem or requirement such an obstacle? Answers to this problem provide a better concept for the increase of actual involvements and solutions. Effective involvement needs to overcome these obstacles to create growth and have any effect on SMEs in Kakamega County.

1.1.1   Concept of Innovation Strategy

According to Rodgers (1995), innovation is founded on any idea that is viewed to be new by a person or other unit of adoption. In this case innovation can be adjusted based on internal or external functions of the firms. Schumpeter, (1934), defines innovation as the modifications in the approaches of creation and transferring, creation of a new product, transformation in the industrial organization and opening up of a new market.

The choice to innovate is an essential judgment for businesses. A business may make a judgment to be at the beginning of new change, choose to keep an eye on the changes when they showed to be motivating or do nothing at all. After making an innovaton choice, a firm needs to avail resources, human, financial and time. The difference between innovative firms and those that are not innovative is the sales of new or enhanced products.

Process innovation, marketing innovation, product innovation, and organizational innovation are some of the innovative activities that help to improve a firm's growth. The process of innovation generates new ideas, new procedures, new products, and new ways of working that increases the standard knowledge of a society therefore propelling the awareness. The ability to innovation of a firm is directly related to its ability to compete at the firm, individual, regional and national level. While we consider a firm as a package of resources, expertise and competencies, the effectiveness of innovation is to convert a business's internal abilities and make it more adaptive, enhanced and able to learn, and to exploit innovative thoughts. This improved flexibility is important in the aspect of the dynamic market environments.

1.1.2   Organizational Performance

A firm's performance is the result realised in achieving both external and internal objectives of a business Lin et al., (2008). For a firm to perform well, it must have the ability to gain profit and grow so as to realise its strategic objective. Keizer et al, (2002), argue that the opportunities from the external environment influence the firm's innovation performance. This therefore shows that in a new market SMEs becomes competitive when they prioritize innovative ideas that build their name in the market. According to Bonn, (2000) Stakeholders usually gauge a business's capability on the basis of its performance.

Performance is founded on a firm's market position irrespective of its size and its industry. Even if an SME has a narrow range of commodities and served segments, it will still need to sell its commodities or services in quantities that are adequate to go beyond break-even-point and to generate profit. Consequently, an SME needs to produce merchandises or services that are adequately innovative compared to its competitors. Other measurements of firm performance such as customer loyalty, customer satisfaction, and growth are also determined by the firm's performance in innovation.

In defining firm performance, various ideas are used mostly. Economic performance practices take into account, sales per worker, increase in sales, export per employee, total assets, total employment, return on investment and operation profit ratio, this is according to Sirelli, (2000). The idea of performance is the core of issue in strategic management and practically, many strategic researches make use of the construct of business performance in their effort to test various strategy content and procedures.

1.1.3 The Small Micro Enterprise Sector in Kenya

Different countries define SMEs differently. Some use number of people employed by SMEs, sales or investment by these enterprises. For instance, a particular country may describe an SME as an enterprise that employs not more than 500 employees while another country may use 250 employees as the limit for defining an SME.

In Kenya, the Micro and Small Enterprise Act of 2012 describes SMEs as a firm, business, service, industry or a business activity, be it formal or informal that employs a maximum of 9 employees and does not exceed Kshs500, 000 per annum in revenue collection. All the assets and financial investment or the registered capital of the venture should not go above Kshs10 million in the manufacturing sector and Kshs5 million in the service and farming sector. The Kenyan Government plays a critical part in SME growth, as exhibited by activities executed by various arms of government.

The parliament which is vital organ of government and other linked policy making institutions like local authorities have to recognize the task of government on SMEs growth, and be sensitive of the effect of latest guidelines and rules about running of SMEs. The reforms in Kenya started in 1999 when a key strategy and plan importance of concentrating on poverty eradication and joblessness combined through driving the economy into better growth rates.

1.1.4   Small Medium Enterprises in Kakamega County

Kakamega County is situated in western Kenya bordering Vihiga County on its south, Nandi County to the East, Siaya County lies West and to the North is Bungoma County. According to the 2009 census by Kenya Population and Housing, Kakamega County has a population of 1,660,651 where of 797,112 of these are male and 863,539 are female. It is second most populated county in Kenya after Nairobi. This is an implication that many of the residents in the County who are employable are jobless. Agricultural sector employs 756,711, 34,052 are self-employed. Jua Kali and boda boda operators form a large number of self-employment .Farmers are involved in manual jobs such as tilling, weeding, bush clearing, planting, harvesting etc. Others activities include mining, forestry, brick making and building construction.

The county has 12 sub-counties namely; Butere, Mumias East, Mumias West, Matungu, Khwisero, Shinyalu, Lurambi, Ikolomani, Navakholo, Likuyani, Kakamega North Lugari and Malava. Although Kakamega County is large and has economic potential, the business here cannot be compared to the resources available at her disposal. The growth of a nation is measured by the GDP of her people.

Kakamega County is a wealthy county endowed by natural resources, but the people lack skills, they are not motivated, yet these are the most important elements of productivity. It has enough fertile land, but it can hardly feed its people. Kakamega County has renewable energy potential sources like rivers, wind, biomass, etc. It can produce up to 200MW, twice the requirement of the County, but it produces hardly at less than 1%.

1.2 Research Problem

Due to the turbulent nature, markets are dependent on the commodity a firm produces, it needs to act in reaction or lose customers. Businesses regularly attempt to put a yard stick to rivals or similar service industries to increase important business processes. Rivalry increases, both from existing actors and from new entrants, because of deregulation. The dynamic consumer behavior and necessities, global market, and disintermediation are all the challenges faced by firms. Similarly Innovation has its influence on achieving a competitive edge in the market.

The strategic management works identifies innovation as an important factor that enables firms improve on performance and endure competitive advantage in the more complex and fast dynamic environment Yilmaz et al, (2005). (Drucker, 2001) establishes that innovation is a measure of the implementation of a strategy and is very important for particular strategies. Hence innovation acts as a source of creating new business with unique control tools, risk reduction and value addition. At the end of the day, firms that wish to remain competitive by improving their development capabilities and taking advantage of opportunities available can achieve all these by embracing innovation strategically.

Little attention has been given to resource based view and imitation theory by researchers. Resources help a firm to improve and implement strategies and come up with new innovations, the resources are the business's strong point that are used to create strategies and achieve their objectives. Firms have different irreplaceable resources and abilities which are valued, exceptional, and unique, which cannot be substituted and can maintain their competitive edge over their rivals.

