INNOVATIONS AND PERFORMANCE OF KENYA'S WINE INDUSTRY

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DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

Signature é é é é é é é é é é é é é é ..   Date é é é é é é é é é .

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D61/67564/2013

This research project has been submitted for examination with my approval as University supervisor.

Signature é é é é é é é é é é é é é é ..   Date é é é é é é é é é .

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DEDICATION

This piece of work is dedicated to my dear and loving wife, sons Kelvin, Denis and Moses. It was your support and encouragement that made my study a success. You went without the services of a Husband/Father and never complained when I was pursuing my degree.

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The process of this masterôs project writing has been a wonderful learning experience in my academic life. It was filled with challenges and rewards. The completion of my present study leads to a new beginning and a step forward in my endeavors.

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ABSTRACT

In the present day business landscape influenced by increased globalization and rapid growth of the Internet and other information technologies, one cannot continue with business as usual. This is because the past decade has witnessed an increase of interest in open innovation as a new source of business success. For a firm to continue in the first lane in new product development is concerned, it needs to embrace innovation to remain competitive. Since most business entities offer comparable products and services, they continually search for a competitive advantage that will attract new customers and help them retain existing ones. They therefore must endeavor to develop innovative programs and initiatives maintain superior customer service levels while remaining profitable. Indeed no matter what the industry is, a business cannot possibly succeed without customers who are satisfied from the innovative products. The objective of the study was to determine the innovations and performance in Kenyaôs wine industry. The research design adopted was descriptive research design. The population of the study comprised of all the five wine companies in Kenya. The study used primary data that were collected through self-administered questionnaires. The data was analyzed by the use of descriptive statistics. The regression analysis was used to assess the effects of innovations on performance of wine companies. The study established that market innovation gave the companies an opportunity to market their products through various media channels, deal with customer complaints urgently, deliver products according to customer orders while at the same time entering new markets and this enables the companies to be competitive in the market. Process innovations resulted in installation of new machine that minimizes production costs and increase the rate of production, source for specialists in wine brewing and raw materials that ensures that the company produces high quality wine. Product innovation enabled the companies to provide a wide range of products with satisfactory quality through market survey, adoption of channel that that shortens the duration of obtaining a product or service and adoption of product development that is radical, inventive and offer greater rewards. Production innovation enabled wine companies to produce wine of the desired quality through management of fermentation process and blending. Management innovation enabled the companies to nurture innovation, position the company through selection of company innovation, collaborates with other organizations that have complementary resources and analyze industry structure before deciding which innovations to pursue. The regression analysis revealed that the performance of wine companies was influenced to a large extent by market innovation, process innovation, product innovation, production innovation and management innovation.

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LIST OF ABBREVIATIONS

DoI	-	Diffusion of Innovation
GDP	-	Gross Domestic Product
HRM	-	Human Resource Management
ICT	-	Information, Communication and Technology
KWAL	-	Kenya Wine Agencies Limited
SME	-	Small and Medium Enterprise
KIPPRA	-	Kenya Institute of policy Planning Research and Analysis.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the present day business landscape influenced by increased globalization and rapid growth of the Internet and other information technologies, one cannot continue with óbusiness as usualô (Bhide, 2010). This is because the past decade has witnessed an increase of interest in open innovation as a new source of business success. For a firm to continue in the first lane in new product development is concerned, it needs to embrace innovation to remain competitive. The firmôs innovation process should be open to enriching the firmôs own knowledge base through the collaboration with partners, customers, and external knowledge sourcing as well as bringing ideas to market and multiplying technology by transferring ideas to the outside environment (Enkel, 2009).Various researchers have indicated the importance of creativity and innovation directly or indirectly in sustainable wine development. One sector where innovation takes place but not much attention has focused on is wine industry. Balazs (2012) found that wine firms usually develop unique and creative operation strategies and work constantly new strategies: new wine products, decor, and ways to improve services.

Innovation is noted to be a necessary ingredient for the sustained success of firms. It protects both tangible and intangible assets against the erosion of the market. According to Davila (2006) a companyôs innovation strategy needs adjustment over time. A number of internal and external factors affect the selection of the best innovation strategy. These affect the choice of the innovation strategy and the shape of the portfolio or play to win or play not to lose. The purpose of innovation is to create business value. That value can take many different forms, such as incremental improvements to existing products, the creation of entirely new products and services, or reducing costs. Benner and Tushman (2002) noted that in any industry, the nature of competition is embodied in threat of new entrant, threat of substitute product or services, bargaining power of suppliers/buyers and the rivalry among existing competitors. The importance of introducing innovative products for wine companies emanates from its potential to impact all these factors.

The Kenyan wine industry, just like the world over, has been undergoing a significant restructuring. Furst, Lang, and Nolle (2012) noted that no longer do old world producers such as Italy, France, Spain and Germany dominate the industry to the extent that they once did. In Kenya, for example, (KIPPRA) noted that no longer are established wine producers such as Kenya Wine Agencies Limited, Distell Wine Masters, Rift Valley Winery, Domine Kenya Ltd and The Wines of the World regarded with the contempt that they once were. Indeed, over the past decade there has been a seismic shift in the local production, export and consumption of wine. One factor contributing to this shift is the innovative way in which a number of new producers have embraced a range of research and development practices, including improved viticultural and oenological techniques and management, high-level training, knowledge transmission and technology transfer. The preparedness and ability of many new producers to trial and implement many of these practices is complementing their bold approach to branding and global marketing.

The theoretical foundation of the study is based on the resource based view which is a theory of firm performance that focuses on the resources and capabilities controlled by a firm as sources of competitive advantage. The resources held by a wine company and the innovations will have a profound impact on generating improved performance. Competitive advantage is a key determinant of superior performance and it will ensure survival and prominent placing in the market (Grant, 1991). It gives the wine company the ability to stay ahead of present or potential competition and influence achieving of market leadership in wine manufacturing sectors.

1.1.1 Concept of Innovation

Roger (1995) notes that innovation is an idea, practice, or object that is perceived as new by an individual or other unit of adoption. Eisenhardt and Martin (2000) posit that innovation includes new product and service development and is characterized by its dynamic capability. The dynamic capabilities framework examines the sources of wealth creation and caption by firms in an environment characterized by rapid technological change (Teece et al., 1997). Practically, an innovation does not need to be totally new to the business society. To customers, new, better or improvement service is innovative. In order to stay ahead in the global competition; firms must consistently look for innovative strategies to improve their competitiveness in the wine market

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Benner and Tushman (2002) noted that exploratory innovations are radical innovations that are designed to meet needs of new markets and require new knowledge or a departure from existing knowledge within a firm. On the other hand, exploitative innovations are innovations that are incremental and designed to meet the needs of existing customers or markets. Organizational innovation is a broad concept that includes strategies, structural, and behavioral dimensions. It includes competitive strategy; structural characteristics of the organization such as hierarchy, functional lines, and organizational boundaries; work processes including the use of different production inputs, the flow of work, job design, work allocation, and use of suppliers and subcontractors; HRM practices including hiring and firing; and industrial relation practices involving the strategies and institutional structures affecting the labour-management relationship

(Kantor, 2001).Firms which innovate tend to last longer and grow (Kantor, 2001). Examples in Kenya are firms that have adapted paying of goods or services by customers with electronic cards, mobile service such Mpesa and Airtel Money. It has been noted that their businesses have grown tremendously as clients prefer them due to not having to carry cash which is risky. Innovation is also about value adding through manufacturing processes such as branding like in the case of some buses and TukTuks (public service vehicles that carry five passengers commuting for small distances)painting the cars in catchy colors and giving passengers a branded sweet.

1.1.2 Firm performance

Organizational performance refers to ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre-determined time using relevant strategy for action (Koontz and Donnell, 2003). Performance provides the basis for an organization to assess how well it is progressing towards predetermined objectives, identify areas of strength and weakness and decide on the future initiatives with the goal of how to initiate performance improvement (Vanweele, 2006). Rowley (2011) used both financial and non financial indicators. The financial indicators were a percentage growth in sales, labeled as sales growth and percentage profit margin labeled as profitability. They used public image and goodwill, quality of services and efficiency of operations as the non financial indicator.