Ideally, this proposal looks at essential circumstances for the spread of innovation among SMEs and the connection amid innovation and SMEs performance in Kakamega County. Few studies have had their focus on a qualitative methodology while most studies focuses on quantitative methodologies in studying the phenomenon. SMEs tend to have elastic organisational structures. Because of this, qualitative research provided a good chance to see their innovative procedures in real life scenarios using SMEs in Kakamega County.

In his research on the effect of service innovative strategies on firm's performance in service industry in China, Lei lin (2011) demonstrates that service innovative strategies affects firm's performance directly and indirectly. He did a cross sectional study in a Tourism industry in China and found that innovative actions can influence business performance in an affirmative way without considering the value of service. Hence the improvement of service quality has not been focused in regards to business's competitive strategies.

In his study Onugu, (2005), states that the factors that affect SMEs in Africa embraces, management, financial access, infrastructure, elements of environment, government policy disparities and bureaucracy, heavy taxes and rates, access to new technology, competition which is unfair, problems in marketing and lack of raw materials locally. Technical innovativeness throughout the world has been the motivating factor behind production and performance. Nevertheless in his survey, it's not true that technical innovation or shortage of it has been the cause of poor performance by SMEs. Unemployment has also been wrongly connected to technological advancement.

A study conducted by Gitonga (2003) and Mwangi (2007) on innovation of banking in Kenya and the dynamics affecting innovation in Kenya's banking industry and the effect of innovation in Kenyan Financial Institutions, using a descriptive design. Beside this findings that it was wise to do a research to determine the effect of strategic innovativeness on the growth of SMEs in Kakamega County.

Many researchers have done studies on different innovative activities, Sundbo, (2003); Vander and Elfring, (2002) which can be embraced by SMEs. Researches on innovative activities majorly concentrated on procedures and technical innovativeness, Kalantaridis, (2010). In Kakamega very few studies have been done on innovation and performance in Kakamega County.Ludeki & Yatundu, (2016), did their study on factors influencing the slow growth of SMEs in Kakamega town where they did a case study on salons. Therefore, this research sought to answer the question, what is the effect of innovation strategy on performance affect SMEs in, Kakamega County?

1.3 Research Objectives

The aim of this research was to determine the effects of innovation strategies on performance of SMEs in Kakamega County, Kenya.

The research sought to attain the following particular objectives:

i.) To assess on awareness of innovation strategy on performance of SMEs in Kakamega County.

ii.) To assess extent of use of innovative strategy on performance of SMEs in Kakamega County.

iii). To determine the influence of innovative strategy on performance of SMEs in Kakamega County.

1.4 Value of the Study

The research improved understanding of SMEs requirements concerning their growth and improvement. This understanding will assist experts, specialists, and regulators to come up with comprehensive backing strategies for SMEs. By this research we are able to understand the conditions that are required for the increase in innovation and this will help entities that train SMEs to emphasize on accomplishing these conditions and anticipated impacts. Knowing the selective impact of the type of SMEs on implementation behaviour will help target particular innovations to particular SMEs.

This study and the outcome of its results will be of relevance to managers of SMEs who want to observe the performance of their firms, consulting firms who are involved in assisting SMEs deal with their competence and performance matters, and policy makers designing support mechanisms and schemes to promote the creation and growth of small firms. It will also help in identifying the source of innovativeness amongst SMEs. This source can then be used to encompass upcoming innovation techniques that can influence confidently on SMEs towards their performance. It will also help in appreciating the connection between SMEs innovation strategy and performance and the implementation of this will build confidence for these SMEs to easily embrace any future innovative practices that will improve their organization's growth.

The findings of this study are expected to benefit future business-persons as it will enable them to enhance and realize the significance of implementing innovative strategy and be familiar with better activities regarding firms' performance and maintaining profits. The results will help unproductive SMEs to improve on performance emergence of new SMEs.

CHAPTER TWO
LITERATURE REVIEW

2.1   Introduction

This chapter presents the literature which is associated with the objectives of the study. This section mainly focused on the theoretical review and conceptual framework on the influence of innovation and performance in SMEs in Kakamega County. The review of literature for this study was drawn from books, internet scholarly articles and websites, government publications and documents, several research reports and from individual researchers.

Usually features of SMEs are determined by factors such as organizational size or proprietorship, age and where it is situated. Innovation is the practice of converting an idea or developing an idea to a good or service where value of a customer is generated. Innovation is the use of enhanced products, procedures, services, technology or notions recognized by markets. Innovation increases firm's performance since innovative product improves business attractiveness in the market and the innovative procedures transforms a businesses' internal abilities allowing it to be adjust to changes.

In industrialized and growing countries globally, SMEs have evidenced themselves that they have to be important by curing the problem of joblessness or unemployment. However the ability in them is still unexploited. The help accorded to start these SMEs, requires them to be significant instruments for innovative ideas and improvement in technology. SMEs experience shortage of professional and technical skills for their efficiency Rahman and Ramos (2010).Large businesses are more active as compared to SMEs in innovation due to their specific features like organization, principles and approach.

Most researchers argue that SMEs can attain more profits if they employed innovative strategies as compared to large companies because of their less bureaucracy, readiness to take risks, and quick reactions to environmental changes Parida et al. (2012). In his Argument Gassmann et al. (2010) confirmed that innovative strategy is an encouraging factor for SMEs to overcome their challenges and growth their profits. Subsequently, incorporation of different literatures is vital. The goal of this research is to study present study on innovativeness in SMEs to assimilate empirical results and to suggest upcoming research.

2.2   Theoretical Foundation

The research was based on several theories including resource based theory, and imitation theory. The following theories were explained:

2.2.1   The Resource Based View

The resource based view basically explains why firms in similar industry do well than the other. It emphasizes on the internal resources of a firm in creating its strategies to realize a sustainable competitive advantage in its markets. Resource based view is a tool employed to evaluate the accessible quantity of a firms' resources. In principle, the resource-based view is founded on a notion that actual and well organized use of all valuable resources a firm can assemble assists in determining its competitiveness.

Supporters of resource-based view, argue that it is considerably reasonable to exploit external prospects by exhausting available resources in an innovative manner fairly than trying to obtain fresh skills for each diverse prospect. An ideal resource-based view is where resources are given the key role in assisting firms to attain advanced organizational growth. Tangible assets are things that you can touch like land, buildings, machinery, and equipment amongst others. These are things that can easily be bought in the market. Intangible assets are things that cannot be seen or touched such as brand name, repute and amongst others and are not bought in the market.

The theory also states that not all resources of the business are significant to allow it generate a competitive advantage. For a business to achieve a sustainable competitive advantage by creating good returns, these resources needs to be of value, unique, not substitutable and not transferable, Kraaijenbrink et al (2010), Peteraf (1993), Eisenhardt and Martin (2000), Amit and Shoemaker (1993). This implies that variations in the performance of firms are a result of their different resources and competences. Also earning beyond the usual revenues or having a competitive edge in an industry or market can be considered to be temporary.

2.2.2 Imitation Theory

When a new rival in a similar industry copies the inventor, even though it is rather new to them, this will not be termed as an innovation but rather it's an imitation. R&D can be very expensive, laborious, and annoying. When it concerns the conception of unpolluted originality, it may include massive involvement of employees and finances while there is no surety of realistic profits. Nevertheless, when a firm's R&D energy is concentrated largely with trying to adjust to the industry or to its organizational activities previously done somewhere else, the personality and expenses of the obligation are fairly diverse.

Evidence of imitation has been acknowledged in numerous researches investigating different organizational effects like the employment practices of global firm, (Williamson & Cable, 2003), the evolution of hospital structure (Starr, 1982), the extent of the multidivisional corporate form Fligstein (1985), the adoption of financial rearrangement programs by large firms Fligstein, (1990).

Plato's philosophies, emphasizes that the beauty of an artwork lies in the method or the idea, which the artist articulates through the raw material. The artist is capable to perform this, not because he can touch and see, but because the creation of the ultimate practices that offers him/her the wholesome impression of art and beauty, which moves like a dream in his mind and eye during the imaginative procedure. Diversification is closely related to the strategy of using an innovation that is new to the firm. This is directly built on current technologies. This kind of a strategy helps the firms in reducing risks by increasing more products into the production line. For that reason, from the firm's point

of view, it is considered as a technological dissemination, when a company buys the existing product to its assembly line.

2.3 Innovation Strategy and Organizational Performance

Most studies regarding innovations done e.g. Hashi, 2012; Hall, 2009; Mairesse, 2009; Griffith, (2006) are made on some alternative of, Duguet, and Mairesse (1998). This defines three stages of association between innovation inputs, innovation output and production stages. This model takes advantage of R&D and is regularly used as another variable for innovation input. Through the instrument of patenting such categories of innovation allow forth short-term regulation which in various circumstances acts as an obstacle to firm followers to entry. In a study done by Loof and Heshmati (2006) where 1309 sample size was used for innovative firms in Sweden, they found out that there was a close association between innovation output and the level of sales per worker for innovations new to the firms matched to circumstances where innovations are new to the market.

The main weaknesses of launching new to the firm innovations are the cut throat rivalry with similar commodities since the company enters into an already flooded market. Isogava (2013) disputes that innovativeness do not essentially better firm performance due to cannibalization effect. He argued that only major innovations can better firm performance because the rise in demand is based on the reality that absolutely new goods benefit consumers further compared to the earlier ones.

2.4 Innovation Strategy in Organizations

A business that is innovative is operated by a team that is inventive. Managers identify the potential of an innovative group and do not think twice to invest on their training. Operational innovative training courses inspire the workers to discover imaginative thoughts that can increase work procedures therefore improving their production. Innovation is the act of transforming a marketable good from invention. Innovativeness is used as a strategy in a dynamic business environment. The use of technology pools resources and disseminates Information.

Cooperation motivates creativeness and innovativeness. Value of an organization is promoted by innovation where firms employ inventive individual who uses their innovative skills to promote organizational cultures. Innovative firms shape a structure that taps into the shared information of everybody and allows everybody to support noble concepts. Creativity is not inborn. Innovative abilities may be established and the most innovative firms help by training programs to improve them.

Empirical Studies and Research Gaps

The section looked at eight empirical studies on innovation and firm's performance across trades where four were studies done locally while four were studies done internationally. The section also discussed SMEs' innovation strategy and their performance in this context. In his study, Hajar (2015) looked at the correlation concerning innovation and performance of SMEs in Indonesia which manufactures wooden furniture. He did a census and interviewed the proprietors on the operationalization of the strategies and the strength of innovations developed. The study revealed that innovative strategy had an affirmative result on its performance. We can borrow the technology from Indonesia but we cannot base their results to make a judgment on the performance of SMEs in Kenya in particular to Kakamega County.

Studies done in Turkey's automobile industry reveals that distribution channels innovative strategy is clearly linked to general firm's performance. Kuswantoro (2012), Atalay (2013), Sattari (2013), in their separate studies discovered that business positioning through innovation is clearly related to SMEs performance. 117 questionnaires were filled by directors of advertising division, R&D division and production division. Results from the research were that SMEs performance was considerably innovative strategy had an affirmative relation with performance. These effects established that product and process innovation strategies have important and encouraging influence on firm's performance.

Regarding SMEs in Finland, Saunila (2014) found out that there was a moderate influence on performance of SMEs as a result of Innovative skills Collection of data was done using a designed survey questionnaire from a sample of companies both in manufacturing and service industries. Rosli in his Findings in the same country (Malaysia) agreed that being innovative in production and in your procedures had effected SMEs performance positively. The two studies confirmed that there is an association between innovative strategy and the performance of SMEs.

In Tanzanian perspective, however, a study by Isaga, (2012) surveyed the effect of elements that affect investors on the growth of SMEs in Tanzania in a furniture industry. A cross section design was used, with data being collected through a survey. She came up with an affirmative association between the two in that rational features of the investor are positively related to SMEs performance. This brings out a question on this study about why study in innovative action is ignored or it is done half way and also to test the relation between the innovative strategy and SMEs performance.

In Kenya a study done by Ngugi, Mcorege and Karanja (2013) found that relationship existed between innovation and performance. Their findings were that innovative SMEs agreed that through innovative activities such as product innovativeness, process innovativeness, and marketing innovativeness, SMEs increased their revenue and clients. According to that study in garment making, SMEs using a descriptive design confirmed that innovation strategy is an important element if an SME wants to survive without which it cannot due to the massive competitiveness experienced in the industries. The study reflected SMEs in manufacturing firms only in Nairobi Count and therefore it cannot represent SMEs in the Kakamega County which is in the rural while Nairobi County is in the City.

Ngugi and Karina (2013) did their survey on the impact of innovative technology strategy on performance of Kenyan commercial banks; they established that innovative strategy like product transposition, product replacement and process innovative strategy, like adherence to principles and cost reduction to the bank's productivity. The conclusion was that implementation of innovative strategy affects the profit of the bank. Nevertheless they concentrated on banks only which cannot represent SMEs from other industries.