The performance of a firm is dependent upon its capacity to adapt to the changing environment and the expectation of its customers. The demands of the government, stakeholders and the institutions employees change continuously depending on the changes in their operating environment and consequently, there is need for the organization to align its operations to the changes in order to improve its performance (Mangelsdorf, 2009). Hamrick and Mason, (1984) argued that a firm that is able to manage turbulent complex environments and therefore maintain or improve its performance is one that will willingly embrace change in its operating environment since its management will be able to stimulate debate about the appropriate strategy, allow them to generate greater range of strategic alternatives and collectively better evaluate the feasibility of such alternatives. Gaya, Struwig and Smith (2013) concluded that when solving complex, non routine problems, groups are more effective when they comprise individuals with diverse skills, knowledge, abilities and perspectives

1.1.3 Kenya Wine Industry

The growth in wine consumption in Kenya has seen companies such as Kenya Wine Agencies Limited, Wines of the World and EABL record high net sales values in this category and focuses their strategies towards wine transformation. A growing middle-class with higher disposable incomes and the growing product variety and awareness are major factors that have promoted increased overall consumption and sales. Another factor is the growing class status and affluence among consumers, where spirits such as whisky are viewed as a class symbol, especially among the upper- and middle-income population. Proliferation of up-market bars offering sophisticated spirits and whiskies was seen in the affluent residential areas in the country (Nyaundi, 2012).

Today, the Kenyan wine industry is at the forefront of a changing regional wine landscape. It is one of the úupstartô New World participants that have sacrificed tradition for innovation and growth. As a result, it has transformed itself from a cottage industry to a leading exporter, ranked second in Africa in 2012/13, with sales of Ksh 12.39 billion. The proliferation of retail outlets in residential areas and their ease of accessibility, with the growing mall culture among the Kenyan population, are slowly becoming preferred channels to reach consumers. Product packaging in caskets is a growing packaging concept that has wide-appeal among retailers as product handling is simplified and easy for consumers to carry. Most consumers from middle- and lower-income groups purchase their products from outdoor markets and supermarkets, which stock a wide variety of products at affordable prices. New World wine industries effectively demonstrate the óinnovation territoriesô concept by establishing successful interaction between suppliers, producers, industry organizations, R&D institutions and government agencies at the local, regional and national levels. By supporting the sector and generating interaction between locations, these stakeholders help to foster an innovative culture.

Gitau, Mukulu and Kihoro (2014) noted that Kenya wine industry is on the rise as a result of economic growth, technology advancement, high per capita wine consumption, improved quality, and globalization of markets that has provided better market opportunities. This has seen leading wine manufacturers engage in increasingly competitive tactics in order to increase their market share. However, around 75 per cent of the drinks market on the country is still dominated by cheap home brews or illicit spirits and drinks companies believe many of these consumers will convert to commercially-produced lagers and spirits as they move up the wealth chain.

1.2 Research Problem

The changes in the global market are continuous and depending on product type a business, whether small or large, needs to counter or lose its clients. The changes in the business environment is characterized by high level of competition, changing customerös behavior, high firm operational costs and inadequate resources as some of the challenges that face the manufacturing firms(Mangelsdorf, 2009). Taking up innovation is basically one of the critical measures to stay relevant and survive (Kiraka, 2013). Since most business entities offer comparable products and services, they continually search for a competitive advantage that will attract new customers and help them retain existing ones. They therefore must endeavor to develop innovative programs and initiatives maintain superior customer service levels while remaining profitable. Indeed no matter what the industry is, a business cannot possibly succeed without customers who are satisfied from the innovative products (Visscher & Rip 2003). They further observe that to decide which business innovation concept is appropriate to a company, the first thing to do is to ask whether the company is generally doing the right things, but just needs to do them better, or whether it needs to do new things. Thus, it is important to consider whether both fast results and the scale of change are needed.

The manufacturing sector plays a key role in Kenyaøs economic growth. The main goal of this sector is to increasingly contribute to Kenyaøs GDP by at least 10% per annum (KIPPRA, 2013). As one of the five Pillars of Vision 2030, the manufacturing sector is expected to grow by 10% over the next decade in the realization of Kenya achieving the middle level income status by the year 2030. The role of the manufacturing sector in Vision 2030 is to create employment and wealth. As a result, this has heightened the need for alternative means to increase profitability, facilitate growth and expansion. One of these tools is firm being more innovative in its processes and product range. There is need therefore for the Kenyan wine industries for example to come up with innovation ways to enhance their performance. This study will seek bridge this gap by establishing the innovations practices in Kenyan wine industry.

A study by Hafeez (2013) on innovation and relational learning influence SME performance: An empirical evidence from Pakistan was taken and the results of the research revealed that value added innovativeness and its components had a significant positive relationship in process innovation, product innovation, marketing innovation with companiesô profitability. Another study on innovativeness and firm Performance was taken by Kiraka (2013) where the objective of the research was to depict the then state of knowledge regarding the relation between innovation and performance in general and for SMEs in particular. The results showed that product and process innovativeness had a considerable positive relationship with performance of SMEs. Forbes and King (2013) undertook an exploratory analysis of marketing innovations in the New Zealand wine industry and established that majority of innovations adopted in the New Zealand wine industry are incremental, rather than radical. New Zealand wine companies are implementing innovative strategies for several reasons, including cost reduction, to respond to changes in the external environment, to capture the imagination of consumers with fresh and exciting products, to provide solutions to particular consumer problems, and to attract new consumers. Gurau and Duquesnois (2008) study established that increase sales and production volumes, wineries need to adopt a variety of direct distribution channels, particularly direct sales at the winery and/or on the Internet to develop customer intimacy via loyalty programs. Ruth(2011) did a study in Kisumu city to understand the relationship between the characteristics of Small and Medium Enterprises and performance while another closely related research by Kiraka (2013) on innovation and Micro, Small & Medium enterprises in growth in Kenya as a whole was likewise undertaken.

The significant gap on this among other studies is; what the innovations practices in the Kenyan wine industry are? For this reason, this study will seek to contribute in filling this gap by answering the following research problem: What are the innovations in the Kenyan wine industry? Is there relationship between innovations and Wine industry performance in Kenya?

1.3 Research Objective

i. To establish innovations in Kenya wine industry
ii. To establish the relationship between innovations and Wine industry performance in Kenya

1.4 Value of the Study

The study will be important to the following stakeholders:

The management of Wine firms will benefit from the study and from it, they will be able to gain more insights concerning the competitiveness of their companyôs innovation processes and also be able to identify the challenges facing innovation in the firm and possible ways of mitigating them. The organization will also be able to reinforce those innovation-based competitive strategy and capabilities, which in turn will enable such firms to outperform their competitors by creating superior value to their customers.

To other competitors in the beer industry in Kenya, will learn crucial hints pertaining to the competitive innovations processes in the wine industry and how to adopt some of these strategies in their organizations. In the present competitive business environment, market intelligence on what other competitors are doing is a valuable source of information and a strategic tool material.

To the government, this research will form an invaluable source of reference especially the ministry of industrialization in coming out with policies to guide the manufacturing sector in the development of new products. The need to notify competing firms on new products that will change tariffs is one such case that the research will form an invaluable source on how to manage such policies since it will affect the phase of innovation.

To Scholars: This study is expected to increase body of knowledge to the scholars in the manufacturing industry and make them be in touch with how competitive innovation processes at Kenya Wine Industry can act as a competitive advantage tool in the manufacturing industry.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section is devoted to reviewing literature relevant to the study on theoretical review, innovations, innovations practices in wine industry and the effect of innovation on performance.

2.2 Theoretical Foundation

The two basic theories that form the theoretical foundation of innovation play important role in understanding the basis of innovation and performance. It is therefore imperative to explore and understand these theories in order to visualize and understand the theoretical perspective of this study.

2.2.1 Resource-Based View

The resource-based view stipulates that the fundamental sources and drivers to firmsô competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly-to-copy (Peteraf and Bergen, 2003). The resource-based theory argues that any firm is essentially a pool of resources and capabilities which determine the strategy and performance of the firm; and if all firms in the market have the same pool of resources and capabilities, all firms will create the same value and thus no competitive advantage is available in the industry (Barney, 1991). The basis of the resource-based view is that successful firms will find their future competitiveness on the development of distinctive and unique capabilities, which may often be implicit or intangible in nature. Thus, the essence of strategy is or should be defined by the firm s unique resources and capabilities. Furthermore, the value creating potential of strategy, that is the firm s ability to establish and sustain a profitable market position, critically depends on the rent generating capacity of its underlying resources and capabilities (Conner, 1991).

The resource-based view is used to determine whether the firmôs initial bundle of resources and subsequent resource configurations are the sources of a particular firmôs competitive advantage and to what extent the process of customer value creation is resource dependent (Thompson, Peteraf, Gamble and Strickland, 2012). Customer value creation processes involves how a firm combines core competencies or recombine activities of a firm with the competitive resources to create value for the customer through process and service differentiation, low cost structure and superior customer focus through superior customer responsiveness. Managers of wineries seek distinctive competencies to take advantage of specific strengths and maximize their financial return on investment. The distinctive competencies are the vertical integration (supply chain, óvirtualô upto fully integrated), and innovation (escaping the power of the three-tier distribution channel).The intent is to identify conditions under which these firm-specific resources provide a competitive advantage, as measured by financial performance. Resource leveraging as a factor that can contribute to a firmôs competitive advantage attempts to explain how a firm can use even resources it does not own to gain competitive advantage. According to a wide literature the RBV theory can explain the variances in performance between firms (Gaya, Struwig and Smith, 2013). Although the RBV recognizes that a firmôs physical resources are important determinants of performance, it places primary emphasis on the intangible skills and organizational resources of the firm (Barney, 1991). Some intangibles resources of the firm are the market-assets such as customer satisfaction, brand equity and intellectual property.

2.2.2 Diffusion Innovation Theory

Diffusion of Innovation (DOI) theory developed by Rogers (1962) notes that an idea or product gains momentum and diffuses (or spreads) through a specific population or social system. The end result of this diffusion is that people, as part of a social system, adopt a new idea, behaviour, or product. The key to adoption is that the person must perceive the idea, behaviour, or product as new or innovative. It is through this that diffusion is possible. Adoption of a new idea, behaviour, or product (innovation) does not happen simultaneously in a social system; rather it is a process whereby some people are more apt to adopt the innovation than others (Hager, 2006). The theory has its primary focus on how potential adopters perceive an innovation in terms of relative advantage/disadvantage; hence some of the factors of the DOI approach help form a framework: innovativeness, complexity, compatibility and relative advantage. Furthermore, firms that intensely use a particular technology are often prime candidates for early adoption of the next generation of that technology.

Li and Atuagene-Gima (2011) noted that diffusion theory of innovation seeks to explain how new ideas or innovations were adopted, and this theory proposes that there are five attributes of an innovation that affect adoption; relative advantage, compatibility, complexity, trial ability and observe ability. The theory suggests that innovations that have a clear, unambiguous advantage over the previous approach will be more easily adopted and implemented. When key players perceive innovation as being simple to use, the innovations will be more easily adopted (Greenhalgh *et al.,* 2004). Trial-ability is the degree to which an innovation may be experimented with on limited basis. Because new innovations require investing time, energy and resources, innovations that can be tried before being fully implemented are more readily adopted. And finally, observe-ability is the degree to which the results of an innovation are visible to the adopters. If there are observable positive outcomes from the implementation of the innovation then the innovation is more adoptable.

The diffusion of innovations approach in this study is important to understanding the dynamics at play in relation to adoption and use of innovations by wine companies. There are discourses focusing on adoption by organizations and also by individuals (Hager, 2006). These two types of adoption both play a role when investigating the diffusion and adoption of innovations by wine companies. The organizational decision to adopt technology becomes intertwined with personal perceptions and attitudes of the management towards that technology. Therefore, wine companies innovation activities support improvement in firm competitiveness and profitability. Market oriented firms will have a greater capacity to innovate, and will be more successful in responding to environmental needs that lead to competitive advantage and superior performance.

2.3 Innovation

Innovation involves the ability at an organizational level to maintain a flow of internally and externally motivated new ideas that are translatable into new products, services, processes, technology applications, and/or markets. Thus, the entrepreneurs/managers continually champion new approaches to segmentation, pricing, use of the brand, packaging, customer relationship management, customer credit, logistics, customer communication, and service levels, among other operational activities. Consequently, entrepreneurial marketing encourages innovation and creates and renews competitive advantage through customer value propositions in current and new markets (Thomas *et al.,* 2013). This parameter shall be measured by customersô observable innovations for products, markets, process and raw materials that the firm is utilizing.

2.3.1 Global Perspective on Innovations

The ability of a countryôs vignerons to compete in global markets depends on the countryôs comparative advantage in wine which changes over time at a rate that depends, among other things, on own- versus other-country technological and institutional innovations (Cusmano, Morrison and Rabellotti, 2010). Polevoi (2013) adds that it is very important for a business to exploit new prospects and possibly gain competitive advantage through market, process and product innovation. A study by Hafeez (2013) innovation and relational learning influence SME performance: An empirical evidence from Pakistan was taken and the results of the research revealed that value added innovativeness and its components had a significant positive relationship with companiesô profitability.

Doyle (1994) observes that systematic evaluation rarely occurs within organizations. It is only those banks that are able to adapt to the changing environment and adopt new ideas and ways of doing business that can be guaranteed hope of survival and gaining of competitive advantage. Some of the forces of change that have greatly influenced the financial institutions to be more innovative include intense competition, regulation, and technological advancement. Phillips (2010) and OôSullivan (2008) both note that many companies innovate as a result of reacting to changes in the external market environment and a desire to become a market leader. Innovating companies want to capture the imagination of consumers by creating fresh and exciting products or they want to create a solution to a particular problem or identified opportunity (Phillips, 2010). Companies innovate to attract customers who have never engaged with their product or service before (Fiore, 2012). Cost reduction is also a major motivator for innovations, particularly in terms of improvements to production, logistics and retailing processes. When consumers reduce their spending in periods of economic recession or over-supply, it is clear that companies cannot rely on óbusiness as usualô strategies to survive

Another study on innovativeness and firm performance was taken by McAdam and McClelland, (2012) where the objective of the research was to depict the then state of knowledge regarding the relation between innovation and performance in general and for wine companies in particular. The results showed that product and process innovativeness had a considerable positive relationship with performance of wine companies. Hemmert (2008) undertook a study on innovation management of Japanese and Korean firms and established that high investment into the development of new technologies and the adoption of advanced research and development management practices are common among Japanese and Korean motor vehicle firms.

Neely (2002) whose study focused exclusively on product innovations in German, UK, and Irish wine companies, ascertained that the output of innovative wine companies grew significantly faster than that of non-innovators implying that innovated products contributed to the faster growth of the former. Similar to Neely (2002) found that sales turnover of innovative firms grew faster than that of non-innovative firms. They detected a significant relationship between the share of innovative sales and sales turnover change of firms. Chesbrough (2010) found that innovation effects were felt in terms of both product oriented results such as: improvement in quality of goods and services, and secondly, increased range on goods and services, and process-oriented results like increased production capacity and improved production flexibility.

Mccoy and Evans (2012) study on the effect of innovation on performance of commercial banks in India established that that product replacement contributed to the bank's profitability, product repositioning contributed to the bank's profitability. The study found that process innovation strategies such as reduction of costs and conformance to regulations contributed to the bankôs profitability. The study revealed that technological innovations affected performance of commercial banks. Sakchutchawan, Hong, and Callaway (2011) studied innovation and competitive advantage among global logistics firms and established that proper implementations of logistics innovation benefited firms in term of delivery performance, cost reduction, customer satisfaction, operational income, net income, and sales growth.

2.3.2 Innovations in Kenya

In Kenya the subject of innovations in wine industry is still at its infancy. Ngugi and Karina, (2013), did a study on the effect of innovation on performance of beer companies in Kenya. The study concludes that adoption of innovation affected profitability of the beer companies. The paper concludes that adoption of innovation affected performance of the beer companies to a great extent.

Kamakia (2014) study was on the effect of product innovation on performance of commercial banks in Kenya. The study established that service offered by commercial banks is enhanced by their level of innovations. The reputation in the market makes the bank stand out, and a competitive bank is one that undertakes rapid innovations. The study depict that aspects relating to product innovation and competitiveness include: location and wide network, branch networks, range of products, cost (charges), reputation, product range, customer service, bank reputation, innovation and customer service, processes and systems, and discipline. Mathenge (2013) study on innovation and competitive advantage of telecommunication companies in Kenya established that companies indicated growth through financial innovations that gave them a competitive advantage in the ICT (Information, Communication and Technology) field; financial innovation affects positively the performance of telecommunications companies to a great extent.

Wanjiku (2014) researched on innovation and performance of Micro and Small Enterprises in Kiambu town. The findings of the study was that found and concluded that process, product, positioning and paradigm types of innovation had a positive relationship with the performance of some business types of the Micro and Small Enterprises in Kiambu Town. None of the previous studies has dealt with the effect of innovation on performance of wine industry in Kenya. Given the critical role that wine manufacturers play in the market; they need innovations that will keep them competitive. Ongonga and Ochieng (2013) undertook a study on effects of innovation on performance of tea firms in Kericho town. The findings of the study was that innovative strategies adopted resulted into increased revenues, high productivity levels and reduced costs.