A study done by Wanjiku (2014) on innovation and performance of MSEs in Kiambu town found that innovative strategies had a positive influence on performance of SMEs in Kiambu town. She proposed an important context which can be tested in various Kenyan towns and counties so as to come up with a broader view of conclusions. It would be interesting to do a research on variances on various business innovativeness, problems of innovation, category and scope of innovation and subsequently the link between their effects on performance of particular nature of business.

Surveys conducted by Gitonga (2003) on innovation of banking in Kenya and the factors affecting innovation in Kenya's banking industry, and Mwangi (2007) on factors affecting innovation in Kenya's banking industry and the effect of innovation in Kenyan financial institutions. Both of them employed descriptive designs. It emerged that no study had been done locally on this area and it was beside this findings that it was wise to research on the effect of strategic innovativeness on performance of SMEs in Kakamega County.

Many researches have been done in the country and globally about SMEs. Many of the researches concentrated on firms in the cities and urban centers. They similarly concentrated their research on the basis of their particular goals. Literature on countryside business is rare hence; the expected research builds on the native studies on the effect of innovation on growth of countryside businesses. Comparable researches have concentrated on the problems encountered by SMEs and therefore this research focused on the impact of innovation strategy on performance of SMEs. The focus of the research was generally on the effect of innovation strategy on performance of SMEs in Kakamega County. There is also a gap between the times the other studies were done and today which is also a good reason why there is need for a new study in this context.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1   Introduction

This chapter focused on methods of research encompassing, research design, target population, sample size and sampling procedures, data collection procedures, data collection instruments, validity of instruments, reliability of instrument, data analysis methods, ethical considerations and concluded with effective definition of variables.

3.2   Research Design

As stated by Coopers and Schindler (2003), a descriptive cross sectional research design helps a various research goals like describing an occurrence or features related to a certain population, estimates of scopes of a population that have these features and sighting of relations amongst various variables. According to Legislation (2014), descriptive research design gives account of how things are. This design is meant to acquire the current, appropriate and thorough confirmation on the association between innovative strategy and performance of the SMEs in Kakamega County. This study assumed a descriptive cross sectional survey which described the population using a simple regression analysis.

Selection of participants in the research was done through a stratified random sampling. This procedure was employed to guarantee an equal reflection of the SMEs in the research. The stratification was on the basis of registered SMEs in Kakamega County, Kenya. In every stratum, selection of SMEs was done through simple random sampling. This was attained by registering the names of the SMEs in pieces of paper which were folded and put in a basket. Then they were reshuffled, the researcher then picked an item, registered and replaced it in the basket till the needed number was achieved.

3.3   Population of the Study

Target population encompasses all participants of proposed persons, events or objects from where a scholar desires to get the findings. Similarly population refers to the larger collection from which a section is taken Orodho & Kombo, (2002). The target population of this study included all registered SMEs in Kakamega County. These were drawn from wholesale and retail stores, food and beverages outlets, clothing retail outlets, hardware

stores, pharmaceutical stores, filling stations, transport industry, hotels & hospitality, wholesale / retail shops, private education and health facilities.

The respondents were SME proprietors / directors or those in the acting capacity, who were found in their business premises. The study targeted 1,824 small scale enterprises in Kakamega County. The focus was on how these enterprises embrace the concept of innovation and how it was applied in their daily activities.

3.4 Sampling and Sample Design

The population of the study encompassed all registered SMEs in Kakamega County. The SMEs employing 1-50 people were selected for the study. According to Kenya business list there were 1,824 SMEs in Kakamega County. Cresswell (2003) argued that the whole population under study might not be easy to study. The researcher used the Fishers et al formulae of (1998), to determine the sample size. N is the population size and e denotes the margin of error. A confidence level of 95% is assumed at 0.95 precision level, while e =0.05, for $\alpha = 0.05$, z = 1.96 and N = 1824. Below is the Model:

$$n = \frac{Z^2 p(1-p)}{e^2}$$

Where,

n_s - Sample Size;

N - Population Size;

e - Precision level (at 0.95 confidence level, e = 0.05)

z – 1.96

$$n = \frac{n_0}{1 + \frac{(n_0 - 1)}{N}}$$

$$n_s = \frac{385}{\{1+(385-1)/1824\}}$$

$$= \frac{385}{1.211}$$

$$= 318$$

The formula gave us 318 as the sample size from the entire population by use of stratified random sampling and comprising SMEs from various industries in Kakamega County. Mugenda & Mugenda (2003) recommend stratified sampling while dealing with a mixed population. This guarantees representation of every section of the population whose features and characteristics inside a stratum are sufficiently taken care of in the sample. Therefore, a representative sample of 318 SMEs operating in Kakamega County was selected from the population using stratified sampling. The study therefore concentrated on specific sectors for example food and beverage outlets.

3.5   Data Collection

This is the technique used by a researcher in selecting the items for the sample which need to produce a true representation of the sample, controls systematic bias, a smaller sampling error and is practicable in the context of resources available for the study Kothari, (2004). To have a good representation which gives each person an equal chance, minimize sampling error and bias; the researcher used simple structured method to select the SMEs in the county to be studied which comprised of the 12 sub-counties.

The tool for collecting data included the questionnaire. Basically the researcher must make sure that the tool selected is valid and reliable. The validity and reliability of any research project depends to a large extent on the relevance of the instruments Educadium, (2017). These instruments were guided by the type of data to be collected, time available and the objective of the study.

The researcher used a questionnaire with open and closed ended questions answered by the key respondents of the research study of collecting data where all the targeted respondents were issued with a questionnaire to fill and follow-up was done to make sure that there was sufficient and accurate response. Data on innovation was collected using questionnaires completed by the SMEs owners or authorized persons, whereas data on the SME performance was collected from past records and financial statements of the businesses captured as part of the research. A questionnaire was used to get information on the innovation practices since it is firsthand information that can only be gotten from the respondents. Secondary data on performance was collected via a questionnaire and also financial records where possible.

3.5.1   Pilot Testing

Pilot Test was conducted to test the project instruments prior to its full implementation or execution. It was vital in assessing whether the project objectives were achievable or not. Mugenda and Mugenda (2003) advise that a pretest sample should be 10% of the sample size. Taking 10% of the sample size 318 gave 32 respondents. Therefore a sample of 32 respondents was given questionnaires and the same people did not take part in the actual study. A pilot test was done at random within the 12 sub-counties. It was conducted two weeks prior to the research.