Alston, Norton, and Pardey (2008) noted that innovation can be summed up as producing new products, introducing new production methods and new process, exploiting new markets, developing new raw materials or semi-manufactures supply sources and, introducing or redesigning new organization. Ancona and Caldwell (2012) posit that innovations processes have been found to yield: improved product quality; creation of new markets; extension of the product range; reduced labor costs; improved production processes; reduced materials; reduced environmental damage; replacement of products/services; reduced energy consumption; and conformance to regulations. Within the wine industry, use of the industry's research services is strongly encouraged, made readily available and considered a central indicator of innovative activity.

2.4 Innovations in Wine Industry

Innovation strategy gives a clear direction and concentrates the effort of the whole organization on a common innovation end. Currently, most of the firms are adopting products innovations, process innovations, market innovations and stimulus innovations and these innovation strategies should specify how the significance of innovation will be communicated to all the employees to attain their buy-in and must openly reflect the significance that management places on innovation.

2.4.1 Market Innovation

Market innovation involves the market selection and mix so as to meet a clientôs buying preference. The consumer needs, wants and expectations change from time to time. Meeting these demands and the responsiveness to an ever changing market hence, become a vital part for a business to succeed (Anderson and Nelgen, 2011). Responsiveness to these changing markets needs often calls for continual market innovation, a business reason being the high-tech marketing tools such as the internet, make it very possible for competitors to be able to get to those prospective consumers across the globe very fast. Cooper (2009) asserts market innovation to playing an important role in meeting the market needs and quickly responding to emerging market opportunities.

Anderson (2010) noted that it is the prime responsibility of marketing specialists to provide such insights. Sometimes this responsibility is seen to cover solely the identification of present and likely future geographical market opportunities. Geography is, however, only one simple way for segmenting markets. A very wide range of possible criteria exists for segmenting, stretching from objective criteria based on demographic data through to subjective criteria based on life style interpretations of consumer and business buying behaviour (Neely, 2002). The significance of the market innovation to business performance, albeit narrow, is discussed too. Neely (2002) learned that there is a positive outcome on the sales growth of a firm through conducting market innovation. Similarly, Zhang & Duan (2010) found strong evidence in Japan which indicated that market innovation had positive effect on a businessô performance.

2.4.2 Process innovation

Process innovation embraces quality function deployment and business process reengineering (Minai and Lucky, 2011). An efficient supplier who keeps working on productivity gains can expect, over time, to develop products that offer the same performance at a lower cost. Such cost reductions may, or may not, be passed on to customers in the form of lower prices. Process innovation is important in both the supply of the core product as well as in the support part of any offer. Both components of an offer require quality standards to be met and maintained. In the case of services, which by their very nature rely on personal interactions to achieve results, the management of process innovation is a particularly challenging activity (Johne and Storey, 2008).

Process innovation is said to be the execution of a novel or notably improved production and/or delivery method such as noteworthy technique changes, changes in equipment or even software (Cooper, 2009). Process innovation involves various aspects of a businessôs day to day functions, including human resource, technical design, manufacturing, management and commercial activities. Tether (2003) study on wine industry in India found process innovation to be positively linked to business performance. In another recent study by Atandi & Bwisa (2013), a major relationship linking new technology and business performance was found where new technology was used a proxy for the process innovation. As such, a hypothesis that process innovation is also positively associated with business performance.

2.4.3 Product Innovation

This is the creation of new products from new materials or altering existing products soas to meet or exceed customer satisfaction and expectation. Kiraka (2013) argues that product innovation is made by exploiting new ideas. It is one of the main sources of gaining competitive advantage for a small and micro business. Innovation leads to enhancement of the quality of products which results to the business performing better as well as gaining(Hafeez, 2013). Potential protection for a business is offered by product innovation from its competitors and market threats. Ngirigacha & Bwisa (2013) provide evidence that there is a significant and positive link between product innovation and a business performance.

Kotelnikov (2008) noted that product innovation is the result of bringing to life the new way of solving customerös problem that eventually benefits both customers and banks. Both external and internal factors contribute to development of innovative products tailored to specific needs and special niches. Important external factors include market research, exchange of new product ideas between banks and research or technological developments. Internal factors could relate to in-house development of new products, monitoring and evaluation of existing products and feedback from employees and customer (Sharma, 2004).

Wolff and Pett (2004) conducted comparative research for the effects of product and process innovations on firm performance. They indicated that particular product improvements are positively associated with firm growth. Product innovations will thus enable wine companies to increase their brands or products in the market hence create competitive advantage for the organizations; market innovation enables the companies create new markets hence increasing the competitive advantage; process innovation enables the running of the wine companies operations thus increasing effectiveness and efficiency while technology innovation will encourage ease of flow of information. Rosli and Sidek (2013) found that the dimensions of product innovation (worth and effectiveness) influence and are related to wine firms performance.

Davila, Epstein and Shelton (2006) noted that research and development, infrastructure, information and knowledge transfer and the take-up of both product and process innovations all contribute to the surge in wine production, export and branding. The successful implementation of these new technologies and the coordination of their use, is leading to better quality wine at a more affordable price, more diverse blending, greater uniformity within each label, and increased flexibility of production. Mustacich (2009) noted that there will be a global standard of sustainability in the wine industry in the coming years and that a wine producer, no matter how large or small will need to conform to certain levels of sustainable practice or risk their long-term viability. Increasingly, environmental considerations appear to be a factor in packaging choice, as environmental consciousness becomes a larger issue of public debate and discourse and this will affect the performance of wine companies as the sales will go down thus the need to adopt more innovative packaging system.

2.4.4 Management Innovation

Davila (2006) noted that a companyøs innovation needs adjustment over time. A number of internal and external factors affect the selection of the best innovation. These affect the choice of the innovation and the shape of the portfolio or play to win or play not to lose. Furst, Lang, and

Nolle (2012) noted that the amount of technology innovation depends to a large extent upon the current capabilities that the company has internally or can access through its innovation network. A company that has traditionally competed on its marketing skills and incremental technology improvements will have a tough time suddenly including a semi radical technology dimension to its strategy. They further noted that the ability to nature innovation also depends on whether the company has the organizational capabilities to do it than shifting to a more radical innovation approach will not happen if the organizational and management capabilities are not present. The difficulty that successful companies have in changing has been repeatedly documented. It has been described as core capabilities becoming core rigidities or the inability to grow internal ventures in successful companies.

Kotelnikov (2008) noted that Management has a large set of options to position, the company and managements talents has a very relevant role in selecting and evolving the companyȏs innovation strategy. Development of new technology or business models usually requires collaborations with other organizations that have complementary resources, for this you need a network that reaches inside and outside of your organization. Thus the ability to create sustainable alliances to with these partners becomes important in deciding the innovation strategy going forward. According to Olaisen (2007), industry structure is an important factor. A careful analysis of this structure points out where the main obstacles and opportunities for innovation reside. Understanding the dominant industry value chain, who dominates and why, and the structure of the barriers to entry are important inputs to the design of an innovation strategy.

2.5 Innovations and Performance

Innovation is important to the long-term viability of a company as it can help to create a competitive advantage over other organizations. There is evidence that innovative companies sustain a higher level of performance and grow faster than non-innovators (Tether, 2003).Innovations can actually enhance the firm performance in several aspects. Innovation has a considerable impact on corporate performance by producing an improved market position that conveys competitive advantage and superior performance (Walker, 2004). A large number of studies focusing on the innovation-performance relationship provide a positive appraisal of higher innovativeness resulting in increased corporate performance.

The importance of innovation and the impact it has on organizational performance was highlighted by the study conducted by Furst, Lang, and Nolle (2012) who considered several companies from five countries. According to this study, firmǿs innovative capacity was the critical factor in explaining performance differences between firms from five countries: Japan, United States, France, Germany and England. Kotler(2003) studied the relationship between innovation and performance, offering the example of Sony, a leader in innovation that has significantly increased market share by means of numerous new products to clients. According to Tushman and Nadler(2006), strategic management in the banking sector demand that the institutions should have effective systems in place to offset unpredictable events that can maintain their operations and reduce the risks implicated through innovations.

Studies on effects of innovation on performance focused on first mover and imitator competitive advantages. Mabrouk and Mamoghli (2010) argued that if the process of innovation continues and new technologies are introduced over time, innovative banks can continue to earn high profits on the various new or improved products. However, extraordinary profits will dwindle as innovations are adopted widely. Grundiche (2004) argued that for a firm to compete effectively in the dynamic and competitive business environment and achieve set goals in terms of profitability, high sales volume, and large market share, it must continuously develop products and product lines to satisfy the constantly changing desires and needs of customers. According to Azaze *et al*., (2005), the reasons for new product development the most frequently cited by top business executives are corporate growth, diversification, and the quest for a competitive edge over rival business firms. They further add another specific reason for a firm to develop new products: exploiting new opportunities. New products are essential to the survival and long term growth of any firm.

Nwokah, Elizabeth and Ofoegbu (2009) in their study revealed and concluded among other things that product development facets of product quality and product lines/product mix were positively and significantly correlated with the corporate performance facets of profitability, sales volume and customer loyalty. Furthermore, findings by Berger and Mester (2003) seem to suggest that the product mix may play a more important role in providing a competitive advantage and improve the performance of banks. Neely (2002) found that sales turnover of innovative firms grew faster than that of non-innovative firms. They detected a significant relationship between the share of innovative sales and sales turnover change of firms. Chesbrough (2010) found that innovation effects were felt in terms of both product oriented results such as: improvement in quality of goods and services, and secondly, increased range on goods and services, and process-oriented results like increased production capacity and improved production flexibility.

Subramanian and Nikalantaôs (2006) study put some additional evidence in the support of positive effect of innovation on firm performance. They analyzed the relationship between firm innovativeness, their organizational characteristics and organizational performance. The conclusion drawn is the direct association of formalization and centralization with administrative innovation which in turn relates positively with organizational efficiency. Naidooôs (2010) study sheds light on the relationship between market orientation, marketing innovation, competitive advantage and organizational performance. The study states market orientation as an accelerator for initiation stage of marketing innovation which is positively linked with competitive advantage. Competitive advantage (achieved as differentiation, cost leadership & focus strategies) in turn positively relates with the performance of the company. Graweet al. (2009) study focused on the relationship between customer orientation, competitor orientation, service innovation and market performance. Customer orientation and competitor orientation works as a catalyst for service innovation which in turn is positively related to market performance of the firm. Wang, Yeung & Zhangôs (2011) recent study underscores the positive relationship between trust and innovation. Trust brings transparency in manufacturer supplier relationship for collaborative innovation. This relationship is strengthened with high environmental uncertainty.

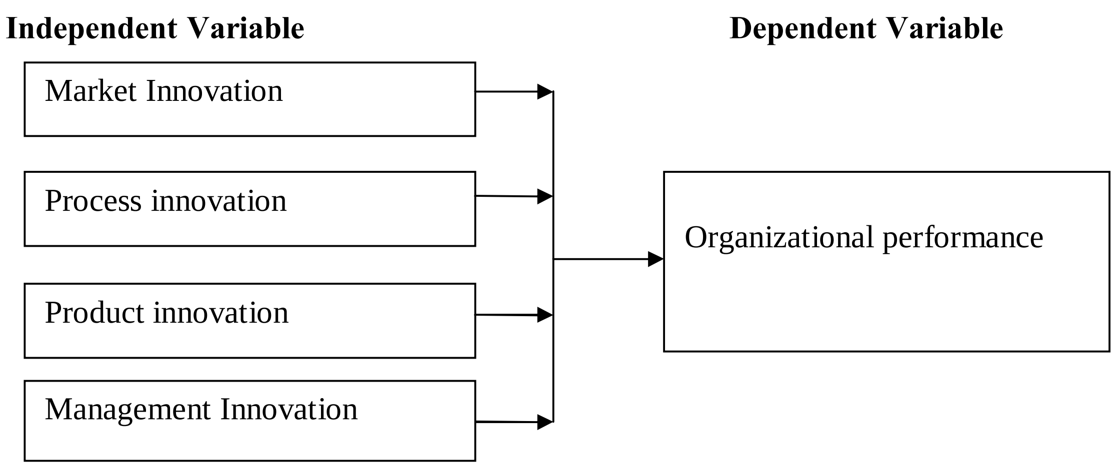
2.6 Summary and Research Gaps

From the literature review, innovation in wine manufacturing sector has seen the introduction of different brands and products by the companies in order to increase or maintain their market share. These products are introduced to respond better to changes in market demand. In order to achieve its objectives the wine companies, innovation in the sector is paramount and this has seen companiesô being innovative as this determines the status of growth and the general performance of wine manufacturing companies. The empirical studies that have been highlighted on innovations have been undertaken in other sectors and not wine manufacturing and therefore the study will fill the gap on the effect of innovation on performance of wine companies in Kenya.

2.7 Conceptual Framework

A conceptual framework can be defined as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Enz, 2010). This study adopts a conceptual framework of innovations that have been adopted by wine companies on performance. In particular, it investigates the significance of marketing communication, transaction channel, distribution channel and organizational performance.

Figure 2.1: Conceptual Framework



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the proposed research design, population of the study, data collection instruments and the techniques for data analysis.

3.2 Research Design

The research design adopted was descriptive research design. According to Cooper and Schindler (2000), a descriptive research design is concerned with finding out the; who, what, where, when and how much. Furthermore, a research design is structured, has investigative questions and part of formal studies. The design was appropriate because the main interest was to explore the viable relationship and describe how the factors support matters under investigation.

3.3 Population of the study

Population is a well defined or set of people, services, elements, events, group of things or households that are being investigated (Ngechu, 2004). The population of the study comprised of all the wine companies in Kenya. There are five main wine companies in Kenya and all of them participated hence the study was a census.

3.4 Data Collection

Primary data was used for the study. The questionnaire was used and administered through drop and pick method. The Production manager, Marketing manager, Quality insurance Manager, and Brand Manager in the wine companies were the respondents. The questionnaire consisted of both open and closed-ended questions. Walliman (2011) notes that use of questionnaire ensured that confidentiality is upheld, saves on time and is very easy to administer.

3.5 Data Analysis

The data obtained through the questionnaires were first checked for completeness. The questionnaires found correctly filled and fit for analysis were coded. The descriptive statistics to be used included mean scores, percentages and ratios. These were then presented using tables, pie charts and bar graphs for easier interpretation. A regression model was done to establish the relationship between innovation and performance of wine companies.

The regression model was of the form;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \mathring{U}$$

Where:

Y= Organizational performance

$\beta 0$ = Regression Constant

X_1= Market innovation

X_2= Process innovation

X_3= Product innovation

X_4= Production innovation

X_5=Management innovation

$\mathring{U}$= Error term

Below is a summary of how the data collected was analyzed.

Objective	**Questionnaire**	**Data analysis**
General information	Section A	Descriptive statistics
I	Section B	Descriptive statistics
II	Section C	Regression analysis

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The research objective was to determine the relationship between innovation and performance in Kenyaôs wine industry. This chapter presents the analysis, findings and discussion. The findings are presented in percentages and frequency distributions, mean and standard deviations. A total of 20 questionnaires were issued out and only 16 were returned. This represented a response rate of 80%.

4.2 Demographic Characteristics

The demographic information considered in the study was the number of employees in the company and the duration of company operation in Kenya.

4.2.1 Number of Employees in Company

The respondents were requested to indicate the number of employees in the company. The number of employees in the company indicates the size of the company and market coverage.

Table 4. 1: Number of Employees in Company

Years	Frequency	Percentage	Cumulative Percentage
100-499	12	75.0	75.0
Above 1000	4	25.0	100.0
Total	16	100.0	75.0

The findings indicate that 75% of the respondents have between 100 and 499 employees while 25% of the respondents said that their employees were above 1000. The results show that the number of employees in the companies differs and this can be attributed to the scale of operations of the companies. The findings suggest that most of the wine firms are labor intensive considering that majority of them have over hundred employees. This is due to the nature of the wine business that will require high number of workforce to perform such task as loading, distribution and marketing of the firmôs products to the dispersed selling outlets. The labor intensity contrast to such firms in the telecommunication industry, for example, Internet Service Providers which are capital intensive but after the initial set up cost has been incurred, only a few staff will be required to run the business.

4.2.2 Duration of Company Operation

The duration of company operation in Kenya was important for the study as this helps the company to understand the local market dynamics thus adopting appropriate innovation. The results were presented in table 4.2.