3.5.2   Validity of research Instruments

According to Kothari (2004), Validity is the most serious criteria and shows the degree to which an instrument measures what ought to be measured. Mugenda and Mugenda, (2003), validity is a measure of relevance and correctness. Thus the correctness and relevance of inferences which are based findings of the study. Therefore, validity was assured by incorporating objective questions in the questionnaire and by testing the tool used beforehand to recognize and amend any unclear, uncomfortable, or unpleasant questions and technique as emphasized by Cooper and Schindler (2003).

3.5.3   Reliability of research Instruments

Reliability measure is a sign of stability and uniformity with which the instrument measures the concept. It has to do with the correctness of a measurement procedure. A measuring mechanism is reliable if it gives steady results Kothari, (2004).The researcher tested the accuracy of the questionnaire to determine its uniformity in analyzing what they are intended to measure. The test re-test method was used to approximate the accuracy of the instruments. It involved administering similar test two times to the same group of participants who had been selected for this purpose by administering the test to the respondents for the first time, after 1week administer the test a second time and then correlate the score from both testing periods.

3.6   Data Analysis

The scholar must pay attention to data organization and coding before the input stage of data analysis. If data is not accurately organized, the researcher might encounter challenges while analyzing their meaning later on. For this purpose the data must be coded. Categorical data need to be given a number to represent them Kothari, (2004).

The collected data was analyzed using quantitative data analysis method which involved descriptive analysis. Descriptive analysis such as frequencies, percentages, means and standard deviation were used to present quantitative data in form of tables. Data from questionnaire was coded and logged in the computer using SPSS version 20. This involved coding closed ended items in order to run simple descriptive analysis to get reports on data status. Descriptive and inferential statistics involved the use of absolute and comparative (percentages) frequencies, measures of central tendency, dispersion (mean and standard deviation respectively), and regression analysis. Data presentation was done in form of Frequency tables' easy comparison.

Below is a formula for a linear regression analysis applied:

$Yi = a + bX$

Where;

Yi = the dependent variable (performance)

β = regression coefficient (parameter of the function)

X = independent variable (innovation)

$\acute{\epsilon}$ representing the error term

3.7   Ethical Considerations

In this research, confidentiality was of concern as the data relevant to the study was of strategic significance. In this respect, voluntary consent by all who participated was not intimidated into participating in the study. The researcher ensured that assurances to all participants regarding privacy was given and strictly taken care of. Information was not made available to any other person apart from those who were directly involved in the study. Other moral concerns laid in check comprised honesty where the researcher strived

to uphold honesty in reporting data results by making sure that there is no fabrication, lies, or any falsification of information. Fairness done by the researcher avoided biasness in research design, data analysis, and data interpretation. Respect for intellectual property by the researcher to honor patents, copyrights, and other systems of intellectual property by approving and recognition of contributions from different groups.

3.8   Operationalization of Variables

This section analyzed the operational definition of variables on the effects of innovative strategy on performance of SMEs in Kakamega County.

Table 3.1: Operationalization of variables

Variables	**Nature of Variable**	**Indicator (s)**	**Measure**	**Data Analysis**
Innovation Strategy	Independent variable	Innovation practices in the organization Use of new technology Company's principles Product differentiation Effectively manage people and resources	Mean, Percentage Std Deviataion	Descriptive Statistics
Performance	Dependent Variables	Management of people and resources ROI Customer satisfaction Efficiency Financial viability	Regression Analysis	Inferential Statistics

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1   Introduction

The chapter presents the results of primary data which was collected through the use of closed ended and open ended questionnaires. Data was analysed by both descriptive and inferential statistics. The results were analysed and response rate and background information was used to investigate the effects of innovation strategy on performance of SMEs in Kakamega County. Regression analysis was used to show the nature of the relationship between dependent and the independent variable.

4.2   Response Rate

With a target of 318 questionnaires, 270 questionnaires were correctly filled and returned. The response rate was appropriate since according to Kothari (2007) a response rate of more than 70% is appropriate for analysis.

4.2.1   Background Information

The study sought the demographic characteristics of the participants in the study, specifically the name of business, gender, academic qualification and nature of the organization.

4.2.2   Gender of the Respondents

All respondents were from different enterprises within the 12 represented sub-counties in Kakamega County. The total number of respondents interviewed and percentages was represented as shown below:

Table 4.1: Gender of Respondents

Gender	Frequency	Percent
Male	163	60
Female	107	40
Total	**270**	**100**

From table 4.1 above, majority of the respondents were male 60% (163) and female 40% (107). This clearly indicated that most businesses were patriarchy but we have more women making good efforts in businesses.

4.2.3   Academic Qualification

The study sought to interview participants who have obtained secondary education and below and also considered the certificate level and above as illustrated below:

Table 4.2: Academic Qualification of Respondents

Academic Qualification	Frequency	Percent
Form Four and Below	139	51
Certificate and Above	131	49
Total	**270**	**100**

The level of education of a given population is very important for planning purposes to any government. As per the findings shown from table 4.2 above, the respondents closely balanced with 51% (139) who had obtained secondary level and below and 49% (131) had obtained more than the certificate level. This showed that majority of the respondents had good basic education that enable them carry out their day to day operations of the business. However, their level of education makes it necessary for more entrepreneurship skills and knowledge so as to be more productive and efficient.

Table 4.3: Years in Business of Respondents

Years in Business	Frequency	Percent
Less Than 6 Months	32	12
6 Months - 1 Year	50	19
2 - 5 Years	94	35
6 Years and Above	94	35
Total	**270**	**100**

From table 4.3 above, Most of the respondents 35% (94) have been in business between 2 - 5 years and 6 years and above respectively. Following was 19% (50) of the respondents who had been in operation between 6 months and 1 year and 12% (32) for 6 months and

less. This showed that most of the businesses had been operational for more than 2 years which signifies the strength of the businesses. The longer the duration showed that the entrepreneurs had become more oriented to the business environment and the businesses were sustainable.S

4.2.4 Nature of Organization

The respondents were running different types of businesses as illustrated in table 4.4 below with majority of the respondents 22% (60) who operated wholesale / retail shops. Salons and clothing retail outlets were both at 10% (27) respectively. Others were in different areas as indicated below. The diversity of many businesses gives a broad understanding of the innovation strategy and performance of SMEs being employed in the market place by different entrepreneurs. It was also helpful as it showed data collected cut across a variety of businesses.