Table 4.2: Duration of Company Operation

Years	Frequency	Percentage	Cumulative Percentage
Under 5	1	6.3	6.3
6 ï 10	5	31.3	37.5
11 ï 15	2	12.5	50.0
16 ï 20	2	12.5	62.5
Over 25	6	37.5	100.0
Total	16	100.0	

The results indicate that majority of the respondents have been in operation in Kenya for more than 5 years and therefore they understand the local market trends and the need of innovation in the sector in order to have competitive advantage over competitors. Since most of the firms have been operating in Kenya for over the 10 years, then it is expected that the resultant competition will provide an impetus for them to start innovating new products that will enhance their performance. In addition, the longer operation period is a source of experience on the type of products that the firm will need to venture into to gain necessary competitive advantage.

4.3 Innovations in the Wine Industry

Since most business entities offer comparable products and services, they continually search for a competitive advantage that will attract new customers and help them retain existing ones. They therefore must endeavor to develop innovative programs and initiatives maintain superior customer service levels while remaining profitable. The respondents were requested to indicate the extent to which they have adopted the listed innovations in the wine industry in a five point Likert scale. The range was ódisagree (1)ô to áagreeô (3). The scores of disagree have been taken to represent a variable which had a mean score of less than 2.0 on the continuous Likert scale; (0ÒS.E <2.0) and the scores of áagreeô have been taken to represent a variable with a mean score of 2.0 to 3.0 on the continuous Likert scale: (2.0ÒM.E. <3.0). A standard deviation of >0.7 implies a significant difference on the impact of the variable among respondents.

4.3.1 Market Innovation

The respondents were asked to indicate the extent to which the wine company has used market innovation in order to improve its performance.

Table 4.3: Market innovation

Statement	Mean	Std. Deviation
The firm uses of various media channels to market its products	2.8125	.4031
The company create value through pricing	2.4375	.7274
Introduction of new marketing approaches(online marketing, business)	2.5000	.6324
Environmental analysis and response to changes	2.5625	.5123
Aggressive anti competitors marketing campaigns	2.1875	.8341
The firm deal with customersô suggestions or complaints urgently and with utmost care	2.7500	.4472
The firm continuously modify design of their products and rapidly enter new emerging markets	2.6250	.5000

The firm manages to deliver special products flexibly according to customersô orders	2.5000	.5164
The firm marketing results in customer satisfaction and retention	2.7500	.4472

The results indicate that the wine companiesô uses market innovation to market their products, interact with customers in order to understand their views towards the products and offer suggestions where necessary on the products, enter new markets. The precedence of the marketing of the firmôs products through the use of different media channels is due to the need of the wine firms to reach different customer segments that will be using different media such as the digital platforms or the traditional marketing platforms. This need to reach the different customer segments explains why the firm will also adopt different price differentiation which was achieved by innovating different products that will meet the needs of different customers. The low standard deviation variation indicates that the respondents were in agreement on the use of market orientation by the companies.

4.3.2 Process Innovation

Process innovation enables the wine companies to come up with processing plant that ensures that the companies produces wine that enables the company achieve competitive advantage.

Table 4.4: Process innovation

Statement	Mean	Std. Deviation
The firm has skilled viticulturalists and oenologists, and stocks of production knowledge pertinent to the country	2.9750	.6824
Automation of office processes meant to enhance convenience and save time, minimize errors in serving customers better	2.5000	.7303
Installation of a robust and superior processing system	2.6250	.5123
The firm conducts internal training of to employees upon introduction of new machinery, processes	2.5625	.6324

Development of new channels for products and services offered by the enterprise is an on-going process	2.8750	.3415
The firm sources wine grape varieties which improves the quality of wine output	2.9375	.2500

The results show that process innovation enables the company to source for specialists in wine brewing and raw materials that ensures that the company produces high quality wine. The competitiveness of a firm is based on its internal resources which the resource based view (RBV) theory, rightfully so, highlights as the important variable that will create the necessary competitiveness to a firm. This position therefore explains the reason why the wine firms have skilled viticulturalists, oenologists, and stocks of production knowledge pertinent to the country. Further, the firms were found to have established automation of office processes as well as internal processes. The innovation further was found to have enabled the company to install new technology that minimizes production costs and increase the rate of production.

4.3.3 Product innovation

The need to understand the extent to which the companies use product innovation was because it enables the companies to create new products or alter existing products in order to meet the expectations of customers.

Table 4.5: Product innovation

Statement	Mean	Std. Deviation
The firm offers wide range of products to its customers	2.8750	.3415
The firm has adopted a channel that shortens the duration of obtaining a product or service	2.7500	.5773
The firm undertakes market survey in order to identify the needs of its customers	2.7500	.4472

The firm wine has the ability to satisfy the customer and have repeat business	2.7500	.4472
The wine produced by the firm are of satisfactory quality	2.8125	.4031
The firm undertakes product development that are radical, inventive and offer greater rewards and performance improvement	2.7500	.4472
The firm product development is important in both the supply of the core product	2.8750	.3415

One of the important differentiation strategies that the wine firms use to shore up their performance is through differentiation of their products. This require that the firms innovate different types of products that meet the demands of their market segments as well as being able to be differentiated from those of competitors by the customers. The needs of the customers are identified through undertaking of a scientific market survey and this avoids a situation where a firm enters a market or produces a product which a competitor is seemingly has high sales. The results indicate that the pursuit of product innovation by the companies has resulted in availability of various products in the market enabling the customers to make a choice of their own on the best brand. This finding therefore reinforces the need for the wines firms to deploy sufficient resources that will facilitate innovation of different types of products.

4.3.4 Production Innovation

The respondents were asked to indicate the extent to which the firms have been innovative in production. This was important to the study as production of products is the critical component of the product acceptability in the market.

Table 4. 6: Production Innovation

Production Innovation	Mean	Std. Deviation
The firm ensures that there is correct blending of wine	2.9750	.6172
The firm manages fermentation properly in order to lead to appropriate flavor and high-quality wine	2.9375	.5648
The firm introduce innovative products, significantly different from classic wines, but with similar function	2.7500	.4472
The firm uses wine for the development of non-food products	1.8750	.9574

From the results it can be concluded that the wine firms ensures that the production process result in the production of the desired quality of products through management of fermentation process and blending. The wine industry involves a length production process that takes months and sometimes years for the end product to be consumed. During this period, the production process shall determine the quality of the end product and this therefore calls for the firms to invest adequate resources in production resources which will be expected to produce the desired product.

4.3.5 Management innovation

The management of the wine companies plays a crucial role in the production of wine as they put together the acts that ensure that the company produces quality products. The results are shown in table 4.7.

Table 4.7: Management innovation

Management Innovation	Mean	Std. Deviation
The firm has organizational and management capabilities to nurture innovation	2.8125	.4031
The current business model in the firm has succeeded thus the need for change	2.5000	.6324
The firm has funding to carefully plan and test the assumptions of the model before scaling up top management vision	2.3125	.7041
The firm management has a large set of options to position the company through selection of company innovation	2.7500	.7188

The firm collaborates with other organizations that have complementary resources	2.6250	.6191
The firm analyses industry structure before deciding which innovations to pursue	2.6250	.6191

The results indicate that the management of the wine companies plays a crucial role in the production of wine as they ensure that the companies come up with strategies that enable them achieve competitive advantage over its competitors. The organizational leadership plays an important role in steering the organization to achieve its objective. This can be achieved through the management of the firm developing a synergy with other players in the industry that will result in an increase on the firmôs level of competitiveness. Development of an appropriate strategy and adoption of an effective implementation of the same strategy can better be achieved through the management of the wine firm being innovative.

4.4 Performance

Innovation is important to the long-term viability of a company as it can help to create a competitive advantage over other organizations. Innovation has a considerable impact on corporate performance by producing an improved market position that conveys competitive advantage and superior performance.

4.4.1 Perceived effect of innovation on performance measures

The respondents were requested to indicate the effect of innovation on performance as it enables the company to know whether the innovations they have undertaken has enabled the company to achieve its objectives.

Table 4.8: Perceived effect of innovation on performance measures

Statement	Mean	Std. Deviation
Improved customer satisfaction	2.8125	.4031
Customer Loyalty	2.6875	.4781

It enhances the purchase of organizational products by the consumer	2.8750	.3415
Efficiency in serving customers	2.8750	.3417
It increases productivity of the company	2.5000	.6324
It increases the company competitive positioning	2.5000	.5164

The results show that innovation practices of the firm had led to an increase in customer level of satisfaction and loyalty. This is because in the wine industry, the end product ï wine is consumable and the satisfaction of the customer will influence the rate of purchase and eventually the level of customer loyalty. From the results above, the respondents were in agreement that innovations that have been undertaken resulted in enhanced purchase of organizational products by the consumer. Therefore, it is evident that the innovations adopted enable the companies to improve their overall performance through increased purchase of the products due to customer satisfaction, loyalty and efficiency.