Table 4.4: Nature of Organization of the Respondents

Nature of Organization	Frequency	Percent
Food and Beverage Outlets	6	2
Clothing Retail Outlets	27	10
Hardware Stores	22	8
Pharmaceutical Stores	19	7
Salons	27	10
Wholesale / Retail Shops	60	22
Filling Stations	11	4
Transport Companies	2	1
Hotels and Restaurants	11	4
Welding and Fabrication	15	6
Carpentry / Woodwork	6	2
Agrochem / VET	10	4
Building and Construction	3	1
Civil Engineering / Engineering	6	2
Medical Clinic	5	2
Computer Services / Cybercafé	16	6
Electronics Shop	6	2
Events	3	1
Laundry	3	1
Mpesa	3	1
Spare parts and Motorcycle repairs	3	1
Education / School	6	2
Total	**270**	**100**

4.3   Innovation Strategy

The broad objective of this research sought to examine the effect of innovative strategy on performance of SMEs in Kakamega County, Kenya.

4.3.1   Introduction of Innovation on SMEs

The results illustrated below explained introduction of innovation on SMEs which was achieved through descriptive analysis of the mean and standard deviation. The data was captured on a 4-point likert scale and a mean of more than 2 showed the highest level of agreement as seen in table 4.4 below:

Table 4.5: Introduction of Innovation on SMEs

Statements	Mean	Std Dev
Innovation practices are connected to organizations strategy	3.47	.793
The company's principles are helpful in innovation	3.43	.790
Firm does not have required resources	2.33	1.154
The level of paperwork is too high	1.87	.961
Previous innovations have been unproductive	2.14	1.092
Workers need to be educated in innovation	2.26	1.189
There is no team culture	3.32	1.044
There is no use of inter-cultural groups	2.16	1.042
Employees are motivated, rewarded, and organized to repeatedly innovate	2.30	1.221

From the results on table 4.5 above, majority of the respondents with a mean score of 3.47 agreed that innovation practices are connected to the organization's strategy; followed by a mean score of 3.43 who argued that the company's principles also play an important role to innovation. Standard deviation of 1 or less showed that the respondents differed less and also a good representation of the mean score. Any business governed by

fundamental norms, rules, core values and principles lead to effectiveness and efficiency hence improve on performance.

Mean of 3.32 agreed that there is no team culture which is a very vital aspect to improve on organization's performance and should be highly worked on to be achieved while 2.33 agreed that the firm does not have the required resources. Mean of only 2.3 agreed that employees are motivated, rewarded and organized to repeatedly innovation. Employee motivation and reward is very important to organization's performance in achieving its main goal and objectives. High performance is usually attained by a motivated team Zaccaro et al, (2002). This shows that the performance and value addition to the organization depends more on team's strength. The study revealed that firms that are able to recognize their most inventive employees can develop their inventive skills by allowing them independence to work on ventures that are naturally interested to them David Burkus, (2013).

Workers need to be educated in innovation, there is no use of inter-cultural groups and previous innovations have been unproductive showed a mean of 2.26, 2.16 and 2.14 respectively. Only 1.87 agreed that the level of paperwork is too high which is a good indication that technology has been highly adopted in most businesses or organizations.

4.3.2 Information Effectiveness on New Commodity or Service

The respondents were asked; if they had brought a new commodity or service and thought it was effective, then on what information they would base it on? The findings from table 4.6 below revealed that the majority 63% (169) said they will base it on business growth while 20% (55) would base it on economic growth and only 17% on improved market position.

Table 4.6: Information Effectiveness

Information Effectiveness	Frequency	Percent
Business growth	169	63
Economic growth	55	20
Improved market position	46	17
Total	**270**	**100**

4.3.3   Extent of the Use of Innovation

Descriptive analysis of the mean and standard deviation was also used and data was captured on a 4-point likert scale as shown in table 4.7 below:

Table 4.7: Extent of the Use of Innovation

Statements	Mean	Std. Dev
Effectively manage people and resources	3.56	.777
Products are differentiated from others in the market	3.10	.980
Use of new technology/method in processing your products	2.83	1.101
New products were introduced in the previous 2 years	2.50	1.255

According to the results shown on table 4.7 above, most of the respondents with a mean of 3.56 agreed effectively management of people and resources would increase the use of innovation in businesses which increases the performance of SMEs. Respondents with a mean of 3.10 agreed to products differentiation in the market would improve SMEs performance. In the researcher's view, product differentiation in the market to a business will give one a competitive advantage over other businesses and hence increase organization's performance. Consequently, an SME needs to produce merchandises or services that are adequately innovative compared to its competitors. Use of new technology / method in processing products and new products introduced in the previous 2 years was at 2.83 and 2.50 respectively.

In order for firms to have greater mileage in technological capability than their competitors, they need investment in better competences as well as resources. Some businesses had begun training employees on new computer based programs. This will enable the firms to be more technical and economically sufficient thus leading to better performance Reichert et al, 2012). However, a firm's technological capability does not develop overnight and it takes time and accumulated experience from past or previous

interactions in the external and internal environment and is a reflection of the firms' abilities to use various technical resources Afuah, (2002).

4.3.4 Organization Performance

Descriptive analysis of the mean and standard deviation was also used to explain the organization performance of SMEs and data was captured on a 4-point likert scale as shown in table 4.8.

Table 4.8: Organization Performance

Organization Performance	Mean	Std Dev
Effectively manage people and resources	3.67	.740
Return on investment	3.73	.607
Customer satisfaction	3.83	.470
Improved market share	3.18	.924
Financial viability	3.44	.777
Number of employees	3.51	.803
Efficiency	3.69	.726
Total	**270**	**100**

According to the results shown on table 4.8 above, most of those who responded concurred that customer satisfaction is the most important factor to organization's performance with a mean score of 3.83. Return on investment, efficiency and effectively management of people and resources was at 3.73, 3.69 and 3.67 respectively. It is vital that for a firm to perform well, it must have the ability to gain profit and grow so as to realise its strategic goal and objectives. There is also an indication that there is proper utilization of resources that efficiency was realized.

The number of employees, financial viability and improved market share had a mean score of 3.51, 3.44 and 3.18 in that order. This indicates that in a new market, SMEs become competitive when they prioritize innovative ideas that build their name in the market. According to (Bonn, 2000), stakeholders usually gauge a business's capability on the basis of its performance.

Performance is centred on a firm's market position irrespective of its size and its industry. Even if an SME has a narrow range of commodities and served segments, it will still need to sell its commodities or services in quantities that are adequate to go beyond break-even-point and to generate profit.

4.4 Inferential Statistics

Further the study carried out inferential statistics to examine the model as conceptualized in chapter two. Regression analysis was used to show the nature of the association between independent and dependent variable.