4.4.2 Innovation and Performance

The effect of innovation on the firm performance was established and the result is presented in Table 4.9 below.

Table 4. 9: Innovation and Performance

	Less than 33%	33% - 67%	More than 67%	Percentage
Change in market share	6.3	50.0	43.8	100.0
Change in sales volume	-	25.0	75.0	100.0
Profit increase from last year	12.5	50.0	37.5	100.0
Percentage of customer retained	6.3	31.3	62.5	100.0

The results indicates that 50% of the respondents said that the market share of the company changes was between 33% and 67%, 43.8% of the respondents indicated the change in market share to be more than 67% while 6.3% of the respondents said that the change in market share of their company was less than 33%. The results indicate that the adoption of innovation by the wine companies has resulted in a higher increase in market share and therefore the companies ought to ensure that they maintain the tempo on the innovation processes currently being undertaken.

The findings on change in sales volume indicates that 75% of the respondents said that the change in sales volume was more than 67% while 25% of the respondents indicated that the sales volume change was between 33% and 67%. From the results, the companiesô sales increased as a result of innovations that have been pursued and therefore they should identify the innovation that yields more return and maximizes on it.

The results on the effect of innovation on profitability was that 50% of the respondents indicated increase in profits to be between 33% and 67%, 37.5% of the respondents noted that the increase was more than 67% while 12.5% of the respondents said that the increase in profits was less than 33%. From the results, it can be concluded that innovations has had a huge impact on the wine companiesô profits.

The results on the percentage of customers retained, the results show that 62.5% of the respondents said that over 67% of the customers were retained as a result of innovations pursued by the companies, 31.3% of the respondents rated the retention of customers to be between 33% and 67% while 6.3% of the customers indicated the retention rate to be less than 33%. From the results, the adoption of the different innovations has seen the wine companies increase their market shares and this can be attributed to the increased penetration to the market.

4.5 Relationship between Marketing Orientation and Performance

The relationship between the innovation (market, process, product, production and management) wine companies performance was tested by using linear regression analysis, based on the regression model presented. The following show the model summary, ANOVA and coefficients of regression.

Table 4.10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.875[a]	.765	.738	.44410

a. Predictors: (Constant), market, process, product, production and management

R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in table above the value of R squared was .738. This is an indication that the five independent variables that were studied, explain only 73.8% of the performance of wine companies in Kenya. This therefore means that other factors not studied in this research contribute 26.2% of the performance of wine companies in Kenya. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by .875.

Table 4.11: ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.16	5	.790	4.010	.002[b]
	Residual	4.531	10	.197		
	Total	7.691	15			

From the ANOVA statics, the study established the regression model had a significance level of 0.3% which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value (4.010>1.658) an indication that market innovation, process innovation, product innovation, production innovation and management innovation significantly influence the wine companies performance. The significance value was less than 0.05 indicating that the model was significant.

Table 4.12: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.356	.426		5.531	.000
	Market innovation	.257	.071	.362	3.617	.002
	Process innovation	.360	.081	.378	4.446	.020
	Product innovation	.256	.056	.261	4.572	.001
	Production innovation	.301	.080	.325	3.763	.003
	Management innovation	.396	.097	.298	3.454	.010

From the data, the established regression equation was
$Y = 2.356 + 0.257X_1 + 0.360\ X_2 + 0.256\ X_3 + 0.301\ X_4 + 0.396X_5$

At 5% level of significance and 95% level of confidence, market innovation had a 0.002 level of significance; process innovation showed a 0.020 level of significance, product innovation showed a 0.001 level of significance, production innovation showed a 0.003 level of significance while management innovation showed a 0.010 level of significance. Hence the most significant factor is product innovation. Product innovation had the greatest influence on wine companiesô performance, followed by market innovation, then production innovation, then management innovation and lastly process innovation had the least influence on wine companiesô performance. All the variables were significant (p<0.05).

4.6 Discussion

The changes in the business environment is characterized by high level of competition, changing customerœs behavior, high firm operational costs and inadequate resources as some of the challenges that face the manufacturing firms. Taking up innovation is basically one of the critical measures to stay relevant and survive (Kiraka, 2013). Cooper (2009) asserts market innovation to playing an important role in meeting the market needs and quickly responding to emerging market opportunities. These findings were found to be consistent with the findings of the study which established that the companies uses various media channels to market their products, deal with customer suggestions or complaints urgently and with utmost care, continuously modify design of their products and rapidly enter new emerging markets, environmental analysis and response to changes, deliver special products flexibly according to customersô orders, introduction of new marketing approaches such as online marketing and creating value through pricing.

Process innovation embraces quality function deployment and business process reengineering (Minai and Lucky, 2011). An efficient supplier who keeps working on productivity gains can expect, over time, to develop products that offer the same performance at a lower cost. Such cost reductions may, or may not, be passed on to customers in the form of lower prices. According to the findings of the study, the wine companies process innovation result in installation of new machine that minimizes production costs and increase the rate of production, source for specialists in wine brewing and raw materials that ensures that the company produces high quality wine. Kotelnikov (2008) noted that product innovation is the result of bringing to life the new way of solving customerøs problem that eventually benefits both customers and banks. Both external and internal factors contribute to development of innovative products tailored to specific needs and special niches. This was found to be consistent with the findings of the study which established that product innovation enables the companies to provide a wide range of products with satisfactory quality through market survey, adoption of channel that that shortens the duration of obtaining a product or service and adoption of product development that is radical, inventive and offer greater rewards.

The production of wine by the companies that meets the market needs plays a crucial role in the competitiveness of the companies. Mustacich (2009) noted that the successful implementation of these new technologies and the coordination of their use, is leading to better quality wine at a more affordable price, more diverse blending, greater uniformity within each label, and increased flexibility of production. This was found to be consistent with the findings of the study which established that production innovation enables the companies produce wine of the desired quality of products through management of fermentation process and blending.

Innovation is important to the long-term viability of a company as it can help to create a competitive advantage over other organizations. Kotelnikov (2008) noted that management has a large set of options to position, the company and managements talents has a very relevant role in selecting and evolving the companyøs innovation strategy. Development of new technology or business models usually requires collaborations with other organizations that have complementary resources, for this you need a network that reaches inside and outside of your organization. The study found out that the companies have organizational and management capabilities that nurture innovation, have a large set of options to position the company through selection of company innovation, collaborates with other organizations that have complementary resources and that it analyses industry structure before deciding which innovations to pursue.

Berger and Mester (2003) suggest that the product mix may play a more important role in providing a competitive advantage and improve the performance of banks. Neely (2002) found that sales turnover of innovative firms grew faster than that of non-innovative firms. On the other hand, Grundiche (2004) argued that for a firm to compete effectively in the dynamic and competitive business environment and achieve set goals in terms of profitability, high sales volume, and large market share, it must continuously develop products and product lines to satisfy the constantly changing desires and needs of customers. The results were found to be consistent with the findings of the study which established that innovation results in enhanced purchase of organizational products by the consumer, efficiency in serving customers, improved customer satisfaction, customer loyalty, increased productivity, change in market share, change in sales volume, profit increase from last year and percentage of customer retained.

CHAPTER FIVE

SUMMARY, CONCLUSION, LIMITATIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes and discusses the findings in relation to the research problem and research objectives. The chapter is thus outlined into summary of the findings, conclusions, recommendations, limitations of the study and suggestions for further research.

5.2 Summary of Findings

The wine companies have been facing a dynamic business environment that is technologically driven, globally unbounded, and customer oriented. These challenges, among many others, called for extensive innovations to be adopted by the companies for growth and survival in the changing and turbulent marketplace. The study found out that the wine companies have adopted several innovations in order to improve their overall performance. These innovations include market, process, product, production and management innovation. The usage of market innovation gave the companies an opportunity to market their products through various media channels, deal with customer complaints urgently, deliver products according to customer orders while at the same time entering new markets and this enables the companies to be competitive in the market.

Process innovations was found to have been used by the wine companies which result in installation of new machine that minimizes production costs and increase the rate of production, source for specialists in wine brewing and raw materials that ensures that the company produces high quality wine. The study found out that product innovation enables the companies to provide a wide range of products with satisfactory quality through market survey, adoption of channel that that shortens the duration of obtaining a product or service and adoption of product development that is radical, inventive and offer greater rewards.