4.4.1 Regression Analysis

The relationship between the variables analysed by use of regression analysis. This comprised an error term, where the dependent variable was expressed with a combination of the independent variable. A regression model was therefore used to show how the mean of the dependent variable changes with the fluctuating condition.

The formula for a linear regression analysis applied was:

$$Yi = a + bX + \varepsilon$$

Where;

Yi= Performance

β = regression coefficient (parameter of the function)

X= Innovation

έ representing the error term

Table 4.9: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.503[a]	.253	.250	.641

a. Predictors: (Constant), Innovation

The summary of model on table 4.9 above showed the coefficient of determination which showed the model explanatory power. An R squared of 0.253 showed that 25.3% of the changes in performance can be explained by innovation while the remaining percentage of performance at 74.7% can be explained by other factors excluded from the model.

Table 4.10: Analysis of Variance

<table>
<tr><th colspan="7">ANOVA^b</th></tr>
<tr><th>Model</th><th>Sum of Squares</th><th>df</th><th>Mean Square</th><th>F</th><th>Sig.</th></tr>
<tr><td>1   Regression</td><td>37.239</td><td>1</td><td>37.239</td><td>90.662</td><td>.000^a</td></tr>
<tr><td>Residual</td><td>110.080</td><td>268</td><td>.411</td><td></td><td></td></tr>
<tr><td>Total</td><td>147.319</td><td>269</td><td></td><td></td><td></td></tr>
</table>

a. Predictors: (Constant), Innovation

b. Dependent Variable: Performance

The ANOVA table 4.10 above shows that F value of 90.662 reflected a significance level of $.000^a$ meaning the test statistic is significant at that level. This shows that innovation has a statistical significant effect on the performance of SMEs at 95% confidence level and at least the slope is not zero.

Table 4.21: Regression Coefficient

<table>
<tr><th colspan="7">Coefficients^a</th></tr>
<tr><th rowspan="2">Model</th><th colspan="2">Unstandardized Coefficients</th><th>Standardized Coefficients</th><th rowspan="2">t</th><th rowspan="2">Sig.</th></tr>
<tr><th>B</th><th>Std. Error</th><th>Beta</th></tr>
<tr><td>1   (Constant)</td><td>2.046</td><td>.175</td><td></td><td>11.670</td><td>.000</td></tr>
<tr><td>Innovation</td><td>.469</td><td>.049</td><td>.503</td><td>9.522</td><td>.000</td></tr>
</table>

a. Dependent Variable: Performance

The established model for the study was:

Equation:　　　$Y = 2.046 + 0.503X$

The main research question sought to find out to what extent does the effect of innovation strategy on performance affects SMEs in Kakamega County, Kenya? Regression analysis was carried out to answer this and as shown in table 4.11 above, there is a positive and significant relationship between innovation and performance ($\beta = 0.503$, t= 9.522, P value <0.05) which infers that a unit change in innovation holding other factors constant increases performance by 0.503 units.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1   Introduction

This chapter presents a summary of the research outcomes, conclusion and recommendation. It also makes suggestions for more research. The findings are summarized in line with the broad objective of the study which was to examine the effect of innovative strategy on performance of SMEs in Kenya: A case study of Kakamega County.

5.2   Summary of findings

The broad objective was to find out the effect of innovative strategy on performance of SMEs in Kakamega County. The research mainly focused on introduction of innovation on SMEs, extent of the use of innovation and organization performance. The study was mainly descriptive where 318 SMEs were targeted from the larger population in Kakamega County. Data was collected through the use of questionnaires and analysed using SPSS statistical package version 20. The data was then presented in tables and frequencies for purpose of interpretation.

Findings of the study revealed that there was a positive and significant relationship between innovation and performance. Regression analysis revealed that a unit change in innovation holding other factors constant increases performance by 0.503 units. The results on innovative strategy indicates that SMEs innovation strategy involved improving employee morale and commitment or rewarding them whenever they introduce an idea. This is in agreement with Rosenbusch, Brinckmann and Bausch (2011) who argued that to achieve the targeted benefits of innovation available resources have to be channeled to the innovation process.

5.3   Discussion of the findings

This Research concentrated on the effect of innovative strategies on performance of SMEs in Kakamega County, Kenya. Therefore this section focused on detailed discussions of the findings of the research in relation to the broad objective in order to come up with comprehensive conclusion. The findings shows that many respondents agreed that innovation practices are connected to organization's strategy which clearly indicates the greatest influence to innovation strategy and performance of SMEs in Kakamega County. Company's principles to innovation are very vital and hence they are the bedrock that helps the organization make good choices and decisions in gaining a competitive edge.

Availability of resources in these businesses has been perceived to be very important as it further makes the SMEs achieve their main core functions and goal. Lack of resources has definitely hindered innovation as depicted by the number of respondents. The businesses must ensure to have the right human resource in terms of skills, knowledge, experience and qualifications and in the right numbers. Physical resources like production and marketing facilities plus information technology are essential too and equally financial resources to enable meet the organization's strategy. Education is the foundation of our economy and therefore what is learnt and acquired is a determinant factor to how we solve problems; work with others and how we look at the world around us. Businesses need to be creative to achieve a competitive edge and remain relevant in the market place Philmckinney, (2017). Most organizations have adopted the use of technology which is a great benefit and asset to innovation.

Employee motivation and reward is very important to organization's performance in achieving its main goal and objectives. An inspired workforce usually realizes great performance Zaccaro et al, (2002). It is an implication that the more a team is strengthened, the better the performance and value addition to the organization. The study findings revealed a positive and significant relationship between product differentiation and performance. Product differentiation looks to make a product more attractive by comparing its unique qualities with other competing products which creates a competitive edge in the market as customers view these products as being superior.

Majority of the respondents have also agreed to the aspect of effectively management of people and resources as the main driver to innovation. People are the drivers to organization goal and objectives and no business can operate minus people. Businesses need to have the right employees in the right jobs. Availability of financial and physical resources is equally vital to any business for growth and sustainability. Use of technology on the other hand has shown to have a positive relationship between innovation and performance as it leads to effectiveness and efficiency in the organization.

The study outcomes shows an affirmative and important relationship between innovative strategy and performance with a majority of the respondents agreeing that customer satisfaction is very key in improving performance. Customer satisfaction is basically meeting the customer's requirements or specification or rather satisfying the customer need. Availability of both capital and human resources has also been argued out to be very important aspects between innovation and performance. The respondents agreed that the number of employees needed to carry out different tasks in the businesses is critical too as well as the return on investment of the business. According to Bonn, (2000), stakeholders usually gauge a business's capability on the basis of its performance.