The production of wine by the companies that meets the market needs plays a crucial role in the competitiveness of the companies. The study found out that production innovation was used by the wine companies and it enabled them to produce wine of the desired quality of products through management of fermentation process and blending. Organizational design plays a significant role in this ability, so understanding how to organize for innovation is a central problem in innovation management. The study established that the management of the wine companies was in the forefront in ensuring that the companies innovate in order to be competitive. The companies were found to have organizational and management capabilities that nurture innovation, have a large set of options to position the company through selection of company innovation, collaborates with other organizations that have complementary resources and that it analyses industry structure before deciding which innovations to pursue. The pursuit of innovation by the wine companies enabled them to improve their performance in terms of enhanced purchase of organizational products by consumers, efficiency in serving customers, improved customer satisfaction, customer loyalty, increased productivity, change in market share, change in sales volume, profit increase from last year and percentage of customer retained.

5.3 Conclusion

Todayȋs market is enormously more complex. Henceforth, to survive in the market, the company not only needs to maximize its profit but also needs to satisfy its customers and should they to build upon from there. The essence of innovations for a company is to find a position in its industry where it can best cope with these competitive forces or can influence them in its favor. The unique features of wine production and products need to be taken into account whilst the planning of the innovation strategy. In case of the wine industry, innovation and new product development should be an integral part of organizations venturing into wine production as the sector is ripe with opportunities waiting to be discovered. To succeed in the sector, new products must adhere to the cardinal rule of maintaining close contact with the consumers for whom the innovations are targeted. Constant feedback and incremental innovations cumulatively lead to improvements that keep the companyøs products and services refreshed and thus relevant to their target markets.

The wine industry is facing multiple pressures such as sale of second generation alcohol and the increased level of competition and the companies operating in the sector have to adapt to greater regulation, competition and consolidation, which are largely out of their control. Wine companies have to meet increasingly diverse and demanding customer expectations. The study concludes that innovations are indispensable to companiesô future growth and sustainability. Wine companies with serious innovations, improved their profitability. The study concludes that innovations provide a clear direction and focuses the effort of the entire organization on a common innovation goal and thus organizations tend to make full of utilization to impact on their performance.

5.4 Recommendations for Policy and Practice

The results have demonstrated the vital role played by innovation in enabling firms to succeed in the market place. The results contribute to the resource based theory by indicating to managers of wine firms that it is how resources are combined that leads to a competitive advantage. It is the bundling/re-bundling and configuration of resources by managers that will lead to superior performance.

The performance of the wine industry is important and therefore the results of this study will assist policy makers to make sound decisions regarding which variables to focus on in order for firms to achieve an improved performance. Managers of wine firms should be encouraged to attract resources that cannot be easily imitated as they propel organizations to better performance. Most importantly, they should focus on innovation as the study established that resources together with innovation contributed more to firm performance than resources alone.

The study established that all the wine companiesô market share has increased and it is recommended that the companies do more on the overall development of wine consuming culture which is important, especially because it is the key factor in improving consumer devotion to quality products. This, however, requires informative marketing tools that enable consumers to familiarize with the products and learn about the principles and methods of comparing them. To achieve the common objectives of the wine sector, close cooperation is required between the actors of different levels, in order to effectively influence consumer behavior. The wine sector as a growth sector of the national economy plays an important role in national value creation, therefore it is essential to establish a sufficient support system to ensure accessibility to funding opportunities for different actors of the sector. To carry this out successfully, it is not enough to provide funds for agricultural activities, company establishment or/and third country promotion tools; financial support is needed in the fields of market research, market segmentation and for the purposes of joint marketing activities.

The study found out that leadership innovation in the companies played a leading role in performance improvement and it is recommended that in order to enhance entrepreneurship through leadership support, wine companies should enhance top management support, motivate workers, be open to change, delegate tasks, and incorporate new business practices. Since process and production innovation is aggressively and continuously adopted in manufacturing sector in Kenya, the government should provide incentives for research and development to researchers who would continue to invest their time and skills in discovering more manufacturing innovations. It is recommended that the government also pursues a strategy to provide incentives for innovation transfer from more developed economies in order to promote the adoption of world class innovations - this will boost prosperity in the wine industry in Kenya

5.5 Limitations of the Study

The study used key informants from the wine companies which put constraints on the genera ability of the results to other firms and other country contexts. The sample selection may also limit the generalization of results to the overall population. The narrow and specific focus of this study means the results are limited to wine companies only which may not translate to other industry and national contexts. Administration of questionnaires emerged as a major challenge as most employees of companies were not comfortable with the questionnaires. They felt that they could breach confidentiality at the time when the sector is experiencing stiff competition.

5.6 Suggestions for further Research

This study sought to determine the effect of innovation on performance with focus on the wine industry. This study recommends another study be done on the innovations in other sectors and its influence on performance in order to understand whether the results of these studies can be replicated on other sectors in Kenya. Future research could seek to confirm the drivers of innovative strategies within the wine industry through in-depth interviews with specific wine companies. Research into the reasons why some wine companies choose not to innovate would also expand current knowledge.

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APPENDIX I: QUESTIONNAIRE

Please give answers in the spaces provided that matches your response to the questions.

Section A: Demographic Characteristics

1. Name of the wine companyé é é é é é é é é é é é é é é é é é ....

2. How many employees are there in your company?

a) Less than 100 ( ) b) 100 ï 499 ( )

c) 500 5ï 999 ( ) d) Above 1000 ( )

3. For how long has your company been in operation in Kenya?

a) Under 5 years ( ) b) 6 ï 10 years ( )

c) 11 ï 15 years ( ) d) 16 ï 20 years ( )

e) Over 25 years ( )

Section B: Innovations in the Industry

4. Which of the following innovations apply to your firm? Use 1 ï Disagree, 2 ï Moderate extent and 3 ï Agree.

Market Innovation	**Disagree**	**Moderate extent**	**Agree**
The firm uses of various media channels to market its products			
The company create value through pricing			
Introduction of new marketing approaches(online marketing, business)			
Environmental analysis and response to changes			
Aggressive anti competitors marketing campaigns			
The firm deal with customersô suggestions or complaints urgently and with utmost care			
The firm continuously modify design of their products and rapidly enter new emerging markets			

The firm manages to deliver special products flexibly according to customersôorders			
The firm marketing results in customer satisfaction and retention			
Other (please specify)			
Process Innovation			
The firm sources wine grape varieties which improves the quality of wine output			
The firm has skilled viticulturalists and oenologists, and stocks of production knowledge pertinent to the country			
Automation of office processes meant to enhance convenience and save time, minimize errors to serve customers better			
Installation of a robust and superior processing system			
The firm conducts internal training of to employees upon introduction of new machinery, processes			
Development of new channels for products and services offered by the enterprise is an on-going process			
Other (please specify)			
Product Innovation			
The firm offers wide range of products to its customers			
The firm has adopted a channel that shortens the duration of obtaining a product or service			
The firm undertakes market survey in order to identify the needs of its customers			
The firm wine has the ability to satisfy the customer and have repeat business			
The wine produced by the firm are of satisfactory quality			
The firm undertakes product development that are radical, inventive and offergreater rewards and performance improvement			
The firm product development is important in both the supply of the core product			

Production Innovation			
The firm ensures that there is correct blending of wine			
The firm manages fermentation properly in order to lead to appropriate flavor and high-quality wine			
The firm introduce innovative products, significantly different from classic wines, but with similar function			
The firm uses wine for the development of non-food products			
Other (please specify)			
Management Innovation			
The firm has organizational and management capabilities to nurture innovation			
The current business model in the firm has succeeded thus the need for change			
The firm has funding to carefully plan and test the assumptions of the model before scaling up top management Vision			
The firm management has a large set of options to position the company through selection of company innovation			
The firm collaborates with other organizations that have complementary resources			
The firm analyses industry structure before deciding which innovations to pursue			
Other (please specify)			

Section C: Performance Measures

5. To what extent has innovations in your company influenced the following performance measures? Use 1 ï Disagree, 2 ï Moderate extent and 3 ï Agree.

Performance	**Disagree**	**Moderate extent**	**Agree**
Improved customer satisfaction			
Customer Loyalty			
It enhances the purchase of organizational products by the consumer			
Efficiency in serving customers			
It increases productivity of the company			
It increases the company competitive positioning			

6. To what extent has innovations in your company influenced the following performance measures? Use 1- less than 33%, 2-between 33% and 67%, 3- more than 67%.

Performance					
Change in market share					
Change in sales volume					
Profit increase from last year					
Percentage of customer retained					

Appendix II: List of Wine Companies in Kenya