5.4   Conclusion

From the above discussion of the study findings, we may conclude that innovation strategy influences performance of SMEs in Kenya. Innovation enables organizations meet customer needs or specification by improving the quality of the products / services because the customer needs and preferences keep on changing and also achieving a competitive advantage over other organizations. Organizations have focused on employee motivation and reward system to improve employee morale and commitment towards innovations which continues to create a competitive advantage. SMEs have adopted the use of new technology and new systems of operations that has increased the return on investment / profits, reduced costs, increased effectiveness and efficiency in service delivery and general improvement of the organization's savings.

SMEs employ marketing strategies, offering quality and unique goods and services, tapping to new opportunities, realizing their strengths and not ignoring their weaknesses and threats in the market place in order to remain relevant and competitive. Formal education and knowledge of the proprietors/bosses is an important factor. Moreover, quality of the employees, which is also measured by their formal education and technical skills, is important for the SMEs to implement innovation strategy. SMES sponsoring their employees in education and training shall, thus, develop employee's skills hence great contribution to innovation and performance of the SMEs.

5.5   Limitation of the Study

The study was limited to logistics and time available to carry out the study therefore to solve this; the study was confined to only Kakamega County. However, study ensured that reliable results were received and therefore provided credible evidence about innovation strategy on performance of SMEs. The limitations faced during the study was the unwillingness of the owners of these SMEs to give information about their businesses because of the fear that the information could reach their competitors and later have a competitive edge over them. Some feared that the responses would expose them to the County Government and their business might be targeted and harassed by county officials.

5.6   Recommendations

Based on the study findings the researcher recommended;

The need for further nationwide research on innovation strategy and performance on SMEs with the aim of capturing everyday geographies of businesses to inform future programs and policies that aim to address business activities within the business sector. A nationwide research will give more conclusive information on the various innovation strategies that can be employed to boost up SMEs and improve on performance.

Taking up an innovation after research on which suits which SME best and research also needs to be done on which kind of innovation suits a given entity. Research is very vital to enable businesses rightfully meet the customer needs hence help the organization improve its overall performance and hence gain competitive advantage The GoK should conduct a monitoring and evaluation on SMEs to further inform policy and facilitate addressing the gaps in the small business sector. Therefore, through the collection of information, M&E will help in making the right decisions and judging the worth of an innovation strategy before implementation which will further act as a guideline for other businesses.

Businesses or organizations should adopt the best innovation practices that are aligned to their organization's strategy. This can be through the use of advanced technology which leads to effectiveness and efficiency of business activities. Businesses need to have creative thinking on how they carry out their operations and build up a structure that taps into the shared knowledge of everybody and lets each person promote ideas. Also promote innovation as an organizational value and culture amongst the people.

5.7   Suggestions for further research

The research examined the effect of innovation strategies on performance of SMEs in Kenya: A case study of Kakamega County. There are other numerous elements that have the potential to affect the performance of SMEs and to better understand innovation strategy and performance, future studies should examine on other big companies and businesses as well to assess the relationship. The researcher also proposes that a similar research should be done in other counties in the country to compare the findings and also to assess the level of innovativeness and consequently the connection between their effects on the performance of specific types of business rather than take a broad view of the whole SME sector which may not apply to others.

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APPENDICES
Appendix 1: Research Questionnaire

This research study aims to examine the features that affect the performance of SMEs in Kakamega County. To carry out this research study, the questionnaire attached was designed as the key tool of collecting data. It is the researcher's appeal that for him to realize true data, the participants answer the questions honestly regarding what he / she believe is true and avoid leaving blanks.

SECTION A: PERSONAL PROFILE

Please tick (√) where applicable, to specify a choice that best defines you where applicable. Also fill in the spaces where required.

1. Name of the Business……………………………………………………...
2. Please indicate your Gender: Male   ( )   Female ( )

3. Academic Qualification
    a) Form Four and Below   ( )
    b) Certificate and Above   ( )

4. Years in Business. Tick appropriately.
a) Less than 6 months   ( )
b) 6 months - 1 year   ( )
c) 2 - 5 years   ( )
d) 6 years and above   ( )

5. Nature of the organization. Tick Appropriately

a) Food and Beverages outlets   ( )
b) Clothing Retail Outlets   ( )
c) Hardware Stores   ( )
d) Pharmaceutical Stores   ( )
e) Salons   ( )
f) Wholesale / Retail shops   ( )
g) Filling Stations   ( )
h) Transport companies   ( )
i) Hotels and restaurants   ( )
j) Others…………………………………………………………………………

SECTION B: INTRODUCTION OF INNOVATION ON SMES

Below are statements on the introduction of Innovation on SMEs. Indicate by ticking according to the magnitude. **Agree = 1 ( ), Neutral =2 ( ), Disagree= 3, Strongly Disagree = 4 ( )**

	Responses			
Comprehensiveness	1	2	3	4
Innovation practises are connected to my organization's strategy				
The company's principles are helpful in innovation				
Firm usually do not desire to take any risk				
Firm doesn't have the required resources				
The level of paperwork is too high				
Previous innovations have been unproductive				
Workers need to be educated in innovation				
There is no team culture				
There is no use of inter-cultural groups				
Employees are motivated, rewarded, and organized to repeatedly innovate				

SECTION C: EXTENT OF THE USE OF INNOVATION

Indicate by ticking according to the magnitude. **Agree = 1 ( ), Neutral =2 ( ), Disagree= 3, Strongly Disagree = 4 ( )**

	Responses			
Comprehensiveness	1	2	3	4
Effectively manage people and resources				
Products are differentiated from others in the market				
Use of new technology/method in processing your products				
New products were introduced in the in the previous 2 years				

If you have brought a new commodity or service and you think it is effective, on what information do you base this view? *Please tick one*

a) Business growth ( )

b) Economic growth ( )

c) Improved market position ( )

d) Other, please specify...

SECTION D: ORGANIZATION PERFORMANCE

Please indicate by marking on the level to which you agree with the following statements.

Agree = 1 ( ), Neutral =2 ( ), Disagree= 3, Strongly Disagree = 4 ( )

How do you measure your performance as a result of innovation in your firm?

	Responses			
Comprehensiveness	1	2	3	4
Effectively manage people and resources				
Return on investment				
Customer satisfaction				
Improved market share				
Financial viability				
Number of employees				
Efficiency				

Number of Patents, If any …………………………………………………………

Others if any……………………………………………………………..............

Thank you for your time